S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

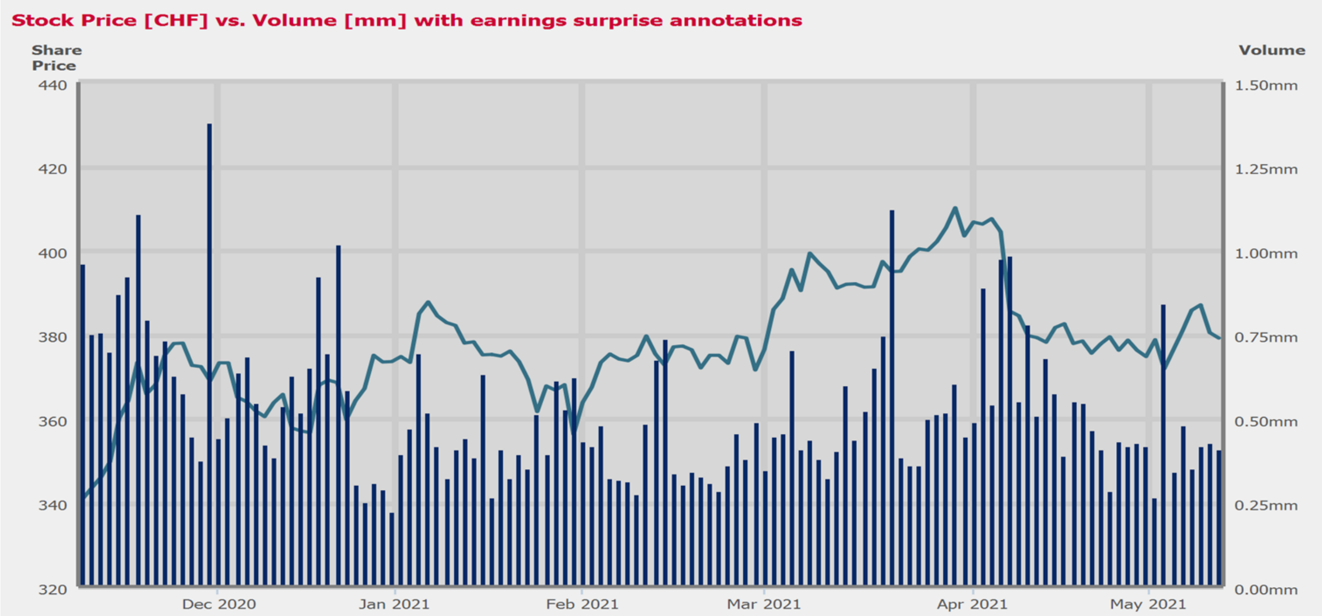
FQ1 2021 Earnings Call Transcripts

Wednesday, May 12, 2021 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	4.48	NA	NA	6.87	17.90	NA	NA	27.43
Revenue (mm)	NA	NA	NA	NA	44837.48	NA	NA	48000.66

Currency: CHF
Consensus as of May-12-2021 3:47 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	4.93	NA	NA
FQ2 2020	4.93	NA	NA
FQ3 2020	4.48	NA	NA
FQ4 2020	4.48	NA	NA

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Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group update for the 3 months ended March 31, 2021 conference call. I am Alice, the Chorus Call operator. [Operator Instructions] 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 Management. Please go ahead.

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning, good afternoon, everybody, and welcome to Zurich Insurance Group's first quarter results Q&A call. On the call today is our group CFO, George Quinn. But before I hand over to George for some introductory remarks, just a reminder for the Q&A. We kindly ask you to keep to a maximum of 2 questions as we know that some of our peers also have calls straight after us today.

So with that, I'd like to just hand over to George for some introductory remarks.

George Quinn
Group CFO & Member of the Executive Committee

Richard, thanks very much, and good morning and good afternoon, everyone, and thank you for joining us on what I know is a very busy day for all of you. As you've seen from this morning's press release, the group has made a very strong start to the year. We've got good growth across all the businesses. And it's important to remember that this is against a prior year quarter that was largely unimpacted by the pandemic.

The performance demonstrates, we believe, both the strength of the business and the successful positioning of the group to take advantage of growth opportunities as the world emerges from the challenges of the global pandemic. In the first quarter, our P&C business continued to perform well, with top line growth of 14% driven by the strength of Commercial Insurance.

The pricing momentum in Commercial Insurance remains strong. All regions are seeing higher levels of price increase in the first quarter than you saw a year ago, and we expect the current pricing conditions to continue through this year and to next, supporting further improvement in the underlying accident year loss ratios. Life and the Farmers businesses have also performed well, with a focus on unit-linked and protection products, leading to strong growth in new business value. While the Farmers Exchanges, which are, of course, owned by the policyholders, saw a return to growth even before the inclusion of the acquired MetLife P&C business, which will add to growth from the second quarter.

Balance sheet remains very strong with the Swiss Solvency Test ratio, and this allows for the acquisition of the MetLife P&C business. Even if it didn't close in the first quarter, 201%, well above the target levels that we communicated back in February.

Before I give you some thoughts about the remainder of the year, to my comments that there's been no change to the level of COVID-19 P&C claims net of frequency benefit. So this remains at the $450 million net figure level that we reported back in February. Looking ahead, it seems clear to me that given the strength of the first quarter that we were perhaps a little cautious in our guidance for the P&C net and premium growth. If you remember, Rich has now stretched the definition of mid-single digits. And I think we would now say that it's more likely to be in the upper single-digit range compared to what I have indicated back in February.

On the claims side, you'll have seen in the press release that we've got a higher than usual level of nat cat events in the first quarter, primarily to Texas freeze. And so assuming that all things are equal, i.e., we have the usual nat cat experience for the remainder of the year, that would add about 1 percentage point to the combined ratio overall for the year.

In life, the first quarter saw some additional mortality, a level that was similar to the second half of 2020 with about $120 million driven primarily by the U.K., U.S. and Latin America. Mortality has been improving steadily as the lockdown measures and the successful rollout of vaccination programs has led to significant improvements. And that's particularly true in the U.K. and the U.S.

If I look ahead for a second, I think the strength of the first quarter trends and the continuing improvement in the underlying P&C margins gives me and all of us great confidence as we look out for the remainder of the year. And with that, I'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Jon Hocking with Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 2 questions, please. Firstly, on inflation. There's a lot of data points flying around about inflation we're seeing in particularly in areas for construction or lumber costs, et cetera. I wonder if you could talk a little bit about what you're seeing there and how do you expect it to impact the results? And then secondly, I just wonder if you could give a little bit of color, please, in terms of the rate increases, particularly in the U.S. is what's the rate increase ex workers' comp? And if you can give us a commentary on the line, that would be very helpful.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks very much, Jon. So on the inflation topic, maybe just to remind everyone of something I've said in the past. I mean, I think if you look at our books, I guess, most people perceive the inflation risk around workers' comp. We've talked in the past about the fact that we -- I mean, we don't have a mark-to-market view of the inflation assumption, we tend to have quite a backwards -- or the word backwards is the wrong way to express it, but we've got a longer time series and the assumption we go back several years.

I think we've also highlighted that we haven't fully taken [indiscernible] expected on the workers' comp side. So that gives us some measure of protection, but I think it's a topic that everyone needs to keep in front of their mind. On the lumber cost topic, I mean, I think the only immediate impact you see is other than the fact that it will appear in some of the claims that we've already incorporated in Q1. I mean, the most obvious place where I see it is that, I think for the first time, it's come up in the our assessment to Texas freeze topic.

So as we've been looking at the potential cost of that, but we've allowed for some of the price inflation that we've seen around some of the things that will be required to repair some of the damage that we've seen. From a price perspective, I mean, it's another strong quarter. I think in Commercial, this is the fifth straight quarter of double-digit rate increase. If you look across the various lines of business, I mean, the picture is not very different, I think, compared to where we were at Q4.

I'd say that property and liability are slightly down compared to where they were. So I think I talked back in February about the fact that they were both reasonably deep into the 20%-plus territory. They are both now, from our perspective, around the 20% level. Workers' comp, I mean slightly weaker. So I mean, overall, I think the move that you've seen in, certainly, U.S. commercial, down from the 18 points that we reported back in Q4 down to 14 in Q1. I think if you adjusted out for workers' comp, you'd be somewhere slightly north of 14 points.

I think if you look at the book more broadly, there's a couple of things that are relatively important to bear in mind. I mean, the U.S. market has a relatively continuous renewal pattern. Europe is a bit different. So you tend to see a bit more seasonality. Q1 is typically pretty heavy Germany and Switzerland and those markets have quite different pricing dynamics from the U.K. So I think when we see what happens at Q2, I think you'll still see a very strong market. And potentially, I think you'll see Europe come up again in Q2 because the U.K. has a much more significant impact on April 1. So overall, I mean, trends are really pretty good. We expect this to translate into underlying underwriting improvement, and of course, when we get to Q2, I'll give you a more thorough update on that.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

Two questions, please. The first one, just on the guidance, George, and you obviously, you mentioned that now you're thinking you're going to be too cautious on the P&C growth. I'm just wondering if you could sort of highlight any of the other areas in the guidance outlook that you gave at full year '20, where you sort of changed your view over the next -- over the last 3 months? That's one.

Question two, just on the nat cat impact to just sort of help understand the impact, I'm just wondering whether you've allowed for any seasonality in that? Or whether it's just as simple as saying plus 1 point for the full year equals, it means now you're sort of plus 4 points over the normal budget for Q1. Just want to understand that?

George Quinn
Group CFO & Member of the Executive Committee

Yes, great. So on the guidance topic, Pete, I think the -- I mean I think if you look at -- I mean, what we're seeing internally, and you allow you for the -- I'll come on to the nat cat topic in a second. But if you allow for the press release commentary around nat cat, you allow for the COVID topic, I think we still expect to be roughly, I mean, what we had planned for even before that. So I think it was a sign that the underlying trends are probably stronger than we anticipated, which is less relevant this year potentially because of the impact of things like Texas freeze, but it's a strong sign for next year. So I think that underlying improvement is important.

On nat cat impact, so we do allow I mean when we look at what we anticipate in each of the quarters, there is a seasonality pattern to it. So it's not prorated. And it's actually simply what we've done for the time being is look at the excess level for Q1 and add that to our expected levels for the remainder of the year. I mean, that feels like the most transparent way to do it, but you guys can make your own assumptions about what that means for the remainder of the year, but I mean for the time being, we've seen a -- I mean, what's typically one of the lighter quarters still have, I mean, quite significant nat cat loads. And that's why we've made the commentary that we have.

Operator

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

Andrew James Ritchie
Autonomous Research LLP

I wonder just on North America P&C growth, if I back out the effect of crop, the underlying growth is a bit behind rate. Is there still remedial actions going on there? Has there been a significant change in retention or is this just possibly still COVID overhang effects? I'm thinking particularly on workers' comp sort of payroll effects, which presumably are still coming through? That's the first question.

Second question, just remind me, would the Q1 Texas freeze loss count towards global aggregate nat cat? I'm not sure I can't remember if all the events count towards that or whether there's a big franchise deductible on those kind of events and remind me, does that global cat aggregate cover run calendar year?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Andrew. So on the first one, I think when you break out the North American numbers, obviously, the crop price change has had a pretty significant impact. I think the reason why you maybe don't see all of what you see on the North American business, isn't so much the impact of COVID. I'm sure there's still some of that in the number. I mean, I suspect that a more significant driver is probably the fact that I think the actual exposure that we take at these price levels is less. So the -- I mean, if you think of the way the corporates tend to a project, I mean, certainly, they have the same budgetary constraints that we do. And it's a pretty common response to this type of pricing environment that people will increase deductibles, maybe buy a bit less cover. So you've got these 2 things partly offsetting each other, but I mean, then it still means that you have a much higher quality commercial book in North America.

On the Q1 Texas freeze, so the answer is yes, and it's a calendar year cover, so -- I mean, if you can imagine, the -- this thing certainly passes the franchise requirements for the global cat aggregate.

Operator

Next question comes from the line of Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Just 2 quick ones to wrap up in those questions. What industry loss is something you've seen, therefore, in the Texas windstorm? It sounds like it's a bit of a bottom-up regarding a number of comments, but have you used the top-down view as well? And then on the second one, I guess, given the extent of the rate and credit spread benefits in Q1, have sensitivities to rising rates from here moved significantly versus the ones you provided at the full year?

George Quinn
Group CFO & Member of the Executive Committee

So on the first one, well, I mean, as always, it's a bit of both. So it's a relatively unusual event. Having talked to the claims team a few weeks ago. I mean, actually, we have some experience from the tornadoes last year. So we got some clients that have been impacted both by the tornado and by the freeze. So we've got a bit of insight into -- I mean, I think some particular properties are exposed to particular loss. So I mean, the way the team have done it for the time being because there's not a lot of -- they haven't been fully through the loss adjustment process. So at this point, we've taken the notifications. The team has looked at some of the experience from last year. They've come up with ranges. The thing is driven by -- there's not a really short list that we're talking. I mean, a couple of times of actual events tend to drive the overall outcome.

And so we've focused mostly on those to try and look at. But not from perspective of notification and top-down from a knowledge of that particular exposure of property. And I think as I mentioned earlier, in response to Jon's question, I mean, we have added a few additional things, for example, to incorporate some of -- and it's not really demand surge inflation. It's -- I think it's more of the commodity and the recovery from the COVID-driven inflation topic around lumber commodities in general.

On sensitivities, I mean, we haven't updated that mean they will have moved because, of course, they're not entirely linear, there's certainly -- it maybe just be wonderful this thing was completely parallel. But of course, we all know that's not true. But I think for now, I mean, given that the Q1 move is mainly driven by interest rates, and I think almost the entire market is interest rate related. I mean, the non-linearity is not so important for that particular topic.

Operator

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

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

Just to follow up, George. There was a comment in the press release about mortality. And just wondering whether you were trying to suggest that we should be more cautious about mortality than [indiscernible] or I think you did say that there wasn't much of a change, but just wanted to cross check that. So mortality guidance? And the second question is more about, when we are hearing more and more about semiconductor shortages and those kind of things affecting car manufacturers, and I don't know what else. I mean, are you seeing some of those side or second order claims and business interruption or other areas which could be COVID linked? Sort of -- just curious about that.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Vinit. So I think on the first one, I think there's 2 offsetting effects. So I think if you -- if I look at mortality now compared to what we were expecting back in February, I would say that U.K., U.S. is probably slightly better than we were anticipating. I mean certainly the decay pattern that we can see is faster than we had anticipated. Having said that, though, we're seeing more from Latin America, particularly in Mexico and Brazil. Having said that, I mean, looking at the strengths of the life business overall, I don't think it changes the overall outcome. So I mean, [indiscernible] the comment I made at the top of the call around the underlying trends on the P&C side. I mean. The underlying trends actually on life look pretty good, too.

But I mean, the reason for giving the guidance was -- I mean, within the life segment, it will be visible. I mean, you certainly has referred to it, just given the impact, however, but the underlying business is actually doing pretty well and certainly play a bit stronger than we anticipated back in February.

On semiconductor shortages in the -- some of the shutdowns and other issues that we've seen, I mean, I think it's a pretty complex topic from an insurance perspective. And I think the risk actually cuts both ways because, I mean, in theory -- I mean, if you're more directly exposed to the semiconductor sector, I mean, any damage in that world is going to be a bit more expensive because of the BI consequences. On the flip side, on the recipient end, because of the short time working or the other restrictions, I mean, arguably, the gross income level might be lower. So I think it's really hard to draw a very clear conclusion, depends a bit on maybe how the book is positioned overall. But I mean, as with everything, there's a few positives and negatives. And those 2 are the most obvious to me.

Operator

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

James Austin Shuck
Citigroup Inc., Research Division

On the solvency position, 201%. I appreciate that number is quite volatile, and you have a floor number of 160, but you don't have an upper end range anymore. But under the old Z-ECM basis, if we just apply the same kind of multiple and relationship between SST and Z-ECM, then 201% would be at the top end of the previous range. So just trying to get a feel for at what stage do you see yourself as having surplus capital? I know you're going to tell me that it's volatile and it can come back. Presumably, there's some things you can do on the life back book that might take out that volatility and should actually even add to the SST ratio, if you were to do things around that. So any updates and thoughts around the surplus capital potential, please?

Secondly, on crop insurance. So I just want to be -- can you just remind me how you book the combined ratios up to half year and then the true-up you have in the second half of the year? Obviously, very high increase in commodity prices. Does that mean that you're sort of expecting similar combined ratios on that crop business relative to history?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So on SST, so I suspect if we were looking at Z-ECM, we would be through the top end of the range. I mean, I think we gave a number back in February, and it feels to maybe have had a bigger move on that. I think when we think about surplus capital, we just think that capitalization in general, I mean the priority is really the thing that you highlighted, and that's about where is the money and what's it doing at the moment. So I mean, we're very active looking at capital allocation. I mean I want to avoid that. I'm always talking about it rather than actually producing evidence that we've done something about it, but that's going to be a very important priority for us this year.

I certainly hope that as the year goes on, I can actually report on some tangible progress. Now I mean, what do we do? What's that on the day that we get it, I don't know yet. I mean, obviously, our priority would be to, I mean, put it back into the business, hopefully, and actually earn a higher return on capital that's more consistent with the rates that owners would expect us to earn on the capital they provide us. It's just -- it's too early to say at this stage. So a priority for me, it's a combination of making sure we have allocated -- capital allocated as rationally as we possibly can within the normal constraints.

And I think we'd also like to bring down some of those sensitivities. I mean I think it's pretty clear that from a model perspective, we've got some features tend to dominate the risk landscape. And I would like it if some of those movements were a bit smaller, and we are thinking about how we are going to achieve that.

On the crop insurance side, I mean, it's an interesting one. I mean, from a purely financial perspective, the stuff tends to all be written in Q1. We then earn it mainly through Q2, Q3 and then into the early part of Q4 when typically the yield and revenue topics are worked out. I mean, given where we were last year underlying on the combined ratio, I mean, crop would probably end up -- I mean, there's no change to our expectations in terms of crop profitability. It's not reliant on investment income for obvious reasons, but it would point to the upper end of combined ratios or loss ratios, in particular, for our book. So you may see a small impact from earning through more crop opinion.

But again, as I said, I mean, given the improvement we're seeing on the commercial side, I don't really expect that to be visible. Maybe just a last comment on crop risk. I think the -- I mean, in general, I think the move on prices, I think it's generally a positive topic overall. I mean the actual crop cover has a bit of complexity between the price that's struck at planting and then the price that's achieved in the market. But I mean, obviously, we've actually had a pretty decent planting season so far. And the current market conditions give farmers every incentive to get the stuff into and out of the ground. So I mean, too early to make any forecast, but I mean crop certainly doesn't start with the year in a bad place.

Operator

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

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

Can you talk about MetLife, how much this will add this year and next? Just remind us because it seems to have happened a bit quicker. And the second is on the runoff. I suppose I'm asking, are the -- is this $400 or whatever million you added to COVID is going to come out and run off, but maybe you could just say whether you've changed the expectations runoff. I think it's between 1.5% and 2.5%. And we now in the middle of range expectation or [indiscernible]

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Michael. So the -- on MetLife, I guess we've closed a couple of months quicker than we expected. So if you go back to what we said before, I mean, there's a -- from a Zurich money perspective, we've got about 2.3 -- just more than $2.3 billion investments. We've got some restructuring that will be incurred between [indiscernible] exchanges through the remainder of this year and it will have a positive impact on income for the management company as we go through this year. It will, obviously, depress the reported fee level, but you'll see more fees.

And I think if you look out at the 18 months, I mean, you should start to see that relatively clean through about a 10% return on that 2.3 -- just over $2.3 billion investment. So you'll see some this year, but you're going to have to wait about 18 months to see the clean run rate.

On runoff, I mean no change to guidance around that topic. I mean, I think we've tried to be reasonably cautious on, I mean, what we've guided to over the last several years to maintain some consistency and predictability around the topic and from what I see and what we've been doing at Q1 and not only Q1 but actually through -- over the last couple of years. No reason to change that. We're still anticipating 1% to 2%, somewhere in middle of the range should be ideal, but certainly 1% to 2% is the -- my expectation.

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

And there's no -- sorry, I'm cheating here. There's no -- it feels like COVID claims have been over reserves. Is that -- I mean looking at reinsurance certainly.

George Quinn
Group CFO & Member of the Executive Committee

So I think it's too early to reach -- I think there's a number of litigation topics running. And while I'm not concerned about the risk around those topics, I'm not really convinced there's a huge amount of conservatism in the numbers that we have. I mean if you look at I mean, what we've booked, I mean it's predominantly -- actually Europe, which is kind of unusual given it's a commercial topic. I mean you know the outcomes that are taking place in a number of the key markets. I mean, it would be great if we did see some of that reverse. But I mean, our plans don't anticipate that at this stage. I mean, certainly, I haven't reflected any of that in any guidance around the expected level of runoff from reserves.

Operator

Next question comes from the line of Ashik Musaddi with JPMorgan.

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Just like a couple of questions. First of all, is with respect to farmers -- sorry, with respect to Solvency II. Last quarter, if I remember, you missed the solvency ratio by 6%. This time, it is better by 6%. Can you give us some moving parts? I mean, I guess it is to do with interest rate. But again, some color on that would be very helpful as to what drove a significant increase or, say, how much is the macro benefit here?

And secondly, I mean you mentioned in terms of combined ratio or say, in terms of losses, cat losses, 1 percentage point higher because of the cat losses. Would you say that all these price increases that are coming through this year will offset that versus the expectation that you had at the beginning of the year? Or would you say that this 1 percentage point incremental cat loss is just like a negative on a net basis? Or would you say there are offsetting factors so that we don't need to change our combined ratio forecast, which we would have, let's say, yesterday? Any thoughts on that would be helpful.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Great, Ashik. So the -- on the SST number, I mean, I need to be careful because I think that on prior Q1 calls, I've given quite a lot of detail that almost was an earnings release. So I'm going to be -- I don't get into too much detail, but essentially, there are only 3 moving parts of any relevance this quarter. There's the economic profit that we've generated. I mean, you can obviously assume that, that's somewhat impacted by the impact of the excess nat cat losses, the Texas freeze topic we've been discussing throughout the call.

We've got the dividend accrual. And plus or minus, those 2 things are close to offsetting each other. And then in the middle of it all, I've got interest rates. And that's about it. I don't -- I mean, there are other smaller things, but they're really not as significant as were the other 2. And so this quarter, at least, the movement is actually relatively simple and straightforward to follow.

On the combined ratio, I have a bit of a challenge that, of course, I need to know exactly what everyone forecasts for a combined ratio for us for the year. But if I say generally that -- I mean, certainly, if you'd ask me -- if we had this discussion back in February, and I looked at my plan for the year, do I now need to add 1% to the plan for excess nat cat losses in Q1, I do know. So I've clearly got more rate coming through than the plan anticipated, and that will help absorb some part of the nat cat impacts in Q1. But I mean, we're highlighting it for the sake of transparency.

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Okay. So it's fair to say that some part of this 1% extra drag would be offset by the rate releases. Yes, we are not going into the aesthetics of that number like whether it's 0.5% or 1%, but at least some part of that will be offset?

George Quinn
Group CFO & Member of the Executive Committee

That's an excellent summary.

Operator

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

George, can you just be clear what was the Texas freeze loss that you booked in the first quarter? I'm sorry if I'm being foolish, but I know your guidance you gave for the full year, but a lot depends on what all the other experience was to actually back up what the hit was. So could you be a bit clear about the dollar impact to the Texas freeze?

And then on farmers, 4% growth relative to what that business has been achieving in the recent past is quite an interesting acceleration. You've made reference to the new business volumes and the commercial ride share business. But I wonder if you could just briefly talk a bit more about what's happened there. And do we now plug in 4% for the full year? Or are there any kind of base effects or seasonality issues that we need to be aware of? Or if anything, is it maybe even accelerating, it could be higher by the year-end?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Great. So the -- so on the first topic, I'm going to resist the temptation to give you a dollar number. I mean the main reason for doing that is the net impact of cats that's important. So if you look at the thing overall, North America is high versus planned or expected cat impact for Q1. Europe is low. The 2 don't fully offset each other. But that's why we end up with 1 point. So I mean, from that, you can work out that Texas freeze is slightly higher and there's a slight positive from a European perspective.

Farmers growth in Q1. So I think you're right. And of course, we're comparing this quarter to same quarter last year, which if you look at the dynamics, the ride share companies tend to be quicker to react and anticipate. So there's already some impact of GWP -- on GWP in the farmers numbers in Q1 last year. I mean, the more kind of the pure retail side of it, obviously, reflects actual experience. So we've seen ride share bounce back in Q1 of this year. So that's a much larger contributor to the 4%. That's important because, of course, the fee benefit of that is lower to the management company than the broader retail positioning. But I mean, we've seen good growth on both sides.

We do expect it to increase as you get through the remainder of the year. I mean, if you look at the different dynamics, I'm going to put MetLife P&C to one side for a second. So that will be an overlay on top of the whole thing. If you look at it, I mean, we're going to have an absence of prior year negative, which will drive growth that we report through the year. So the refunds that exchanges delivered to customers mainly in Q2 last year and the obvious return of fee that triggered for the management company, you won't see that certainly in Q2. So that will have an obvious impact.

From a rate perspective, which is the main driver at the moment, if you look across the book, I mean auto pricing in the U.S. is pretty competitive. So if we are seeing growth -- or if the exchanges are seeing growth, you're seeing it more than non-standards, which is obviously is not the bulk of the book, it's only a certain proportion. Homeowners is much stronger. But again, if you look at the rest of this year, we expect the 4% to rise not because of ride share, but a combination of what's happening and the absence of negatives from the prior year, underlying dynamics around pricing. And then on top of all of that, we'll have MetLife P&C coming as of Q1 -- sorry, Q2.

Operator

Next question comes from the line of Michael Haid with Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions. Retail first. While you had strong price increases in commercial, which is definitely more important to you than retail, both premium volume and pricing in retail appeared under pressure in the first quarter. If correct, you had nominal price increases in retail of round about 1%, probably below loss-cost inflation. What are your thoughts on retail at the moment? In the last call, you already indicated retail is not that part of the business you want to particularly grow.

Second question. You published the SFCR report. So if I may, I would like to ask a question about Zurich Deutscher Herold and Solvency. More general, if I remember correctly, you applied a standard model for the Solvency calculation, which cuts the negative interest rates at 0. In addition, you applied a 16-year transitional as well as the volatility adjuster for your Solvency calculation. Excluding this, Solvency ratio is pretty comfortable at 170% level. How comfortable do you feel about the capitalization of Zurich Deutscher Herold from a purely economic perspective and do you have any reinsurance protection in place, just to make sure the fact that you applied a standard formula for Deutscher Herold does not affect your Zurich SST ratio, right?

George Quinn
Group CFO & Member of the Executive Committee

So thank you, Michael. So the second one is a bit complex. So we'll do the first one relatively quickly. So I think your summary on retail is right with one caveat. So I think the market conditions -- I mean, you guys can see it, I mean, certainly more broadly than I can with all the different companies you all follow. But it's a sector that's generally more under pressure at the moment. So I don't think we see it as negative, but it's obviously -- it's not producing either the margin expansion or the growth that we're seeing on the commercial side. Now that doesn't mean we're negative on retail. I mean, just a reminder that, I mean, when we set out a strategy for the current economic cycle, retail was a significant part of it. And while we're prioritizing growth in commercial currently, we are trying to make sure that we make the investments, we build the capabilities, we really have that customer-driven focus around retail. So that when we start to see the turn in the retail market, we're well positioned for that, but it's absolutely true that it's a more challenging market than commercial currently.

On SFCR, I mean, I think -- I mean, your summary of the different components is good. The choice of type of model for Solvency II has no impact on SST. And in fact, I think as you've heard us discuss before from an SSD perspective, we apply an internal model across our businesses. From an economic -- so how do we feel about the capitalization of Zurich Deutscher Herold? I think we feel pretty good that the company is, we believe, well capitalized for the risks that it carries. And I think if you look at it on a local basis, maybe you'd be more positive about the positioning of the organization.

The challenge is -- and I guess, this is at the heart of your question. When we look at it from an internal economic model perspective or a Solvency II -- or sorry, a SST economic model perspective, it looks a bit different. The volatility is higher. The return on capital is lower. And I think -- I mean, that's certainly something we want to look carefully at whether we have alternative ways to try and manage that risk.

From a protection perspective, we don't have any significant economic reinsurance in place. And the primary path that we've taken over the last several years is really around [indiscernible] and so more swaption, more long-dated fixed income in the portfolio. But I think even there, we try to be careful that we don't go from one extreme to the other. But I mean, certainly, the business is all capitalized in its local market, and we overlay the -- our own view of the world that brings a sensitivity and a level of return that I wouldn't say we're entirely comfortable with.

Operator

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

Farooq Hanif
Crédit Suisse AG, Research Division

First question, we're starting to see commercial U.S. players seeing the benefit of rate for those who give us the numbers in Q1. And that's only potentially going to accelerate plus, obviously, yields are going up. So in that context, what are your latest thoughts on how long you think this pricing cycle is going to go on for? I [indiscernible] question, but just some thoughts would be interesting.

And then secondly, on SST, I think like a normalized kind of growth in that number based on -- if you take out COVID for 2020, it's probably 7 to 8 points a year, that's economic profit minus dividend. Given life margin, especially pricing and MetLife, do you think that goes up materially this year on an underlying basis?

George Quinn
Group CFO & Member of the Executive Committee

Yes. I mean, interesting question. So on the first one, I mean, recognizing that it requires maybe even just psych capabilities that I can't really play into [process.] I can only tell you what I can actually see at the moment. So we've obviously reported the effects for Q1. And we -- I can already see April numbers and April numbers give me significant confidence about the continuation of the relatively high level of rates that we've seen so far. So -- and April is quite an important day for both U.S. and U.K.

So we've seen a small drop coming into Q1. April, it's very good for me and we'll see what's May and June bring us. I mean, I think if you look out a bit further, and you look at all the things that are right there, I mean there's -- I mean you talked about the interest rate topic. We've talked earlier on the call about inflationary issues that seem to real ahead. I mean there are evidently significant risks still in the market as evidenced by a number of fairly obvious events over the course of the last few months. I mean, there's an element of what's happened in the commercial market, which is simply trying to get the level of return back to a level that's commensurate with the risk.

When do we reach that point? I'm not convinced that it's imminent. So I don't expect the market to completely roll over. I do expect we'll start -- we'll continue to see the market maybe ease in a few areas, but the gap between headline price and loss-cost inflation is still very substantial. And I expect us to maintain a substantial gap through the -- through all of 2021. 2022, we can discuss later in the year. You said that you wanted to come back, Hanif?

Farooq Hanif
Crédit Suisse AG, Research Division

No, no, I was just -- nothing about your [indiscernible]

George Quinn
Group CFO & Member of the Executive Committee

Okay. On the 7 to 8 points, so I mean given there's a predictive component for that and the one thing that -- I mean, we're in a quarter that's relatively light on P&L and particular bottom line information. I want to get -- I think I want to avoid, after 3 months of the year, a signal and expectation that the economic profit generation has materially shifted. I think it's a topic we should come back to later in the year, but we've clearly had a very good start to 2021.

Operator

Today's last question is a follow-up from Mr. James Shuck with Citi.

James Austin Shuck
Citigroup Inc., Research Division

So just keen to know, one of your peers mentioned about claims inflation slightly picking up in Q1. And I think they model -- they cited model changes and increase in litigation funding costs. So just interested to know whether you saw that in Q1. And also, if you're able to comment on any large loss experience that we may have seen just given those frequency impacts in the quarter? And then secondly, just quickly on the debt leverage. You obviously issued debt for the MetLife deal, taking you above your kind of historical run rate. What's the intention with that debt? Ultimately, will you pay it down and return to more normal levels?

George Quinn
Group CFO & Member of the Executive Committee

So on the -- on loss cost trends. So we just completed the Q1 piece of work. I mean within it, there are moves within the overall lines of businesses, but I mean, the overall picture is not vastly different from the one we talked about last year. I think you also need to be careful that the -- I mean, the amount of data that we have from last year is definitely impacted by some delay in activity. So for example, from a liability perspective, I mean it would be relatively easy to get carried away positively. But for the time being, we've hailed everything on the basis that there's just delay in the information coming to us. But I mean, by and large, the overall -- our overall view of loss cost inflation hasn't really changed.

Large losses. So large losses is interesting. So the -- I think this is one of the better -- sorry, better large loss quarters that I can remember. But I mean, equally, we're not extrapolating that into the remainder of the year either. On debt coverage -- So -- I mean, it's -- the financing structure is out in abundance of caution. You will see us bring it back down to the levels that you are more familiar with for us.

Operator

This concludes today's Q&A session. I would now like to turn the conference back over to Mr. Burden for any closing remarks.

Richard Burden
Head Investor Relations & Rating Agency Management

Thank you very much, and thank you, everybody, for dialing in today. Obviously, if you do have further questions, please don't hesitate to call the Investor Relations team. I wish you all the best for rest of the afternoon. Thank you and goodbye.

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.