S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

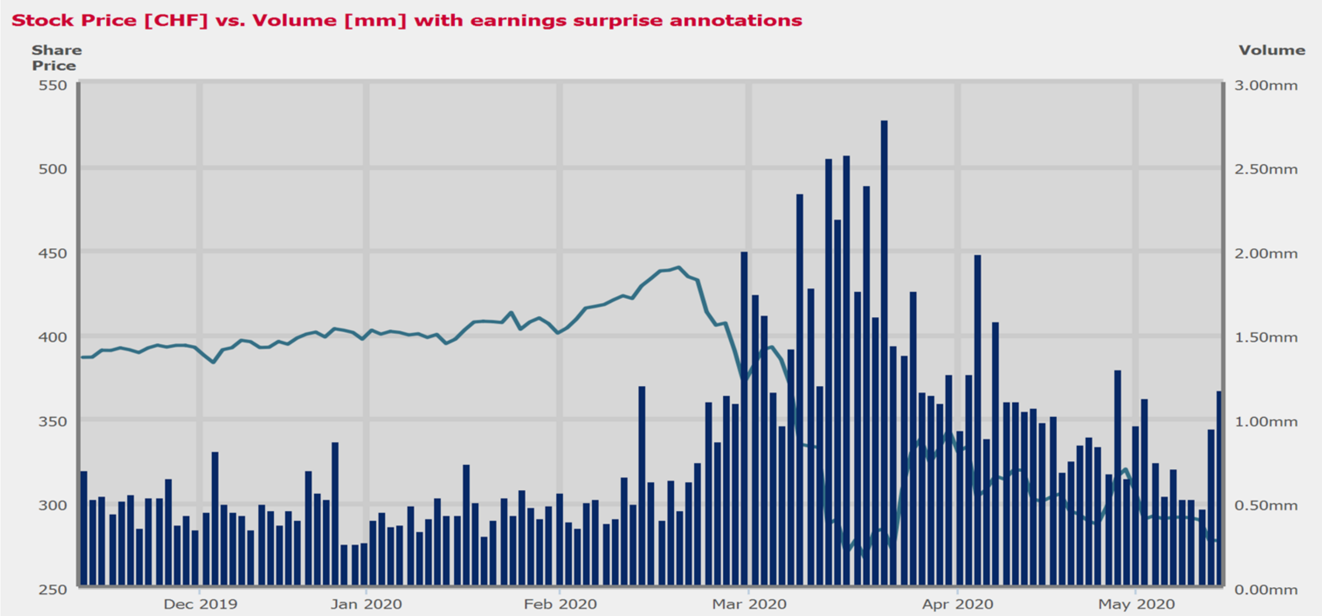
FQ1 2020 Earnings Call Transcripts

Thursday, May 14, 2020 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-	-FY 2019-	-FY 2020-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.51	5.83	26.65	23.56
Revenue (mm)	-	-	48078.32	49892.03

Currency: CHF
Consensus as of May-14-2020 9:31 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	6.56	-	-
FQ2 2019	6.48	-	-
FQ3 2019	7.23	-	-
FQ4 2019	4.51	-	-

Table of Contents

Call Participants

EXECUTIVES

George Quinn
Group CFO & Member of the Executive Committee

Mario Greco
Group CEO & Member of the Executive Committee

Richard Burden
Head Investor Relations & Rating Agency Management

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Edward Morris
JPMorgan Chase & Co, Research Division

Farooq Hanif
Crédit Suisse AG, Research Division

James Austin Shuck
Citigroup Inc., Research Division

Johnny Vo
Goldman Sachs Group, Inc., Research Division

Jonathan Michael Hocking
Morgan Stanley, Research Division

Michael Hermann Haid
Commerzbank AG, Research Division

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

Nick Holmes
Societe Generale Cross Asset Research

Peter Eliot
Kepler Cheuvreux, Research Division

Thomas Fossard
HSBC, Research Division

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

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group update for the 3 months ended March 31, 2020, conference call. I'm Andre, the Chorus Call operator. [Operator Instructions] And the conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast.

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

Richard Burden
Head Investor Relations & Rating Agency Management

Thank you. Good morning, good afternoon, and welcome to Zurich Insurance Group's First Quarter 2020 Q&A Call. On the call today is our group CEO, Mario Greco; and our group CFO, George Quinn. As usual, for the Q&A, when we get to it, can we kindly ask you to keep to a maximum of 2 questions. But before we start with the Q&A, Mario will make a few introductory remarks. Go ahead, Mario.

Mario Greco
Group CEO & Member of the Executive Committee

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

Our business model and decisions have taken over years are designed to ensure that the group remains resilient. Our group is highly diversified both in terms of geography and business line with no dependency on any single market or business. Our focus on achieving returns through underwriting rather than investments has ensured that we have maintained a conservatively structured investment portfolio with relatively lower exposure to some of the more stressed industries and asset classes.

In Life, we moved away from spread-based savings already over a decade ago, thereby making our Life business more resilient to ongoing low investment fields while also reducing our overall direct exposure to investment markets. Our unique Farmers business provides us with a high level of stable fee-based earnings and nonregulated cash remittances back to the group. Further, the balance sheet is strongly capitalized even under our own highly conservative Z-ECM ratio, which is calibrated to be consistent with a AA rating. On a regulatory basis, the Swiss solvency test ratio of 186% is also well above any requirements. This capital strength is complemented by moderate leverage and significant reinsurance protection.

The first quarter saw the business continue to deliver a solid top line performance, with the crisis having only limited impact mainly in Life sales in the quarter. Most importantly, we continue to see improved rates across the business, most notably in North America and we expect this to continue. As an insurer, we're used to handling crisis in complex events like those that we are experiencing. We have seen it before with events like Hurricane Katrina and the attacks on the World Trade Center. We have provided you with a number today for the potential claims related to the COVID-19 outbreak in cities well within our tolerances and similar to the claims from the 3 hurricanes of 2017. As we showed then, we're more than capable of managing such events.

We expect the crisis to strengthen demand for digital interaction and more tailored services. And we are already looking beyond the current crisis to make the changes necessary to the business to adapt to what will be the changed world. The combination of our flexible and resilient business model, our committed employees and the strength of our balance sheet gives me great confidence that we will emerge strongly from the current period and in a position to take advantage of new opportunities as they present themselves.
George and I will now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

Appreciate the extra disclosure and obviously the efforts at quantifying the losses, which I appreciate is a very difficult exercise. I'm just going to use my 2 questions, if I may, to just try and understand a little bit more about the assumptions that you've used behind that. So first of all, on business interruption, you -- on the point that more than 99% of your property policies do not cover COVID-19, I guess my reading of that is that you're relying to an extent on the physical damage clause maybe for some of those policies. I was just wondering if you could specify which -- what proportion of the policies specifically exclude disease risk.

And then my second question was on workers' compensation. And I mean, I guess if you look at the WCIRB midpoint estimate, which they got to $11.2 billion, if you -- your market share equates to a bit over $500 million. Obviously, you've quoted a much lower number in terms of your exposure, and I appreciate there's lots of moving parts there. But I was just wondering if you could give us sort of a rough walk from their number to your number, which looks -- in terms of your exposure, which looks like being about $30 million.

George Quinn
Group CFO & Member of the Executive Committee

Peter, it's George. So thank you. So let me start with the policy wording topic. So you see the comment in the presentation today, you mentioned it. So 99% of the policies don't provide or cover the vast majority of having virus or similar exclusions. That means we're not relying on the property damage wording. So even if we believe that the property damage wording excludes it, if you look at our standard contract language, we have -- I mean, for example, in the U.S., the ISO standard form has the virus exclusion, and both of our 2 typical standard wordings have the virus exclusion. So we're not relying solely on property damage to give us comfort that we're going to avoid a challenge to coverage on the basis that it's not property damage.

On the workers' comp side -- so on the workers' comp topic, I think the big difference between what you see in the -- either the WCIRB scenario or the NCCI paper that was out, I think, last week or maybe even this week, is the type of products that we are offering. So I think it's not an issue if you work through the assumptions you get a different answer. A large part of our book is high deductible, I think as we've talked about before. And that high deductible book means that we don't cover the ground up cost. So within any reasonable scenario, most of the cost of that actually falls back on the client that we are providing the high excess coverage to. And I think that's why you see a difference to what you expect from a market share perspective for us and what you actually see in the calculated number that we have today. So in the deck, we've given -- the range that we've given, the $30 million to $150 million, is based on the bottom end to the midpoint of WCIRB using exactly the same assumptions as they've used, only it's modeled on the entire U.S. book. The big difference is that high deductible feature.

Operator

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

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

So I had one on workers' comp which has been addressed, so thank you for that. The next one is on the commentary about the economic impact, George and Mario. Let me put it simply. If GDP globally or your markets fell, say, 4%, 5% here, would there be a material risk to the $750 million number?

George Quinn
Group CFO & Member of the Executive Committee

So it's a slightly tricky question to answer, Vinit. So the -- I mean what we've done today is to focus on the direct P&C claim impact. I mean there may be second order effects that we could see later this year or next year. I mean there are obviously things like D&O or credit. I mean we don't believe we have a significant exposure to this either because of the size of the premium volumes and the overall portfolio or because of reinsurance protection. But if we see a very significant fall in GDP, you would expect to see a bit more distress in the real economy than maybe we see already, and that can have some impact. But again, from a direct claim effect, I mean we've -- I mean we haven't modeled that into it, but we tried to consider the impact of that in the scenario that we've given this morning.

So for now, we're focused on the direct claim. If we do see GDP continue to weaken as a result of what's going on, I think the most likely thing you're going to see on us, there's probably less a bigger impact on the claim and more likely an impact on volumes because, of course, some of the premium flows are activity dependent. So I mean workers' comp, as we discussed earlier, has a payroll components. And to the extent that payrolls fall, we will see lower premiums. The model is the direct claim impact that we expect to see.

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

And if I can use my second option, please. The property premiums disclosure on the BI side adding up to $8.7-or-so billion, would we know what is the NEP? Because the reason is that I understand from speaking to the IR team that there's a lot of fronting captive business there. And also that when I go back to Jim Shea's slide of Investor Day, the property exposure of, say, the commercial unit was only 26%. These numbers stood on the slide are much higher. Is it possible to have a sense of the NEP? Or is it [indiscernible]

George Quinn
Group CFO & Member of the Executive Committee

So the -- you mean NEP specifically for business interruption or property in general, Vinit?

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

Property in general, please.

George Quinn
Group CFO & Member of the Executive Committee

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

Operator

The next question comes from the line of Nick Holmes from Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

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

Mario Greco
Group CEO & Member of the Executive Committee

George, can I take the first one?

George Quinn
Group CFO & Member of the Executive Committee

The first one, yes.

Mario Greco

Group CEO & Member of the Executive Committee

Thank you. Look, Nick, I mean, we worry about everything because we're insurers. And we're used to deal with any kind of risks. So by definition, the answer to your question is yes. However, if the worry is that somebody will ask us to pay for things that we have never insured, that, frankly, is a worry that doesn't take long to be forgotten because then it can be valid for everything. And we're living in a world where nothing has any more sense or certainty.

Here, we're not talking about interpretation. We're talking of things that don't exist. And so as such, then anything can be attributed to us. Any kind of cost or need you have, you can base it against insurance. And so you don't really worry for that because it's a kind of world where it's pointless to worry about.

George Quinn
Group CFO & Member of the Executive Committee

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

So why keep Z-ECM? And really, 2 reasons. So one is that -- I mean, I think we all know that -- I mean, capital -- and I guess it's become more apparent there's a number of capital regimes in there -- out there that have significant smoothing built into them. And you've seen that in terms of stress. It's become more hard to rely on those as the basis for our capital management policy because there are clearly fears that might go beyond the number or what the number would represent. So for us, even though -- I mean Z-ECM obviously represents a particularly tough test. It's obviously calibrated at 100%, AA. But the way we parameterize it is unchanged. We have swap rates. We don't have ultimate forward rates. I mean that, for us, I think, is consistent with how we think about the risks that we run.

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

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

Nick Holmes
Societe Generale Cross Asset Research

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

George Quinn
Group CFO & Member of the Executive Committee

Not really. I mean the -- I mean in both countries, and in fact, it is by every country where we operate, there's an established legal process. I mean we all know the quirks and some of the unusual features that some of these systems have. I mean it's not as if this is a new topic. We know how to navigate it. And as I said in response to Peter's call at the top of the discussion, I think we've got good contract wording. We have good defense to the challenge, and I'm sure the -- maybe there are others out there who are quite easier targets for this topic. But I mean if someone decides there's something they want to go after, we believe we've got a good foundation and we'll defend ourselves.

Operator

The next question comes from the line of Edward Morris from JPMorgan.

Edward Morris

JPMorgan Chase & Co, Research Division

First question is on topic of reinsurance. I wonder if you can just talk through whether the $750 million assume any benefit from any of the excess of lost reinsurance that you have. Or is that only from quota share? And is there any particular attachment points or things that you would point us towards that give you confidence in that figure? Or should some of the assumptions change, et cetera? So just some comments on reinsurance would be good.

And the second question really relates to underlying performance in some business lines, which I guess actually see improving claims trends because of COVID. Principally, I'm thinking motor here. I noticed $70 million you talk about as providing support for customers. I wonder if that $70 million has any significance. I'm just sort of thinking about how you're likely to think of individual business lines versus the group. Are you likely to return premium in books of business that are proving to be more profitable than expected? Or would you view it as a group and manage on that basis?

George Quinn
Group CFO & Member of the Executive Committee

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

On this underlying performance or -- I mean, I guess we think of it internally as impact of frequency. So obviously, lower activity has an impact across the group. You're absolutely right. We've highlighted today some of our businesses have committed to return some of that benefit we've seen so far through the early part of the lockdown. I mean the message we've given people is that this is really a -- it might be a market-by-market topic that can be a big tap from the group that says we want you to do this because every market is a bit unique in some way. And of course, in some markets, premiums may adjust naturally because of the nature of the way the premium is calculated. Individuals or companies may have other rights to suspend cover if they choose to. So again, we've encouraged the businesses to look at this, but we haven't set an expectation for what should be done.

On the -- I mean who is the main target of this topic. Again, I mean, it's clearly more of a retail, employee, SME issue than it is an issue in the bigger end of commercial. I mean to the extent that risks are adjustable in some way, typically commercial contracts. I mean the upper end, we'll include some element of that. So I think our view would be that, by and large, that feature to some degree will exist already, whereas on the retail side of things, that's less common. And again, it's more important to think about it in that context. So that's why you've seen us do what we've done so far.

Operator

The next question comes from the line of Farooq Hanif from Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Two questions. First one, on pricing, to what extent was this going to happen anyway? And to what extent thus far are we seeing some sort of COVID-related support? And do you think given the experience in 2Q that we might see some further acceleration in pricing? And secondly, on your sensitivities, I noticed on Z-ECM that your credit spread sensitivities have gone up, but interest rate has gone down. Just wonder if there's anything special about convexity relating to credit spread sensitivity that we should take into account.

George Quinn
Group CFO & Member of the Executive Committee

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

So again, probably further acceleration. For how long it's going to continue, I wouldn't like to predict. But certainly, we've seen a very strong pricing environment entering Q2.

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

Operator

The next question comes from the line of Johnny Vo from Goldman Sachs.

Johnny Vo
Goldman Sachs Group, Inc., Research Division

Just a couple of questions around the sensitivity again of that $750 million. I wonder if you can share with us -- I understand that you don't have consistency across the group given that you allow the business units to look at what [losses are]. If you can just give us a bit of view for the sensitivity to that $750 million with regards to BI sublimits before reinsurance or average lockdown time frames that you've assumed for that $750 million. So can we get a sense of where that number could move to approximately?

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

George Quinn
Group CFO & Member of the Executive Committee

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

On expenses, I think we're not signaling that -- I guess we'll a bit [start] another large expense reduction plan. I think that what we are trying to signal is that we're trying to be as proactive as we can. And the reality is that in our business, we have some things -- I mean, the obvious example is travel. And so travel likely to be structurally affected by this for some time to come. And I think if we sat and we waited and we do nothing, I don't think there's any hope in the short term that the picture improves. So I mean we made the decision that we need to take action on that topic straight away.

On the rest of it, on the expense topic more broadly, I mean, consistent with the investor presentation that we set out back in November last year, we had a number of areas where we were investing for growth. And I think if you look at from where we stand today, some of that is still valid. Some of that is not. And again, we're trying to react quickly to avoid that we build up an expense basis that becomes a structural problem and prevents us from having the ability to respond to an environment that in, the aftermath of this, might reveal some different demands or needs in our customer base.

But I mean you've seen from us over the course of the last 3 years, we've managed the expense base tightly. That has not changed. That will continue through the course of this year. But that comment was really a signal about us reacting to what we see and also trying to anticipate some of the change that is undoubtedly coming in the market and the way that we operate both with distribution and with customers directly.

Operator

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

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

Two quick questions. One is a bit longer and might be similar to the second one. But the first one is on the BBB bond portfolio. I wonder if you can give a little bit more color. It's fantastic to have this, so it's not a criticism, but some of your peers have provided a bit more, and it's easier to compare. One is on the BBB- exposure, and the second is on the rating downgrade risk. And the third one is on aviation. I see your figure for transportation, but I'm sure that aviation is just much smaller than this.

And then on the $750 million, it's fantastic that you provide certainty, which is pretty lovely. And I suppose another way of asking the question my peers have asked is how much of the -- that certainty we could provide comes up from the fact that you do have a little bit of potential buffer on motor? And if I may, how big is that quota share?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Michael. I don't have all of the details of the portfolio is split in front of me. I think if you go back and look at the year-end numbers from February and putting the BBB component, I mean, we haven't seen any significant migration impact at this stage. So if we were republishing the tables today, they would look a lot like the ones that you saw then. So apologies, I don't have it in my fingertips. But what we gave for the year-end would be a good indicator of the exposure at the end of the quarter.

So on the leisure and airline side of things within the portfolio, again, it's a really small -- I mean we see it as immaterial. So 0.1% of the group's investments. So if you look at the different components, we've got about a bit more than $40 million in equity and the remainder is fixed income. So much less than -- 0.1% on airline topic. What was the third question? I didn't quite answer it.

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

The third question -- yes, sorry. The $750 million, so it's lovely to have certainty and I admire it, but how much -- when you frame that, did you think that if things move a little bit, that you can use a bit more buffer from motor? I just wondered to ask if that's right and maybe you have a figure.

George Quinn
Group CFO & Member of the Executive Committee

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

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

And the quota share, please?

George Quinn
Group CFO & Member of the Executive Committee

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

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

Okay.

George Quinn
Group CFO & Member of the Executive Committee

Sorry, Michael.

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

But it will be in the net premium figure you gave to Vinit.

George Quinn
Group CFO & Member of the Executive Committee

It would. But you have to go back and get the gross figure in what that was. I mean it's not to stay-secret. I mean you can probably almost certainly find it in some of the yellow books as well. So I mean we talked about at the end of last year, I think that we had about -- I think the premiumization we gave was about $600 million. So that gives you a sense of how big that closure is quite precisely.

Operator

The next question comes from the line of Michael Haid from Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Only one question on life insurance. Apparently, you have seen the first impact of the current COVID-19 crisis on your new business generation. I would like to get a better feeling on how sensitive the new business generation is to the lockdown measures that have been taken. Given that the lockdowns were basically put in place only mid-March in the first quarter, I find the decline of the new business in Life quite significant. So is the extent of the decline a result of the last 2 weeks in the first quarter? Or more -- there was a decline more evenly spread over the first quarter? Also, given that the second quarter is almost -- is now halfway through, can you give us an indication of new business generation and how it was affected in the second quarter so far?

George Quinn
Group CFO & Member of the Executive Committee

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

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

Operator

The next question comes from the line of James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

Just one question from me, please, and it's on the dividend. My understanding is that your dividend policy is to grow with underlying earnings, and you have a floor level of CHF 17 a share. I'm just keen to know whether there's some kind of soft bracket on that number. So when it comes to making the full year decision, you look at the prior year and think, well, it's going to be something very abnormal in order to make an absolute reduction year-on-year.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, James. So I mean it's a topic that, actually, we've discussed several times over the course of the last 3 or 4 years. If you think back to 2017, it was already a topic then. And of course, we had the impact of the 3 hurricanes in the U.S., which were a significant impact on the earnings for that year, I mean, a number that's not too far away from the figure we've given today. And if you remember what we did then and what we said to the market at that point was that we were trying to look through the temporary effects to the current year, to look at the base and also spending as much time looking at the coming year and what that would bring us in terms of capacity to make sure that the position that we adopted would be sustainable. No change to that process. I don't expect we get to the end of the year and we invent a new one. But of course, at this point in the year, it's just too early to start to got through the detail of that. But I mean you've seen what we've done in the past in terms of process. I would expect we would do the same thing again.

James Austin Shuck
Citigroup Inc., Research Division

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

George Quinn
Group CFO & Member of the Executive Committee

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

James Austin Shuck
Citigroup Inc., Research Division

But your coverage comes from a wide range of reinsurance providers, and it is most of those policies that don't have pandemic exclusions. So is that fair?

George Quinn
Group CFO & Member of the Executive Committee

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

Operator

The next question comes from the line of Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

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

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

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. All right. So on the first one, I mean, we've made relatively small changes over the course of Q1. So there's a group of us, we meet every week. We review where we are, the chief investment officers and the leads on the asset side. I think the -- I mean the team have done an excellent job in the way they structured the portfolio before those things started.

So I mean as you've heard already on the airline side, we don't have a giant exposure. When we had the oil and gas topic a few weeks ago, you heard already that we don't have a major exposure there either. The portfolio is pretty granular. So I don't think we're overweight in a particular name or geography.

So what have we done? So we've -- we did put some hedging on equities, which would have been -- I mean the exact date is scheduled sometime probably middle of Q1. So that will have reduced the exposure that you saw reported at the end of the year. The team had planned some tactical changes around credit. And the only request we made to the team was, well, let's do it a little bit quicker than we had intended. That's not that significant in the size of book that we've got, but it just takes a bit of the credit exposure down.

And the other one is interest rates. So I mean just given the model that we have from a capital modeling perspective and going back to the conversation that I think I had earlier with Nick on the Z-ECM model, there's no UFR. So there's an interest rate sensitivity that you guys have seen in the disclosed numbers. So I mean we did -- we have taken some additional steps to, again, reduce the exposure that we have there. I mean just given that, obviously, the markets are a bit volatile, it's hard to do that in scale or size. So I mean what we've really done is more at the margins than something that would present a dramatically different picture today. But those have been the key areas of focus.

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

On the other third-party topics, I think the -- one of things we've been looking at carefully would be EPLI, or the employment practices liability side of things. There's obviously a specific liability on particular sectors you mentioned, health care. And I guess there, the -- I mean, again, the preoccupation is to try and look for areas where we believe there's a risk that we're overexposed or we have a particularly large or disproportionate share of a particular sector. And we don't see that at this stage. So when it comes back to the scenario modeling, none of these things pop up and the kind of depth and the kind of size that would cause a significant concern at this stage.

But again, I mean, the third-party topic will play out probably long after this thing has reached some kind of equilibrium. So I mean the true impact of that will all become clear with the passage of quite a bit of time. But for us, given what we've done in frequency, just given the scale that we have in our book, we think that's reflected in the scenarios we've given today.

Operator

The next question comes from the line of Jon Hocking from Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 2 questions, please. George, I seem to remember at the Investor Day, you talked about sort of credit and surety as a line where you are sort of pushing back against some of the sort of bottom-up planning submissions for some of the BUs. Can you just talk a little bit about the credit surety exposure in the book and how you see that developing?

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

George Quinn
Group CFO & Member of the Executive Committee

Yes. Good. So on these 2 topics -- so first of all, on credit and surety. I think we talked already last year about the fact that from a strategic perspective, the group had decided that we weren't comfortable with a further expansion and capacity through credit and surety. This is because of what we saw in terms of the developing environment and also what we've seen through a number of idiosyncratic events that, I mean, didn't in themselves seem to portray any systematic challenge, but you've seen a few more. And of course, you saw Thomas Cook last year. And Thomas Cook is not the only one.

So we put a cap on things that squeezed the book quite a bit last year. I mean beyond that -- I mean we haven't yet, as you can imagine, been able to implement a shrinkage in the book just given timing. Having said that, I mean, today, we did disclose the -- a global surety reinsurance program. And I guess if you've had a chance to look at that, you'll get a sense of, I mean, why we've had such significant events but they haven't caused significant impacts in the P&L. We renewed that contract early in the year. As you can imagine, we paid more for it than we have in the past. It's obviously focused on surety, which is the bulk of our credit and surety book.

So I'd say that, I mean, overall, through a combination of, I mean, what we've done in capping capacity, what we've done on the reinsurance side, I think we feel comfortable that we're well protected. I mean we can't have things go wrong there, but the risk that something accumulates over a large number of names is obviously protected by the structure we've got in place. On the rate...

Mario Greco
Group CEO & Member of the Executive Committee

George...

George Quinn
Group CFO & Member of the Executive Committee

Yes.

Mario Greco
Group CEO & Member of the Executive Committee

George, can I give you a little bit of rest?

George Quinn
Group CFO & Member of the Executive Committee

Okay. Of course, you can.

Mario Greco
Group CEO & Member of the Executive Committee

So on the market situation, guys, it's important to understand that the big portion of our commercial books are with midsized or global corporate accounts. And they are not immune, just to quote George from a while ago, but they're rather insensitive to what's happening, meaning that the business continues, that the revenues continue. And so they have no issues about following the market rates or about paying the premiums.

The thing that we are very pleased to see is that the quality also of our contracts keeps improving. We signaled this already. I think Jim talked about this in the November Investors Day, and this is continuing. So we are building a much better book on commercial, not just by the strength of the rates increase but also by the conditions that we have in this book. And this is fairly independent from COVID. COVID is more an issue for individuals and SMEs but has less of an impact on the big accounts.

George Quinn
Group CFO & Member of the Executive Committee

Thank you, Mario.

Mario Greco
Group CEO & Member of the Executive Committee

Welcome, George.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

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

George Quinn
Group CFO & Member of the Executive Committee

On the capital fungibility topic, obviously, the first point is the most important one. Farmers obviously constitutes a large part of the cash flows, and it's not subject to any impediment. So we're in a relatively fortunate position compared to the industry in general that -- I mean every year that starts, there's a very large part of the cash flow that's, I mean, pretty much guaranteed.

I mean, more broadly, on the regulatory side, as you can imagine, we're in regular contact with all of the key Tier 1 entities and monitoring their solvency. We're talking to them about what their plans are for dividend flows. I mean it's just, again, way too early in the year to reach any conclusions. I mean, certainly, if we would project out today, I certainly wouldn't plan for the same level of cash flow that we had anticipated, say, when we've completed the planning at the end of last year. But that said, the cash flow that we would anticipate today, I mean, that's still a pretty healthy flow through the entire group. So at this stage, I don't anticipate any issues. I do expect to be somewhat impacted by the general environment. But obviously, the foundation that Farmers gives us is a great starting point for the year.

On the -- can I translate the 90% into a group impact? Unfortunately, the answer is no. I'm just -- unfortunately, I'm not that smart. The -- I mean, I think the way you need to think about this is -- I mean there's tons of complexity because, I mean, obviously, you guys understand that, in general, we're comparing standards, model outcomes. And how that would translate into individual model outcomes with some of the larger peers that we have in Europe is not really that clear to me.

And also, it's important to remember that when you move out of Europe, I mean, U.S. gets a completely different treatment under Solvency II versus SST because, of course, on SST, we model it according to FINMA's requirements, and we don't have this equivalence assumption, which, of course, can create benefits around things like corporate bond spreads. So I think all I can tell you is that it's not 90%, but the number is not immaterial either. It would be a substantial uplift to the 186% that we've published today.

Operator

The next question comes from the line of Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Two last questions for me. The first one would be on the business trends. George, if you could share any revenue trends in April or May just to have a feel of if you're already noticing some reduction in the business flow. Not sure this is making sense with what you just mentioned, but just to get a feel of how business is slowing down in the present time.

Second question would be on the measures you've taken in light of the COVID crisis. I mean in terms of taking decision to shift the book towards all different business lines, additional protections on the asset side, I think that you said that nothing has really changed in Q1. But overall, I mean, any decisions you've taken for the remainder of the year in light of the crisis and in light of current development?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Thomas. So on the first one, the -- I think the short summary would be that from a rate perspective, the early Q2 indications are -- they're really good. I mean it's very strong across the 2 key markets, North America and Europe. And I think I mentioned earlier that if you look at Europe, it's not at the level of the U.S., but they had a much larger leap in April compared to what we've seen previously. So rate is good.

I think the challenge is going to be growth. So I mean we had a really good start to the year. The teams both in Europe and in the U.S. have done a great job. But I think if we just look at current trends, so I think as you hear from the entire market and as you look at, I mean, some of the broader industry analysis, you can see that new business has fallen significantly from what we've seen in prior periods. That's partially offset by the fact that retention is up significantly. So it's not a net fall but it's -- that combination is what's leading us to tell people that, I mean, for the year in total, you probably expect a premium picture that's flat to maybe even slightly down for the full year.

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

Operator

The last question from today comes from the line of Michael Huttner from Berenberg.

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

So 2 questions. One is, what is the current crisis -- how is that affecting the ANZ Life integration in the hope of obtaining cash there? And the second is, you mentioned in your slides potential [last] capital allocation to extract capital from noncore businesses, and that's all integration and I just wondered what that might be.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Michael. So I think it would be fair to say that if you look across the entire group, the team that has the most stress currently would be our Australian Life team because they have the integration to manage. They've got the -- I mean the challenge of the current events to manage, and you've got the aftermath of the Royal Commission that took place down in Australia. I think they're doing a great job. This will be a bit of a difficult year given that combination.

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

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

Operator

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

Richard Burden
Head Investor Relations & Rating Agency Management

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

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