Q1 2021 Sales and Revenue Call

Company Participants

- George Quinn, Chief Financial Officer
- Richard Burden, Head of Investor Relations & Rating Agency Management

Other Participants

- Andrew Ritchie, Analyst
- Ashik Musaddi, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jon Hocking, Analyst
- Michael Haid, Analyst
- Michael Huttner, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, Analyst
- William Hardcastle, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Update for the three months ended March 31, 2021 Conference Call. I am Alice, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Richard Burden, Head of Investor Relations and Rating Agency Management. Please go ahead.

Richard Burden {BIO 1809244 <GO>}

Good morning and good afternoon, everybody, and welcome to Zurich Insurance Group's First Quarter Results Q&A Call. On the call today is our Group CFO, George Quinn. But before I hand over to George for some introductory remarks, just a reminder for the Q&A. We kindly ask you to keep to a maximum of two questions as we know that some of our peers also have calls straight after us today.

So with that, I'd like to just hand over to George for some introductory remarks.

George Quinn {BIO 15159240 <GO>}

Richard, thanks very much. Good morning and good afternoon, everyone. Thank you for joining us on what I know is a very busy day for all of you. As you've seen from this morning's press release, the Group's made a very strong start to the year. We've got good growth across all the businesses and it's important to remember that this is against a prior year quarter that was largely unimpacted by the pandemic. The performance demonstrates we believe both the strength of the business and the successful positioning of the Group to take advantage of growth opportunities as the world emerges from the challenges of the global pandemic. In the first quarter, our P&C business continued to perform well with topline growth of 14% driven by the strength of commercial insurance. The pricing momentum in commercial insurance remained strong. All regions are seeing higher levels of price increase in the first quarter than you saw a year ago.

And we expect the current pricing conditions to continue through this year and to next supporting further improvement in the underlying accident year loss ratios. Life and the farmers businesses have also performed well with a focus on unit linked and protection products leading to strong growth in new business value. And while the Farmers Exchanges, which are of course owned by the policyholders, saw a return to growth even before the inclusion of the acquired MetLife P&C business which will add to growth from the second quarter. Balance sheet remains very strong with the Swiss Solvency Test ratio, and this allows for the acquisition of the MetLife P&C business even if it didn't in the first quarter, at 201%, well above the target levels that we communicated back in February. Before I give you some thoughts about the remainder of the year, I just want to comment there has been no change to the level of COVID-19 P&C claims net of frequency benefit.

So, this remains at the $450 million net figure level that we reported back in February. Looking ahead, it seems clear to me that given the strength of the first quarter that we'll be perhaps a little cautious in our guidance for the P&C net earned premium growth. If you remember, Richard and I stretched the definition of mid-single digits and I think even now so that it's more likely to be in the upper single-digit range compared to what I had indicated back in February. On the claims side, you would have seen in the press release that we've got a higher than usual level of nat cat events in the first quarter, primarily the Texas freeze. And so assuming that all things are equal, i.e. we have the usual nat cat experience for the remainder of the year, that would add about 1 percentage point to the combined ratio overall for the year.

In life, the first quarter saw some additional mortality level that was similar to the second half of 2020 with about $120 million driven primarily by the UK, US, and Latin America. Mortality has been improving steadily as the lockdown measures and the successful rollout of vaccination programs has led to significant improvements and that's particularly true in the UK and the US. To look ahead for a second, I think the strength of the first quarter trends and the continuing improvement in the underlying P&C margins gives me and all of us great confidence as we look out to the remainder of the year.

With that, I'll be happy to take your questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions). The first question comes from the line of Jon Hocking with Morgan Stanley. Please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Hi there, I've got two questions please. Firstly on inflation, there's a lot of data points flying around about how much inflation we're seeing particularly in areas for construction so lumber costs et cetera. Wonder if you could talk a little bit about what you're seeing there and how you expect it to impact the results. And then secondly, I just wonder if you could give a little bit of color please in terms of the rate increases, particularly in the US rate increase ex workers' comp and if you give us a callout [ph] on the line. That would be very helpful. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yes. Thanks very much, Jon. So on the inflation topic, maybe just to remind everyone of something I said in the past. And I think if you look at our books, I guess most people perceive the inflation risk around workers' comp. We've talked in the past about the fact that we -- I mean we don't have a mark-to-market view of the inflation assumption. We tend to have quite a backwards -- backwards is the wrong way to express it, but we've got a longer time series in the assumption. We go back several years. I think we've also highlighted that we haven't fully taken A versus E, actual versus expected, on the workers' comp side so that gives us some measure of protection. But I think it's a topic that everyone needs to keep in the front of their mind. On the lumber cost topic, I mean I think the only immediate impact we see other than the fact that it will appear in some of the claims that we've already incorporated in Q1.

I mean the most obvious place where I see it is that I think for the first time, it's come up in the -- our assessment of the Texas freeze topic. So as we've been looking at the potential cost of that, but we've allowed for some of the price inflation that we've seen around some of the things that will be required to repair some of the damage that we've seen. From a price perspective, I mean it's another strong quarter. I think in commercial, this is the first straight quarter of double-digit rate increase. If you look across the various lines of business, I mean the picture is not very different compared to where it's at Q4. I'd say that property and liability are slightly down compared to where they were. So, I think I talked back in February about the fact that they were both reasonably deep into the 20% plus territory. They're both now from our perspective around the 20% level, workers' comp only slightly weaker.

And so I mean overall, I mean I think the move that you've seen and it's only US commercial down from the 18 points that we reported back in Q4 than to 14% in Q1. I think if you adjusted out for workers' comp, you'd be somewhere slightly north of 14 points. I think if you look at the book more broadly, there's a couple of things that are relatively important to bear in mind, I mean the US market has a relatively continuous renewal pattern. Europe's a bit different so you tend to see a bit more seasonality. Q1 is typically pretty heavy Germany and Switzerland and those markets have quite different pricing dynamics from the UK. So I think when we see what happens at Q2, I think you'll still see a very strong market and potentially I think you'll see Europe come up again in Q2 because the UK has a much more significant impact on April 1. So, overall I mean trends are really pretty good. We expect this to translate into underlying -- underwriting improvement. And of course when we get to Q2, I'll give you a more thorough update on that.

Q - Jon Hocking {BIO 2163183 <GO>}

Excellent. Thank you.

Operator

The next question comes from the line of Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Two questions, please. The first one just on the guidance, George. Obviously you mentioned that now you're thinking you were too cautious on the P&C growth. I'm just wondering if you could sort of highlight any of the other areas in the guidance outlook that you gave at full-year '20 where you sort of changed your view over the next -- over the last three months. That's question one. Question two, just on the nat cat impact, just sort of help us understand the impact. I'm just wondering whether you've allowed for any seasonality in that or whether it's just as simple as saying plus 1 point for the full year equals means that you're sort of plus 4 points over the normal budget for Q1. Just to understand that. Thank you very much.

A - George Quinn {BIO 15159240 <GO>}

Yes, great. And, so on the guidance topic, I think the -- I think if you look at -- I mean what we're seeing internally and you allow for the comments -- I'll come on to the nat cat topic in a second. But if you allow for the press release commentary around nat cats and you allow for the COVID topic, I think we still expect to be roughly what we had planned for even before that. So, I think it was the same that the underlying trends are probably stronger than we anticipated, which is -- it's less relevant this year potentially because of the impact of the Texas freeze, but it's a strong sign for next year. So, I think the underlying improvement is important. On nat cat impact, so we do allow -- I mean when we look at what we anticipate in each of the quarters, there is a seasonality pattern to it so it's not pro-rated. And essentially simply what we've done for the time being is just look at the excess level for Q1 and add that to our expected levels for the remainder of the year. I mean that shows like the most transparent way to do it, but you guys can make your own assumptions about what that means for the remainder of the year. But I mean for the time being, we've seen a -- I mean typically one of the later quarters deliver I mean quite significant nat cat loads and that's why we made the commentary that we have.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much.

Operator

The next question comes from the line of Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. I wonder just on North America P&C growth if I back out the effect of crop, the underlying growth is a bit behind rate. Is there still remedial actions going on there? Has there been a significant change in retention or is this just possibly still COVID overhang effects; something particularly on workers' comp. sort of payroll effects which presumably are still coming through? That's the first question. Second question, just remind me would the Q1 Texas freeze loss count towards global aggregate nat cat? I'm not sure I can remember if all events count towards that or whether there is a big franchise deductible on those kind of events. And remind me does that global cat aggregate cover around calendar year? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Andrew. So on the first one, I think when you break out the North American numbers and obviously the crop price change has had a pretty significant impact. I think the reason why you maybe don't see all of what you see on the North American business isn't so much the impact of COVID. I'm sure there's still some of that in the number. I suspect that a more significant driver is probably the fact that the actual exposure that we take at these price levels is less. So the -- I mean if you think of the way the corporates tend to approach it, I mean certainly they have the same budgetary constraints that we do and it's a pretty common response to this type of pricing environment that people will increase deductibles, maybe buy a bit less cover. So, you've got these two things partly offsetting each other. But net net, it still means that you have a much higher quality commercial book in North America. On the Q1 Texas freeze, so the answer is yes and it's a calendar year cover so -- and if you can imagine, this thing certainly passes the franchise requirements for the global cat aggregate.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, great. Thanks.

Operator

The next question comes from the line of Will Hardcastle from UBS. Please go ahead.

Q - William Hardcastle {BIO 16346311 <GO>}

Hi, Good afternoon, guys. Just two quick ones to wrap up those questions. What industry the loss assumptions have you seen therefore in the Texas windstorm? It sounds like it's a bit of a bottom-up. Regarding your lumber comment, have you used the top-down view as well? And then on the second one, I guess given the extent of the rates and credit spread benefits in Q1, have sensitivities to rising rates from here moved significantly versus the ones you provided at the full year?

A - George Quinn {BIO 15159240 <GO>}

So on the first one, Will, I mean as always it's a bit of both. So, it's a relatively unusual event. I've been talking to the claims team a few weeks ago and actually we had some experience from the tornadoes last year. So, we got some clients that have been impacted both by the tornado and by the freeze. So, we've got a bit of insight into how some particular properties are exposed to particular loss. So I mean the way the team have done it for the time being because there's not a lot of -- I mean they haven't been fully through the loss adjustment process. So at this point, we've taken the notifications. The team have looked at some of the experience from last year and they've come up with ranges. The thing is driven by -- and it's not a really shortlist that we're talking, I mean a couple of tens of actual events tend to drive the overall outcome.

So, we've focused mostly on those to try and look at bottom-up from the perspective of notification and top-down from a knowledge of that particular exposure or property. And I think as I mentioned earlier in response to Jon's question, I mean we have added a few additional things for example to incorporate some of -- and it's not really demand side inflation, I think it's more the commodity and the recovery from the COVID driven inflation topic around lumber -- about commodities in general. On sensitivities, I mean we haven't updated -- I mean they will have moved because they're not entirely linear. It just would be wonderful if this things was completely (inaudible), but of course we all know that's not true. But I think for now given that the Q1 move is mainly driven by interest rates and I think almost the entire market move is interest rate related. I mean the non-linearity is not so important then for that particular topic.

Q - William Hardcastle {BIO 16346311 <GO>}

All right. Thanks.

Operator

The next question comes from the line of Vinit Malhotra with Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Good afternoon. Just a follow-up, George. There was a comment in the press release about mortality and just wondering whether you were trying to suggest that we should be more cautious about mortality than back in mid-Feb or I think you did say that there wasn't much of a change, but just wanted to cross-check that? So, mortality guidance. And the second question is more about when we are hearing more and more about semiconductor shortages and those kind of things affecting car manufacturers and I don't know what else. I mean are you seeing some of those sight of second order claims and business interruption or other areas, which could be COVID linked sort of? So, just curious about that. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yes. Thanks, Vinit. So I think on the first one, I think there's two offsetting effects. So I think if you -- if I look at mortality now compared to what we were expecting back in February, I would say that UK, US is probably slightly better than we were anticipating. Certainly the decay pattern that we can see is faster than we had anticipated. Having said that though, we're seeing more from Latin America particularly Mexico and Brazil. Having said that, looking at the strengths of the life business overall, I don't think it changes the overall outcome. So, I mean the comment I made at the top of the call around the underlying trends on the P&C side. The underlying trends. actually on life look pretty good too. But I mean the reason for giving the guidance was -- I mean within the life segment, it will be visible. I mean (inaudible) has referred to just given the impact of it. However, the underlying business is actually doing pretty well and certainly play bit stronger than we anticipated back in February.

On semiconductor shortages and some of the shutdowns and other issues that we've seen. I think it's a pretty complex topic from an insurance perspective and I think the risk actually cuts both ways. Because in theory I mean if you're more directly exposed to the semiconductor sector, any damage in networks is going to be a bit more expensive because of the BI consequences. On the flip side on the recipient end because of the short time working or the other restrictions, I mean arguably the gross income level might be lower. So, I think it's really hard to draw a very clear conclusion. Depends a bit on maybe how the book is positioned overall, but I mean I suppose everything, there's a few positives and negatives and those two are the most obvious to me.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks very much.

Operator

The next question comes from the line of James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Good morning, George and everyone. On the solvency position, you said 201%. I appreciate that number is quite volatile and you have a floor number of 160%, but you don't have an upper end range anymore. But under the old ZECM basis if we just apply the same kind of multiple and relationship between SST and ZECM, then 201% would be at the top end of the previous range. So, just trying to get a feel for at what stage do you see yourself as having surplus capital? I know you're going to tell that it's volatile and it can come back, presumably there's some things you can do on the life back book that might take out that volatility and should actually even add to the SST ratio if you were to do things around that. So, any update and thoughts around the surplus capital potential. please, Secondly on crop insurance. So I just want to be -- can you just remind me how you book the combined ratios up to half year and then the true-up that you have in the second half of the year? Obviously very high increase in commodity prices. Does that mean that you're sort of expecting similar combined ratios on that crop business, but it's an issue? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Okay. So on SST -- so I suspect if we were looking at ZECM, we would be through the top end of the range. I think we gave a number back in February and it feels to me we've had a bigger move than that. I think when we think about surplus capital, we just think about capitalization in general. I mean the priority is really then the thing that you highlighted and that's about where is the money and what's it doing at the moment. So, I mean we're very active looking at capital allocation. I want to avoid. I'm always talking about it rather than actually producing evidence that we've done something about it. But that's going to be a very important priority for us this year and I certainly hope that as the year goes on, I can actually report on some tangible progress. Now I mean what do we do especially on the day that we get it? I don't know yet.

I mean obviously our priority would be to I mean put it back into the business and hopefully actually earn a higher return on capital that's more consistent with the rates that owners would expect us to earn on the capital they provide us. It's too early to say at this stage. So, priority for me is a combination of making sure we have allocated -- capital allocated as rationally as we possibly can within the normal constraints and I think we'd also like to bring down some of those sensitivities. I mean I think it's pretty clear that from a model perspective, some features tend to dominate the risk landscape and I would like it if some of those movements were a bit smaller and we are thinking about how we would achieve that. On the crop insurance side, I mean it's an interesting one.

I think from -- I mean from a purely financial perspective, the stuff tends to all be written in Q1 and then mainly through Q2, Q3, and into the early part of Q4 when typically the yield and revenue topics are worked out. I mean given where we were last year underlying on the combined ratio, I mean crop would probably end up -- there's no change to our expectation in terms of that crop profitability. It's not a line in our investment income for obvious reasons, but it would probably change the upper end of combined ratios -- of loss ratios in particular for our book. So, you may see a small impact from earning through more crop premium. But again as I said, I mean given the improvement we're seeing on the commercial side, I don't really expect that to be visible.

Maybe just a last comment on crop risk. I think -- I mean in general, I think the moves on prices -- I think it's generally a positive topic overall. I mean the actual crop cover has a bit of complexity between the price it struck at planting and then the price it's achieved in the market. I mean obviously we've actually had a pretty decent planting season so far and the market conditions give farmers every incentive to get the stuff into and out of the ground. So too early to make any forecast, but I mean crop certainly doesn't start the year in a bad place.

Q - James Shuck {BIO 3680082 <GO>}

Okay. Thank you very much, George.

Operator

The next question comes from the line of Michael Huttner with Berenberg. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. Can you talk about MetLife? How much this will add this year and next? Just to remind us because it seems to happen a bit quicker? And the second is on the runoff. I suppose I'm asking -- is this 400 million or whatever you had with COVID going to come out of runoff. But maybe you could just say whether you've changed the expectations or not. I think it's between 1.5 and 2.5. Are we now in the middle of the range in expectation or...? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Mike. So the -- on MetLife, I guess we've closed it out probably a couple of months and quicker than we expected. So if you go back to what we said before, I mean there's a -- from a Zurich money perspective, we've got about 2.3 -- just more than $2.3 billion investments. We've got some restructuring that will be incurred between us and the exchanges through the remainder of this year and it will have a positive impact on income for the management company as we go through this year. It will obviously depress the reported fee level, but you'll see more fees. I think if you look out over 18 months, you should start to see that relatively clean sort of about 10% return on that 2.3 -- just over $2.3 billion investment. So you'll see some this year, but you could have to wait about 18 months to see the clean run rate. On runoff, no change to guidance around that topic. I think we've tried to be reasonably cautious on what we've guided to over the last several years to maintain some consistency and predictability around the topic and from what I see and what we've been doing in Q1 -- not only in Q1, but actually through the last couple of years, no reason to change that. So, still anticipating 1% to 2%. Somewhere in the middle of the range would be ideal, but certainly 1% to 2% is my expectation.

Q - Michael Huttner {BIO 1556863 <GO>}

And there's no -- sorry. There's no -- It feels like COVID claims have been over-reserved, is that -- looking at reinsurance certainly?

A - George Quinn {BIO 15159240 <GO>}

So, I think it's too early to reach. There's a number of litigation topics running and while I'm not concerned about the risk around those topics, I'm not really convinced there's a huge amount of conservatism in the numbers that we have. If you look at I mean what we've booked, I mean it's predominantly actually Europe which is kind of unusual given it's a commercial topic. I mean the outcomes that have taken place in a number of key markets. So, I mean it'd be great if we did see some of that reverse. But I mean our clients don't anticipate that at this stage and certainly haven't reflected any of that in any guidance around the expected level of runoff from reserves.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much. Thank you.

Operator

The next question comes from the line of Ashik Musaddi with JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you. Good afternoon everyone, just like couple of questions. First of all is with respect to farmers -- sorry, with respect to Solvency II. Last quarter if I remember you missed the solvency ratio by 6%, this time it is better by 6%. Can you give us some moving parts? I mean I guess it has to do interest rate, but again some color on that would be very helpful as to what drove a significant increase or say how much is the macro benefit here. And secondly, I mean you mentioned in terms of combined ratio or say in terms of losses -- cat losses 1 percentage point higher because of the cat losses. Would you say that all these price increases that are coming through this year will offset that versus the expectation that you had at the beginning of the year or would you say that this 1 percentage point incremental cat losses is just like a negative on a net basis or would you say there are offsetting factors so that we don't need to change our combined ratio forecast which we would have, let's say, yesterday? Any thoughts on that would be helpful.

A - George Quinn {BIO 15159240 <GO>}

Yes. Great, Ashik. So on the SST number, I mean I need to be careful because I think on prior Q1 calls I've given quite a lot of detail that almost was an earnings release. So I'm going to be covet [ph], I don't want to give too much detail. But essentially there are only three moving parts of any relevance this quarter. There's the economic profit that we generated. I mean you can always assume that that's somewhat impacted by the impact of the excess nat cat losses and the Texas freeze topic we've been discussing throughout the call. You've got the dividend accrual and plus or minus those two things are close to offsetting each other. And in the middle of it all, I've got interest rates and that's about it, I don't really -- there might be other smaller things, but they're really not as significant as those other two.

So this quarter at least, the movement is actually relatively simple and straightforward to follow. On the combined ratio. I have a bit of a challenge that of course I need to know exactly what everyone forecasts for the combined ratio for us for the year. if I say generally that -- I mean certainly if you'd asked me -- if we had this discussion back in February and I looked at my plan for the year, I mean do I now need to add 1% to the plan for excess nat cat losses in Q1? I do not so I've clearly got more rate coming through than the plan anticipated and that will help absorb some part of the nat cat impacts in Q1. But I mean we're highlighting it for the sake of transparency.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. So, it's fair to say that some part of this 1% extra drag would be offset by the rate increases. We are not going into the aesthetics of that number like whether it's 0.5% or 1%, but at least some part of that will be offset, okay.

A - George Quinn {BIO 15159240 <GO>}

That's an excellent summary.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Okay. Thank you.

A - Richard Burden {BIO 1809244 <GO>}

Thanks a lot.

Operator

The next question comes from the line of William Hawkins with KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. George, can you just speak to what was the Texas freeze loss that you booked in the first quarter? I'm sorry if I'm being foolish, but I know your guidance you give for the full year, but a lot depends on what all the other experience was to actually back out what the hit was. So, could you be a bit clear about the dollar impact of the Texas freeze? And then on farmers, 4% growth relative to what that business has been achieving in the recent past is quite an interesting acceleration. You've made reference to the new business volumes in the commercial rideshare business. But I wonder if you would just briefly talk a bit more about what's happened there and do we now plug in 4% for the full year or are there any kind of base effects or seasonality issues that we need to be aware of or if anything, is it maybe even accelerating and it could be high by the year-end?

A - George Quinn {BIO 15159240 <GO>}

Yes, great. So on the first topic I'm going to resist the temptation to give you a dollar number. I mean the main reason for doing that is the net impact of cats that's important. So if you look at the thing overall, North America is high versus planned or expected cat impacts for Q1, Europe is low. The two don't fully offset each other, but that's why we end up with 1 point. So I mean from that, you can work out the Texas freeze is slightly higher and there's a slight positive from a European perspective. Farmers growth in Q1, so I think you're right and of course we're comparing this quarter to same quarter last year, which if you look at the dynamics, the rideshare companies tend to be quicker to react and anticipate. So, there's already some impact of GWP -- on GWP and the Farmers numbers at Q1 last year. I mean the more kind of the pure retail side of it obviously reflects actual experience.

So, we've seen rideshare bounce back in Q1 of this year. So, that's a much larger contributor to the 4%. That's important because of course the fee benefit of that is lower to the management company than the broader retail positioning. But I mean we've seen good growth on both sides. We do expect it to increase as you go through the remainder of the year. I mean if you look at the different dynamics, I'm going to MetLife P&C to one side for a second so that will be an overlay on top of the whole thing. If you look at it, I mean we're going to have an absence of prior year negative which will drive growth that we report for the year so the refunds that exchanges delivered to customers mainly in Q2 last year and the obvious return of fee that that triggered for the management company, you won't see that certainly in Q2 so that will have an obvious impact.

From a rate perspective, which is the main driver at the moment, if you look across the book, I mean, auto pricing in the US is pretty competitive. So if we are seeing growth or if the exchanges are seeing growth, you're seeing it more in non-standard which obviously is not the bulk of the book. It's on the same proportion. Homeowners is much stronger. But again if you look at the rest of this year, we expect the 4% to rise and not because of rideshare, a combination of what's happening in the absence of negatives from the prior year, underlying dynamics around pricing. And then on top of all of that, we'll have MetLife P&C come in as of Q1 -- sorry, Q2.

Q - William Hawkins {BIO 1822411 <GO>}

That's really helpful. Thank you, George.

Operator

The next question comes from the line of Michael Haid with Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. Retail first. While you had strong price increases in commercial, which is definitely more important to you than retail, both premium volume and pricing in retail appeared under pressure in the first quarter. It's correct to have nominal price increases in retail of round about 1%, probably below loss cost inflation. What are your thoughts on retail at the moment? In the last call, you already indicated retail is not that part of the business you want to particularly grow. Second question, you published the SSCR report so if I may, I would like to ask you a question about Zurich Deutscher Herold and the solvency more general. If I remember correctly, you apply the standard model for the solvency calculation which cuts the negative interest rates at zero. In addition, you applied a 16-year transitional as well as a volatility adjuster for your solvency calculation. Excluding this, your solvency ratio is still comfortable at 170% level. How comfortable you feel about the capitalization of Zurich Deutscher Herold from a purely economic perspective. And do you have any reInsurance protection in place? Just to make sure is the fact that you apply the standard formula for Deutscher Herold does not affect your Zurich SSC ratio? Right.

A - George Quinn {BIO 15159240 <GO>}

So, thank you, Mike. The second one is a bit complex. So, we'll do the first one relatively quickly. So I think your summary on retail rate was one caveat. I think the market condition, I mean you guys can see it certainly more broadly than I can with all the different companies you all follow. But it's a sector that's generally more under pressure at the moment. So I think it is -- but obviously it's not producing either the margin expansion or the growth that we're seeing on the commercial side. Now that doesn't mean we're negative on retail, I mean just a reminder that what we said strategy for the current economic cycle, retail was a significant part of it. And while we're prioritizing growth in commercial currently, we are trying to make sure that we make the investments, we build the capabilities. we really have that customer driven focus around retail. So that when we start to see the turn in the retail market, we are well positioned for that. But it's absolutely true that it's a more challenging market than commercial currently.

On SSCR. I mean your summary of the different components is good. The choice of type of model for Solvency II has no impact on SST and in fact I think as you've heard us discuss before from an SST perspective, we apply an internal model across our businesses. When economic -- so how do we feel about the capitalization of Zurich Deutscher Herold? I think we feel pretty good that the company is we believe well-capitalized for the risks that it carries. And I think if you look at on a local basis, maybe you'd be more positive for the positioning of the organization. The challenge is and I guess this is at the heart of your question -- when we look at it from an internal economic model perspective or a Solvency II -- sorry SST economic model perspective, it looks a bit different. The volatility is higher, the return on capital is lower. I think I mean that's certainly something we want to look carefully at whether we have alternative ways to try and manage that risk.

From a protection perspective, we don't have any significant economic reinsurance in place and the primary path that we've taken over the last several years is really around ALM. And so more swaption, more long-dated fixed income in the portfolio. But I think even there, we try and be careful that you don't go from one extreme to the other. But I mean certainly the business is all capitalized and it's local market. But when we overlay our own view of the world, it brings a sensitivity and a level of return that I wouldn't say we're entirely comfortable with.

Q - Michael Haid {BIO 1971310 <GO>}

Excellent. Thank you very much.

Operator

The next question comes from the line of Hanif Farooq from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks a lot. First question, we're starting to see commercial US players seeing the benefit of rate for those that have given us the numbers in Q1 and that's only potentially going to accelerate plus obviously yields are going up. So in that context, what are your latest thoughts on how long you think this pricing cycle is going to go on for? I have another question, but just some thoughts will be interesting. And then secondly on SST, I think like a normalized kind of growth in that number based on if you take out COVID for 2020 is probably like 7 points to 8 points a year, that's economic profit minus dividend. Given life margin, especially pricing and MetLife, do you think that goes up materially this year on an underlying basis? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Excellent question. So on the first one, I mean recognizing that it requires maybe even just psychic capabilities that I can't really play into. I can only tell you what I can actually see at the moment. So, we've obviously reported the effects for Q1 and we -- I can already see April numbers and April numbers given me significant confidence about the continuation of the relatively high level of rate that we've seen so far. So -- and April is quite an important date for both US and UK. So, we've seen a small drop come into Q1. April, let's break it for me and we'll see what May and June bring us. I think if you look a bit further and you look at all the things that are out there, I mean you talked about the interest rate topic. We've talked earlier on the call about inflationary issues that I think are really ahead.

I mean there are evidently significant risks still in the market as are evidenced by a number of fairly obvious events over the course of the last few months. I mean there's an element of what's happened in the commercial market, which is simply trying to get the level of return back to a level that's commensurate with the risk. When do we reach that point? I'm not convinced it's imminent so I don't expect the market to completely roll over. I do expect we'll start -- we'll continue to see the market maybe ease in a few areas. But the gap between headline price and loss cost inflation is still very substantial and I expect us to maintain a substantial gap through the -- through all of 2021. 2022, we can discuss later in the year. You said you wanted to come back, Hanif?

Q - Farooq Hanif {BIO 4780978 <GO>}

No, I was just -- nothing that we haven't (inaudible).

A - George Quinn {BIO 15159240 <GO>}

Okay. On the 7 points to 8 points so I mean given there's a predictive component for that and the one thing that -- I mean we're in a quarter that is relatively light on P&L and particular bottom line information. I want to get -- I think I want to avoid that after three months of the year a signal an expectation that the economic profit generation has materially shifted. I think it's a topic we should come back to later in the year, but we've clearly had a very good start to 2021.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

Operator

Today's last question is a follow-up from Mr. James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Well, thanks very much for the opportunity. I'm just keen to know. One of your peers mentioned about claims inflation slightly picking up in Q1 and in their model, they cited model changes and increase in litigation funding costs. So, just interested to know whether you saw that in Q1 and also if you're able to comment on any large loss experience that we may have seen just given those frequency impacts in the quarter. And then secondly, just quickly on the debt leverage. You obviously issued debt for the MetLife deal taking you above your kind of historical run rate. What's the intention with that debt? Ultimately will you pay it down and return to more normal levels? Thank you.

A - George Quinn {BIO 15159240 <GO>}

So on the -- so on loss cost trends so we just completed the Q1 piece of work. I mean within it, there are moves within the overall lines of businesses and the whole picture is not vastly different from the one we talked about last year. I think you also need to be careful that the amount of data that we have from last year is definitely impacted by some delay in activity. So for example from a liability perspective, I mean it would be relatively easy to get carried away positively. But for the time being, we've hailed everything on the basis that there's just delay in the information coming to us. But I mean by and large, the overall -- our overall view of loss cost inflation hasn't really changed. Large losses, I'd say large losses instinctively -- I think this is one of the better large -- sorry, better large loss quarters that I can remember. I mean equally we're not extrapolating that into the remainder of the year either. On debt coverage intention, I mean it's -- the financing structure has had an abundance of caution. You will see us bring it back down to the levels that you are more familiar with for us.

Q - James Shuck {BIO 3680082 <GO>}

Great. Thank you very much George.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

This concludes today's Q&A session. I would now like to turn the conference back over to Mr. Burden for any closing remarks.

A - Richard Burden {BIO 1809244 <GO>}

Thank you very much. And thank you, everybody, for dialing in today. If you do have further questions, please feel free to contact the Investor Relations team. I wish you all the best for the rest of the afternoon. Thank you.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.