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Q1 2020 Sales and Revenue Call

Company Participants

- George Quinn, Group Chief Financial Officer
- Mario Greco, Group Chief Executive Officer
- Richard Burden, Head of Investor Relations and Rating Agencies

Other Participants

- Analyst
- Andrew Ritchie
- Edward Morris
- Farooq Hanif
- James Shuck
- Johnny Vo
- Jon Hocking
- Michael Haid
- Michael Huttner
- Nick Holmes
- Peter Eliot
- Thomas Fossard
- Vinit Malhotra

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group's Update for the Three Months Ended March 31, 2020 Conference Call. I am Andrew, 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 Agencies. Please go ahead, sir.

Richard Burden {BIO 1809244 <GO>}

Thank you. Good morning, good afternoon, and welcome to Zurich Insurance Group's first quarter 2020 Q&A call. On the call today is our Group CEO, Mario Greco; and our

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Group CFO, George Quinn. As usual for the Q&A we kindly ask you to keep to a maximum of two questions.

But before we start with the Q&A, Mario will make a few introductory remarks. Go ahead, Mario.

Mario Greco {BIO 1754408 <GO>}

Thank you, Richard and good afternoon, everyone, and thanks for joining us today. We're living through an unprecedented health crisis. Over recent weeks, our priority has been to support our customers and local communities, while ensuring the safety and the well-being of our colleagues. We moved early to remote working and our business has been fully operational through -- with our investment in the digitalization of our business over the recent years paying off.

Our business model and decisions taken over years are designed to ensure that the group remains resilient. Our group is highly diversified both in terms of geography and business line with no dependency on any single market or business. Our focus on achieving returns through underwriting rather than investment has ensured that we have maintained a conservative structure investment portfolio, with relatively lower exposure to some of the more stressed industries in asset classes. In life, we moved away from stress based savings already over a decade ago, thereby, making our life business more resilient to ongoing low investments in, while also reducing our overall direct exposure to investment markets. Our unique farmers business provides us with a high level of stable fee-based earnings and non-regulated cash remittances back to the group. Further, the balance sheet is strong and capitalized even under our own highly conservative Z-ECM ratio, which is calibrated to be consistent with a AA rating.

On a regulatory basis, the Swiss Solvency Test the ratio of 186% is also well above any requirement. This capital strength is complemented by moderate leverage and significant to insurance protection. The first quarter so the business continued to deliver a solid top-line performance, with the crisis having only limited impact mainly in life sales in the quarter. Most importantly, we continue to see improved rates across the business most notably in North America and we expect this to continue.

As an insurer, we're used to handling crisis in complex events like those that we are experiencing. We've seen it before with the events like a Hurricane Katrina and the attacks on the World Trade Center. We have provided you with a number today for the potential claims related to the COVID-19 outbreak and see this well within our tolerance is similar to the claims from the three hurricane of 2017.

As we showed then, we're more than capable of managing such events. We expected the crisis to strengthen demand for digital interaction and more tailored services, and we are already looking beyond the current crisis to make the changes necessary to the business to adapt to what will be a changed world. The combination of our flexible and resilient business model, our committed employees and the strength of our balance sheet gives

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me great confidence that we will emerge strongly from the current period, and in a position to take advantage of new opportunities as they present themselves.

George and I will now be happy to take your questions.

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer section. (Operator Instructions) The first question comes from the line of Peter Eliot from Kepler Cheuvreux. Please go ahead sir.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much and good morning to all, good afternoon all. All. Appreciate the extra disclosure and, obviously, the efforts at quantifying the losses, which I appreciate is a very difficult exercise. Just going to use my two questions, if I may to just try and understand a little bit more about the assumptions that you've used behind that.

So first of all, on business interruption, you -- on the point that more than 99% of your property policies do not COVID-19. I guess, my reading of that is that you're relying to an extent on the physical damage clause maybe for some of those policies. I was just wondering if you could specify which -- what proportion of the policy specifically exclude disease risk?

And then, my second question was on workers' compensation. And I guess, if you look at the WCIRB midpoint estimate, which they got to USD11.2 billion. If you -- your market share equates to a bit over USD500 million. Obviously, you've quoted a much lower number in terms of your exposure, and I appreciate there's lots of moving parts there. But I was just wondering if you could give us a sort of a rough walk from their number to your number, which looks in terms of your exposure, which looks like being about USD30 million? Thank you very much.

A - George Quinn {BIO 15159240 <GO>}

Peter, it's George. So, thank you. So let me start with the policy was in copay, so you see the comment in the presentation today we mentioned it, so 99% of the policies don't provide a cover, the vast majority having viruses of some exclusions. That means we're not relying on the property damage -- so even if we believe that the property damage wasn't exclusive, if you look at our standards, contract language, we have -- for example in the U.S., the ISO standard form has the virus exclusion, and both of our two typical standard wordings have the virus exclusion. So, we're not relying solely on property damage to give us comfort that we're going to avoid a challenge to coverage on the basis there's no property damage.

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On the workers comp side -- so on the workers' comp topic. I think the big difference between what you see in the -- either the WCIRB scenario or the NCCI paper that was out, I think last week or maybe even this week. It's a type of product that we are offering. So, I think it's not an issue if you walk through the assumptions, you get a different answer. A large part of our book is high deductible. I think as we've talked about before, and that high deductible book means that we don't cover the ground up cost.

So then any reasonable scenario, most of the cost of that actually falls back on the client that we are providing the high excess coverage to. And I think that's why you see a difference to what do you expect from a market share perspective for us and what you actually see in the calculating number that we have today. So, on the debt that we've given the range that we give in the USD30 million to USD150 million is based on the bottom end to the midpoint of WCIRB, using exactly the same assumptions as they've used only it's modeled on the entire U.S. book. The big difference is that high deductible feature.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. That's great. Thanks so much.

Operator

Next question comes from the line of Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hey, good afternoon. Hope you guys are doing well. Thank you very much. So, I had one workers' comp which has been addressed, so thank you for that. Next one is only the commentary about the economic impact -- scenario, little bit differently. If GDP globally or your market better say 4%, 5% this year, would there be a material risk to the USD750 million number? Thank you very much.

A - Mario Greco {BIO 1754408 <GO>}

So, it's a slightly tricky question to answer, isn't it? So what we've done today is to focus on the direct P&C claim impact. I mean, there may be second order effects that we could see later this year or next year. I mean, there are obviously things like D&O or credit. I mean, we don't believe we have a significant exposure to this either because of the size of the premium volumes and the overall portfolio or because of insurance protection. But if we see a very significant form in GDP, you would expect to see a bit more distress in the real economy that maybe we see already, and that can have some impact.

But again, from a direct claim effect, we haven't modeled that into it, but we tried to consider the impact of that in the scenario that we've given this morning. So for now, we're focused on the right claim. If we do see GDP continue to weaken as a result of what's going on, I think the most likely thing you're going to see on is it's probably less a bigger impact on the claim and more likely an impact on volumes because, of course, some of the premium flows are activity dependent. So, we workers' comp as we discussed

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earlier has a payroll components and to the extent payrolls for, we've all -- premiums. The model is the direct claim impact that we expect to see.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. And if I can use my second option, please. The property premiums disclosure on the BI slide adding up to 8.7 or so, billion. Would we know what is the NEP, because the reason is that I understand from speaking to IR team that there's a lot of -- captive business there, and also that when I go back to Jim Shea's slide of Investor Day, the property exposure of, say, the commercial unit was only 26%. But these numbers stood on this slide are much higher, is it possible to have a sense of the NEP or this is not a very --

A - George Quinn {BIO 15159240 <GO>}

So the -- you mean any piece, specifically, so business interruption or property in general?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Property in general, please.

A - George Quinn {BIO 15159240 <GO>}

I don't have it, but we can certainly get it for you. That's not difficult to do, so we can get it for you after the call.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

Your next question comes from the line of Nick Holmes from Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Two questions. First is coming back on BI. I wonder are you worried by legal risk, I mean if the Maverick court rules that insurers should pay out, how big a worry is that for you? And then, second with the Z-ECM, just coming back to the calibration, I mean why set it as 100%? Why not further 200% like SST or Solvency II because that would sort of look better. Just wondered what you're thinking is, I mean, because when it falls below 100%, what sort of message is that meant to send to the market?

A - Mario Greco {BIO 1754408 <GO>}

George, can I take the first one?

A - George Quinn {BIO 15159240 <GO>}

Of course, yeah.

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A - Mario Greco {BIO 1754408 <GO>}

Thank you. Look Nick, I mean, we worry about everything because we're insurers and we're used to deal with any kind of risks. So by definition, the answer to your question is yes. However, if the worry is that somebody will ask us to pay for things that we have never insured, that frankly is worry that doesn't take long to be forgotten because then it can be valid for everything. And we're living in a world where nothing is any more sense for certainty. Here we're not talking about the interpretation. We're talking of things that don't exist. And so, as such, then anything can be attributed to us any kind of cost or need you have, you can raise it against insurance. And so, you don't really worry for that because it's a kind of world that we are -- it's pointless to worry about.

A - George Quinn {BIO 15159240 <GO>}

So, on the capital topic, so I mean it's a topic we've discussed several times in the past, I think the -- and in fact, we talked last year about the fact that after we saw the moves on interest rates in Q3, that we might look at making some changes. I mean, you can see that, I mean, with FINMA's support -- we've moved to the FINMA which, of course, is very standard approach in Switzerland. That, from an SST perspective, again, gives us something that is, I guess, closer to the optical numbers that you see from the peer group. But again, recognizing that, that number is still very conservative compared to the Solvency II basis.

So why keep the Z-ECM? I mean, really two reasons. So one is that, I think we all know that capital use and I guess it's become more apparent, there's a number of capital regimes in there -- over there that have significant -- bill onto them. And you've seen the in terms of stress, it's become more hard to rely on -- as the basis for our capital management policy because clearly fear is that might go beyond the number or what the number which represent. So for us, even though, I mean, Z-ECM obviously represents a particularly tough test. It's obviously calibrated at 100 to AA, but the way we parameterize it is unchanged. We have swap rates. We don't have ultimate forward rate. I mean that for us, I think, is consistent with how we think about the risks that we run.

And I think if we were to get rid of Z-ECM and try to live in a world where everything was smooth, and nothing was market neutral, I'm not quite sure where we would end up. And I think the -- I mean you saw it positively this year from us. So obviously, we paid the dividend back in April. We did, as requested, review on the scenarios and the stress is that the company could be subject to and even after that review at the end of March, we went ahead and paid because those -- scenarios been, in our opinion, lead to a conclusion other than the one we previously reached.

So, I think actually having something that is a tough test, but maybe more reflects the reality and the kind of environment we're in today is a good tool to have in the toolkit. But when you're thinking about comparison to the others, then we're beginning to use the SST number plus -- to really get a valid comparison. I think we're going to keep this combination, because both of them play an important role.

Q - Nick Holmes {BIO 3387435 <GO>}

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Great. Can I just have a very, very quick follow-up which is with legal risk, are there any jurisdictions, for example, with U.S. versus UK, that you would be more worried about that there could be some Maverick decision?

A - George Quinn {BIO 15159240 <GO>}

Not really. I mean, in those countries and, in fact, just about every country where we operate, there's an established legal process. I mean, we all know the quirks and some of the unusual features that some of these systems have, it's not as if this is a new topic. We know how to navigate it. And as I said, in response to Peter's call, the topic of the discussion, I mean, we've got good contract wording. We have good defense to the challenge and I'm sure there may be others who are quite easier targets who are stopping -- I mean if someone decides that something want to go after we believe we've got a good foundation that -- sounds.

Q - Nick Holmes {BIO 3387435 <GO>}

That sounds very reassuring. Thank you very much.

Operator

Next question comes from the line of Edward Morris from JP Morgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everybody. Thank you for taking my questions. I hope everyone's well. First question is on topic of reinsurance. I wonder if you can just talk through whether the USD750 million assumed any benefit from any of the excess of loss reinsurance that you have or is that only from -- share? And is there any particular attachment points or things that you would point us towards that give you confidence in that figure or should some of the assumptions change, et cetera? So just some comments on reinsurance would be good.

And the second question really relates to underlying performance in some business lines, which I guess actually see improving claims trends because of COVID, principally I'm thinking quota here, I noticed USD70 million you talk about as providing support for customers. I wonder if that USD70 million has any significance? I'm just sort of thinking about how you're likely to think of individual versus business lines versus the group? Are you likely to return premium in books of business that are proving to be more profitable than expected or would you view it as a group and manage on that basis? Thanks.

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A - George Quinn {BIO 15159240 <GO>}

So, thanks, Ed. On the reinsurance fee, the modeling assumes that only the quarter shares are irrelevant for now, and that's just a simplification that was applied to make the whole process more straightforward. I mean if I look at the various contracts we have in place from the insurance perspective, I think I mean most of them don't have pandemic exclusions. But again, for the time being, the only assumption we've made is that the quota share on the property business in the U.S. attaches.

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On this underlying performance or -- I mean I guess we think about internally is impacted frequency. So obviously, lower activity has an impact across the group. You're absolutely right. We've highlighted today what some of our businesses have committed to return some of that benefit we've seen so far to the early part of the long term. I mean the message we've given people is that this is really a -- it might be a market-by-market OpEx that can be a big tap from the group that says we wanted to do this because every market is a bit unique in some way. Of course, in some markets, premiums may adjust naturally because of the nature of the way the premium is calculated, individuals or companies may have other right to suspend cover, if you choose to.

So again, we've encouraged the businesses to look at this, but we haven't set an expectation for what should be done. On the -- I mean, who is the main target of this topic. Again, I mean, it's clearly more of a retail and probably SME issue than it is an issue of the bigger end of commercial I mean to the extent that risks are adjusted on some way typical commercial contracts in the upper end, we'll include some element of that. So, I think our view would be that, by and large, that feature to some degree, will exist already as on the retail side of things, that's less common. And again, it's more important to think about it in that context. So that's why you've seen us do what we've done so far.

Q - Edward Morris {BIO 16274236 <GO>}

Okay. Thanks very much.

Operator

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

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Two questions. First one on pricing, to what extent was this going to happen anyway? And to what extent, thus far, are we seeing some sort of COVID-related support? And do you think, given the experience in 2Q, that we might see some further acceleration in pricing?

And secondly, on your sensitivities, I noticed Z-ECM that your credit spread seems to have gone up, but interest rates gone down. Just wondering if there's anything special about convexity relating to credit spread sensitivity that we should take into account? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Farooq. So on the pricing topic, that's a -- it's a really hard question to answer. I think the only way I can really try and give you a sense of how we see it is that, we obviously we had plans for something this year. And what we're seeing is significantly exceeding, I mean, what we've anticipated from a planning perspective. So, I think our view would be that there's this additional factor, which of course, is squeezing capital and surplus across the industry is pushing pricing. And we see it not only in the U.S. in the beginning of Q2, you also see it in Europe as well. In fact, the move in Europe, even though it hasn't reached the levels of the U.S., the move in Europe is more dramatic from where it started. So again, probably further acceleration -- for how long it's going to

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continue? I wouldn't like to predict, but certainly, we've seen a very strong pricing environment entering Q2.

On sensitivities, I think the main driver of that is going to be a combination of -- I mean just as -- as the numbers drop, the discounting impacts become much smaller. So the optical sensitivity just naturally rise. And if you look at what we've done from a -- I mean we haven't done a ton of hedging, but we've done some things to take some of the -- some marginal risk off the table. We put in a bit more on the interest rate side than we have on trading. But the credit sensitivity is almost certainly due to the fact that just that it's lower interest rate levels, the impact is -- appears to be larger.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thanks very much.

Operator

Next question comes from the line of Johnny Vo from Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Good afternoon, guys. Thanks very much. Just a couple of questions around the sensitivity again of that USD750 million. I wonder if you can share with us, I understand that you don't have consistency across the group given that your allowed to just look at what -- if you can give us just a feel for sensitivity to that USD750 million with regards to BI sublimits before reinsurance or average lockdown timeframes that you've assumed for that USD750 million. So, we get a sense of where that number could move to approximately?

And the second question just relates to -- you've made a statement with regards to expenses. Are you providing sort of new guidance on expenses or are you saying you have flexibility on expenses? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you. And so the first one, I mean the temptation to want to give you all the different components of the model for me is quite high, but I'm not going to do it. And the main reason for that is if I look at the -- one of the key sources of BI that we have in the portfolio currently, that actually has a time limit in it today. And so the scenario that we've chosen extends beyond that, but one of the key drivers doesn't require that assumption to arrive at the number that we've achieved. So actually giving you a lockdown timeframe doesn't -- wouldn't substantially help you understand the sensitivities that we would have to the timing topic. More relevant on travel, and so -- again, we've assumed a timeframe, that certainly extends well beyond from where we are today and travel because of the summer timeframe can have a bigger impact. Because that is reflected in the figures you've seen today for us.

On expenses, I think we're not signaling that I guess we're both -- and other that large expense reduction plan. I think that what we are trying to signal is that we're trying to be

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as proactive as we can. And the reality is that in our business, we have some things. I mean, the obvious example is travel. And so, travel is likely to be structurally affected by this for some time to come. And I think if we sat and we waited and we do nothing, I don't think there's any hope in the short-term but the picture improves. So I mean, we made the decision that we need to take action on that topic straight away. On the rest of it on the expense topic more broadly, I mean, consistent with the investor presentation that we set out back in November last year, we had a number of areas where we were investing for growth. And I think if you look at from where we stand today, some of that is still valid. Some of that is invalid.

And again, we're trying to react quickly to avoid, that we've built up on expense basis, that becomes a structural problem. And prevents us from having the ability to respond to an environment that in the aftermarket, this may reveal some different demands on -- and our customer base. But I mean you've seen from us over the course of the last three years, we've managed the expense base tightly. That has not changed. That will continue through the course of this year, but that comment, that's really a signal to us reacting to what we see and also trying to anticipate some of the change that is undoubtedly coming in the market and the way that we operate, both with distribution and with customers directly.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Brilliant.

Operator

Next question comes from the line of Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Hey, all. Thank you very much. And then, just like Andrew said I actually one that -- good as well and two quick questions. One is a bit longer than -- but first one is on the bond portfolio. If you can give a little bit more color. It's fantastic to have this. It's not a criticism, but some of your peers have provided a bit more and it's easier to compare. One is on the BBB minus exposure and the second is on the rating downgrade risk. And the third one is on aviation, your figure for transportation by that. I'm sure that aviation was much smaller than this.

And then on the USD750 million, it's fantastic that you provide -- update and I suppose another way of asking the question my peers have asked is, how much of the does that certainty which you provide comes up from the fact that you do have a little bit of potential buffer on quota? Thank you. And if I may, how big is that quota share? Thank you.

A - Mario Greco {BIO 1754408 <GO>}

Thanks, Michael. I hope you're well, too. I don't have all of the details of portfolio explain front of me. I think, if you go back and look at the red numbers from February, and putting the BBB component, maybe you haven't seen any significant migration impact in the

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stage. So, if we were republishing the tables today, they would look a lot like the ones that you saw then. So, apologies, I don't have at my fingertips. But, what we gave for the year-end would be a good indicator of the exposure at the end of the quarter. So, on the ledger and airline side of things, within the portfolio again, it's a really small -- we will see - So, 0.1% of the group's investment. So if you look at the different components, we've got about that more than 40 in equity and the remainder is fixed income. So much less than 1/10 of 1%. What was the third questions like that.

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Q - Michael Huttner {BIO 21454754 <GO>}

The third question is probably the same USD750 million, so it's -- to have certainty and I admire it but how much in when you frame that did you think that if things move a little bit that you can use a bit more buffer for motor I just wanted to ask if that's right and maybe --

A - Mario Greco {BIO 1754408 <GO>}

So, the only thing I've got -- I know that you read this and I'm going to remind you that we carefully avoided the use of the word certainty in the press release, for the obvious reason, there was quite a lot of uncertainty currently. On the absence of an assumption of the frequency benefit and I think for the time being just recognizing there are lots of moving parts. I mentioned already that I mean there are some things that are not modeled and for the reasons I gave earlier. And I think it's helpful to have frequency to set against that too for the time being. Obviously, as we go on through the year, the level of clarity will improve, things will become clearer and we'll update at that stage. But for the time being we thought about frequency is addressing some of the both known, unknowns and the unknowns at this time.

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Q - Michael Huttner {BIO 21454754 <GO>}

And the quota share, please?

A - Mario Greco {BIO 1754408 <GO>}

Sorry, I haven't a number in the past, so I wasn't proposing to start today.

Q - Michael Huttner {BIO 21454754 <GO>}

Okay. Thank you.

A - Mario Greco {BIO 1754408 <GO>}

Sorry Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

No, but it will be in the net premium figure you gave to Vinit?

A - George Quinn {BIO 15159240 <GO>}

I would be happy to go back and get the gross figure and what that was -- It's not -- you can put it on -- yellow books as well. I mean we talked a bit probably end of last year, I think that we had about I think the premium we gave was by USD300 million --

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you so much.

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Operator

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

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Only one question on life insurance, apparently, you have seen the first impact of the current COVID-19 prices on your new business generation. I would like to get a better feeling on how sensitive the new business generation is the lockdown measures that have been taken. Given that the lockdowns were basically put in place only mid-March in the first quarter, I find the decline of the new business in life quite significant.

So is the extent of the decline a result of the last two weeks in the first quarter or more was the decline more evenly spread over the first quarter? Also, given that the second quarter is almost -- it is now halfway through. Can you give us an indication of new business generation how it was affected in the second quarter so far?

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A - George Quinn {BIO 15159240 <GO>}

Yeah, thanks, Michael. So the -- so maybe a couple of things about the comparison year-over-year. So, and the answer is right, the lockdown component comes quite late in the quarter. I mean, it varies market to market. So obviously, the Asian markets have been impacted for longer. But then you already saw it, for example, the Latin American business, the stuff that we do directly plus the business that we get through the joint venture. That continued into the early part of the quarter. We have seen some improvement in the trend in new business it's not back to where it was before. I think we've certainly seen it improve and production has come up again.

But there's still a gap that needs to be closed to bring us back to that you would have ordinarily seen. I think the other thing to keep in mind is the comparison to the last year's number. Last year's number includes a pretty exceptional quarter for the Swiss business. So, you might remember that there was some duplication in the Swiss life market late -- middle late, 2018, but our team did a great job here in taking advantage of that. So part of the challenge that we got this quarter is that comparison to the decline. The lockdown component is at the end of the quarter, it has continued, but we have certainly an improvement in some markets, albeit we still have room to improve further to get back to what we've seen before.

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Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much.

Operator

Next question comes from a line of James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Thanks, good morning. Just one question from me, please just on the dividend. My understanding, I think the dividend policy is to grow with underlying earnings, and you have a small level of CHF17 a share. I just came to know whether there's some kind of soft bracket on that number. So when it comes to making the full year decision you look at the prior year and think, well, it's going to be something very abnormal in order to make an absolute reduction year-on-year? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, James. So I mean, it's a topic that -- actually, we've discussed several times over the course of the last three or four years. If you think back to 2017, it was already a topic then. And, of course, we had the impact of the 3 hurricanes in the U.S., which were a significant impact on the earnings for that year, a number that's not too far away from the figure we've given today. And if you remember what we did then and what we said to the market at that point was that we were trying to look through the temporary effects. So the current year if you look at the base and also spending as much time looking at the coming year, and what that would bring us in terms of capacity to make sure that the position that we adopted would be sustainable. No change to that process. I don't expect we get to the end of the year in the new one. But of course, at this point in the year, it's just too early to start to get you the detail of that. But I mean you've seen what we've done in the past. In terms of process, I expect you would give the same thing again.

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Q - James Shuck {BIO 3680082 <GO>}

Okay, that's helpful. Thank you. I actually do have a second question, if I may. But I think you just mentioned in your early commentary, around the reinsurance coverage in protection. You said that most of your reinsurance covers doesn't have pandemic exclusions. That's somewhat the odds from what we hear from many of the reinsurance companies that actually report that they do you actually explicitly say that they do have pandemic inclusions. Can you just shed a little bit of light on your commentary versus my understanding?

A - George Quinn {BIO 15159240 <GO>}

It's a bit hard for me to do that because I can't really talk from their point of view. So, I mean some of the contracts that we have are very clear pandemic exclusions than some -- Why there would be a different picture presented to the market at large is not a question I'm capable of answering for you.

Q - James Shuck {BIO 3680082 <GO>}

Your coverage comes from a wide range of reinsurance providers. And it is most of those policies that don't have pandemic exclusions. Is that fair?

A - George Quinn {BIO 15159240 <GO>}

So again, I mean our reinsurance coverage comes from names that you would be very familiar with. I mean, obviously, it would depend on which particular risks, a particular reinsurer's on it would define whether they would have more or less with us. But certainly the key contracts that we have, more key contracts with -- I mean we have a large number of contracts that do not have pandemic exclusions.

Q - James Shuck {BIO 3680082 <GO>}

Okay. That's very helpful. Thank you.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. I wonder, if you could just concentrate on the asset side for a minute and -- I mean Zurich's been quite tactical in the past and tell us if there are any major shifts or even any subtle shifts in asset allocation over the first quarter in response to market movements? I'm thinking particularly in terms of low-grade credit, any additional hedging, either on credit or equities. So just what was the response on the asset side to the market moves?

And second question, just in you proved sort of first stab and claims number, I think, excludes third-party losses. I think it's only first-party exposures. Just as a broad outline, just give us a sense of where the third-party liability exposure would arise. Obviously, things like D&O but is there any other exposure to things like healthcare liability sectors, that kind of stuff. Just some broad outline as for the third-party liability trends and your sort of expectations there would be useful. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Okay. All right. So on the first one, we made relatively small changes over the course of Q1. So it's a group of us we meet every week. We review where we are open on the Urban, Chief Investment Officer and on the asset side. I think the team have done an excellent job, and the way we structured the portfolio before those things started. So, I mean, as you've heard already on the airline side, we don't have a giant exposure. When we had the oil and gas topic, a few weeks ago, we had already that we don't have a major exposure there lie the portfolio is pretty granular. So I look like we're overweight in a particular name or geography. So, what we done?

So we did put some hedging on equities, which would have been -- exactly for some time in middle of Q1. So that will have reduced the exposure that you saw reported at the end

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of the year. The team had planned some tactical changes around credit and the only request we made to retain those as well, let's do it a little bit quicker than we had intended. That's not that significant in the size of book that we've got, but it just takes a better the credit exposure down. And then the other one is interest rates.

So, I mean just given the model that we have from a capital modeling perspective and go back to the compensation, that I think ideally net on Z-ECM model, there's no UFR in there. So there's an interest rate sensitivity that you guys have seen in the disclosed numbers. So, I mean we did -- we have taken some additional steps to again, reduce the exposure that we have there. I mean just given that obviously, the markets are a bit volatile is hard to do that in scale or size. So, I mean what we've really done is more at the margins and something that we present dramatically different picture, but those have been the key areas of focus.

So on the third-party side, I mean, D&O is the obvious one. The -- I mean, as you'd expect by now, of course, we have notifications, not many, but we have a few, I mean the challenge on D&O, I think is until the dust settles and it becomes however free for all because of the market move and the issues start to focus on maybe companies have got more particular issues and maybe more exposed. It's very hard to make any assessment of what happens on D&O, other than we've got a big market move on prior history has taught us that it's normally accompanied by an increase in activity around D&O.

On the other third-party topics, I think the one of things we've been looking at carefully with the -- life or the employment liability side of things, there's obviously a specific liability on particular sectors you mentioned, healthcare. And I guess there, the -- I mean, again, the preoccupation is to try and look for areas where we believe there's a risk where we're overexposed or we have a particularly large disproportionate share of a particular sector. And we don't see that at this stage. So when it comes back to the scenario modeling, none of these things pop up and they kind of -- they kind of size that would cause a significant concern at this stage. But again, in the third-party topic will play out probably one after this thing has reached some kind of equilibrium. So I mean, the true impact of that will all become clear with the passage of quite a bit of time. But for us, given what we've done in frequency, getting the scale that we have in our book, and we think that's reflected in the scenarios we've given today.

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Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Jon Hocking from Morgan Stanley. Please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Good afternoon, everybody. I've got two questions, please. George, I seem to remember at the Investor Day, you talked about sort of credit and surety is a line where you are sort of pushing back against some of the sort of bottom-up planning submissions for some of

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the BUs. Can you just talk a little bit about the credit -- exposure in the book and how you see that developing?

And then secondly, just to loop back on the question that Farooq asked you, possible question about sort of rates, et cetera. I just wondered what your view was in terms of the weakness of the corporate sector and the ability to push through rate increases, given the level of the solvencies and see the precarious trading position of the companies? Thank you.

A - George Quinn {BIO 15159240 <GO>}

So, on these two topics. So, first of all, on credit surety. I think we talked already last year about the fact that from a strategic perspective, the group had decided that we weren't comfortable with a further expansion and capacity through credit insure is because of what we saw in terms of the developing environment, and also what we've seen through a number of idiosyncratic events that we didn't in themselves seem to portray any systematic challenge, but you've seen a few more. And of course, you saw Thomas Cook last year. And Thomas Cook is not the only one.

So we've got cap on things that squeezed the book quite a bit last year. I mean beyond that, I mean we haven't yet, as you can imagine, being able to implement a shrinkage in the book, just given timing. Having said that, I mean, today, we did disclose the -- but global Surety Reinsurance program. And I guess, if you've had a chance to look at that, you'll get a sense of, I mean, why we've had such significant events that we haven't caused significant impacts in the P&L.

We renewed that contract early in the year. As you can imagine, we paid more for it than we have in the past. It's obviously focused on surety, which is the bulk of our credit and surety book. So I'd say that. I mean, overall, for a combination of what we've done in tapping capacity, what we've done on the reinsurance side, I think we feel comfortable that we're well protected. I mean we can't have things go wrong there, but the risk that something accumulates over a large number of names is obviously protected by the structure we've got in place. On the rate --

A - Mario Greco {BIO 1754408 <GO>}

Yes. Sure. Can I give you a little bit of rest? So on the market situation, guys, it's important to understand that the big portion of our commercial books are with midsized or global corporate accounts. And they are not immune, just to cause large from a while ago. But they're rather sensitive to what's happening, meaning that the business continues that the revenues continue. And so they have no issues about following the market rates or about into premiums. The thing that we are very pleased to see is that the quality also of our contract keeps improving. We signaled this already. I think Jim talk about this in the November Investors Day, and this is continuing. So we are building a much better book on commercial, not just by the strength of the rate increase, but also by the conditions that we have in this book, and this is fairly independent from COVID. COVID is more an issue for individuals and SMEs. But has less of an impact on the big accounts.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you, Mario.

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A - Mario Greco {BIO 1754408 <GO>}

Welcome, George.

Operator

The next question is a follow-up question from Peter Eliot. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much for the opportunity to come back. If I could mention 2 more. I mean, first of all, on capital fungibility, I mean you mentioned the strong and unregulated nature of farmers in the start. I'm just wondering if you can sort of talk more generally about sort of any impacts on your ability to upstream cash, especially in sort of regulatory impediments that was the first question. And then the second one, on the SST versus Solvency II. You mentioned the 90 percentage points of the respective entities. I was just wondering if you could sort of translate that into a group level delta. Thank you very much.

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A - George Quinn {BIO 15159240 <GO>}

On the capital fungibility topic, obviously, the first point is the most important one to farmers obviously concentrates a large part of the cash flow and it's not subject to permanent. So within a relatively fortunate position compared to the industry in general, that I mean, every year that starts, there's a very large part of the cash flow that's I mean pretty much guaranteed. I mean more broadly on the regulatory side, as you can imagine, we're in regular contact with all of the key Tier 1 entities and monitoring their solvency. We're talking to them about what plans for dividend flows.

I mean it's just against way too early in the year to reach any conclusions interm if we would project out today, I certainly wouldn't plan for the same level of cash flow that we had anticipated say when we've completed the planning at the end of last year. But that said, the cash flow that we would anticipate today, and that's still a pretty healthy flow through the entire growth. So at this stage, I don't anticipate any issues. I do expect to be somewhat impacted by the general environment. But obviously, the foundation that farmers gives us is a great starting point for the year.

On the -- can I translate the -- into a group impact and the answer is no. I'm just unit that smart. And I think the way you need to think about this is there's tons of complexity because I mean, obviously, you guys understand that, in general, we're comparing standards model outcomes, and how that would translate into individual model outcomes with some of the larger peers that we have in Europe is not really that clear to me. And also, it's important to remember that when we were here in Europe, in U.S. gets a completely different treatment under Solvency II versus SST because, of course, an SST, we model it according to finds requirements, and we don't this equivalence assumption, which, of course, can create benefits in things like corporate bond spreads. So I think all I can tell you is that it's not 90, but the number is not immaterial that it would be substantial uplift to the [186] that we've published today.

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Q - Analyst

Great. Thank you very much.

Operator

The next question comes from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Hi, Two last questions for me. The first 1 would be on the business trends. George, if you could share any revenue trends in April or May? Just to have a feel of if you're already noticing some reduction in the business flow, not sure it is making sense with what you just mentioned, but just to get a feel of how business is slowing down at present time? Second question would be on the measures you've taken in light of the COVID crisis. I mean, in terms of taking decision to shift the book towards all different business lines, additional protections on the asset side, I think that you say that nothing have really changed in Q1. But overall, I mean, any decisions you've taken for the remainder of the year in light of the crisis and in light of current development?

A - George Quinn {BIO 15159240 <GO>}

Yes. Thanks, Tom. So on the first one, the -- I think the short-term would be that from a rate perspective, the early Q2 indications are -- they're really good. It's very strong across the 2 key markets. North America and Europe. And I think I mentioned earlier that if you look at Europe, it's not at the level of the U.S., but they had a much larger leap in April. Compared to what we've seen previously. So rate is good. I think the challenge is going to be growth. So I think we did a really good start to the year. The teams both in Europe and in the U.S.

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We've done a great job but I think if we just look at current trends, so I think as you hear from the entire market. And as you look at -- I mean, some of the broader industry analysis, you can see that new business as has fallen significantly from what we've seen in prior periods. That's partially offset by the fact that retention is up significantly. So it's not a net fall, but it's that combination. Is what's in nice to tell people that. And for the year in total, you probably to expect a premium picture that's flat to maybe even slightly down for the full year.

Business shifts. I mean, other of the things I've mentioned here on the call already around travel, I mean largely, no, I think the -- Mario has already mentioned the fact that the things we've done around the portfolio, the quality of the portfolio, the approach to underwriting, I mean, all of those things that we've already done, I think put us in -- for the environment we're now in and at this point, at least, we don't see that we need to make further significant shifts. In fact, I mean -- a bit consistent as we go through this is actually more important.

Operator

Last question from today comes from the line of Michael Huttner from Berenberg to go ahead.

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Q - Michael Huttner {BIO 21454754 <GO>}

Hey, guys. Can you hear me?

A - George Quinn {BIO 15159240 <GO>}

Yes, go ahead, Michael.

Q - Michael Huttner {BIO 21454754 <GO>}

Yes. Quick question one is, what is the current prices? How is that affecting the ANZ life integration in the -- of cash there? And the second is you mentioned in your slides the potential gross capital allocation we extract capital from non-core businesses and I thought this is nice and just wondered what that might be? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yes. Thanks, Michael. So I think it would be fair to say that if you look across the entire group, the team that has the most strength currently would be our Australian life team because they have the integration to manage. They've got the charge of the current events and to manage and you've got the aftermath of the Royal Commission that took place down in Australia. I think they're doing a great job.

This will be a bit of a difficult year given that combination. I'm not going to give predictions for where the year will end. Today, there's a number of things that -- I think I talked about last year, for example, on the -- some of the steps we will make to adjust the portfolio to make it more profitable. The team has that in -- and I mean the key reasons and the key drivers behind the acquisition of ANZ and life to remain true today. So -- that's a brand that we use is a great addition to the portfolio. So that will be a slightly difficult year for that life business is already from many of our life companies.

On the noncore businesses, I guess, in common with a number of friendly, competitive -- I mean, the real is environment that this make you think again about the composition of the portfolio. And maybe your patience or enthusiasm for some things is a bit diminished. So I think we're just signaling that the things that we've done already to regularly recycle capital away from risks that we think are fully rewarded to those that we think have greater and more positive strategic impact on the company. That process is going to continue, and the fact, as you can imagine, against this current backdrop, we'll get a bit more energy.

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Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. Thank you very much.

Operator

Ladies and gentlemen, that was the last question and I would now like to turn the conference back over to Mr.Burden. Please go ahead.

A - Richard Burden {BIO 1809244 <GO>}

Thank you very much, everybody for dialing in today. Obviously, the IR team is available should you have further questions. So, please feel free to reach out to us, either by e-mail or directly on the numbers on the website. Stay safe, and have a good 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.

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