S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

FH1 2022 Earnings Call Transcripts

Thursday, August 11, 2022 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FH1 2022-			-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	17.39	NA	NA	26.69	31.68	18.70	34.04
Revenue (mm)	NA	NA	NA	49746.28	51493.33	3.51	54628.50

Currency: CHF
Consensus as of Aug-12-2022 4:29 AM GMT

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- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FH1 2020	9.07	7.63	(15.88 %)
FH2 2020	11.31	16.35	44.56 %
FH1 2021	11.91	13.28	11.50 %

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William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Half Year Results 2022 Conference Call. I am Sandra, the Chorus Call operator. [Operator Instructions] 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 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, everybody and welcome to Zurich Insurance Group's first half 2022 results Q&A Call. On the call today is our Group CEO, Mario Greco; our Group CFO, George Quinn.

Before I hand over to Mario for some introductory remarks, just a reminder for the Q&A we kindly ask you to keep to a maximum of 2 questions. Mario?

Mario Greco
Group CEO & Member of the Executive Committee

Thank you, Jon. Good afternoon from my side. As you heard, George and I are here to answer your question. But before that let me provide you with a few remarks on the results.

So this morning we reported our highest first half business operating profit since 2008 and the second highest ever. We have achieved this despite unprecedented market conditions driven by the war in Europe, higher inflation and the lingering effect of the pandemic. Zurich is performing very strongly across all of our businesses and we remain on track to beat all of our financial targets for the second successive strategic cycle.

Today, we have announced a CHF 1.8 billion share buyback to offset the earnings per share impact of our German life back book sale. While the primary goal of the transaction is to reduce capital volatility, the portfolio has been a reliable contributor of earnings. Given it's not possible to immediately redeploy capital to offset this loss of earnings, the buyback will allow us to protect shareholders from any dilution.

Our capital position is very strong. And this underpins the promises that we make every day to our customers, distributors and regulators. We continue to focus on customer needs, transforming Zurich into leaner, more agile insurer, that's primed for the future. Results continue to be seen in our growing customer numbers with more than 850,000 customers added in the first half of the year.

In Property and Casualty, we continued to see the benefits of consistent disciplined proactive portfolio management. P&C business operating profit rose 32% to $2.1 billion, driven by a record low combined ratio of 91.9%, as the benefit of recent price increases continued to earn through into our underwriting results. The gross written premiums also grew by 13% on a like-for-like basis with the strong growth achieved in both the commercial insurance in retail. In commercial insurance, rate increases of 9% were stable compared to the first quarter. We continued to see rate increases remaining ahead of loss cost trends into 2023.

On Life, our consistent focus on protection and unit-linked continues to pay-off with another excellent set of results. Life business operating profit in the first half grew by 13%, despite unfavorable currency movements due to the strength of the US dollar. This was driven by underlying growth in a much reduced level of COVID claims versus last year. The strategic actions we have taken in Italy and Germany this year further improved the industry-leading capital efficiency of our business and we are well-positioned for future success.

Gross written premiums of the Farmers Exchanges increased by 15%, driven by the inclusion of the MetLife business for the full 6 months period and underlying organic growth. Overall, Farmers BOP also increased by 15% over the prior year period. Sustainability continues to be key focus for us. And we're pleased to see that this continue to be recognized externally with MSCI recently upgrading our ESG rating to AAA, the highest possible category, of course.

On September 27, George will be hosting a webcast where we will explain to you how we are implementing the new IFRS 17 framework at Zurich. Beyond this, I also look forward to seeing many of you in Zurich in November when we will set-out our ambitions for our next strategic cycle. We are confident that Zurich is well placed to lead the transformation of the industry with sustainable products and services adapted to the rapidly changing expectation of our customers.
Thank you for listening. And George and I are now ready to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

I guess the first one is on capital, the SST, it's clearly a massive [indiscernible]. Just trying to understand relative to sensitivity effectively why it went so right, trying to reconcile that. And I guess the knock-on impact of that is just thinking about than the capital to buyback to offset the earnings. I guess as we look forward, what's the binding constraint on capital, which is clearly SST is at an incredibly high level. The second one is, just thinking of sustainability of margin improvement to carve in commercial and that balance between at what level you put the foot down on some volume exposure growth versus margin. Presumably, it's fair to assume that if prices that you're saying, Mario are increasing ahead of loss cost trend into 2023, we should expect continued margin improvement, all else equal, well beyond that point.

George Quinn
Group CFO & Member of the Executive Committee

Well, it's George. On the first one, I am not sure I'd agree with the characterization of [indiscernible]. I think if you look at the sensitivity, so we've given updated sensitivities for Q1 today. I mean the only thing you guys have had to work from prior was Q3, but if you look at the sensitivities we updated more recently, you can see that we're more or less exactly where the sensitivities would lead you to expect this to be. So I mean, we are certainly in the territory that we've expected to see given the [Technical Difficulty].

Finding constraint on capital, I mean, you're absolutely right, it's no SST, I guess it's perfectly obvious that it would be very difficult to put it mildly to bring it certainly back to 160, because of what that would imply and that's a capital move. And I mean from a binding constraint perspective, I mean typically when you see regulatory capital numbers this high, it will be typically other measures, normally more than rating agency topics. But I mean, as you'd expect, excesses on just about any measure you can choose are all very substantial. So we have plenty of flexibility. And of course we'll get some more when we close the transactions that -- the back book transactions that we discussed at length previously.

On the margin topic, you're quite right, so I mean, I guess, we're going to cover this more than once on the call. We still see in commercial, price ahead of loss cost trends. We don't expect that to close suddenly and in fact at the moment you've seen a stabilization of the pricing trends. So we haven't seen the continued moderation, we talked about back at Q1, although at the same time we have seen a bit of a tick up in inflation. So we've seen loss cost trends slightly higher. So we get the same answer, we end with the same guidance even if they're completely different. So we'd expect that to improve well into next year.

Operator

The next question comes from Kamran Hossain from JPMorgan.

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

2 questions from me. The first one is on, thinking about the proceeds from the back book deal. Clearly the share buyback today is kind of part of the proceeds. Just interested in what you might have kind of earmarked the rest of that for? And any suggestions and where you think the business can be stronger. So if you do down the M&A routes.

The second question is on growth exposure reductions that you've been kind of making in P&C. Just interested in how that's progressing kind of especially given that the kind of continued hardening in a kind of property and casualty and life regions.

George Quinn
Group CFO & Member of the Executive Committee

Thanks Kamran. So maybe one comment on the [indiscernible] German transaction works. So I mean already the actual capital flows that result directly from the German transaction itself are actually quite modest in the scheme of the overall capital base. The principal benefit we gain is the capital overlay that we impose from a central perspective. And I guess the good news is that of course we have that already. We don't need to wait for the closing to have that flexibility.

From a perspective of what's earmarked for where am I going to spend it, which markets, which targets, you'll appreciate I am not going to go too far into that. I mean, number one, because I mean, our focus continues to be on the organic plan that the Group has, that's the execution of that, and execution of the opportunity that we still see across all of our businesses as the highest priority by far. It's good to have the flexibility, particularly in the current market conditions that if the right property in the right place with the right returns comes up in a way that could benefit earnings and dividend growth, we're in a position where we could consider it. But I guess we don't earmark capital in the way that the question may imply, although I accept that, I mean, we do have significantly more flexibility that the transaction creates, then we've announced the use of today was the buyback in regards to the earnings dilution.

On the exposure, actually a hardening market for that makes this kind of thing easier to do rather than harder. That means that there's plenty of optionality for people, though they are around how they place this risk, I mean, you can see already from the commentary of various market participants that there is a variety of different levels of appetite out there and that's part of what makes a good market. I mean, we so far, we're ahead of schedule on the nat-cat exposure reduction in the US. I think the team there has done an excellent job, it hasn't impacted us elsewhere in the business. So we haven't had substantial resistance or the risk that we lose the parts of the book that we do want to rate. But I mean, this is to some degree going to be a continuing process for us, we want to try and limit the amount of volatility that we're exposed to from this particular risk. But the market conditions are actually quite helpful to us at the moment.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

George, when you were closing the reserves off for the first half, can you just give us a sense as to what areas, I'm sure, you had more of a discussion than normal about inflation outlook, social as well as economic. Just give us a reminder or just run through where you still, I suppose thinks away or let's put it in other way took a broader range of best estimate. I'm just going to trying to get a sense as to, was there still some net addition to things like US liability, are you seeing any real changes on things like work comp and maybe you were a bit less from that. So just some areas of where there was a bit additional caution in the first half would be useful.

Second question. In one area you could deploy capital is a bit more reinsurance for farmers or maybe even maybe a surplus note investment given the surplus ratio. Is that just off the agenda because just philosophically, you don't want to go back there in terms of volatility or is it a case of wait and see what Farmers buy for themselves in the third-party market and then see if you would step in.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Andrew. So closing reserve process at the end of the first half. And maybe not to give a very long summary of how we do this, but I mean, our mechanism is of course the company's business units arrive at best estimates, they report this through to the Group. The Group forms its own opinion, the Group may add additional reserves in 2 forms, one can be specific reserves for particular topics and particular markets, we do that fairly routinely. And we also add, I guess, what I describe as, I mean, some form of risk adjustment in additional margin to reflect the fact that we're in a particularly strong phase of the cycle. And we'd like to maintain a relatively consistent and steady effect from PYD. So that's not a topic for us in the future.

So obviously it was different at the end of the first half of this year. Obviously we pay a lot of attention to the inflationary topic. I don't think that would meet the definition of say additional reasonable prudence. So we've nudged up a couple of lines of business, especially in the US, but not a huge surprise or to physical damage, we have a slightly higher loss cost trend assumption, also commercial property in the US slightly higher loss cost trend assumption. Continuing I guess the theme that we've seen, I mean, over that last several reporting periods that the inflationary pressure irrespective of geography has been pretty concentrated in the short tail lines. And in fact loss cost trend or loss cost picks for almost everything else. So [excess GL], CyberPi, I mean you name it, I mean we've maintained trend picks around those areas.

The one area where we did do something additional, not particularly because we have something that we see in the data, but we did add -- we nudged up the primary liability pick. And if you think of prior commentary that I've given you, I think in the past we focus more on excess GL. And in fact if you look at, I mean excess GL is still the highest loss cost trend. Assumption in our book, auto physical damage is not far behind it today, but we've also pushed up primary liability just given the continuing concern that even if we do now, start to see a normalization of activity in settlement, it felt like a reasonable step to take. We have maintained the existing policy that we had around the kind of the anti-cyclical component reserving. So we do continue to add an additional potential margins within the best estimate. Again, just as a reminder, just protect against the risk that given things are cyclical that we get more pressure later in the cycle.

Uses of capital. So we have on our list of priorities would it be a bit more reinsurance for Farmers. If I had to say for the last several years that you've seen it from action, we've stepped away from routinely providing reinsurance support to the Farmers Exchanges, principally because, number one, they don't need it from us because they can buy it from the external market, but just as importantly it's not really why people own Zurich.

So we've maintained a relatively small share and the program just in case people worry about the level of commitment that we have to that particular relationship, I think for Farmers and for, I mean what happens around the end of the year on renewals, I mean if you look at the figures they've reported today, so they've got pretty hefty combined ratio, the 104, surplus is down compared to the year-end. They are slightly below the bottom end of the target. I think the things that drive that, the things that can help them in the future, there's a bit of interest rate than the surplus. So because I wanted to mark this thing to market every 30 days. I mean, some of that will have reversed in July, even if there's still a risk that trend is upward.

I think on the business side, I mean, obviously we have sayable of Farmers is doing on the business acceptance on the profitability side. From our perspective, we're doing all the right things, we benefit currently disproportionately from the rate action that they take. And that certainly drives growth ex the MetLife P&C deal. And I think at this stage, I mean, our expectation is that the market is probably sufficient to support Farmers, but we continue to leave open the possibility that if they need support from us, given the significance of the relationship to us, we would definitely take a look at it.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

Just one question on the guidance, please and one is a high level question. And on the guidance, I just wanted to cover, you talked about Farmers margin recovering in the medium term. I'm just wondering if you can give anymore clarity on the time line of that recovery. And on the Group functions and operations of 800 to 850, that seems quite conservative given your H1 level. So I'm just wondering if you're expecting a slightly higher than normal in H2 than that?

And then on the high level, I guess you talked about rate being above loss costs, reinvestment rates being about running yields, strong top line growth, et cetera. And I guess a question I often get from journalists is how will that translate into the outlook over the coming years and what fix they might be missing competitive pressures et cetera. I know that's my job, not yours, and sometimes it's helpful to hear the view from management. So I'm just wondering if you -- at very high level sort of qualitative thoughts on how you see that outlook, big picture everything combined.

George Quinn
Group CFO & Member of the Executive Committee

All right, Peter. Thank you. I'll take the question 1a and 1b as guidance question. So on the -- someone raised this with us earlier today. I hadn't intended to give people the impression we're trying to push out the date whether this would take place, I'm still expecting it to see it be back to the levels we're more familiar with by the end of next year. So I don't expect to print the number next year. But certainly, I expect to demonstrate by the end of the year we are back in the territory that we're familiar with.

And Group functions and operations, I've got the Group CEO looking at me across the table, I mean we try and keep the lead on expenses. The one thing that I find very hard to influence is the fact that we have a best skew on the spend. It's been pretty traditional for us. If you go back over prior periods, maybe not in every single year, but it's pretty common, that you'll see a heavier second half for [GS&O] on expenses then for the first. That's on their gross expenses. Now the net that you guys see can be impacted by charges. So for some reason we're doing something for someone that needs to be charged to them, then they can have some influence. But it's really the skew. I'm not trying to be conservative and to create room for out-performance, I do expect us to be in that 800 to 850 range by the end of the year.

Rate and loss cost trend and how does the whole of this translate into outlook? We'll talk more about this in November. So I mean by that stage, we'll be a bit closer. The next year we can maybe make some statements that don't sound as philosophical as what I am about to say may sound. I mean I think there is the mechanical part of this, which was the question that was asked earlier about how does this impact 2023? So within the commercial business, we've got margin expansion that's going to continue to benefit us through that period. I think generally, I mean, as we look at our ambitions for into the future, I think I have a sense of the market potentially underestimates maybe not so much the rate trend, but the benefits we're going to get from being able to expand the portfolio and grow and to some of the areas where we've built really solid foundations that we talked about strategic priorities 3 years ago. And I think the other thing, which is currently a bit negative, but you can see it in the more personal lines oriented players, retail is not having too much fun, especially retail auto. I guess a couple of times this year maybe I've been a bit too optimistic about when we start to see the market respond to that, but I still believe you start to see a sharper ton in the retail market in a way that potentially benefits 2023 much more than it has 2022.

So I think from a -- how does that all translate into outlook, it's not going to change much in the second half of the year. But I think there is a longer run to this particular story than I think many people appreciate currently.

Operator

The next question comes from Vinit Malhotra from Mediobanca.

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

Just -- so first of all thanks for this slide, which talks about the inflation and rate trend by line. It's fascinating there the motor line has exactly matching rates than inflation. George, is that possibly due commercial auto, which is probably [indiscernible] probably that commercial auto is not feeling the same pressure in the retail auto that you just even mentioned. Could you just comment on that please?

Second question is, just on the reinvestment yield. Could you just clarify the guidance for this 50 million to 100 million uptick, that's pursuing the 30th June or 30th July or 10th August because what's happening is obviously not anybody fault, but the US is down and also volatile. So I'm just wondering, and the reason also I ask George is because this has happened, I think in 2018 as well that the reinvestment yield had briefly exceeded the book to yield. But then obviously for a short period of time and you know the gap has narrowed if you mark the market today. So I'm just curious as to how to understand this guidance? Thank you.

George Quinn
Group CFO & Member of the Executive Committee

Yes, great. Thanks Vinit. So on the auto point first of all, so why and I guess I would translate the question as, why we're not seeing it being more negative given that's probably the more predominant picture in retail. And I think you did gave the answer to the question, at least partly. I wouldn't celebrate commercial auto as a beacon of necessarily all the price trend and loss cost trend that we'd like to see. The loss cost trend is really heavy on commercial auto, just as in retail auto, but there's more rate there at the moment, at least partly because of what we've seen in the past around commercial and general.

I think the other thing that you need to keep in mind when you look at our auto book and you look at which markets contribute to it, the Swiss business is still the largest part of our motor premium. Now it's not that the Swiss market is completely immune to inflation, we discussed it a bit back at the Q1 call, but the dynamics given FX et cetera are really quite different to what you might be seeing elsewhere. So I think we have 2 things that maybe allows us to put a slightly more positive picture. You've got a combination of slightly different dynamic in commercial, but also rebut the Swiss picture. And on the second part of your question, so apologies, so I will make it seem dated, of June just because it's really hard for us to pick another day on a particular day that may be more relevant because same day we've done that calculation, it would be irrelevant again, so 30th June is the day we've chosen. So there has been a move since then.

Operator

The next question comes from William Hawkins from KBW.

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

George, back on the solvency roll forward on slide 44. Within the very high ratio, I'm quite surprised by the absolute -- by the fall in the absolute available capital, it's down more than 10% because of market movements. And I guess I'm just surprised by that both directionally and the scale because I thought in absolute terms, you're predominantly a non-life business and you were quite duration matched. So why is your available capital bouncing around so much? And if I could append to that, I've heard very clearly what you said about the sensitivities.

But the thing that I'm still a bit uncertain about is that directionally your sensitivity to bond yields has gone up since you last disclosed it. Based on my basic understanding of the theory, I would have thought that in a high yield environment, your sensitivities are going down. And then secondly, given how much work you must be doing in the background, if you were reporting this first half under IFRS 17 and 9, what do you think you'd be saying different to what you're telling us today. Are there any interesting differences directionally that you think are worth mentioning compared with what we're looking at in the current operating numbers.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, William. So on the first one on absolute capital market movements, I mean we are a liability driven investor, but as you can see from the balance sheet, it's not just fixed income government maybe have credit, we have equity, we have private equity. And as you guys have seen that's all been impacted. So that's going to have an impact on AFR. That's a risk we accept when we make the choices about the strategic asset allocation. Given the amount of risk that we take there, we think it's a reasonable use of the diversification of capital within the overall model.

On the sensitivities, so I haven't tried to model personally whether the change should have been positive nor negative, we've given you the updated sensitivities for Q1. The moves that you've seen is in line with that, I mean for me the most important point is that, by the time we deal with the closure of Italy and Germany, the number will definitely be smaller, because that was the whole point, but we'll come back to that later in the year.

On IFRS, I ask you to bear with me, so I don't really want to preempt the call from September. So I'll save commentary around IFRS 17, I mean, the very high level thing I would say is that, certainly from a P&L perspective, given that the vast bulk of what the Group does is either P&C or Farmers, I mean, you will expect that the impact from an earnings perspective on us would be at the far more modest end of the spectrum. But we'll get into in more depth in September.

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

Can't wait.

George Quinn
Group CFO & Member of the Executive Committee

If I thought I could sell tickets, maybe we could.

Operator

The next question comes from Dominic O'Mahony from BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Just 2 from me. Just on Farmers, I mean, from the slides, it looks like you're anticipating really very, very strong pricing from here, which should be very helpful. I'm just trying to work-out to what extent you're expecting that to be offsetting in volume, given the comments about the surface position. Should we be expecting quite a sharp drawback in volume. Is that what you're seeing in the numbers that you're seeing or actually is it more moderate in lot of that rates be kept when it comes to the premium.

And then second question. Just in terms of inorganic capital allocation, I realize there's a limit to what you can say. But at least there is inorganic opportunities result. What I notice when I look at your, sort of last 6 years, there have been 3 major sort of areas that you focused, and one in Australian Life, another is LatAm and the third is Asia. Are those still areas that you're excited about that you would like to do, use priorities for building out, or actually are they done and are there other areas that would see as priorities?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Dominic. So on Farmers, I know you know this, but just for everyone's benefit, obviously you're looking at the net of policy count impact versus rate. I mean, from a volume perspective, it's quite hard to see in advance exactly what the dynamic is going to be. I think at this stage, I mean there will be some impact on policy count. But I think in contrast to maybe the experiences Farmers had say 5 or 6 years ago or even longer than prior cycles, it's a very broad-based issue across the entire industry. I mean, you see it in the Q2 numbers across the US auto sector. So I don't expect the policy count side of this to be a particular issue.

So I think we expect to benefit far more from rate, coming through on the fee than we will from slippage -- slippage from the volumes because of the actions taken on profitability. And I think that's mainly that, that consideration is mainly driven by that relative market performance. I mean, there is one caveat to, I mean, Farmers I think as everyone knows is number one, market not surprising is California. California is currently one of the most difficult markets, you've seen a number of players respond to the inability to get pricing by essentially withdrawing. We don't expect that challenge on pricing to remain for an extended period, because I mean, there needs to be an orderly market in California. I don't know quite when that comes, we're not in control of that. But we do expect that to benefit both the exchange and Zurich in the future, but the view into next year and the guidance that we're giving is really based on an assumption that the relative challenge that most of the players are experiencing will to some degree protect the market share position of the exchange.

On the inorganic capital allocation topic, priority, it's a tricky one. So I think if you look at what we've done in the last few years, and let's imagine we've had this conversation in 2016 and maybe we did. I'm not sure we could precisely predict it, what was going to happen. And if you look at the large things we've done, so you've highlighted LatAm is highlighted, Australia, Asia more generally, I mean, more recently Farmers as we discussed on the call, so...

Mario Greco
Group CEO & Member of the Executive Committee

Can I make a comment myself, because I thought to what George was answering the other questions, I mean the only pattern you can find in our M&A profile geographically is that there has been very little in Europe. And this is because of the scarcity of properties in Europe. Rather than that, I wouldn't throw any conclusion on priorities because as George was starting to say, we have done acquisitions in the US crop and Farmers, we've done acquisition in South America, in Asia-Pac, in Australia. And so yes, the only lesson or the only rule that I would throw out of our actions in the past is that we find scarcity in Europe.

Operator

The next question comes from James Shuck from Citi.

James Austin Shuck
Citigroup Inc. Exchange Research

I'm just keen to get an update on your tactical reinsurance that you're using in US property side of things, as rate improves enough there and you're looking to perhaps allocate a little bit more capital by reducing some of that tactical insurance.

Secondly, in terms of crop, obviously, as we went into planting season, you would have put through anticipated rate increases, do those rate increases kind of look adequate for what we're seeing now in terms of the weather and the likely yields.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, James. So on the reinsurance topic, so 2 contradictory things we need to manage. So just given the trends, probably we would accept more of that risk. However, as we discussed earlier in the call, we're pushing the US to limit their nat-cat exposure. For them to retain more, they would need to find a way to exceed the target that we've given them. That's not impossible by any stretch of the imagination, but I mean that contract since its inception, which I think was back in 2016, I think has reduced just about every single year. I wouldn't be surprised to see it reduce further at the end of this year.

On crop, the dynamic on crop is really established by the commodities markets. So you look at price and volatility of given periods in Q1, that necessitate the price levels, we then decide which parts of the portfolio will be seeded into the reinsurance scheme, that's run by the Federal Government, then we are into planting, growth and harvest, I mean, so far things look pretty normal. There is a bit of drought in some parts of the US, you guys can see it on the public sources, that doesn't seem to be anything that's particular challenge in the key markets where we operate. We are particularly exposed on soybeans and corn. But of course, we still have quite a bit to run before we're deep into the harvest. But I mean from what we've seen so far, this looks like a pretty normal crop year with normal crop profitability.

Operator

The next question comes from Michael Huttner from Berenberg.

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

I have 3 questions, one is facetious one, but maybe a serious one, I don't know. How much stock are you buying yourself, this is -- so I listened to your confidence which I share, but maybe not enough, combined ratio fantastic, growth will be even more, so you should become like Warren Buffett and saying my stocks are best, and forget anything else. I'm not sure it's a very serious question.

The second one is on Life. In my understanding on Life here, and it's a way to say what a great job you're doing. And then on Life, my understanding is the guidance has been slightly amended maybe not reduced to do it in local currency than rather in US dollars. And I think I understood mid-single digit and I couldn't quite reconcile that with the figures I see which seem to be above 10%, so that is kind of may be good.

And then the last question is I see an ROE of 15%, 15.7%. If you can do 15.7% with like mountains of excess capital, what is the real figure?

George Quinn
Group CFO & Member of the Executive Committee

Thank you very much, Michael. So on the first one, I think is a matter of public records. So that you can find not only Mario and my personal interests in the company, but also that of all of our colleagues. And you can look at, I mean, whether there are any individual transactions that are not identified by name, but you can certainly see what levels of interest we have in the Group. And they're very substantial. So not really a facetious question I think, Michael quite serious one.

From a Life perspective, I think we always intended the guidance was going to be local currency. But of course this year we're suffering just a touch more stressed because of the euro biased nature of the Life business. So from an underlying perspective, I think the Life business is doing really well, continues, a really strong track record. So very happy with the underlying performance, but we're just not in control of that exchange rate, it's just not a practice to try and hedge it. We just don't think that's a good use of the Group's resources. Then on the rate of growth, so a mid-single digit, the above 10% part.

So I mean, one thing to be a bit cautious of here, our Life business has in prior periods had a bit like the answer I gave to the GS&O question, earlier skew to the second half. I don't think we'll see quite the same skew for Life this year. So we should see a more consistent and steady emergence of performance. So very happy with what Life is doing. And mix is good, the focus on the products that we like is good, the impact of the back book transactions, that could transform the balance sheet for Life, but the dollar strength is just a touch less helpful to Life elsewhere.

15.7%, what's the real the ROE? We worked really hard, at times really hard to get it to 15.7%. We'll bring forwards whoever say our target, we decide are the appropriate ones and which KPIs we think are the most appropriate ones to the Investor Day in November. And maybe we just hold that, that question till then.

Operator

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Yes, good afternoon, gentlemen. First question would be on the back book. George, in the past you were useful in highlighting what you were working on and possibly how close you were in action amongst these books. And now you've done Italy and Germany, can you please update where you are standing currently and what is next priorities be on the Life side or on the P&C side.

And the second question will be in light of a potential economic slowdown in the US/recession, how should we think about your commercial book in North America, any actions or mitigating actions that you have already implemented in order to maybe limit some of the downside, if anything possible.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So on the first one, even though I think it was kind of quasi-public knowledge, we've tried to avoid public acknowledging which parts of the book we were working on it, particular periods and time. So I guess reasons for that is perfectly obvious. So I'm going to avoid being specific here. I mean, back at the Investor Day of the investor update in November, I had highlighted that we certainly had more than 2 topics on the agenda of various stages of development, that continues to be true today. There are other parts of the back book that we were late to take action on. I think the challenges in these books, maybe a bit more traditional, so the relatively unusual nature of the challenge at the German back book brought us maybe more traditional in terms of risk profitability, other corporate finance elements. But they are, I mean they are obviously -- they're in the pipeline behind the things that we've just done and they will take some time to come to fruition, but we're not done yet. I don't think we continue at the same scale that you've seen necessarily. But I mean this is a project that to some degree probably never ends, it continues well into the future.

Economic slowdown, recession, tricky to sat that, given the scale of market position in the US or globally around commercial insurance, it would be relatively tricky to position the book that definitely avoids the effects of economic slowdown or recession. The one thing that if we get a fairly traditional economic slowdown or recession, I guess we'll focus a bit less on inflation than we do currently, but we're not there yet. I think the way that the team in the US have positioned the book coming into this phase of the cycle, I think maybe it was implicit in the commentary earlier. The structure that we have and the particular sectors that we're exposed to from a commercial player perspective has meant that we don't see the same impact that you may expect from CPI. I mean there are things that we can do at the margin to help us soften the impact of these things, but it will be very hard if we see a broad market-based slowdown or recession to be free of the FX of it. We just could not be.

Operator

We have a follow-up question from Vinit Malhotra from Mediobanca.

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

So my question was just on the slide number 6 please, which is on retail and the net promoter score then the growth in the customer and the satisfaction because and I see some big moves there, Italy 8 points, Asia-Pac 10 point. Could you just comment on what's happening there and also in the context of, I think, we've had that discussion last quarter as well between retail and commercial and where the impetus is. And could you just put anything into perspective please and also this big move in this market, please.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Vinit. So you need to exercise a bit caution with this slide. So it's absolutely correct in terms of the change. Doesn't give you a sense of where things are from an absolute perspective, I mean, the system itself is obviously something that originates in North America. So we try and be quite careful about the application of it. But for example, if you look at the Farmers Exchanges one versus Asia-Pac, Japan in this case up 10, Farmers Exchanges absolute level of customer satisfaction is very, very high, Japan is catching up. And I think what you're really seeing here is that, it's the old adage that if we set targets around things and measure it, and my colleague, Conny Kalcher who is responsible for the customer experience side of things, in particular setting targets and managing the business to those -- helping the business he managed to those targets has exactly the same approach to this issue that I have on the financials.

So I think that's why you're seeing this. We put a lot of effort into this. Conny has asked all the businesses to expand the number of touch points to look at, so that we get a very broad-based understanding of where we have issues so that we can actually look at things we can execute on to change the outcome rather than focus on one overall number, that's very hard to understand what the attribution of that would be to the various interactions that we can have with customers. So I mean, we're obviously very happy with the direction. I think all the businesses, I take this very seriously, is part of a compensation system. So they need to take it very seriously. We're really pleased with the progress that we make here, but be careful when you compare the deltas. Our businesses are making lots of progress, at slightly different starting point compared to some of the others that are already in a good place.

Mario Greco
Group CEO & Member of the Executive Committee

Also I think the market standards are quite different. So the customer satisfaction idea in Japan is not precisely the same you find in another markets. Also be aware that at this point we have customer satisfaction targets in almost every BU. We did not start like that, we started progressively and now with this year we have put it into the targets guards of practically all deals we have around the world.

Operator

The next question comes from Iain Pearce from Credit Suisse.

Iain Pearce
Crédit Suisse AG, Research Division

Just a couple on the Life side. In this slide, it's sort of mentioned that the business margin in Life was impacted by some assumption and modeling updates. So just wondering if you could elaborate what those were? And then on the Life side in the US, you mentioned in your own book that you had some slightly negative claims experience on a sort of ex-COVID basis. If you could just elaborate on what was driving that and if there was anything in the Farmers Life business as well on sort of normalized claims basis that was worthy of flagging?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks Iain. So on the new business margin, essentially what you're seeing there is, is a catch-up of some of the changes that we've made from an AFR perspective last year. You may remember that, I think I mentioned that, maybe Q3 and Q2 that we had in anticipation of IFRS 17 and the transition date from IFRS 17, which was 1/1/22, we were making some adjustments to best estimates from the Life business that impacted reduced AFR. That flows into new business margin, new business value with a lag. So you're seeing really the effects in a revised new business margin calculation of something we did already last year.

About claims experience, the challenge with the Zurich Life book in the US is quite a small book. It's quite concentrated, so you can get reasonable amounts of volatility that, I mean, from a Group perspective overall really don't make a particularly large difference. But it does mean that the claim experience can bump around quite a bit on the Zurich North America Life basis. We don't see anything there, that's a particular issue or concern to us.

On Farmers Life, I mean the only issue to note, I think we commented it already maybe Q1, I think we also had given an outlook in February. I mean they have, I think they had about 32 million of COVID claims in the first half of the year, almost all of that is in Q1. I think as we look at more recent months, mortality is trending around normal compared to what we would expect to see, but we're not seeing a mortality issue outside of the last remnants of COVID in the US.

Operator

We have a follow-up question from James Shuck from Citi.

James Austin Shuck
Citigroup Inc. Exchange Research

So 2 from me. Firstly, the US P&C business, you've been re-balancing that towards specialty lines and properties sort of the shorter tail stuff. And [indiscernible] highlighting the inadequacy of the rate on some of that liability lines, at what stage do you get in a position with the higher interest rate environment with rate increases coming through to revisit that strategic allocation. That's my first question.

And then secondly, Mario, if you look at the commercial P&C industry, it's a very fragmented one. And one could argue that digital initiatives in [indiscernible] mean that scale starts to matter more than it ever has done, whether it's risk prevention or whether it's sourcing of various things. So just keen to get your view on structurally how this industry might be changing and do you think that having bigger scale means that over-time you're able to grow market share both in the US and globally?

George Quinn
Group CFO & Member of the Executive Committee

I'll do the first one James. So on the re-balancing, I think we view that and continue to view that as strategic. And so I think it's about having the right mix of risks in the portfolio rather than a short-term view of the particular trends that impact those components. And the reason for that is, I mean at the margins we could probably push it tactically a bit one way or the other. We can't really completely transform it. And I think if we try and transform it, you end up trying to chase something all the time. And I don't think you'll ever guarantee that you get what you want, when you do that. So even though I think the market is generally of the view that longer tail lines are in more attractive place than it been for quite some time, I'm not sure it changes the fundamental long-term risks that come with them. And therefore we haven't really changed our appetite around them in any significant way.

Mario Greco
Group CEO & Member of the Executive Committee

On your question James, on market concentration in Property and Casualty, I would draw a line between commercial and retail. I think in retail, the market has concentrated with the hardening a number of marginal or tactical players left the market and haven't seen them back. I think there the market ready for concentrate over-time, because of the importance of skills, data, capital, business experience, but we will see that as a natural progression starting from what we have today.

Retail is a much more complex picture because the market is highly fragmented. There hasn't been any visible trend yet, not easy to find reason for acceleration of this except customer satisfaction. We have been gaining customers because we have been following a policy of targeting customer satisfaction. And the customers that we have won have left other companies. So if you sum up this over 3 years, there are many million of customers who have left other companies to come to us. And this is the main trend I see in retail, customers moving and deciding which company should be bigger, which company should be smaller, and eventually disappear. And I think this will continue over-time, but it's a slow move. And also it's a continuous leakage. You see the consequence in a number of years, not in every single year. Does that makes sense to you, James?

James Austin Shuck
Citigroup Inc. Exchange Research

You used the word retail a bit too much. On the commercials, you're saying that the commercial market has become more concentrated or the retail one, thinking that US commercial fragmented.

Mario Greco
Group CEO & Member of the Executive Committee

Well, yes, but it is fragmented on the low end. If you go on the higher end of the market, if you go to the real global corporate business or even the mid-market, the number of players that's concentrated after the crisis is a market which is fairly dominated by, let's say, 5, 6, 7 players. You could find others, but fundamentally, these players lead the market and old customers contact this lead players. And same is to, I would say, in Europe. Commercial has concentrated already, which doesn't mean that you do find marginal suppliers, but they are marginal. So they don't really make prices and they are not taken as benchmarks.

Operator

The last question for today comes from Michael Huttner from Berenberg.

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

2 questions. One, Australia, or I shouldn't name it, because it was in your Capital Markets Day presentation, you had highlighted 3, you've done 2. So I'm just wondering whether the last one [indiscernible] but I don't know what the update is on that. And the second is on the line, what will be the exposure be to the stop in traffic there.

George Quinn
Group CFO & Member of the Executive Committee

Thanks Michael. So I don't remember confirming the geographic location of any of these things on the slide. So if I suggested that anything was any particular country, that was accidental [indiscernible]. So I think as I said in reference to some of the earlier question, obviously I'm not going to identify the territories in advance, other than to say that the -- in the same way that we continue to look outside for things that can add to the Group, but we're well aware that, within the Group, there are parts of the capital that could be working harder for us and we'll continue to look for that. On the rain topic, at least based on what I know today, we don't have direct exposure to the things that have been discussed about river level. It inconceivably may have some secondary exposure, but today I'm not aware of anything that would make this a significant event for us.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Excellent. And with that, we'll end the call. Thank you everyone for dialing in. If you have any more questions, please reach out to one of the Investor Relations team. 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.