S&P Capital IQ

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Zurich Insurance Group AG SWX:ZURN

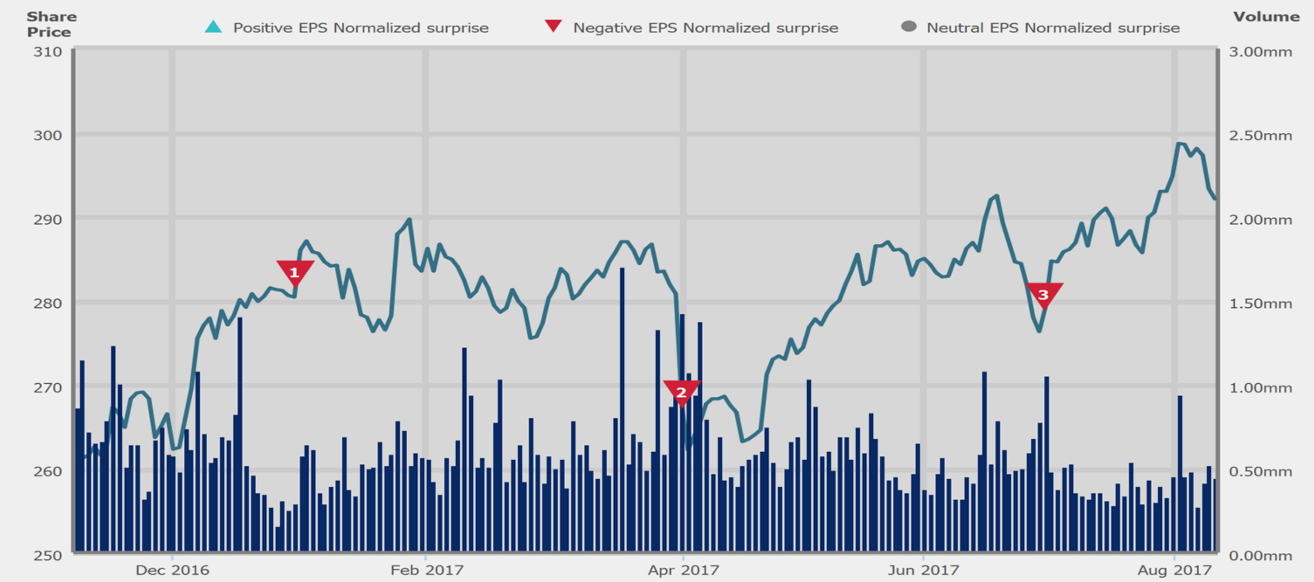
FQ1 2018 Earnings Call Transcripts

Wednesday, May 09, 2018 11:00 AM GMT

S&P Capital IQ Estimates

	-FQ4 2017-	-FQ1 2018-	-FY 2017-	-FY 2018-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.46	6.23	18.24	24.10
Revenue (mm)	-	-	48252.26	48828.47

Currency: CHF
Consensus as of May-09-2018 8:45 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	5.81	4.55	1 (21.69 %)
FQ1 2017	5.49	4.05	2 (26.23 %)
FQ2 2017	5.94	5.86	3 (1.35 %)
FQ3 2017	6.76	-	-

Call Participants

EXECUTIVES

George Quinn
Group CFO & Member of the Executive Committee

Richard Burden
Head Investor Relations & Rating Agency Management

ANALYSTS

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Farooq Hanif
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Johnny Vo
Goldman Sachs Group Inc., Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

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Societe Generale Cross Asset Research

Oliver Troop

Peter Eliot
Kepler Cheuvreux, Research Division

Vinit Malhotra
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Presentation

Operator

Ladies and gentlemen, good afternoon. Welcome to the Zurich Insurance Group First Quarter Results 2018 Conference Call. I'm Sarah, the Chorus Call operator. [Operator Instructions] The conference is being 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 Management. Please go ahead, sir.

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning and good afternoon, everybody, and welcome to Zurich Insurance Group's First Quarter 2018 Q&A Call. On the call today is Zurich's CFO, George Quinn. We have an hour's time today so can I remind you to keep your questions to 2 in the first go 'round and if we have time at the end, we'll come back to you with additional questions once everybody has had an opportunity.

Before we start with the Q&A, George will just make a few introductory remarks for the quarter, George?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Richard, and good morning and good afternoon to all of you. So a few initial remarks. The first just is a reminder that the, as you know, from last year, the focus in the first and third quarter was on revenue trends with some qualitative commentary on the performance of the business. And of course, you'll see that customary and full [indiscernible] detail were made out in the half year. Over the first quarter, we've made a good start to the year and probably more importantly, we've continued to make good progress towards the targets that you're all familiar with. We also can take strength in the business through targeted transactions that builds on already solid foundation particularly as you've seen in the first quarter in Latin America.

P&C pricing trends continue to improve in North America over the first quarter. As we highlighted at the time of full-year results back in February, we continued to focus on improving underwriting profitability over volume. And rate -- and in some areas of the portfolio it's still not sufficient.

But the quarter has seen a number of nat cat events around the world, however, I'd like to confirm that overall nat cat levels for the first quarter are only very slightly above historical levels. Life business continues to deliver our strategy of focusing our capital light and Protection business. And this has continued to support good growth, which changed the return to balanced return on capital, cash generation, new business margins, which has all remained at an attractive level.

Farmers continues to deliver a steady performance, but I think what stands out in the quarter is the improvement in the underlying customer matrix and the performance of the Farmers exchanges. And these shows up in both improved attention and growth in both new business and policy count over the course of the quarter combined with further improvement in the underwriting performance in [indiscernible] exchanges, these trends should be supportive of future growth in the business. At the quarter, also confirms a very strong caps position that we have on this ECM ratio. It has improved to 133%, providing us with continued capital flexibility.

I should remind that we continue to review the capital levels of our business in light of growth opportunities and the macro outlook. However, the near-term key focus remains on delivering on our dividend policy and improving the dividend over the plan period.
I'll now be happy to turn to Q&A.

Question and Answer

Operator

[Operator Instructions] The first question is from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

My first question is on the agreement you've reached with Uber. I guess, you're one of a number of insurers that they're talking about agreements with Uber in different regions. And I'm just purely saying devil's advocate for a second and I guess, then my starting assumption would be that Uber probably has to be the bargaining power in its agreements. I'm just wondering as the world moves from sort of smaller ticket business to larger ticket business, does that shift the value towards the customer rather than the insurer? I mean, say, just playing Devil's advocate, but I'd be interested in your thoughts on that sort of trend. And then, second question, I was wondering if you could just run us through the operating assumption changes that you made in the Life business?

George Quinn
Group CFO & Member of the Executive Committee

So on the first one, importantly first of all, the Uber contract or contracts are worth the Farmers exchanges and not worth the Zurich Group. All I'm saying -- the point is valid, nonetheless. So I think the -- as the world potentially shifts and we see more of rate share and eventually against shared or eventually fully autonomous vehicles, I think we all have an expectation that insurance, [indiscernible] that goes with that will shift over time. But does that really change the fundamental dynamics between who has more influence over the outcomes?

I don't think it does. I think the biggest driver of -- I mean what happens in terms of, I mean, the entire contracting process is it's the normal economic demand and supply topic, isn't it? So where you have excess capacity I guess, the rates on offer and the terms and conditions will be more conducive for the buyer. And then vice versa. So I'm not convinced that with the changes that we see -- or the change we that see in the way that the market operates. The fundamental laws of economics are fundamentally altered by that process. The one benefit it clearly does create for the buyer is, of course, for a much larger entity and the same way that if you're a much larger insurance company, I mean, your tolerance for risk could be different and that would impact, obviously, a need for coverage in the first place. On the operating assumption changes in the quarter, there's a number of, I mean, relatively small things. I mean, we've got -- and I think we have no numbers that are above the single-digit level so we've got some minor changes to expenses, minor changes to laps. There was nothing in the quarter that particularly stands out or I would be using -- indicative of something can expect to see in the remainder of the year. I mean, I viewed the changes -- the operating assumption is a bit of randomness in the first quarter.

Peter Eliot
Kepler Cheuvreux, Research Division

It was probably obvious by my first question, but I guess what I was referring to was fewer customers and are controlling more of the market. I know it possibly does alter the supply-demand economics slightly but I'm sure you've covered that.

Operator

The next question is from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Also on the Farmers and I wonder if you can -- you talked about support for growth and also the policy count and new business and I just wondered if you could give a little bit more -- a little bit more insights into these things. And then, the other thing -- I was actually -- I didn't see it at first and when I saw it

I thought, 'Oh, no. This is not nice.' At Farmers you've got a $200 million reduction [indiscernible] and I understand this is the independent agent piece of this which you're deemphasizing and there's still a lot more that you could deemphasize. In other words, the scene at Farmers could really decline substantially if you give all this business away. And I just wanted to hear if the -- if not the interest, the incentive for shareholders for the aligned, it doesn't -- at first glance I would say the answer is "no," but maybe I'm completely wrong.

George Quinn
Group CFO & Member of the Executive Committee

So on the first topic, so a bit more I'd say into the top line and if you look at the headline numbers, I mean, very strong growth from GWP. I mean, both on an absolute and on a continuing operations space of continuing operations up 6%. Obviously, the Uber contract that, as I was just discussing with Peter, they're very late in the quarter, so you won't have an immediate impact on A&M and the very, I mean, almost immaterial impact on fees on -- for Q1. But the other thing is -- the other dynamic you see in the Farmers business over the course of the last couple of years is, there's a part of the business which has been in a run-off for our 21st Century. That's obviously been something that has reduced the reported headline growth number. We expect and the exchanges expect that through the course of this year that process of runoff will be complete. Therefore, by the end of the year, we should be away from this concept of continuing versus the headline number. On the business insurance through -- sold through independent agents, I mean, you're absolutely, right. The exchange has taken a decision in the quarter to dispose of that via a renewal rates transaction was offered. Then obviously, that does reduce premium volume. It does have an impact on the fee and it's paid. But I think that, I mean, first of all, it's a decision that the exchange makes rather than the one that we make. But to be honest, I think if any of us were looking at that portfolio of business, it would be hard not to reach the same conclusions that the Exchanges have reached and therefore I think, I mean, they're acting as you'd expect them to act. I think the most important issue is this issue that you raise around, I mean, what's the risk? Will we see more of that? So 2 things. Now I think if you -- if you look back or you've been on these calls over longer periods and you've listened to the conversations that we've had, then that particular portfolio has been a challenge for a relatively long period of time. So I think that we end up in this position is probably a huge shock to people. And then, if you go back to the presentation that Jeff and the Farmers team gave at the Investors Day in December or November, rather, and [indiscernible] seeing elsewhere in terms of growth in the exchange, I mean, we have no significant concern that one would not align or 2, that the exchanges' right to dispose of lost parts of its business or portfolio. I mean, the exchanges are looking for growth. And they're trying to find a way to make sure that they can find a new [focus] of the market whether it's the thing we just discussed around Uber, whether it's the eastern expansion. And as you saw in the press release today, they've got significant growth there. Or whether it's just using the distribution power that we currently have. So I think, from a shareholder perspective, and I think the most important factors from today's release are -- been -- the customer metrics are obviously extremely important. Policy came -- is, I mean, a very strong indicator of where the business is headed. And all of that combined with, I mean, Farmers continuing to drive rate. I think it's actually a very positive sign for the future. And on this particular topic, they're acting, I think, is almost as any of us would.

Operator

The next question is from James Shuck from Citi.

James Austin Shuck
Citigroup Inc, Research Division

George, I'd like 2 questions. Firstly, on Farmers and the Uber deal again. I guess this is the first time really we're seeing Farmers grow outside of tied agents and historic and around maybe direct. My question's really kind of how that affects the SMS business model at the time. I think you mentioned that the margin will come down because the level of services is being reduced. So if you could just explain the dynamics a little bit about what the services that you provide come up to the tied agent and how that will evolve through a partnership time model, particularly given that's where a lot of growth might be expected to come from over the medium term. Secondly, on the Zurich America statements, just kind of first time to ask you questions on this. But I was just looking at the reserve releases by line of business and we see big releases on Worker's Compensation, particularly in the kind of 2014 to 2016 years. And relatively good conditions on commercial, multi-peril and other liability lines. If you could just comment on those that would be helpful, please.

George Quinn
Group CFO & Member of the Executive Committee

James, so the first one, so the Uber deal is -- I mean, it's quite different from what happens with the tied agents or the exchanges or at Farmers. If you buy a policy through an agent, a tied agent at Farmers you buy also a home, it's like -- it's like a product that you and I would recognize. So you pay a premium. You cover for all the risks that the policy provides protection for and if you have a claim, the claim gets paid. On the Uber transaction, and this is a -- this is a commercial rate share contract that covers particular parts of the risk. And it has characteristics of a claims handling agreements in the end. So it's really quite different from, I think, what you see within the normal Farmers distribution channel. So I don't think it has a direct impact on the tied agent. I mean, we could debate -- I mean, if you have a much longer time horizon, so if you're thinking 10, 20 years from now I mean, what impact can this have, we're back to that strategic question around impact of gig economy, impact of shared or fully autonomous vehicles. But for the time being, I mean the way that we're inclined to view this and the way I think Farmers certainly views this, is that this is then taking advantage of a core competence that they have, a scale that they have and to support, I mean, what was interesting was that the customer segment that's not currently covered by Farmers through the tied agents channels. On the Zurich America, instead of saying -- so they -- I mean, we talked -- I guess, we talked at length that various times on Workers Comp from this call, I guess probably more often in the sense that some of the concerns that people have had -- and we would give a group disclosure. You have access to the yellow books in the U.S., which have obviously used -- I mean, we've been pretty positive on what has come over the course of the last few years. We've seen good performance from the book and that's reflected in the reserve that we've seen recorded in the statute's statements in fact, that also flows through the -- as you can imagine, into the -- and reserve development in the group and is published. Well, it's a sign of a couple of things. One is that the -- I mean, part of the recent years of being in a period, I mean, relatively strong profitability in Workers Comp. Combine that with relatively modest inflation and all of those things tend to drive these outcomes. If you look across the big American book. I mean, we've seen these relatively strong reserve release across the entire portfolio. I mean, you mentioned 2 of the more obvious lines. And in our summaries, we've added that Zurich America has been one of the most significant contributors to the group's reported PYD of 1% to 2% regularly over the course of the last couple of years. And in fact, we've given what we see coming. I expect that to continue, so we are very happy with what we're seeing, but it really reflects a combination of a relatively positive period in pricing and a relatively benign period for claims.

James Austin Shuck
Citigroup Inc, Research Division

I guess if I can just quickly follow up on the Workers Comp releases. So I mean, is this something that's coming through from the market as a whole, because it seems like rate increases are stalling a bit on Workers Comp, and I guess I'm just wondering, that such a high level of release is coming on that line. I think, you're reporting combined ratios in the region of 60%. Is that income with the market? Do you think rate is going to stick in that line of business?

George Quinn
Group CFO & Member of the Executive Committee

I think you look around at the rest of the market, you see a variety of different positions -- I think, and both from the perspective of the initial lost pick which can differ significantly from company to company and from the actual experience therefore on PYD. I mean, ask me to comment on, I mean, how the peers see the market, but I mean, we've been very pleased with the performance. I think, you're right on the current price trend, so I mean, as we look back, I think you would be a bit complacent if you were to extrapolate this into the future. So on the pricing thing, and maybe look at it carefully. We've talked at length either on these calls or the Investor Day Amex. And the importance of that does -- and in fact, some of the commentary around premium volume in the press release this morning, so you saw this remark that, I mean, we have growth and APAC and Latin America. Generally we've see a reduction across North America especially around commercial. Part of that is driven by us trying to move the Workers Comp book away from the more inflation-exposed product and to the less inflation-exposed product as we try and position the book to some of the risks that will [indiscernible] in the future. Happy with what we've seen in the past, but we should be cautious about how others' lines develop in the future.

Operator

The next question is from Arjan Van Veen from UBS.

Arjan Van Veen
UBS Investment Bank, Research Division

Can you just comment briefly on the minus 2% reduction in EMEA, which we also saw in 2017. Is this where some of the pressure points are coming from or is it like in the U.S., a bit more mix shift? And the second question is on the margin in the Life portfolio. Last year you had a very strong growth in new business value. It's minus 1 in the first quarter. So I was just wondering whether there's a bit of seasonality there and what we can look for in the full year.

George Quinn
Group CFO & Member of the Executive Committee

Great. So on the EMEA topic, if you look around at a European business, we have [Dhruv] and Switzerland particularly in Commercial and maybe their weakness in the U.K. and in Germany. I mean, nothing particularly stands out for me and there are -- there is a need, for example, in the same way that we're tackling commercial auto and the weakness that, that tends to produce in the U.S. We have some of those issues in Europe too, on commercial auto. And you can extend some of the action we're taking in the U.S. on a small scale and some of the things you see happening in Europe. But in general, U.K. and Germany are the drivers of the reduction, though Switzerland is slightly up. On the Life portfolio, it's not really seasonality. So what you see in this quarter, you see pretty healthy growth on APE. But as you mentioned, our new business value, if you adjust for foreign exchange and the impact of last year's disposal of the corporate [indiscernible] business in the U.K., I mean, we're around this 25.1 margin level. The reason you see the slight drop in Q1, it's really a mix of business. That's actually deliberate rather than accidental and it's driven by 2 areas. So one in the U.K. We've grown in a particular area of corporate protection, which certainly drives volumes but has a relatively low margin. And that can come or go depending on client demand in a particular quarter. And the other thing we've done this quarter, which is something we have done before, and we've grown the [Plan Ahorro] business in Spain where banks have a deal of a joint venture partner there. That's a savings product. It's spread supported. It typically has, I mean, very little, sometimes negative new business values. The reason for doing that kind of business is that there's an ROE optimization that we can achieve through rating some of it. So I mean, we have a -- we have a certain appetite for that business. We have a certain capacity to do it in Q1, and we certainly had partner who could sell it. So that's what you've seen. It's not a seasonal issue. It's really a -- at least partly opportunistic.

Operator

The next question is from Farooq Hanif from Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Firstly, going back to shifting away from kind of inflation exposure in the U.S. When you look at the price increases that you're getting, does that mean that the risk of that will be offset in the future by inflation. It has gone down materially? Could you comment on that? And secondly, going back to the Life margin, I sort of understand this point about optimizing between margin, ROE and earnings. Does that mean, I mean, you're basing what you -- the answer you just gave to Arjun. So that means that actually the earnings on this business that you're writing are going to be better than the margin suggests?

George Quinn

Group CFO & Member of the Executive Committee

So on the first one -- so it would behoove me to claim that on the basis of what's happened in Q1 that we've really shifted the inflation profile materially. I think, as you know, from prior conversations, and certainly from the Investor Day, that we had back in November, we're looking at a number of different levers to move the portfolio mix. And those levers that's available to us include reinsurance. The challenge on the reinsurance side is that, that's a relatively effective way to address inflation exposure on the prospective liability risks. Doesn't assume much for the in-force and is also very limited appetite in the reinsurance market for the Workers Comp exposure. So it's one of the things we've done -- well certainly have moved us in the right direction whether that's the use of reinsurance or whether it's some of the product shift that we're trying to execute within Q1. As I had mentioned earlier, we still need to tackle some of the issues around the products that carry the most significant inflation exposure and that's Workers Comp. And we try to shift clients away from the products that carry the most without any help. I mean, ultimately, though, I think given the way that inflation expectations develop, I mean, likely over time that portfolio for us will be a bit smaller in the long run than it is today. And that feels like the most effective way and the most cost-effective way to address inflation exposure. On the Life margin question and earnings that, just to be very transparent about when others put up works, if you look at it on a -- I mean, if we sell a spread-supported product which is not so common in our portfolio, I mean, if we do that because the economic system that we apply has no liquidity premium within it, when that type of business will typically produce at a very low or potentially negative new business values or issuance. On the assumption that over the Life of the product, and the products are typically pretty short term, the -- let's say the spread adjustment that you would make from a risk perspective is not required because you don't see the levels of defaults that may be anticipated, that will produce a higher ROE than you would see otherwise. And the ROE's putting out risk-adjusted, and maybe try and look at all the different metrics to try and optimize earnings. In the end though, from a group perspective, this impact is really small. So I wouldn't spend too much time worrying about it.

Operator

The next question is from Johnny Vo from Goldman Sachs.

Johnny Vo
Goldman Sachs Group Inc., Research Division

Look just -- there's obviously been a focus on profitability of certain business lines in your North American business for a number of years now. But I guess, how many more years are we likely to see this restructuring taking place? I know that there's issues with Workers Comp and trying to move the book forward but obviously, you've been doing this for a number of years now, so when are we going to see the -- that restructuring sort of ease? And the second question, just a bit more of a cheeky question, I guess one of your peers described the possibilities of a merger of equals. How would you view this within the context of possibilities at Zurich?

George Quinn
Group CFO & Member of the Executive Committee

What am I going to start now? Let's move to the profitability question first while my brain thinks about the answer to the second one. And this may seem a bit odd, but I don't think we're in an abnormal period in what's happening in the U.S. business, so I mean, obviously, it's our aim in all of our business is to grow them all the time. I think, if you look at the entire commercial market in the U.S. -- I mean, it clearly faces some challenges. Certainly if you look at a more granular level, say, line of business. So I mean, they need to tackle that is not surprise. And I think, actually to many people, I mean, as the market turns and as we've seen more and momentum in pricing, I'd expect that business to grow again. But I mean, we want the business to maintain a focus on profitability at all times. It's the most important driver of success, we've found. I mean, hopefully, if not all is necessary to make such adjustments as you've seen in Q1. But I mean, there's nothing going on that feels like a major turnaround situation. I think what we see the business do is make -- I mean, reasonable choices of our capital allocation which is what we want them to do. So I can't tell you when the business will grow. But it will grow when the opportunity to be more profitable is there and hopefully that's not far away. I mean, on the pricing, the rate topic just to maybe broaden the issue a second, when you've seen the commentary already today in the press release, and -- around rate for Q1, sequentially, that's stronger than Q4 last year. Initial indications are that Q2 will be sequentially stronger again. And in fact, in discussion with the U.S. team, they have some -- there's not just optimism. The foundation for their expectation, which is that, that trend will continue, certainly through the middle of the year, is that some of the most loss affected accounts actually have yet to renew. So we're expecting to see some of that rate -- now I'm not pretending it will accelerate and become exponential, but we certainly expect to see an improving trend essentially in the middle part of the year. M&A, so I think the most important thing I can say on M&A is that, I mean, we don't exist to do M&A. I mean, we exist to, I mean, serve our customers well and generate a good return for our investors by doing that. And that means that the operational plans that we put forward at both the investor day in '16 and again at the investor day last year, are the most important priorities for us. And I think, you can see through the course of last year and the results that we published in February, I mean, we're making progress and that's had a positive benefit to shareholders. We think that's the highest value priority that we can pursue. As far as if M&A fits with us, you've seen us do M&A. So I mean, over the course of over the last 18 months, we've done a number of smaller acquisitions that, in almost every case had 2 key characteristics: one, is that they were our strategic enabler. So they were a part of something that I hope that you as analysts and our investors would recognize as pursuing goals that we've previously communicated to you. And financially, they're attractive. So they, compared to the alternative use of capital, which would typically be to return them to investors, these all represented actually, a superior use for our investors. And we've also had a talk about the fact that we're doing -- we don't believe in this large-scale, multi-market approach to M&A that creates a huge distraction for the business. It's pretty rare that "2 plus 2" in this world equals 4 or something more than 4. Or "1 + 1" is more than 2, sorry. So that's not our priority. Our priority is on the operational side and that's where we'll continue to be.

Operator

The next question is from Oliver Troop from Bernstein.

Oliver Troop

I've got 2 questions and my first question's on Farmers. You've obviously been reducing the quote share over time and it's now down to 1%. And I noticed also that the Farmers certificates of deposit, sorry, certificates of contribution held by the group have been reduced. It just seems like Zurich is becoming more and more decoupled from Farmers, so my question is, do still see Farmers as a core part of the group in the long term? And then the second question, I wondered if you could just give an update on claims inflation. How does that compare to the 2% overall price increase you've got in P&C maybe across your key markets?

George Quinn
Group CFO & Member of the Executive Committee

Oliver, so on the first one, so is Farmers a core part? So Farmers Merchants is a core part of the Zurich Group? Absolutely. I mean, the things that we've done less of, are the things where -- I mean, assuming it doesn't necessarily do this for any of its clients. So they -- I mean, I think probably as long ago as '14, maybe '15, we talked about the fact that, I mean, being a reinsurer to Farmer -- Farmers over a longer period. I mean, this makes no sense for Zurich or for Zurich's shareholders. And therefore, we've been reducing the participation over that period of exchanges of [indiscernible] outside sources of support. I mean, Zurich is not a professional reinsurance organization. I think, Farmers is actually better served by finding that type of support. And certainly our shareholders are also well served by us not exposing the capital base of the firm to those types of risks. I mean, having said that, we view that relationship as extremely important. I mean, we spend a lot of time looking at how we can help and how we can improve the relationship. It's a core part of what Zurich Group offers. And I don't expect that to change in the foreseeable future. In terms of the inflation topic, I -- as always, it's going to vary a lot by different lines of business and if you look at in relatively short periods, it can be difficult to judge. I mean given we've seems more significant rates within Q1. We expect claims inflation to come up gradually but not at the same rate as pricing. So therefore, we think we're seeing margin expansion currently. We've talked in the past, that in fact that claims inflation overall for our book is maybe running in that at 1% level. It's maybe fractionally higher than that today. And of course, if you look at some of your lines of business, when you see the opposite trend. But I mean, for the overall portfolio, we're benefiting overall from the rate change.

Operator

The next question is from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question P&C, premium growth, gross versus net. I thought I understood part of the plan for 2018, was to continue reunderwriting gross which meant some shrinkage, but also, reunderwriting or buying more reinsurance on certain lines. Is it fair to assume the underlying net written premium growth is below the gross still so far year-to-date? I presume the guidance still remains about flat NEP for the year as a whole. I don't think there is any reason why should that should've changed. Second question, looking at movements in yield curves and spread years to date, I would be assuming that your reinvestment yield had risen somewhat. Are there any changes you've done to your asset allocation that would mean that would be wrong?

George Quinn
Group CFO & Member of the Executive Committee

On gross versus net. So the first one, the reinsurance point, you're right that we have a bit more reinsurance partly around portfolio mix, and partly around some lines of business where we're looking to reduce the capital allocation. I mean, within the quarter, I mean, now that they're both risk attaching contracts, so the impact of the ratios will blend then over time. Net and in the quarter, I mean, it's not vastly different from -- because rent picture may be slightly more positive. That means not materially different from the flattish picture that you see and our guidance for the full year hasn't changed. So flattish end outcome or be it we may see a switch as we talked about before between commercial and retail and other businesses. On the yield curve piece, I'm really glad you asked that question because was hoping somebody would ask me that. On the SAA side, I mean, no significant change. But actually on the reinvestment rates, and well, I mean against -- it's 1 quarter and it's a relatively small impact in the short term. We talked about this as the -- as part of the year where -- for P&C's on their lease, the impact of reinvestment would bottom out, and in fact, we've seen the inflection point already in the first quarter. So we have a good yields in the P&C book of about 2.7 and reinvestment yield about 2.9. So that should be beneficial for us as we go through the remainder of this year and next.

Operator

The next question is from Nick Holmes from Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Just one question. I wanted to ask about your P&C expense ratio and can you update us on where you think this is heading? And in particular, are you concerned that by the cutting premium in the U.S., you'll put more pressure on the expense ratio?

George Quinn
Group CFO & Member of the Executive Committee

Obviously, we haven't given an expense ratio number today. We'll update in more detail when we get to the half year. And just a reminder to everyone that we have a particular skew in the seasonality around crop which has some unusual expense ratio features that I know you're all aware of. Just a reminder you think about the first half results. I mean, what's most important for us is that reduction is absolute expenses, that's the thing that we, obviously, completely control. We have the target that you're aware of. You know how much progress that we've made through the end of last year. That progress has continued as we expected through Q1. We'll give a more fulsome update when we reach the midyear. But we expect to continue to communicate an achievement of our expense goals and a reduction in the expense base that would follow them. I mean, there will be a challenge at times if -- I mean, that's -- there was a reason why there was going to be a larger correction around premium volumes because of a profitability challenge in the market. I mean, there was a risk to the expense ratio. That's the key reason why we haven't set an expense ratio target. Maybe more positively, though, I mean, as you heard me just go on to Andrew a moment ago, we're looking for a fairly flat outcome on the net end, which, of course, will be the driver of the expense ratio. I don't expect at this stage, to trade away the benefits of the expense cuts through a fall or significant fall on top line.

Operator

Our next question is from Vinit Malhotra from Mediobanca.

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

So George, just to clarify this minus 5% in U.S., is this a shift in the recent few months that post your commentary in the full year you decided to get a bit more careful about underwriting or is it just something that was anyways likely to have happened by now in past payer plans? I'm just looking for whether that's incrementally more changed on underwriting. And second question is, you mentioned the bolt-on M&As and some of those have been in Latin America, where obviously, the currency is quite in focus last week as well in [indiscernible]. Is there anything we should know about that? Is a hedge in place for something to highlight?

George Quinn
Group CFO & Member of the Executive Committee

So on the shift in business. First of all, I don't remember precisely when we would have first talked about in a public forum. Maybe on the Q3 call, maybe on one-on-ones, which took place in between the -- this is something we've been planning since last August/September. I think I have talked to some investors about that fact that, I mean, I think as you guys can see in the half year results again in the year, I mean, within the commercial business, it was clear that we needed to do more to shift the mix. And part of that was going to be pruning some of the portfolios that have been a challenge. I mean, the obvious cost [indiscernible], I mentioned it earlier on the call is Commercial Motor, National Auto in the U.S. It's actually quite a hard business to reduce volumes in because it's the business that has, by far, the highest rate. But this is a planned activity and the plans go back already at 7, 8 months. as for the activity you're seeing there. On the M&A topic answer, I guess you're all following -- well maybe not following, but you're certainly all aware of what's happening clearly around the Argentinian peso. I mean, we have traditional transaction. We have the customary protections, but of course -- I mean, we enter into this transaction with a longer term perspective on the market. And if, I mean, if you're really worried about Argentina at the moment you'd have to have daily calls to get updates on what's taking place. And we've had good experience in Argentina even through relatively difficult periods. And also, I mean, if you look at -- a good example is Brazil, so go back to 2015, 2016, and look at the challenges that we saw on the micro side of Brazil. I mean, some of the more recent of those 2 years, has been a particularly strong period for Zurich in that market. So I mean, what we see happening at the moment is something that, I mean, it can happen from time to time in markets, I mean, besides Argentina, but I mean, this is a market we like from a long-term perspective -- and that's why we made the investment.

Operator

The last question is a follow-up from James Shuck.

James Austin Shuck
Citigroup Inc, Research Division

Just 1 question actually, I think, George, in the past you'd referred to surplus capital in the U.S. and looking to upstream that up to the holding company. But it doesn't really seem to have happened just looking at the progression of the dividend at the time and U.S. RBC ratio is now [378%] at full-year. I guess, what's the kind of target range on that RBC level and what's the outlook for that ratio given potential tax factor changes or any potential changes to your quota share?

George Quinn
Group CFO & Member of the Executive Committee

Great question. So I mean, you connect the 2 drivers here. It's to -- I mean, you're absolutely right. I mean, I've argued in the past that we were looking to bring ourselves down to target levels of capitalization in the U.S. and that would have triggered, well certainly in our expectation, additional transfers if we did that. We've never had those cash flows and the cash for maintenance guidance. It was always going to be something that, potentially, was on top but the reality is the tax changes as we restructure, avoids the potential issues that beat components can create, that capital will be used locally to reduce the extent to which we seed this and that's other parts of the Zurich Group. So at this stage, I have no expectation of other than the ordinary dividends flows from the U.S. And we'll use that surplus capital that was there to make sure that we get the benefit of the change in the Federal rate in the U.S.

James Austin Shuck
Citigroup Inc, Research Division

And believe me, that doesn't change anything about the cash remittance target over the 3 years.

George Quinn
Group CFO & Member of the Executive Committee

Absolutely nothing.

Operator

The next question is a follow-up from Farooq Hanif.

Farooq Hanif
Crédit Suisse AG, Research Division

On your 30CM capital ratio, you have made lots of little, I mean, actually quite small acquisitions but it seems that you -- it's very difficult for you to sort of make a dent on that capital ratio to get it back down to 100% to 120% level. So I'm just kind of wondering, do you think you could use that up with M&A? Or you think do you're going to have to do something else?

George Quinn
Group CFO & Member of the Executive Committee

I think, the thing I'd point out here is that -- I mean, the point people focus more on the acquisitions. We've also made disposals. And it's more than simply the -- I mean, the things that we frequently talk about around the transactions in the Middle East, Africa, Taiwan, Morocco. We've done bank book work and I mean, some of those transactions have had really significant, positive impacts on their ECM. So as you've seen us do things like cover more -- I mean, some of those things are paid in their entirety by some of the restructuring done on the back end, to remove some of the risk from the portfolio. So I think, that's partly why you've seen the ratio be a bit more resilient than perhaps, you might have anticipated, given what's happening on the M&A side. Do I think we can make a dent in it? I think we've said frequently that we don't have a shadow target range that we have on earnings. The target range is 100% to 120%. We're in the fortunate position that we run above that currently. Priorities are unchanged so primarily that's something that should be a topic that gives investors' confidence the that the dividend is very secure indeed. And beyond that, we'd like to deploy preferably on organic activity if not in organic activity, on inorganic activity that would be -- it would help us -- I mean, not only get to targets but either help us get there faster or help us exceed the targets. And if we can't do that and we still have surpluses over given periods, we would do what you'd expect us to do. And nothing changed on our priorities or on capital.

Operator

The last question is from Michael Huttner.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the small rise in the [ECM] from 130 to 133, is there anything to highlight in terms of moving parts, is there anything that stands out?

George Quinn
Group CFO & Member of the Executive Committee

Actually not much. It's one of the simplest quarters of movement on [ECM]. So essentially 4 points or if I guess what we would call operating capital generation, 3 points of dividend accrual. No management adjustments or management actions or any other unusual things in the ratio. It's all the stuff you see, or would see if we published more detailed figures.

Operator

That was our last question. I would like to now turn it over to Mr. Burden.

Richard Burden
Head Investor Relations & Rating Agency Management

Thank you very much, everybody, for dialing in today. In case you do have further questions, do not hesitate to contact the IR 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.