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Call Participants

EXECUTIVES

Claudia Cordioli
Group CFO & Member of Executive Committee

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Mario Greco
Group CEO & Member of Executive Committee

ANALYSTS

Andrew Sinclair
BofA Securities, Research Division

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Ismael Dabo
Morgan Stanley, Research Division

James Austin Shuck
Citigroup Inc., Research Division

Kamran Mark Hossain
JPMorgan Chase & Co, Research Division

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

Peter Eliot
Kepler Cheuvreux, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Q1 2024 Results Conference Call. I'm Iruna, the Chorus Call operator. [Operator Instructions] 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

Thank you very much. Good afternoon, everybody, and welcome to Zurich Insurance Group's First Quarter 2024 Results Q&A Call. On the call today is our group CEO, Mario Greco; and our Group CFO, Claudia Cordioli. I will hand over to Claudia for some introductory remarks and then Mario will lead the Q&A session. Just to remind you for Q&A, we'd ask you to keep to maximum 2 questions please.

Claudia Cordioli
Group CFO & Member of Executive Committee

Thank you, Jon. Good afternoon, everyone, and thank you for joining us also from my side. I'm Claudia Cordioli, Group CFO, and it is my pleasure to take you through our high-level results for the first quarter of 2024. I look forward to meeting you all over the coming weeks and months. Before Mario and I take your questions, I would like to share a few remarks. We made an excellent start to the year with strong growth across all businesses. This is clear evidence to me of the strength of our unique diversified business model and our relentless focus on execution to deliver on our commitments.

Now let's look at each of the businesses in turn, starting with P&C. Here we continue to see robust top line growth with insurance revenue up 12% like-for-like on the prior year, supported by rate increases in both retail and commercial. Retail P&C showed double-digit growth in insurance revenue, which together with rate increases of 7% in motor and the impact of various non-rate actions, notably in some of our key European motor portfolios gives us great confidence in the outlook for the rest of the year.

In commercial, North America continues to see strong great momentum with overall rate increases of 8% and commercial auto, in particular, seeing rates up 14%. The dynamics in U.S. crop commodity prices with corn and soybean prices down about 15% to 20% will drive a reduction in top line for this business for the year, which we expect, however, to be compensated by profitable growth in other lines. Margins in commercial insurance remain at very attractive levels with a stable outlook as reinforced by the information we have from April renewals.

Now moving to our Life business. We have delivered excellent growth with revenues up 12% in the fee business and 11% in the protection-focused short-term business. Both these segments as you know have been very consistent sources of growth for us and account for a significant part of our life profits. For the CSM accounted business, new business premiums were broadly flat compared to a year ago, while a more attractive portfolio mix has delivered an increase in the margin.

Last but not least, Farmers. Farmers had an excellent quarter with Farmers Management Services seeing underlying fee income up 6% year-on-year. We are well on track to meet or exceed the guidance of mid-single-digit growth for the year. The management actions that were taken by the Farmers exchanges have been very effective, as evidenced by the outstanding underwriting performance with the second consecutive quarterly combined ratio below 90% and the strong improvement in the surplus position, which is now in the middle of the target range. This is clear evidence that Farmers are on the right trajectory and are a true differentiator for Zurich.

Our capital position remains very strong with an SST ratio of 232%. As we announced in February, we will be undertaking a share buyback, which will start in the next few weeks. So, in summary, an excellent start to 2024 and a great set of first results for me to share with you.
With that, Mario and I will be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The next question comes from Andrew Sinclair with Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Two for me, please. First, possibly a slightly different question on Farmers to what we've had over the last few years. But just given the pace of turnaround, it looks like Farmers can potentially hit the high end of its surplus ratio target over the next year. What's the next step for Farmers at that point? Would you be looking -- do you expect it to reaccelerate volume growth in 2025? And is there any impact on that for ability to file for rate increases once you're at the top end of the surplus ratio? That's my first question. And the second one was just about the non-rate actions you were talking about that you've taken in P&C. Just wondered if you can give us a little bit more color on that, what's going -- what are you doing there? What benefits should we expect to see from those actions?

Mario Greco
Group CEO & Member of Executive Committee

So I don't see any connection between the surplus situation and the rate increases or no direct immediate correlation. Clearly, the rate increases will tend to be smoother and then less high over the next months. But this year, we will continue finding pretty high-rate increases, both in the homeowner and in motor. What to do with the surplus? I mean, I think a higher surplus would also trigger a thorough rethinking of the capital generation of Farmers, including the reinsurance coverage that they want to have. We also changed pretty significantly the exposures that the exchanges are running on their books, and we reduced them by roughly EUR 1 billion.

So, I think the next step and maybe at the end of this year, next year would be to start rethinking about what kind of reinsurance coverage they want to have and how big is the quota share that they want to have. But I don't think there is going to be -- I mean, the rates would moderate themselves slowly with the market improvements in the profitability, especially after the end of this year's results.

On the non-rate actions, I mean we've been protecting the portfolio with a number of changes in closes and in conditions. The impact is on the claims cost. Because there are claims sources that we don't accept anymore because they have been excluded or there are limits, there are deductibles that influence better the claims cost.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

First, another question on Farmers, actually. I mean you highlighted the strong expense ratio improvements there. I think you were targeting 4 points of improvement. So, I was just wondering if you could update us on where you are on that journey. And then the second one was on the SST modeling changes. Just interested if you could elaborate exactly what you've done there? I mean I understand it was interest rate risk related, but just wondering if you can elaborate on that?

Mario Greco
Group CEO & Member of Executive Committee

On Farmers expense ratio, yes, we took a number of actions on the expense ratio and also on the commissions. The Q1 combined ratio of exchanges are roughly 2 points of benefits for lower expense ratio. Some of the benefits, both on the expense and the commission ratio will come later. But this is already very significant and positive. On the SST, I mean, fundamentally, at the beginning of the year in Q1, we always run a number of changes to the model. This year, what happened was that we also changed the provider that we use to calculate the assets for the risk of the assets of the underlying assets portfolio, and that created a different impact on the SST.

We take this as simply a model one-off. It's not significant. And we saw that already in April, the positive capital accumulation restarted as expected. The impact of these changes explains the gap to the consensus. So, for us, this is just a non-event. But I do understand that it took attention.

Operator

The next question from the phone comes from Will Hardcastle with UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

The first one is on Farmers. This is another good quarter of sequential improvement here. Has the turnaround been much faster than you'd have imagined? And does the quarter's delivery accelerate when you'd imagine returning to more material volume growth in the exchanges. Secondly, it looks like Berkshire Hathaway has taken a sizable stake in Chubb. I guess any initial thoughts from you on this? And if you anticipate it will have any impact on commercial pricing trends in either direction?

Mario Greco
Group CEO & Member of Executive Committee

So look, on turnaround, first of all, well, allow me to say that I don't like turn around. I don't think that was a turnaround, but that was truly business transformation. The difference is that the turnaround is for me something that you do when you're back against the wall. For Farmers, there was really business transformation needed. It was executed the fast and impeccably. Did we expect it? Well, let me put it this way. We hoped that it will go this way. The generation of the benefits has been fast and clean and the market impact was strong because it probably happened also at the right moment in the market.

By the way, also the loyalty, the retention is higher than we expected it to be, which means that probably the market was taking same actions at the same time. I think this will further accelerate. And I think that this will continue through this year. I mean we're still cleaning the books. So, the -- I would say, the normal growth is higher than what we reported on because we're still canceling books of businesses. And then we will gradually shift into the growth model and how to restart growing the piece.

On Berkshire, I think -- I mean, I don't know much about it. I mean I read it in the newspaper as you probably all did it. I would say that this is about the confidence on the commercial business, and I like that. I am optimistic on where the commercial business is going. We see stable margins, and we think actually that the margins will be improved, it can be improved. We don't think that the market is going to turn soft. I think that's a wrong reading of the market. I think property will remain hard, then we can debate how hard it would remain, but it will remain hard because everybody understands the volatility of the property results with this climate situation and the supply remains pretty much rationed.

And I think on the casualty side, everybody understands the risks or the presence of claims inflation and the prices are already reflecting that. So, I expect the profitability of commercial to stay high and possibly even to move higher. And I -- maybe that was the reason behind the investment.

Operator

The next question from the phone comes from James Shuck with Citi.

James Austin Shuck
Citigroup Inc., Research Division

My 2 questions, please. Firstly, just keen to understand in North America commercial. The GWP growth, I mean, actually declined on a like-for-like basis, you're putting through rate increase of 8% or so. I understand the crop is going to be a drag on that. But I'm just intrigued to hear talk about exposure growth, particularly in North America commercial. But when you also talk about your SST outlook, you are indicating that there won't really be much capital requirement for growth of the business. And it makes me think that most of your growth at the moment really is coming from rate and nothing from exposure.

So just keen to get your thoughts on where that exposure growth might come from? At what stage you start returning to growth? And then secondly, on Farmers. So again, great results for Farmers. It's still interesting to see the 8.6 points from nat cat in the first quarter. Obviously, you rejigged the risk exposures and the reinsurance program, it still seems a high number to me. What would you view as a normal level going through into 2024, please?

Mario Greco
Group CEO & Member of Executive Committee

Let me start from the second one because it's easier to answer. I don't know what's normal level. I mean, what we know is that we eliminated the $1 billion of cat exposures at Farmers over the last 12 months. And as we did it at Zurich, if that is not sufficient, we will eliminate more. I mean we had experienced at Zurich how to do it because we have been reducing cat exposures in our own businesses, in our own portfolios over the past years. And this is a try -- do it and try it kind of game where you land eventually where you feel comfortable with. So, we will see that. I don't think anybody can predict and forecast cats. And, so far, it seems good. And if not, we will take further actions and we'll further adjust it.

On NAC growth, I mean, you're right. This is a complicated story. So, give me a second to explain it. But let me start again from the simple thing. I mean, the SST impact on growth is pretty low because of diversification. Whatever growth we have, this is not going to consume much capital. And this is something that we often refer to about our SST level that actually capital deployment into growth is minimal. We don't need much capital because of the diversification of the business, the way the model functions, it will not consume much capital.

On the NAC growth situation, okay, there are a couple of things to consider. Crop is clearly a drag on growth. I mean price reduction was -- was between 15% and 21% negative for different goods, and this is commodity prices coming down. And that's the only market the only industry is impacted. The second thing to consider is that we have been acting very aggressively on the commercial motor portfolio. We canceled roughly 29% of cars insured in the national account's portfolio, in the mid-market portfolios, already by the end of Q1. We eliminated the single auto programs that we had in the books. And we acted already on all the sections of the books, which were above 110 combined ratio.

Then we earn a very strong rate increases, and they are growing by month. I think the April number is higher than the quarterly number that we disclosed. And we see now that the rate increases are well above the claims cost. But this has clearly an impact. And then the third thing to consider is that we had some accounting seasonality, if I may say so, because we saw a much stronger accounting of premiums in April. And that's quite normal because the 3 months are kind of special at the beginning of the year.

So I don't see -- I'm not concerned. I mean, NAC growth is there. It's growth in exposures and its growing rates. But in Q1, we had a number of special things that influenced this number. But you will see that by the end of Q2, the NAC growth will be visible in back there.

Operator

The next question from the phone comes from Michael Huttner with Berenberg.

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

My question you may have answered because the one is obviously on reserving and the other one is on the timing of the policy count in Farmers. So on reserving, you gave us a little bit of insight saying the guidance for PYD is in the normal range, 1% to 2%. But maybe you can talk a little bit given that you've given us so much already about your peers have added and maybe you've rejigged reserves. Any insight would be really helpful and reassuring. And then on policy count, you talked at some stage, you're safe growth. Maybe the impression I had from the Capital Markets Day in November, was that this was a hope or an ambition for Q4 2024. But given the speed of the business transformation at Farmers, can you give us a hope that maybe it will already start in July? That's my 2 questions.

Mario Greco
Group CEO & Member of Executive Committee

I'll start on Farmerss, Michael, and then I'll pass it to Claudia to talk about reserves because she started looking into that and assessing them. On Farmerss, look, I mean we need, how can I say, not to be schizophrenic. So, for -- since last year to today, we've been working to transform the business to a really healthy business that generates profit for the exchanges on a steady basis. And we still have work to finish in that. And so, we do not expect to grow the policy count this year. We -- however, we target that, and we have already that in mind. Raul and his team are already working on how to generate policy growth as soon as possible, but this will come next year.

The other thing to flag you probably have seen in our press release that we indicated a very strong growth in the broking business, in the brokerage companies that we bought from the exchanges last year. Now this also must be considered because we should evolve at Farmerss as we have done at Zurich at the customer count and customer loyalty, customer retention and customer value counts. Because the purpose of that acquisition that we made was to remain in control of the customers, if possible, providing the customers with the Farmers solution. But if not possible, maintaining the control by giving the customers another solution, which still comes from us so that we keep on managing the customers.

And that will change a little bit the logic and the metric of policy in force and customer counts over the next years. And so be prepared because we will explain more on that. So, we're currently working on zero-basing all this. But bear in mind that, that acquisition was important and it's not a transitory part of how we run the business is an important part of the business transformation that we had in mind to have a full control on the customer relationship with -- through the Farmer's agents.

If that is clear I'll pass it to Claudia to talk about how she sees the reserve situation at the moment.

Claudia Cordioli
Group CFO & Member of Executive Committee

So on the reserving side, as you know, we guided for an impact between 1% and 2% positive. This quarter is in fact exactly in the middle. So it's absolutely in line with the guidance. As you know, we are performing our larger reserve reviews in the second and the third quarter in particular. But for what we are seeing so far, both on the commercial and retail side, there's no indication that the full year will be outside of the guided range, Michael.

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

Any more you can add to resource more maybe?

Claudia Cordioli
Group CFO & Member of Executive Committee

Well, we haven't performed, as I mentioned, a thorough review on all lines of business in the first quarter. As you know, we have a general philosophy of recognizing bad news as soon as possible and be less quick maybe with good news. That's what we adopted also in the first quarter. But in terms of composition, nothing different than what you've seen happening in the past with respect to PYD.

Mario Greco
Group CEO & Member of Executive Committee

There are no visible leakages in our claims story, neither there is any visible leakage in our reserve pattern at the moment. And we don't expect it, honestly.

Operator

The next question from the phone comes from Vinit Malhotra with Mediobanca.

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

So one question is on commercial profitability, which, Mario, you said some great things about when you mentioned the Berkshire adamant. But just from the outside, it looks like there was a slight slowdown in the commercial pricing. And is there also a similar slowdown or reduction in the inflation that you're seeing, which gives you this confidence on the pricing or the profit margin continuation?

So that is the first question on pricing and inflation in commercial. Second thing is the drop, we've heard about the commodity price reduction. Could you just please help me square this to how good, bad or indifferent, this might be for the profitability element because that was one of the topics apart from detailed motor in the last call about how the price and the profitability of crop should get better? So -- and just very last, maybe a follow-up on the large losses. Have you commented something about the Baltimore tragedy where probably there could be some exposure from various elements in the key trading accounts in it?

Mario Greco
Group CEO & Member of Executive Committee

So the third one is this one, we have no material exposure to Baltimore bridge closed. I mean it doesn't really matter for us. On your first question, look, the pattern is quite different. So, you say that prices are slowing down. I would say, not really, it depends. I mean prices in commercial auto are strongly accelerating. Property may be slowing down by a couple of points, but it remains still quite visible the hardening. So, prices are still high. Casualty, there are -- broadly speaking, also casualty is increasing, it's not decreasing. But inside casualties, there are some lines which are particularly light. And these are lines where we are traditionally very careful or absent from.

In general, what we see today is that the claims pattern is below the rate pattern. And so margins are still building. So that's why we maintain a very confident stance on commercial, especially we don't see a deterioration in the trend of commercial. And we expect that this will pretty much continue for the reason I said before. Everybody will remain very careful on property because everybody understand the volatility and the risks the property has and on casualty, I think everybody sees the potential for claims inflation or the impact of claims inflation. And so, price tends to go higher, not lower.

On crop, look, I mean, the issues we had last year on crop where I think I said they were self-made, self-inflicted. We went wrong on the private portfolios, so especially hail and livestock, which we already had initiated the year before. We -- the plan was to reduce the exposures or exit. And instead, we ended up with the higher exposures. We took management actions. We completely changed the leadership of crop. That has nothing to do with the commodity prices that we're seeing these days.

The commodity price story reflects or belongs to the part of the business, which is reinsured to the reinsurance public scheme. And so from that standpoint, I would say that these commodity price movements are neutral. It's not possible to predict from these movements if crop will be -- will have a better year or worse year. For us, it will have a better year. I mean, we definitely we don't want to repeat the performance of last year, but we are acting fundamentally on the private -- the non-public reinsured part of the portfolios because those were the loss-making parts last year. Is that clear because crop is quite complicated? If not, please ask me more questions on that.

Operator

The next question comes from William Hawkins with KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I'm slightly going over comments you've already made. So thanks in advance for your patience. In the SST ratio, could you just be a bit clearer please, about the market impact that was offset by the model change? I mean I think consensus is looking for about a 10-point positive market impact. And therefore, the model change is negative 10%. But obviously, we don't know that. So that would be helpful. And is most of this volatility happening down in the required capital for both markets and I'm pretty sure model changes? Or is there anything happening up in available capital as well, please?

And then secondly, sorry, you've already had loads of great commentary about Farmers, but I would like you to talk a little bit more about your feeling around the below 100% combined ratio target for the full year. Clearly, because you're now already below 90%, you could get away with a quarter of 110 or have 3 more quarters of 103 and still hit your targets. So, I'm not sure if the fact that the first quarter is so low is a fine that you're going to be well below 100 or whether there could still be some volatility we need to take account of in future quarters?

Mario Greco
Group CEO & Member of Executive Committee

Yes. I mean, as usual, I start from the end. Sorry for that, Will. So, Farmers, of course, there will be volatility come on, of course. There will be cats, there would be unexpected weather events, and they will have an influence. Continuing in the observation with April and May so far, the numbers remain very, very healthy, strong, if not better. But there will be volatility. I still believe that the below 100 is a very safe target for this year, which means that there will be significant surplus accumulation for the exchanges by year-end. But of course, we'll watch this quarter by quarter and month by month, and we will see what happens. And if necessary, we will take further actions.

But I think the indication so far is that our actions have been really impactful and successful. Remember also that there is a component which is created by expenses and commission reductions and that is quite significant. But volatility, absolutely. It will come back. On the SST impact and modern changes impact, I will leave it to Claudia. The numbers are not precisely correct. So I'd like Claudia to give you the precise numbers of the different components of it.

Claudia Cordioli
Group CFO & Member of Executive Committee

So William, in terms of market movements, it's approximately 8% that we estimated for the first quarter. Model and assumption, including the model of market risk that Mario hinted at before is roughly 6 percentage points negative. And then there's just short of 3 percentage points update on the replicating portfolio, which is the aspect that reflects the growth, both on Life and P&C side. So, if you sum it up, those will be the 3 key drivers, and it sums up to minus 1.5% -- against December. So really material in the big scheme of things, but a few pluses and minuses going into that number. I hope that helps.

Operator

The next question from the phone comes from Dom O'Mahony with BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

First, just on the exposure growth in commercial. Mario has been very clear that the impact on SST is very limited because of the diversification. I wonder if you might just give us a little bit of an insight into whether that's also true at a local capital and S&P model basis? My understanding, but I may be -- what I wrong is that what's more important for your remittance capacity.

So, any views on whether actually a pivot of slightly more exposure growth might have any implications on what's been a fabulous conversion of cash in the last several years? And then the second question is just on a detail on EMEA rate. I think at the end of last year, you gave us 5% rate change for EMEA with an outlook that was increasing, and it's 4% in today's release. Should I read this as -- actually, the rate has not been quite as strong as you were hoping or expecting? Or is there a seasonality or other factor, which I might have missed?

Mario Greco
Group CEO & Member of Executive Committee

On capital -- growth impact on capital, even at the local level, there is honestly no constraints, especially if you consider North America, really there, we have no impact, no constraints. And also, be mindful that we have quite a significant amount of capital -- excess capital lock there, which we -- every year, we tend to repatriate if possible, and growth doesn't have any impact on that. I mean, it's totally relevant. So, trust me, growth is not the way in which we can use our excess capital. We do have it and growth doesn't have an impact on. We can grow the business freely without capital restrictions and without actually changing our capital position. But ask me anything more if you need to.

Your second question was on the rates in EMEA. Look, again, I don't see anything different in EMEA rates. Just bear in mind that the commercial motor issue in EMEA is not as severe as it is or it was in the U.S. So we did not need to raise the commercial motor rates as we did in the U.S. That explains why there is a difference in the reaction. The rest of it is purely seasonality. We see similar development property is probably a couple of points lighter at the moment in EMEA than in U.S., but without this being a difference in the market. The markets are very open to each other. And if there were significant differences, the policies to customers would move from one market to another. There aren't. It's just a different business composition and then seasonality.

Operator

The next question comes from Kamran Hossain with JPMorgan.

Kamran Mark Hossain
JPMorgan Chase & Co, Research Division

Two questions for me. The first one, just on Farmers, clearly, it's been 2 excellent quarters, Q4, Q1, and trajectory and profits is probably upwards. To think about Farmers strategically, given this upswing in profits, do you expect to participate in this upside perhaps longer than just 2024 to looking to keep the 10% quota share into 2025? The second question is on the German back book. I think there were comments earlier this morning, alluding to the German back book solution being found perhaps. There was a -- from the way I understand that there's an impact on the SST when you separated the assets. Will you bring these back in house if you do think the solution isn't going to happen in CSM or will you just kind of allow them to continue to be segregated and maybe have a slight drag on the SSD?

Mario Greco
Group CEO & Member of Executive Committee

On Farmers quota share, look, I mean, the quota share last year was profitable for us. And this year so far is even more profitable. So, do we plan to reduce it? The answer is yes. Because I think there is -- how can I say, transparency and alignment issue with the exchanges, we can make money from too many sources with them. We have the management fee, and that is supposed to be our remuneration. We support them through the reinsurance when it is needed, but we cannot profit too much. So as soon as possible, we want to reduce it in exit because otherwise, this will create some bad blood with the exchanges. But I mean I'm happy that we made money last year, and I'm happy to make money this year.

On the back book, I think -- I don't know where you got the impression because I think I said the opposite this morning, and together with Claudia, we tried just to -- on the opposite side, say that there is not going to be any solution, any news this year. We are working to, first of all, now rebalance these 2 different life books we have in Germany. And we want to first reacquire a decent asset composition in these 2 books that was not achieved through this separation. Then we will also post a look at the alternatives available in the market, and we'll make a decision on what is best for us, and this will likely take us until next year.

Claudia Cordioli
Group CFO & Member of Executive Committee

And maybe if I may add, Kamran, so you're right in the sense that the situation we've got now is slightly inefficient. So having 2 entities from an SST perspective is not ideally. You lose some of the diversification benefit. And you need, as Mario said, to recalibrate the 2 entities from an asset allocation perspective. That said, it's also operationally much better to have a platform that we can at any point in time, dispose of with any type of solution. So that's great work that has been done already and it's ready to assess options.

And the second point, we're not in a hurry, right? So, the interest rate situation today is very different than it was in 2020 when the whole project came into life. So we are not in a hurry, as Mario said, we're taking time to evaluate our options. We believe that we have more options open to us today than we did 2 years ago. And that most likely it will take a few more quarters to crystallize the best financially more interesting option for the group.

Mario Greco
Group CEO & Member of Executive Committee

Also, Kamran, let me take the opportunity to clarify again what was the purpose of this transaction? Because if we were doing this transaction today, we will lose some BOP and some cash, and it will be almost neutral for SST. The benefits of this transaction will be on the sensitivity of SSD to tail risk events. So, in the -- today, not considered, not forecasted possibility of a tail event in the financial markets. Our capital sensitivity to interest rate movement and spread movements will be substantially reduced. But it's only in that case that you're going to see the benefits of such a transaction. And we were never thinking of doing this transaction for SSD improvements or for cash improvements because actually on cash, the transaction will be negative and on SSD would be neutral.

I just want to clarify that because the fact that the transaction did not happen, didn't change anything. Actually, it was better off for us on BOP and cash, but we remain with a higher sensitivity than we want to have to tail events.

Kamran Mark Hossain
JPMorgan Chase & Co, Research Division

I just wondered, is there any reason why the Farmers top line guidance kind of hasn't changed? Obviously, it's been a great trajectory, kind of really good starts to the year. Just wondering why if you're just being a bit cautious on this or if there's anything else just to think about in the background?

Mario Greco
Group CEO & Member of Executive Committee

So look, I mean, you know that we don't like to change guidance. We like to meet, exceed or miss the guidance. Changing the guidance, I think it's not good practice. So yes, I mean, the guidance that we gave back in 2022 was 5% growth. We're exceeding. We're confident that we continue to exceed, but we never changed guidance on anything. I mean we just report on the results.

Claudia Cordioli
Group CFO & Member of Executive Committee

I think we are hinting at meet or exceed-- that's the message.

Mario Greco
Group CEO & Member of Executive Committee

I mean it's a principal position. We don't want ever to change guidance because if you do it upward, then you're also allowed to do it downward and then it becomes a game. We just keep it always.

Operator

The next question comes from Ismael Dabo with Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

Basically, the Farmers is coming in and profitability is coming in better than your 99% that you hinted to at the Investor Day. I think earlier on the call, you said you would increase exposures. And I guess in terms of the exposure growth, if everything was going well, why would you not increase the exposure in Farmers? And my second question is just wondering on the crop business. Just really quickly, can you explain how quickly that book of business can return to profitability?

Mario Greco
Group CEO & Member of Executive Committee

Yes. So, I wasn't clear on Farmers, sorry. We are decreasing. We took away EUR 1 billion of exposure to nat cat exposed business. And there is a reason to do that, which is to reduce the volatility. So, cats will happen. There will be volatility, and we want to have a lower impact on the Farmers combined ratio and on the surplus of exchanges. This is the exposure that we reduce. Every other exposure, we're super happy to take in to growth. But we want to be very careful in the nat cat exposures. Does that make sense? Am I clear now?

Ismael Dabo
Morgan Stanley, Research Division

Yes, you are.

Mario Greco
Group CEO & Member of Executive Committee

And then your second question was on the crop business. Now on the crop business, how do we improve it? As I said, I mean, last year, we grew exposures in 2 businesses, hail and livestock where we knew already that the year before, they haven't been profitable for us. So, we are simply reducing exposures as aggressively and as quickly as we can do it. And with the new management, it is clear that they have to do it because they have seen what happened to the previous management was not executed on the plan and the targets.

The rest can be done. We need to work on expense reduction. We're changing also the business organization, trying to make the crop business isolated from the rest of the business and then working at the lower cost expense ratio than the rest of the business. But the fundamental action that we're taking is restructuring the book of business and concentrating on the book of business, which is profit-making and eliminating the loss-making part of the book of business.

Operator

We have a follow-up question from Andrew Sinclair.

Andrew Sinclair
BofA Securities, Research Division

I just wanted to speak a little bit about the Life business, which I was really impressed by the protected and unit linked performance. And I just really wondered if there's anything one-off in there? Anything that you can give in terms of color for the rest of the year on those product lines? And then second, just jumping back to P&C. Any color you can give us on discounting guidance with what's happened with rates year-to-date?

Mario Greco
Group CEO & Member of Executive Committee

Life does not have any one-off at the moment. The one-off, if they exist, there will be balance sheet movements, and they will go later in the year into the profits directly. The growth is very good. It's very refreshing for us and it gives us confidence that we can continue with this. But there is no special one-off at the moment.

Claudia Cordioli
Group CFO & Member of Executive Committee

Maybe we mentioned the savings in Spain. I mean, the [indiscernible] premium, but that's one -- that's more a one-off in terms of the comparative period of last year, Andrew.

Mario Greco
Group CEO & Member of Executive Committee

What happened -- let me explain better. Last year, we had a significant contribution in the first quarter by a [indiscernible] sale of guaranteed products to Banco Sabadell customers in Spain. That's a sale that generates a very little margin for us. And so in terms of value, it doesn't change anything. This year, considering the situation in the market, Banco Sabadell not request it anymore. And so that changed a little bit the interest of Sabadell and then consequently, we did not issue that anymore.

Andrew Sinclair
BofA Securities, Research Division

For protection and unit linked, nothing unusual and still to expect continued growth from here?

Claudia Cordioli
Group CFO & Member of Executive Committee

Yes, exactly. And also, in terms of CSM, what we expect to be and what we guided for the remaining of the year, the expectation is still on interest. So, nothing changes. We are growing nicely on our preferred segments, and that's even improving the margins as we noted.

Andrew Sinclair
BofA Securities, Research Division

And on the discounting for P&C?

Mario Greco
Group CEO & Member of Executive Committee

On discount, I mean, you can predict pretty much yourself looking at the yields movements. It pretty much follows what the yields do in the market. And so it is quite easy to get a prediction for that.

Claudia Cordioli
Group CFO & Member of Executive Committee

I think the guidance that we gave guidance, what we had in the slide at year-end, Andrew, that's still holding basically on the discounting impact.

Operator

The last question for today is a follow-up one from Peter Eliot.

Peter Eliot
Kepler Cheuvreux, Research Division

And just on the claims experience in Q2 to date. You mentioned the Baltimore Bridge, very helpful. Just wondering if there's any other sort of material claims events that we should be aware of? I'm aware of rising cost due to tornadoes for example, et cetera.

Mario Greco
Group CEO & Member of Executive Committee

Not yet. I mean the situation as of today is pretty normal, and it's pretty continuing the same pattern that we discussed, except that we have a stronger accounting development out of North America, as I said before. But other than that, there is nothing else to indicate.

Operator

I would now like to turn the conference back over to Mr. 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 anything outstanding that didn't get answered, please feel free to reach out to me or one of the team in the next few minutes. Thank you very much.