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Earnings Call

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Call Participants

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Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

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Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group update for the 3 months ended March 31, 2023, Conference Call. I am Sandra, 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. Jon Hocking, Head of Investor Relations and Rating Agency Management. Please go ahead, sir.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you, Sandra. 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. Before I hand over to George for the usual introductory remarks, just a reminder for Q&A, if you could keep to 2 questions each, that would be much appreciated. George?

George Quinn
Group Chief Financial Officer

Thanks, Jon, and good afternoon, everyone. Before we move to the Q&A, I just want to make a few introductory remarks. We've had a strong start to the year. The first quarter result is strong and the forecast puts us on a good track to deliver against our Investor Day commitments.

If I start from the underlying IFRS 17 result for 2022 of USD 6.4 billion, I would expect to see growth well above the 8% target commitment we've made for over the cycle. And in fact, we currently expect earnings growth in 2023 is not far away from double the target rate. But this, of course, is subject to the usual caveats on claims and financial markets. But it also assumes some caution about how quickly we recognize the benefit of the improved rate trends that we're seeing.

In P&C, we continue to see margin expansion in commercial with rate increases of 6% in the quarter; North America continued to be particularly strong with rate increases of 8%, driving double-digit growth in premiums; and property is an area of particular strength with rates accelerating from the fourth quarter.

It's important to note that this is a pure price effect and excludes indexation and other contractual features that are designed to compensate for increases in insured value. Interest rates are also a strong positive in the quarter. I'm also pleased that during the quarter, we were able to renew our U.S. CAT [indiscernible] with a lower attachment point than previously $600 million versus $650 million before.

And I think it speaks to the progress that we continue to make on managing CAT exposure as well as concentration overall. We remain focused on disciplined portfolio construction, carefully balancing exposures while looking to limit volatility in our results wherever possible.

In our retail P&C business, we expect the results to improve over the course of the year as earned rate starts to exceed loss cost trends. In Q1, we saw rate increases of 4% for retail, over 5% for retail motor, and in selected parts of the book, we've achieved significantly more rates than this.

While interest rates create a positive effect in P&C, they create headwinds for our Life business. And we would expect 2023 earnings to be similar to the underlying earnings under IFRS 17 in 2022.

Following last week's announcement on Chile, today, we've announced an additional back book transaction in our Life business with the reinsurance of the in-force individual life portfolio at Farmers New World Life. This is the fourth back book deal that we've announced in the last 18 months. The earnings effects of these deals are offset by the buyback that we expect to complete shortly. As a result of this, we'll have a Life business with less volatility in earnings, much less volatility in capital and substantially less financial market exposure, all without any significant reduction in per share earnings.

Our Life business is a powerful earnings and cash contributor for the group and is well positioned to generate profitable growth in the future. The Farmers Exchanges have continued to make good progress in improving underwriting outcomes with significant rate increases being achieved across much of the portfolio. The driver of the Q1 volume reduction, which is a change to one of the transportation network company contracts, attracts a much lower fee than the regular business written by the Exchanges. And the underlying developments of the Exchanges have and will continue to drive fee growth.

We expect the positive rate environment for the Farmers Exchanges to continue throughout 2023 and well into 2024. And we're confident that Farmers will achieve the goals set out at last year's Investor Day. You have also, no doubt, noticed that we provided a significant amount of detail on our IFRS 17 results for 2022 and the IR team will be available to support you as you rebuild models over the coming weeks. With that, I'd be happy to take your questions.

Question and Answer

Operator

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

Andrew Sinclair
BofA Securities, Research Division

Thanks as well for the IFRS 17 details. Very helpful. Two for me. First, on commercial lines, it looks like margins still expanding overall. Can you just tell us a little bit more about what lines you're now happy to push hardest for growth with margins in good places? And where does pricing still really need to ramp up for you to be happy and to push more for growth? And just within that, you flagged crop this morning as suffering from lower commodity prices. Can you just elaborate a little bit more on that?

And then second question was just on the Farmers' quota share performance in the quarter. It's been a tougher quarter for U.S. personal lines in particular. Just really can you tell us anything about how the reinsurance agreements performed in Q1 and expectations for the rest of the year?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Andy. So in the commercial market in the U.S., I mean, the standard line of business, as I kind of highlighted in the early part of the commentary, is property. So -- I mean, if you look at where we're focusing for growth, that would certainly be a key area. We need to be a wee bit careful because, of course, we're trying to make sure that we don't pick up a lot of CAT exposure in the process. So there are some limitations to how far we're prepared to push property growth.

If you look at other lines of business, I mean, the only 2 that are really suffering from a rate perspective, I mean, Workers' Comp has the same profile that it had before. Returns are still quite attractive, but it's a slightly negative rate environment for Workers' Comp. And then financial lines, which is not a very large part of our portfolio, I mean, had a really significant runout, partly driven by D&O, partly driven by what you've seen around cyber.

And you've seen that become negative in the second half of last year, and that continues into the early part of this year. But again, it's not a major part of our portfolio overall. So I mean, generally, with that exception, we'd be happy to push for growth in most of the other lines of business. Channel makes a big difference. If you look at the pricing condition and the different customer segments, middle market shows a stronger trend than large currently. So I think given the strategic emphasis we've given middle market anyway, it's a good backdrop for us to continue to push for more growth there.

On crop, I mean, the -- I mean, I think as you know, the crop premium is established by a combination of price levels and volatility in the relevant commodity markets in February. I mean, price levels are not very different. Volatility levels are very different. I would expect to see gross written premium on crop come down by about $400 million over the course of the year, given the much lower volatility. I don't expect it to impact profitability though. So we would still look for something in that kind of 94 range, which has been consistent with what you've seen from us previously.

On the Farmers' quota share, the -- so obviously, the Exchanges you've seen from the surplus number and you've seen from the market, in general, it's still quite a difficult environment for retail, in particular retail auto in the U.S. There's quite a lot of rate running through. So we expect to see that improve. But you had the added feature that in Q1, the CAT experience for the entire U.S. market is quite heavy. So there's no individually significant identifiable event, but you've got a series of small- to medium-sized events that impact the U.S. overall.

The quota share has caps and limits around that issue. So the quota share in terms of what's ceded to us, I mean, isn't significantly impacted by that so far. So the performance of the quota share from a Zurich perspective is okay. Maybe one additional comment, given I've highlighted nat cat. So in the U.S. is a bit heavy. Overall, the quarter is kind of close to normal from a nat cat perspective.

Operator

The next question comes from Michael Huttner from Berenberg.

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

Thank you for the help in terms of thinking about the earnings. I'm afraid I did have a funny moment when I saw the -- all the moving parts. Anyway, onerous contracts. I thought onerous contracts had been dealt with before, and they're here again. And I'm just wondering how long we'll see onerous contracts coming through. And why -- what's happening to drive it? This would be my first question.

And then the second question is on the Life. So you're -- really helpful you've put in all these comments about Life book for 2023, and you say, well, better than 10% guidance relative to 2022. But I'm not sure what the right number is to start '22 because the business mix has changed, you've got 2 different accounts, you've got one-offs. Any guidance and any color would be really helpful. And that's just 2 questions.

George Quinn
Group Chief Financial Officer

Thank you, Michael. So on the onerous contract topic, I -- so I'm going to assume you're referring to 2022 and the fact that it shows up as part of this explanation for why the underlying is different. I think the way to think of this is that as we went through the course of last year, I mean, from quarter-to-quarter, but we got a bit smarter about how IFRS 17 operates. So we made some changes to how we calibrate a number of things.

The onerous contracts is one. We also made some changes to risk adjustment in some of the portfolios that we could see had higher volatility. And all of that was designed to give us a higher confidence that we could deliver stable -- more stable earnings with the high ROE that people expect from us.

So what you're really looking at last year is in an ideal world where I had unlimited time and resources, I would have gone back and reopened the transaction, and it would not have been visible at all. And in the end, we just couldn't do that. And I guess at the start of the year, we just didn't have enough feel for how the system works.

But by the end of it, we did. In 2023, I don't expect to see that. The -- and in fact, I mean, given interest rate move so far, onerous contracts, probably a slight positive overall, but it's going to be quite small in terms of an impact so far. But really, what we're trying to do last year was get the transition in the right place without going back and having to reopen Q1, Q2, Q3, Q4. So apologies for that, but the -- it was the pragmatic answer under the circumstances.

On the Life topic, the -- in the deck today, so you can see the underlying number, the $1.48 billion -- sorry, not the underlying the headline number, the $1.48 billion. We've highlighted the impact of what just described these transition-related elements. You've got a number that's just in excess of $1.8 billion. And as I said in the introductory remarks, given interest rate headwinds for Life this year, I would expect earnings to be fairly flat versus the underlying number for 2022. Hopefully, that's clear.

Operator

Next question comes from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

The first one, I think I'm right that you're losing some earnings from the reinsurance deal. But I think you sort of decided no additional buyback is needed because the lost earnings from Germany are a bit lower under IFRS 17. I apologize if I got that wrong, but just playing devil's advocate. I'm just thinking should one not be looking economically at it? And -- I mean the accounting change wasn't going to affect strategy or dividend. So I'm just a bit confused on why it should affect buybacks. So yes, just wondering if you could square my thinking there, it would be great.

Second question. I am sure there are far better ones than this actually that others will no doubt ask, but just going to be strategic and use my second one to ask your view on discounting. A couple of your peers have given us a useful rule of thumb for calculating the discount impact on the combined ratio. They've said use net claims incurred x percent unpaid x duration. And I guess, if you agree with that approach, I'm just wondering whether you can guide us on what duration and percent claims unpaid we should use for discounting yours? And would you expect that to vary by H1 and H2.

George Quinn
Group Chief Financial Officer

Yes. Thanks, Peter. So I think on the first question, I mean, certainly, with all the resources that we've got available to us, we look at all the options the company has. So, we try and think very economically about what the best use of the flexibility that we have is going to be. I mean, I think the -- when we did the Germany transaction, I was clear that the reason that we announced the buyback around that was because we were going to see an earnings impact. And I didn't really want to have a conversation with people around your payout ratio has gone up.

Is it a source of concern? Well, no, it's not. We've got the same flexibility. And I mean, given the various options, it seemed just cleaner and tidier to deal with the earnings dilution through buyback. I mean, with the deal we've announced today and the one the last week, I mean, looking at the entirety of all the impacts, we don't have any significant earnings dilution, including the current buyback.

And the way I would think about this for now, if you think back to the Investor Day that we had last November, I mean, we set out an ROE ambition for the group over 20%, and that's the figure we're committed to. We also highlighted the fact that we think it's possible for us to go beyond that. And I think part of what we've announced today and part of the flexibility that the reinsurance transaction gives us is a foundation to maybe realize some of that additional benefit. So we're going to look at that first. We don't rule out anything that's economically in the interest of the people that own the company. But obviously, if we can expand earnings more rapidly, if we can improve the characteristics of return including increasing it, I think economically in the long run, that has higher value. We need to see if it's possible but that's what we are set off on try and do. On the discounting topic, you're going to need to let us come back to you. I couldn't even write down your formula as quickly as you were speaking. I think the -- I mean, I don't think the discounting part of it is going to be that challenging.

I mean the duration of our book is relatively well known. Interest rates rising makes it slightly lower, but we're still around that kind of 4-year mark. We can take a look and try and help you with the claims topic. I mean, there is a slightly different discounting effect given we've got, for obvious reasons, more property in the second half of the year.

I think the more challenging thing to get is the unwind because, of course, that's the accumulation of quite a lot of stuff. And we've tried to give some guidance today to help people with a starting -- well, you guys build models and get more familiar with it. But let us come back to you more precisely on the discounting topic. But I think -- that for me is one of the easier part of the equation.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Bernstein Autonomous LLP

I wonder if you could just update us on what's going on at Farmers vis-à-vis managing the tough environment. Maybe some information. I mean, I think the shrinkage of premium you put down to rideshare business, but is there anything going on in terms of cutting the underlying book despite rate?

I guess what I'm driving at is the surplus position declined again in Q1. I'm guessing that's mostly due to high CAT losses, and I'm not sure if that was the case or not, but do you think -- do you see a line of sight to where the surplus position can stabilize this year just from an earnings point of view?

Linked to that, just remind me, does Farmers have any significant CAT [XL] renewals this year? Or if that is all staggered, I think it might be next year? Because, obviously, we're coming into that season. But just overall, I mean, some sense of update on the management, particularly the surplus [indiscernible] would be useful?

Second question, just a very quick clarification. On the back book deals, I'm assuming Chile has an SST impact both in points, but also volatility because [indiscernible] had some volatility and Farmers would like -- doesn't have an SST impact is purely a monetization exercise. Can you just clarify that?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Andrew. So on the first one, so just to reiterate, the reduction that we've seen today is more than entirely explained by the impact of the restructuring of this transportation network company contract. And in fact, if you're prepared to allow for that, they actually have an underlying increase roughly in the mid-single-digit range.

If you compare that to the rate achieved in the first quarter, they are maybe a couple of tenths behind in terms of growth. So they aren't cutting the book. But I mean, currently, it's not quite as dramatic as the headline number you've seen here on the GWP would suggest.

There's still much more to do. I expect that trend to continue. We've talked before at the end of last year that, I mean, we expect to see the exchange achieve significant rate. So we still think there's quite a lot of room for the exchange to do whatever it believes is necessary from a pricing perspective and still deliver growth, although not quite as much as you would expect from a headline rate perspective.

I think the other positive thing on rate, I mean, it's public. So you can see that farmers has now received approval for rates in one of its most important markets. That will become effective in the middle of the year. And it has, in fact, made a subsequent filing for rate in the same market.

And again, that's a document on public record. So you can see -- look at the past that Farmers hopes to be on subject to regulatory approval. On the surplus topic, so -- I mean, absolutely, you're right. I mean, the first quarter is challenging from a CAT perspective.

So that's obviously a fairly significant offset to the improvement we start to see on an underlying basis. But I mean, the claims are the claims in the end, I think it's just something that keeps pressure on the team to make sure that they do what's necessary to look after the Exchanges interest, and we expect to see that continue through the course of the year. But I'm still an optimist around the business.

I think you will start to see the improvements, first of all, from an ex CAT, hopefully then from an all-in combined ratio that will give us confidence that the Exchanges can see the surplus move in the right direction. But that's going to be a later this year topic. I don't expect that to happen in the first half.

On CAT [XL] the Exchanges do have renewals coming up, but it's distributed. So they renew about 1/3 of the program every year rather than 1 single given year. And your back book summary is more or less perfect.

Andrew James Ritchie
Bernstein Autonomous LLP

Can you clarify what the impact of Chile actually is?

George Quinn
Group Chief Financial Officer

I mean, it's small. So we haven't given the number today, but I mean, the driver for Chile is an annuity book. And -- I mean, you're all very familiar with our stance on annuity products. So there's a small SST benefit and the driver for the Farmers transaction, and again, this is something that I know you're very familiar with. The change in accounting brings the post-level TAM into the profit profile of the business. The post-level TAM has been a somewhat unpredictable element of MCEV earnings over the years.

And if you go back a few years, you can see quite some volatility from revisions to post-level term. So while I think the IFRS 17 central expectation might be completely reasonable given that this is an area where perhaps others have got more data and maybe superior insights. This was just one of these opportunities to monetize something that it could be a source of significant volatility in the future, especially the further that we get away from the transition point. So that was more of a, as you say, value realization.

Operator

The next question comes from William Hawkins from KBW.

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

George, I'm having a lot of fun with your new financial supplements. So big thanks to your accounting colleagues for all their hard work. From that, can I come back to the discounting question and maybe phrase it in a different, hopefully, simpler way?

What do you think is going to be the benefit of discounting in 2023 based on what we know so far? So I'm looking at second half last year in your fin supplements, it was 3.8 percentage points and I presume it's going to be a little bit higher just as we roll into this year. But can you clarify that?

And then for the unwind, thank you very much for that guidance of $900 million for 2023. How do we think about that for future years, assuming interest rates don't change? Because obviously, last year, it was $400 million. So it's a massive increase in dollars and percentages.

And I haven't really got clear in my mind do I double it again for 2024, do I just add $500 million or some other number? It's clearly still going up, but I'm not really sensitive to how it moves.

And then secondly, I mean, if you could be bold enough, last year's clean claims ratio, by which I mean the claims ratio of 67% excluding CATs, discounts and PYD, was about 68%. How do we think about the outlook for that number? Is it going up or is it going down? Because in my mind, I'm trying to balance rate increases, business mix and whether there were any funnies last year.

And related to that, in particular, you made that comment in the press release about being cautious about recognizing the full benefit of rate increases. I don't know if that's sort of a repetition of the fact that Zurich is always cautious or whether you're trying to tell us something specific in that statement?

George Quinn
Group Chief Financial Officer

Just tell me with my math, was that 2 questions?

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

Definitely. First one was on discounting, second one was on outlook at claims ratio.

George Quinn
Group Chief Financial Officer

Okay. All right. So I'm glad you have got a lot of fun with the document. I mean, the team has put a lot of effort into that. I mean, I've got a lot of sympathy for you guys. You've got a lot of work to do to try and rebuild something that makes sense. I think as you know, we've planned an event in about 2 weeks where Jon and I will spend a couple of hours with you guys and get into some of this in a bit more depth. But I mean, obviously, anything we can do to support all of you as you go through the transition is not just important to you, it's important to us. .

From a discounting perspective, so I'm going to -- in my introductory remarks, I went much further than I would normally go on introductory remarks, given some of the uncertainties that exist with the accounting change. I'm going to resist the temptation to become very specific around various components.

I think the -- on the discounting effects, I mean, your read is right, obviously. So I mean, given the interest rates have generally risen compared to where we were in the second half of last year. I mean, it may have come down a bit in the course of the first quarter, but that's not going to change the overall direction versus last year. You would expect to see a larger impact. But I think we need to talk about that in a modeling concept rather than me give you a number.

On unwind, same dynamics. So I don't think I would double it. That would give you a number that I think would be completely wrong. But of course, there's a relationship between these 2 things. So there's a dynamic around discounting that's then reflected in the unwind.

I think -- I mean, Peter's comments earlier about discount is not a bad way to think of it. I haven't tried to do that calculation for us to see if that's what that produces the answer that we expect. We'll take a look at that and see if it makes sense.

On unwind, I think we need to spend some time together where we can explain the dynamics that we see from an unwind perspective that I hope helps you build your model. So today, we just try to start with a starting point for everyone to avoid too much diversity in practice.

And then the clean claims ratio. So I mean, bold or not bold, I'm not going to give you a claims ratio number predicted for the end of the year. I mean, what I will say is that -- I mean, you would expect the comments that we've made in the press release and have made in the introduction to be consistent with an improvement in the overall profitability of our P&C business before we talk about interest rates.

Now the last comment that you made is quite important in that context. So certainly, as we put together Q1 -- I mean, we're conscious of the fact that interest rates for all of the P&C players introduces a potential source of volatility or a greater source of volatility compared to what we've seen in the past.

And we want to make sure that we don't exacerbate that volatility unnecessarily. So we've been relatively cautious about what we've recognized and the number that we haven't shown you. So it was intended to be specific rather than a general statement about Zurich.

But I mean -- but despite that, I mean, we have a very, very strong first quarter. I mean you might expect that given interest rates and the market movements in P&C. But over the course of the year, current trends continue, I don't mean increase, but just continue, you would expect to see an improvement.

Operator

The next question comes from Vinit Malhotra from Mediobanca.

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

I hope you can hear me clearly.

George Quinn
Group Chief Financial Officer

Yes, I can hear you.

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

So George, my first one is on the Life, the new business CSM. I mean it's now 11% down, but even in previous periods, we've heard this remark about how the changing -- how the new business being sold is not optimal or not ideal or not what you want. But otherwise, we keep hearing about how it is ideal, it is protection-based. It is -- so I'm just curious, is there something that we should know or discuss more about the Life business and why -- what we could change to trend -- change this trend really?

Second is the rate outlook and thank you -- or the rate commentary that you provided in the introduction, which was very encouraging for U.S., but also EMEA, for example, the trend that Zurich quantifies was -- I think it was called increasing and now it's stable in between 4Q and 1Q in EMEA. Is it more the U.K.? Is there something to note there?

And last one, not a question, but just -- I was kind of hoping that with IFRS 17, we would go back to 1Q to 3Q as well. But you clearly have chosen not to do that and I'm curious if there was a discussion around that.

George Quinn
Group Chief Financial Officer

Thank you, Vinit. So on the first one -- so the historical reference, I'm not sure we've been negative about either the new business CSM [now] or new business value. I mean, we certainly had trends that were positive or negative depending on business we sold or business we didn't sell. But I mean, I would characterize that as the kind of normal ups and downs of running the business.

So I think if I've given you the impression that we had a perception that was negative about the new business that we were doing on the Life side, then that's my mistake. I hadn't intended to do that. I think if you look at the comments today, the -- I mean, the comments today are really about interest rates. So I mean, we like the mix of business that we have generally in terms of what it's focused on.

So I mean, we obviously focus on protection, we focus on unit-linked products, we try to stay away from the guaranteed side of things. But I mean the -- I mean the honest truth is that in an environment where interest rates are much higher, guarantees are going to look better than the other stuff. But that's not going to make us change our stance on our preferences for the Life business.

And going back to the comments that I made earlier to Andrew Ritchie, I mean we're trying to set the business up for the long run, so it has the right characteristics and not one that has a high beta, not one that if interest rates fall in the course of the next couple of years, we start to worry about it again, but one where the outcome is more driven by the expertise that we bring to the market.

So I mean, I'm not a negative at all, but it's certainly a more difficult market -- more difficult macro environment for our Life business this year than it would have been last year had we published IFRS 17.

On the rate commentary, so the -- I mean, I guess I gave a bit of color around U.S. commercial. I mean, I highlighted the fact that in particular, during the course of the quarter, you saw property rates accelerate. I mean at the end of the quarter, rate is quite a bit stronger than the beginning. It's a bit -- I think you need to be a wee bit careful with it because, of course, month by month, individual renewals can have quite a significant impact.

But the market trend that I think you've seen from peers is one that we also recognize in our numbers. I mean the only fundamental difference would be that to the extent that property CAT becomes a more attractive risk in the perception of the market because of a more significant price reaction, that wouldn't be enough to tempt us back into it. But again, if you look across the key lines, property is strong, motor is strong in the quarter.

Overall rate trends in commercial are goods. If you look at commercial in Europe, I mean the picture is -- I mean, it's slightly different. It has been slightly different throughout the cycle. It's not quite as strong as you would see from a U.S. perspective. If you look at Europe and in particular, look at retail, so -- I mean, if you look at the various markets, I think we're happy with where we're headed in Switzerland.

I mean, obviously, it has a relatively low loss cost trend by any broader comparison to other markets. The headline rate is quite significant in comparison to it. It's quite a significant part of our portfolio. So motor has seen quite a lot of movement. Property is really flat in Switzerland.

SME is quite strong, but it's quite a small part of the book. So motor is the biggest issue in the Swiss market. And from what we've seen in market behavior, we've made the most significant step at the beginning of this year. There's maybe 1, maybe 2 others that are doing something similar, particularly around the in-force rather than new business. But I think our team has, in a targeted way, made a significant step in the right direction.

Similarly, for Germany, a bit harder for me to argue that we're the market leader in Germany for obvious reasons. But -- I mean, we see on motor and on property rates an excess of loss cost trends that would mean that as this earns through, you'll see the sequential improvement show up in the retail business.

Again, that will happen over the course of the year rather than the first day of the year. U.K. -- I mean, I think probably as you'd expect, U.K. stands out from a motor perspective, rates in comparison to loss cost trend is enormous. Again, we're not a particularly huge player in retail motor in the U.K., so that will benefit others more than it benefits us.

Property, which is more important for us also has a strong move and rate well in excess of loss cost trend. And then there's one area of weakness in the U.K., which is SME. SME, we're seeing loss cost trend still reasonably significantly in excess of what the market is asking for by rate.

For the other 2 markets for us in Europe that are relevant Italy and Spain. Italy is pretty flat, motor and property, so loss cost trend in rate and reasonable harmony for the time being.

And then Spain, I mean, I guess you can see that certainly from a motor perspective, Spain has not yet turned the corner. Property is fairly flat, but more work is required on motor. So I think this was never intended to be a one-step process for us. It was always going to take a bit more, I think, particularly in Germany. But we think we've made a good step in the right direction in most of the key European markets.

But on your last piece of editorial around the quarter. I mean we made the decision some time ago to change the way we present this stuff. I mean, we did already release a ton of information this morning. I'm not sure that releasing more information would necessarily have changed things. But I mean, we'll review what our disclosure looks like in the future, but today, it was not the day to change it.

Operator

The next question comes from Ashik Musaddi from Morgan Stanley.

Ashik Musaddi
Morgan Stanley, Research Division

Just a couple of questions I have. One is on the CSM walk for the Life business. I mean, it looks like your Life business has -- CSM has come down. So how do we think about that number in the future? I mean is it fair to say that given that you are still trying to fix the portfolio, I mean, this might continue to happen in the near future. And then once the portfolio is in shape and then you will start accelerating growth so that on a net basis, CSM will still keep going up rather than going down, which is what is happening at the moment. So that's the first one.

And secondly, how should we read about this $1.8 billion release from the reinsurance agreement? I mean it's not really a release of capital, but it is a release of cash. So is the idea that, okay, you have a lot of solvency SST capital and this transaction gives you a lot of cash as well, so you can combine these 2 and do something with it either through M&A or through buyback later this year. Is that the idea? Or maybe if we can get a bit more color about this, how to think about the relevance of this $1.8 billion would be very helpful.

George Quinn
Group Chief Financial Officer

Yes. Great. So on the CSM walk, I mean there's clearly something about how I communicate about our Life business that I give the impression I don't like it. I actually do like it quite a lot. I think the issue today that you see in the CSM walk, it's principally interest rate. So the challenge for us is with a bias towards protection and also a bias towards unit-linked.

I mean, the volume of earnings is obviously the same but the discount rates that we're applying is much higher. And at these higher interest rate levels, we would need more growth than we currently have. So it's certainly our ambition to grow CSM over time. But given the relatively steep move in interest rates, given it's been relatively recent, it's just not feasible that you can -- that we can address that in such a short space of time.

In terms of fixing the portfolio, I honestly don't think there's much fixing to be done. I think the things we do in Life they attract more attention than the things we do in P&C., I mean, typically because, obviously, there's a longer duration. So there's a bigger reserve impact. But we do the same things in P&C all the time.

It's really no different. So from a portfolio perspective, I'm happy with the mix. The challenge for this year, higher interest rates and how it's adapting to that higher interest rate world is our ambition to grow CSM.

On the second part, I mean, I think the summary is roughly rates. The -- I mean, again, the motivation for this, I mean, I explained it, I think, in response to Andrew's question earlier. The -- I mean, you've seen us do things on the Life portfolio or the P&C portfolio for a variety of different reasons. They typically all have one thing in common and that's volatility. The volatility is not restricted to capital.

It can be our perspective on the potential volatility in earnings. And this portfolio, given its track record, this just seems like a good opportunity for us to realize the value of it. It's certainly not unhelpful that it obviously contributes to closing the gap between the very high implied SST excess and the other constraints that exist in the portfolio. But in terms of what we'll do with it, again, I think I'd refer you to what I said and I think it was in response to, I'm not sure if it was Peter's question earlier, I can't remember apologies to whoever asked me that question.

Operator

[Operator Instructions] The next question comes from Dominic O'Mahony from BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

I've just got a couple of follow-ups left on the New World Life back book transaction. Can I just check the scope of the deal? So you're still selling new business. Is that right? And that's still on your own balance sheet or is that going to resolution?

And then secondly, just on the economics. You said at 16x remittances, which is a great multiple, I'm just trying to work out how about that -- the remittance number in that sort of formula. Do you think that's a reasonable run rate for that number? Or has it been suppressed by mortality claims in the last several years?

And just on this point about $1.8 billion and whether that's cash or capital. I get that it will have no impact on SST. But on an internal view of capital, does it release capital on sort of an internal view? Is that the point you were making about volatility that because the volatility is sort of your own perception of capital changes?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Dom. So the -- so a good question on the go-forward. So maybe I give a slightly more strategic answer. So the business is sort of -- Farmers New World Life is still manufacturing product for the Exchanges on a go-forward basis. For a period, which is lately to extend beyond a year, it's fully reinsured.

So in addition to what we've done on the in-force, we're also reinsuring what we would refer to as net book. So the business is still being sold, but it's fully reinsured. So there's still some profit that will emerge for us from that relationship with the reinsurer. But the risk of that will equally lie with the reinsurer.

It's our ambition beyond that to make some, I mean, fairly significant changes. The -- I mean, part of what lies behind what we're doing is not just an earnings volatility topic. So obviously, from a CFO perspective, that tends to be my first priority. But certainly, if we had Raul who runs the Farmers organization here today, he would talk to you about how they want to change the platform, how they want to change the kind of product and how they intend to try and use that to drive a more significant growth in sales and use that also to help improve the stickiness of the overall relationship with Farmers customers. So there's also a business imperative in this, too. But the strict answer to your question is that new business is still being sold, but it is reinsured.

On the -- so on the multiple topic, I mean, there will be some impact from it. I think, if you look at it from a multiple to overview of EV, you see a reasonably traditional discount.

So we've agreed with the reinsurer that we should keep the details of the ceding commission confidential. But I think the multiple of dividend flows or even multiples of statutory earnings on a very recent basis or a longer-term basis, I think from our perspective, it's an attractive transaction, but it clearly leaves room for a reinsurer to make a reasonable return.

On the last part of your question, so the -- is there an internal capital benefit? So -- I mean, I guess if you zoom in really closely, you can find a very small SST ratio impact benefit. So we clearly trade away some AFR as part of the deal, but there's obviously a very substantial capital release attached to the risk.

So -- I mean, a very -- well, not microscopic, but if you looked at it very, very closely, you see a small improvement on SST ratio. That's the only capital benefit I would draw your attention to.

Operator

We have a follow-up question from Michael Huttner from Berenberg.

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

Your opening remarks were so helpful. So if I multiply the 17% ROE for 2022, I think, by close to double-digit of 8%, I get to 20%. Is that fair? Could we -- could you reach 20% already, or is it not unfeasible that one might consider it?

And my second question would be on the leverage ratio, given everything that's happened today with the cash and everything, does that change from the 26% that you showed?

George Quinn
Group Chief Financial Officer

Yes. Thank you. I might need to ask a question on the first part of your question, Michael. So...

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

Could you say will you get to 20% ROE this year, that was really my question?

George Quinn
Group Chief Financial Officer

So the -- I think the very first time we set an ROE target, which was back in 2016, November, I think one of the comments that Mario made at that meeting was that -- I mean, we were looking to deliver that right from the start. It wasn't going to be something we're going to grade into.

We really believe the business could produce it really very quickly. We set a target here of over 20%. You remember prior formulations like 14% and rising and similar things. There was no end rising attached to this one. So we expect to get to the committed number very quickly, if that's clear enough?

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

It's fantastic.

George Quinn
Group Chief Financial Officer

I did want to say because, I mean, you used -- I apologize for paraphrasing you, but you made the comment in the context of the earnings commentary I gave in the introduction in the context of ROE, which is why I was a bit confused. It might be helpful if I just restate that earnings commentary. So just to remind people because it's about the operating profit, the comment I made was if you take the underlying $6.4 billion for 2022 for the group, we're looking for earning growth in 2023, that's close to double the 8% targets that we've established for the 3-year period.

On the leverage ratio, the -- so I think I commented before that -- I mean, I think the leverage ratio is a respectability topic more than anything else. So we certainly -- we try and make -- we try to be careful that we don't get too far off of the peer group. I mean I think in essence, leverage should be about the cash flow characteristics of the group more than the pure accounting balance sheet piece. But of course, not everyone has access to all of that information, so people use shorthand.

And what I did say back in November is that -- I mean, we will deleverage over the course of this target cycle. I'm not looking to do active liability management. So it's going to be more focused on allowing some of the maturing issues to go unrefinanced. So you should see the leverage ratio come down over the course of '23 to '25.

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

And may I ask a last question, I know it's really naughty? But given everything you said and given what I see on the screen, which is still down, are you -- have you put a huge order to buy tons of shares?

George Quinn
Group Chief Financial Officer

I don't think I'm even allowed legally to answer that question, I think.

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

Okay. Fair enough. Sorry.

Operator

The last question for today's call comes from Peter Eliot of Kepler Cheuvreux. He has a follow-up.

Peter Eliot
Kepler Cheuvreux, Research Division

I guess just following on a little bit from Michael's question and BOPAT ROE. I mean when you show the walk, if I compare that to the walk that you showed at your Investor Day, then the discount investment result headwind has fallen away and you've got a higher starting point.

So if you add up the buckets now, you are sort of -- it seems to be that you're getting to about 23% versus the sort of just over 20% that you showed. I know you've outlined some benefits, but I guess that's just quite a big change over the space of 6 months. So I'm just wondering if you can sort of outline maybe what's changed in particular since December?

And then my second question, maybe a follow-up on the CSM. I guess, and I'll echo all the comments that great financial disclosure and very thorough. I guess the one piece that maybe I'm missing is the unwind of the CSM, which would help us get to that sort of recurring level. I'm just wondering how you think about that, whether that's the wrong way to look at it?

George Quinn
Group Chief Financial Officer

So I need to spend more time together, Peter, because I don't get to ['23.] So I wish I did. I mean in the deck today, we've certainly given some disclosure of what we see the underlying as a bit higher, obviously, has some of the interest rate benefit already in that, but it doesn't take us to the committed target level. So there's a bit more work to be done. But we're closer than we expect it to be.

Peter Eliot
Kepler Cheuvreux, Research Division

No, I'm just looking at your walk on Slide 12, so I'm sort of starting from the 19% underlying and then adding on those positive and negative buckets that you show going forward.

George Quinn
Group Chief Financial Officer

Yes. Okay. But I think to include every single one of them all from the beginning and add others on top is quite a bit unfair to you. I don't think we intended to do the entire target in 1 year. I mean, I think the point that you're making is that we're much closer to the goals that we established. But having said that, I mean, again, going back to the comments I made earlier on what will we do with the proceeds from the Farmers New World Life sale, is about trying to further improve the returns on capital for the group. And if we can do that, then maybe we can surprise people even more on the upside, that would be the ideal circumstance. .

On the unwind of the CSM, so I mean, you -- that's a disclosure obligation under the standard. So let me have a chat with the team and see when we're going to be able to provide that information to you because -- I mean, you are going to see it in due course. It's just a question of timing. And then that will help you fill in part of the gap. But let me come back to you with the timing of when we're going to give you that information.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Jon Hocking for any closing remarks.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you, everyone, for dialing in. If you have any more questions, then please get in touch. The IR team will be available shortly. 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.