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Earnings Call

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Call Participants

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Mario Greco
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Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Half Year Results 2023 Conference Call. I'm Andrei, the Chorus Call operator. [Operator Instructions] And the conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast.

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

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Good afternoon, everyone, and welcome to Zurich Insurance Group's Half Year 2023 Results Q&A Call. On the call today is our Group CEO, Mario Greco; our Group CFO, George Quinn. [Operator Instructions] Thank you very much. Mario?

Mario Greco
Group CEO

Thank you, Jon. And good afternoon, everybody, and thank you for joining us. I'm here, of course, with George Quinn, our Group CFO. Before we answer your questions, I wanted to provide you with a few remarks on our results. We have made a very strong start to our new financial cycle. BOP at $3.7 billion is flat on the record result from a year ago, and it's higher in per share terms.

NEOS is the highest in the first half period since 2008 with U.S. dollar EPS up 8%, on track for the target we set back in November. BOP at ROE is extremely strong at 22.9%. And while this tends to be stronger in the first half given the dividend payment, this clearly demonstrates the quality of our business portfolio.

I am particularly pleased to see robust growth continuing across the business: in Property & Casualty with 10% growth in gross written premium in constant currency for commercial and 9% for retail; and in Life, where we saw 17% like-for-like growth in new business premiums and 18% growth in BOP.

We will continue to look for opportunities to selectively grow the business in a disciplined way, capitalizing on the hard work in previous cycles where we have focused on simplification, improving customer experience and building distribution. You will also see in the results that we have incurred some costs in the first half as we look to rationalize our own news real estate portfolio.

Looking at our business segments now in turn. Property & Casualty first. The Property & Casualty business today reports an excellent combined ratio of 92.9%. Headline P&C BOP was down 6%. However, adjusting for foreign exchange in the absence of a real estate gain of last year, we were ahead 3% over last year.

Lower cat losses and significantly higher investment income were offset by very strong comparative period for underlying underwriting results in the first half of 2022. Rates continue to develop more positively than we expected at the start of the year. Commercial overall saw 7% rate increases with 9% in North America. In property, we have seen significant acceleration, rate increases of 18% in the second quarter. Overall, we see a stable outlook for commercial rate for the rest of the year.

In retail, we saw rate increases by 4% with higher rate increases still achieved on the motor portfolios. I'm pleased to see early signs of results improving in our retail portfolio with the accident year ex cat combined ratio improving by 2.9 points in the second half of last year. We expect retail results to continue to improve.

While the commercial combined ratio was moderately higher than a year ago, we continue to see rate increases in excess of loss cost trends and expect returns in this portfolio to remain highly attractive.

Life business. Life continues to perform extremely strongly. The business is positioned very well with excellent access to distribution, tight focus on unit linked and protection both from a new business and from a balance sheet perspective. The shift to IFRS 17 provides significant additional transparency for investors with our fast-growing, protection-focused JV with Santander in Latin America now more visible.

We've also provided some additional disclosure which shows how we are sustainably growing the stock CSM, which bodes well for the future profits emerging from the Life business. We look forward to completing both the Germany and Chile back book transactions later in the year, both of which will further improve the risk profile of the portfolio.

Farmers now. Farmers management services had a strong first half of the year with BOP up 8% driven by 5% underlying growth at the Farmers Exchanges. We remain confident in achieving the targets we set out at the Investor Day back in November. Farmers New World Life business BOP was impacted by charges related to the reinsurance transaction, which was completed on 1st of August.

As I explained in May, we look -- we will look to redeploy the $1.8 billion of cash released elsewhere in the group. The new Farmers management team, led by Raul Vargas as CEO, they're looking forward to presenting their plans for the business to you at the investor update in London in November.

Now looking to the future, I'm very pleased at the start we have made to our new cycle, and I see significant opportunities for the business to grow and to generate attractive returns for shareholders. Thank you very much for listening, and we are now ready to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Andrew Sinclair with Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Two for me. First was just on the rate changes in commercial lines. You're saying that rates increase is stabilizing through the year. Just really wondered if you could elaborate on that a little bit, where your pricing compared to loss cost trends today. And do you still think you'll be expanding margins on a written basis in H2? That's my first question.

And second one was just on Farmers Re. You called out some higher frequency of cats as the reason for the loss. And I can see the exchanges had 22 points of cats in Q2, 13 points in Q1. But when you were talking about the Farmers Re quota share at the start of the year, you were saying there was extra protection in place against cat losses in the reinsurance structure. I just really want to know how did that play out. And what should we see as kind of a normal cat load -- or result for H2 if we get a normal cat load.

George Quinn
Group Chief Financial Officer

So maybe first of all, Andy, on the rate changes -- and maybe if I give a bit more color first on what we see from individual lines, and I'll talk a bit about our current view on loss cost strains.

So from a pricing perspective, so if I look in detail into the lines, we see a number of lines pick up quite nicely, principally property. You've seen this in the back of the investor deck. And the overall picture is positive for rate. I mean the only areas in the U.S. where -- I mean you really still see challenges are the ones that we were familiar with before. So financial lines is suffering. It's got adverse rate. And then kind of workers comp, of course we have discussed workers' comp before. I mean, the loss cost trend around that line of business is not particularly significant. I mean most others, in a good place. And property is the one that really shows the improvement, as you can see in the chart in the Investor Day.

From a loss cost trend perspective, I mean, our read of things -- so we did our last detailed underwriting review as we were coming up through Q2. That would suggest that the loss cost trend is very slightly lower than it was in the second half of last year, we would think. It's not very material, maybe about 20 bps. That's the overall. It does -- I mean there are some bigger changes by lines of business, though. So if you go through the various lines, so primary liability, I mean not much change over where we were before; excess, we pumped up by a couple of points; motor we bumped that in the quarter. So that's also up by at least a couple of points.

Most others are actually quite positive. So if you look at motor hull, down by almost a couple of points; property, 1.5 to 2 points down. I mean overall, a very small improvement in loss cost trends against the backdrop of actually rates slightly better than we've seen in Q1.

So I mean, going back to your question, so would we expect that to play through? Yes, I would. I think the only caveat I would give to that is -- you've seen that in the commentary we gave at Q1, and it's true again today. We have been pretty cautious on a degree to which we recognize some of this. I mean we -- obviously, we're getting significant benefits from where we are on interest rates. But the commercial market has improved over where we were at the end of last year.

On Farmers Re, so you're absolutely right. I mean, I've mentioned that there are a number of features in the quote share that have been agreed with the market that offers some mitigation. There is a natural -- nat cat loss cap. So that obviously has a nonlinear effect. So once you hit the cap, you will not suffer any more cat losses.

I mean I don't expect to see the same frequency of events that the Exchanges have seen in the first half of the year. Even at normal levels, I would expect we would hit that cap in the second half. And therefore, from our perspective, we would see the Farmers Re outcome is actually pretty predictable at this stage, and you'll see a strong skew to the second half because of that cap feature.

Andrew Sinclair
BofA Securities, Research Division

How close are we to hitting that cap now? Can you give any context on that?

George Quinn
Group Chief Financial Officer

So that's an issue for the Exchanges rather than for me. So I don't want to get into too much detail on something that is really their domain. I mean, again, all I can tell you at this point is that -- I mean given the normal incidence of cat, which would be considerably lower than we've seen in the first half of the year, I think both they and we expect they will hit the cap in the second half. And therefore, we have a very clear sense of what we expect the results of Farmers Re to be.

Because as you've also seen in the numbers today, I mean, ex cat, they are starting to see some underlying improvement. Now of course, the cat impact is so large that it's not visible in the headline. But what it means for us is that once the cap hits, we'll get the benefit of that underlying improvement as well the exchanges.

Operator

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

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

Well done. Such lovely results. It must be nice to be a CFO and being able to stash money aside. Sorry, that was the answer. I had 2 questions, which are not actually on the results. The first one is on the German life back book deal. If you could tell -- say a bit on progress there. The reason I ask is AXA did say last week that their German life back book deal would likely close next year or this year. I just wondered what the consequence would be that be -- would be for you. I was told it should be 0 because you've already given us the buyback, but I can ask.

And the second one is -- actually is on the results and is related to this. When will you add capital to Farmers? Or what will trigger? I can see the improvement in combined ratio, the underlying 93-and-a-bit percent, which is lovely. And maybe -- and I think you had kind of said that anything below 98 Farmers Re building capital. And as soon as you see a sign of improvement, you might put money in. And I just wondered when and how much and what would the benefit be for Farmers? Can it grow fast and produce more profit?

George Quinn
Group Chief Financial Officer

Thank you, Michael. So on the back book point, all we'll walk you through that process with the buyer. I mean point out surprisingly given some of the events in Europe in recent months, I mean, that's causing the regulator, I mean quite reasonably to take a much deeper look to make sure they're comfortable that some of what we've seen elsewhere would not appear in this transaction, all others that are in front of them at the moment.

I mean we're still working with the buyer towards a year-end close. I mean it's obviously dependent on the regulatory approval, so I can't guarantee it. But we're still trying to target and close in Q4. There is some risk that slips into Q1. I mean, from an overall perspective for us, I mean, if we slip into next year, I mean I'd rather we didn't because we'd like to get this thing behind us and move on to other things that occupies quite a lot of time from the team in Germany.

And I think it also allows that the buyer to focus on looking after the clients. And the way they made the commitment to us, I don't expect any financial impact if we have a short delay into next year, but it wouldn't be ideal from our perspective if we end up there.

On the Farmers topic, -- I mean, I think the way I look at this -- and I guess this question will probably come up a couple of times on the call. I mean, I think as you know, there's really -- there's no real way that Zurich can add capital directly to the exchanges. I mean we have provided support in the past around the quota share. We increased that support at the end of last year. I think as I said before, our preference is that, to the extent that Farmers needs or wants reinsurance support in the capital structure, that's really something that we would prefer the external market to provide because it just keeps everything clear with everyone playing the roles that you would expect them to play.

I think the -- I mean the primary challenge for Farmers at the moment is to continue that underlying improvement that you start to see on the loss ratio, see what they can do to address some of the cat topic. I mean they are focused on that issue, much the same way that we have been in the past. So you can expect them to react to that.

I mean there's a whole bunch of other levers that I know that they're working on. But I think as Mario said in the intro, we will have the team at the investor update that we're going to have in November. They'll actually have some of the steps executed by then, and they can talk about that from a perspective of actually having done some of it.

But their primary goal is to improve underwriting and start to create surplus back into the business. From a Zurich perspective, no stance on our willingness to support the exchanges. But I think the things they have lined up in the plans they've got in place, they're not easy, but they will move this thing in the right direction.

Operator

The next question comes from the line of Andy Ritchie with Autonomous.

Andrew James Ritchie
Bernstein Autonomous LLP

I just want to understand the quantum of additional conservatism you talked about in your commercial lines, I think particularly loss picks. I mean, are you essentially reinvesting all the net discount benefit? I'm just trying to judge -- I mean there was a small deterioration year-on-year in the underlying accident year current loss pick in commercial. Is all of that additional conservatism and other specific areas where you felt the need to add additional conservatism? Or was it purely a results management exercise in terms of the discount benefit?

And just back to Farmers. What is the level of surplus ratio where it'd have to be a more short-term intervention by way of them presumably raising more reinsurance or issuing surplus notes? I mean the cat protection is now lower, I guess, for the second half because of the quota share won't take any more cats or very little. They have excess of loss cat, but that attaches fairly higher, I think. So what's the intervention point where it'd have to be more short-term intervention rather than waiting for the underwriting actions, which will take some time to come through?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Andrew. So on the first one -- so I think maybe the way to think of this is that, I mean if you compare the outcome on commercial, you make a connection to the discount. I can't make that connection to discount. I need to look at the loss ratio on a stand-alone basis.

We've done a couple of things in the quarter. One of them I think we needed to do anyway. So we simply reflected price and loss cost trend around financial lines. That's not particularly significant overall. Maybe it's in the range of 10 to 20 basis points.

I don't know if I mentioned in response to Andy's question earlier, but I mean not only do we see the same trends around price trajectory around financial lines, we would actually say loss cost trend is higher in the first 6 months of this year. So I don't think that's conservatism. It wasn't optional. That was something we had to do, and I assume that something to the market in general, also has [Indiscernible].

I think we've been more conservative, in particular around commercial auto. I did mention in response to Andy's question that we have increased loss cost trend assumptions. We've also made some additional increases to reserves that I would view as prudent. So I mean beyond that, though, I mean, what's been flowing through the casualty result is really just the -- some combination of the margin improvement with some of the natural claim fluctuation.

I mean one of the other things to keep in mind when you're thinking about the prior year, I mean, the prior year comparison for commercial was always going to be a tough one. But I think we're seeing a really strong performance from the commercial business. And we're trying to make sure that we don't have unnecessary volatility in the performance. And that strength that we see, it allows us to be prudent in some of the areas I just mentioned.

On Farmers, so I mean, overall, we've got a surplus ratio that is obviously -- is quite low by historical standards. I think partly mitigating that, if you look at it from an RBC-level perspective, I mean that doesn't look as low compared to what you would see the market in general if you have the right reference point.

But the point you make is correct. So the cat protection topic, they're going to rely much more on what they have around the cat aggregate than the quota share in the second half. I mean I don't know what Farmers Exchanges different intervention points are. I mean, I've obviously talked to their finance team around their stance. I mean, I think they're happy that between where they are, the changes that they're making and the levers that are still available to them, of course, they still have things like surplus notes capacity, that they can manage this through the second half of the year as we position the portfolio to try and continue to drive the underlying ex cat improvement that we've seen in the first half of the year. I can't really give you much color -- much more color than that.

Operator

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

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

So my first question is just sort of conceptual just to understand. I mean I've seen the slide where you compare the Life CSM contribution being much lower than other insurers. And I mean if you ask the others, they would say that this means that there's no predictability in these things. And could you just please help me clarify -- or clarify to me why this is such a positive for you. Or is it just transparency? So just a curiosity question.

The second question is on the retail. So the fact one of the comments was that there is about a 3% improvement in the accident year combined ratio at cat. In retail, could you just guide me or just remind us really what was the objective here? And how much more needs to happen? I presume a lot more needs to happen in order -- just curious to hear your thoughts on retail and the targeted improvement.

George Quinn
Group Chief Financial Officer

Yes. Thanks, Vinit. So I think the CSM comparison is more a transparency topic. I mean, different people will have different preferences for different lines of business because of the markets they're in, because of the risk appetite. And I think it was -- I think if you think of Zurich, our business that actually depends more on something like the flows from the joint venture with Santander or other banking partners. I think it's generally more consistent with how we approach risk-taking. I think that's why we wanted to highlight it.

I think it's kind of a bit our version of the story you've seen before about the composition of the balance sheet, the breakdown of reserves and the breakdown of new business into the different lines of business. I mean, there's nothing wrong with other sources of earnings, and everyone has their own preference. But -- so it's transparency. I mean you make your own mind up about what your preference is.

I mean, we obviously prefer it this way. It's deliberate. And it's something that allows us to -- I mean we can react. We can drive more change. It just makes us a bit more in control of our own destiny because we're not as dependent on those long-term elements of the Life business. But having said that, I mean, it's half looks profit. So I wouldn't go too far. So I would say it as transparency, but we like it this way.

On retail, I think I said the -- I don't know if it was back in May or back in February. I mean, the primary goal was to start to get this thing moving in the right direction. So we're obviously pleased to see that. But I mean you guys can see the retail combined ratio. We're not about to have a celebration at that level, but it's better than we were in the second half of last year. So we've taken a bite out of the loss cost trend issue that you saw for the entire market in the second half, and we're gearing up to do the same again at the -- may be particularly the European renewals that come on Jan 1.

So if you look at the trajectory, I would expect -- I mean, you will see further improvement, I think, through the course of the year. I don't think it will continue at the same pace because of that wait into the Jan 1 renewal. But we're looking for a further step.

And I think if you were thinking about, I mean our target levels of profitability, we would need to be back lower than we were in the first half of last year to be at a level that we think would reduce a reasonable return on the capital that we allocated. We think that's within reach, but it takes much more than the business has achieved this year. But we've made a step in the right direction -- we've made a step in the right direction.

Operator

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

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

Just a couple on the Life business, if I may, please. On Slide 30, it's really good that you've given the expected return on the CSM walk. I'm just wondering, now we know that there's about a $50 million underlying CSM accretion, do you think that, that could become a KPI for your business? And what's the direction of travel for that number? I mean I appreciate it's a small number. And so presumably, you're going to be hoping it's rising. But I'm just wondering kind of how we scale that. And obviously, if we just thought about your business is about more than just the CSM walk that -- given you've given that disclosure, I'm interested.

And then secondly, I know how you love to give guidance. On Slide 32, you've told us quite clearly that the Life BOP is going to about double between the first half and the second half because -- sorry, to the first half and full year because of the $1.8 billion guidance. Are there any sort of line items on Slide 32 that I'd be thinking about as abnormal within that? Because I can see again, there may just be a temptation to double everything, but I'm pretty sure I shouldn't be doing that. So in that walk on Slide 32, are there any particular funnies we should be thinking about that will look different in the second half?

George Quinn
Group Chief Financial Officer

Thank you, Will. So on the expected return, yes, I mean, so we've tried to give a presentation. I think it's more consistent with what you've seen from the peer group and maybe put some of the remarks that we made on IFRS 17 last year in context.

In terms of scaling it, I mean, there's still a challenge for the Life business at the moment, particularly around CSM because of what -- I mean the nature of the business that flows into that for us is the one that has the toughest time with higher interest rates. So I think from where we are at the moment, our ability to grow that is going to be quite modest. So I don't have outsized expectations that, that number that you see that's going to grow very, very rapidly unless we see a change in the broader interest rate environment or until we get to the point that we think about repricing some of the products.

On guidance, I mean, I think the good news on the Life side is that, I mean, the thing is fairly clean. I mean, there are some small differences on some line items like -- things like loss component. But I wouldn't highlight anything as something you need to particularly adjust for. Obviously, IFRS 17 does not have one-off in it to the same degree that IFRS 4 had before it. So it's a pretty clean set of numbers for the first half.

Operator

The next question comes from the line of Ismael Dabo with Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

I just have a really quick question. So you had some prep issues at the end of last year. Can you remind us what those were and basically how that line of businesses progressing this year? Are there any potential impact from a strong El Nino on crop losses? And how do we think about when those policies tend to renew?

Second question is more so on the liability business. I think there's been a lot of chatter from a few people around social inflation, resurging, particularly in the U.S. during the quarter. But I think you mentioned that liability to remain fairly flat. So just trying to figure out what assumptions you may be picking into your loss picks going further, how you're thinking about the line of business and the versus, I guess, the sustainability of pricing in that.

George Quinn
Group Chief Financial Officer

Yes. Great. So on crop, I mean I think at the end of last year, I would characterize the movements that we saw, they were quite small in the context of the crop overall. It wasn't far away from what we would normally plan the business to be at. I mean, I think the challenge was much more that we had a more positive view at the end of the first half, and we were slightly more conservative at the end of the second half. So you saw a bigger swing first half to second half. But I mean crop last year was slightly adverse, normal expectations.

This year, so -- I mean, it's relatively early in the year. There's been quite a lot of chatter given weather. So if you look at the U.S., I mean there were some articles in the Wall Street Journal back in June or July, particularly around winter wheat. And I think the interesting thing on that was it wasn't really so much about weather, but the availability of machinery and resources to get things picked.

I think the way we see things, I mean if you look at the weather trends sort of into the back end of July, we would think that winter wheat, which is about 10% of our book overall, has probably got a slightly adverse trend. If you look at the particular states that are impacted, it tends to be the kind of west of Central, if that's a thing, in the U.S.

And so the main state that we have winter wheat exposure in that particular area, we dropped the retention coming into this year. So we have a bit more protection in place from the reinsurance program around that particular topic and the same before.

If you look at the other crops, corn, in particular, and you look at the weather maps, I mean, for our geographic focus, which is, I mean, right through the Midwest, the conditions look positive. So yield looks as though it's going to be better than expected given what we saw in July. So I think it's too early to draw any conclusions about what crop or land. We're assuming that it's been a hit plan at this point. You've got a small negative around winter wheat, and we've got potentially a bit the positive around corn, but we still have some time to go before we hit harvest.

Just one additional comment on crop. From a volume perspective, it will be lower than last year just because of where the prices were struck back in February. I mean you can expect to see crop premium volumes dropped by somewhere in the 10%, 15% range. But crop overall, no negative signals, maybe even some slight positive ones at this point.

Ismael Dabo
Morgan Stanley, Research Division

And on the liability trends?

George Quinn
Group Chief Financial Officer

Oh, sorry. I was probably asleep, sorry. So like to -- I mean, going back to the comments to Andy earlier, so I think if you look at the lines that are -- I think people would generally say a more exposed to that social topic, I mean we have picked up loss cost trend assumptions around them. So that would be particularly things like D&O, it's particularly things like liability on motor, also excess around liability in general.

But also as I said to Andy, overall, I mean, our view is that loss cost trend, partly because you've seen the prior impacts around the shorter tail lines like property, motor hull, I mean where we're not back to normal by any stretch of the imagination. I mean, the general supply chain issues have improved quite a bit, and we do see some benefit from that.

So net-net for us, we would say that loss cost trend has slightly improved, albeit the ones that have had the sharp exposure -- sharper exposure to the social topic in the past, we continued to increase loss picks around those topics.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

I guess the obvious questions have been asked. So sorry for a boring one to start off. But just looking at the discount benefit, it's -- I mean it's about 30% on last year, which seems a lot lower than the guidance you were giving us before, George, which I guess, is a bit unusual for the industry where we've gone above it. Just wondering if you can explain that movement and what we should expect for the full year.

And looking at Slide 16 and the current forward yield curves, it looks like we should expect a lower discount benefit for next year. I just wanted to check that was right.

And then secondly, sorry to come back on the underlying combined ratio, but I guess if I've listened to the comments that you've made on pricing being about loss cost trends, some conservatism, but not being overly conservative. I guess, the year-on-year movement is a little bit more than I would have been expecting. So I'm just wondering if you can give us some sort of additional insights in whether -- from where you're sitting, what you see in terms of good luck -- or rather bad luck this year, good luck the previous year, large losses or any other sort of moving parts? Just to help us cut through the noise of sort of understand the main movement.

George Quinn
Group Chief Financial Officer

Yes. Thanks, Peter. So on the discount topic, we put a slide in the deck. I mean, it's a simplified version of what we would see in detail. Basically, it works off an assumption -- well, it's not an assumption. It's a model of the underlying detail that about 80% of our discounted reserve base is essentially the in-force of the prior year, and the remainder is the current year. That's pretty consistent with what we've talked about in terms of duration for the portfolio before.

We've given a clear indication of what the locked-in discount rates are for those 2 parts of the portfolio. And it just helps -- I think you guys build a model around what you can anticipate in future for the developments of discount.

I mean, to deviate from that, either we would have to turn over the fixed income part of the portfolio, which, of course, we would not want to do because of the disturbance that, that would create or we'd have to change the mix really pretty radically, pretty quickly or alternatively, we'd have to have some shortcuts around how we model the discounts. And of course, what we try to do is -- I mean we try and update this monthly so that we keep the discount effects really quite close to where the market interest rates are so that we don't create discontinuities between the expected income on the assets matching versus the discount. So I hope that slide we have in the deck...

Peter Eliot
Kepler Cheuvreux, Research Division

Yes. I guess -- no, it is very helpful, George. I guess where I was coming from is -- I mean you'd sort of mentioned earlier in the year that for you, European rates had sort of roughly doubled from last year. U.S. rates were up 30%. So I think we were all sort of expecting the discount based on that, that the discount benefit within the combined ratio to be more than it was. And I'm just wondering whether we've sort of underestimated some of the H1-H2 seasonality or what parts of that.

George Quinn
Group Chief Financial Officer

No, I do think so. I mean, there may be some H1-H2 seasonality, I mean partly dependent on the actual claim incidents. I mean there will be a bit more of the shorter tail in the second half of the year. But I mean, the guidance we're giving you is obviously, it's simplified. And I would expect that because of the noise of it -- the lack of very detailed position in the model we've given you is probably more significant than the seasonality effect. So I wouldn't be concerned about that.

I think maybe one of the drivers of why people were expecting higher discount benefit, I mean we've changed the treatment of what we do in Argentina. I mean, from a longer-term perspective, that doesn't have any significant impact because of what happens to that business as it unwinds at lower values in the future once deflation takes a bite out of it, but rather create artificial noise and discount versus loss ratio, we put those 2 things together. So I think that might explain part of why you had a different expectation, Peter.

But the -- I mean the numbers we've given today, you can see what we're essentially saying, the reinvestment rates are from a discount rate perspective. And you can compare that to what you would expect the market. I don't think it's very different.

From a next year perspective, I think your summary is correct. So I mean, if I look at the forward curve, certainly for the new business component, so the new year that gets added, the discount benefit of that will be less than the one we have this year, assuming the forward curves are correct.

Going back to the loss ratio topic. I mean net-net, I mean we have a P&C business that's performing really well. We've got a commercial business that's producing very attractive margins. I mean, that's been posted by the change to IFRS 17 given the impact of discount. Even with risk adjustment, the net is a positive. I mean, we want to be careful that we don't create unneeded volatility in the business' performance. We've got ambitions for the next 3 years, and we're certainly mindful of not just this 6 months or the next 6 months, but that entire period as we think about reserving for this business currently.

Operator

The next question comes from the line of Ismael Dabo with Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

Just had one quick follow-up question. I think you just mentioned something on the discounting benefit. So if I were looking at what you gave in the original IFRS 17 supplement versus what was given now, just looking at the 2022 numbers that it looks like, at least the discount benefit has changed a little, which basically goes off the -- if I were just to extrapolate in the cats and everything out of it, the core loss ratio looks a little bit more favorable than last year. So just wondering, is that related to the change that you just mentioned in a discount? It just looks like the discount benefit was restated as opposed to what you'd originally given.

George Quinn
Group Chief Financial Officer

Yes. So it's exactly the same point I was making to peer. So we changed the way we treat some of the hyperinflationary impacts in Argentina because it was simply producing lots of volatility. But it was a geography issue in the P&L with no net bottom line benefit. That simplifies it, made it more predictable. And I think it's easier for us to follow and hopefully, eventually, it's a lot easier for you guys to follow.

Operator

Ladies and gentlemen, that was the last question. I will hand over back to Jon Hocking for any closing remarks.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you all very much for your questions. If you have any follow-ups, the Investor Relations team will be available in a few minutes. 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.