S&P Global
Market Intelligence

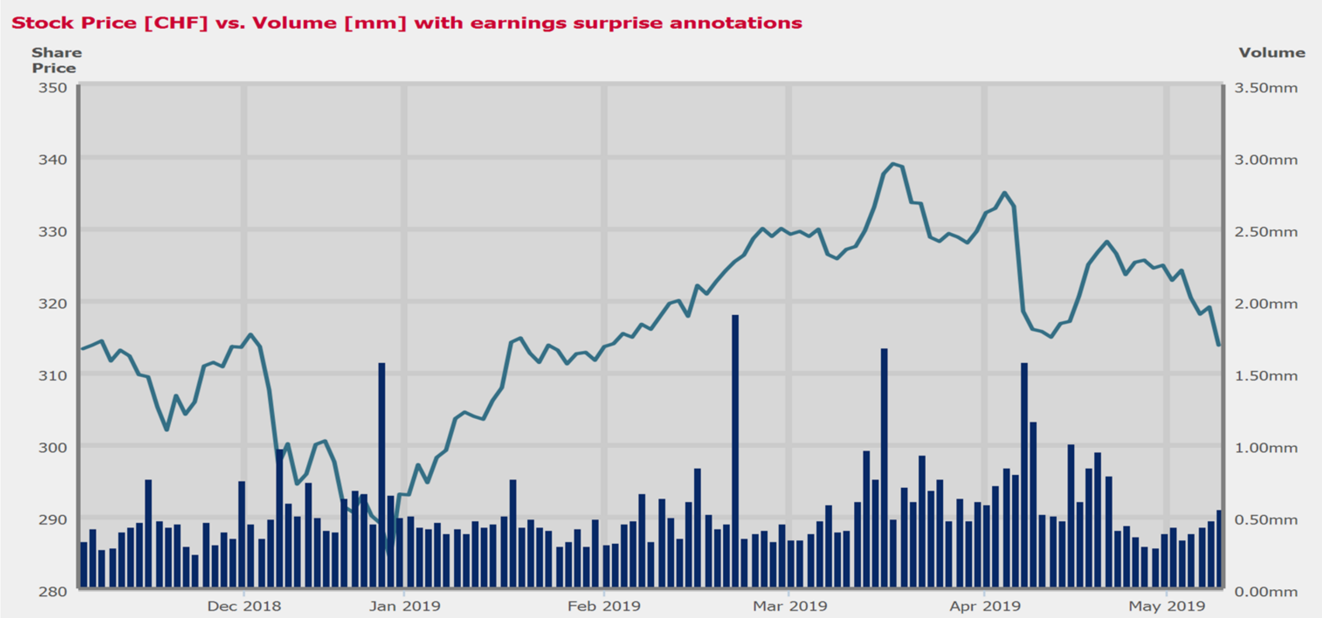
Zurich Insurance Group AG SWX:ZURN
FQ1 2019 Earnings Call Transcripts

Thursday, May 09, 2019 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-	-FQ1 2019-	-FY 2018-	-FY 2019-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.45	6.69	22.77	27.92
Revenue (mm)	-	-	49850.74	51127.17

Currency: CHF
Consensus as of May-09-2019 11:21 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	5.81	-	-
FQ2 2018	6.41	-	-
FQ3 2018	6.09	-	-
FQ4 2018	4.45	-	-

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Call Participants

EXECUTIVES

George Quinn
Group CFO & Member of the Executive Committee

Richard Burden
Head Investor Relations & Rating Agency Management

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Nick Holmes
Societe Generale Cross Asset Research

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

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Presentation

Operator

Ladies and gentlemen, welcome to the update for the 3 months ended March 31, 2019, conference call. I'm Sherry, 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, sir.

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning, good afternoon, everybody, and welcome to Zurich Insurance Group's First Quarter 2019 Q&A Call. On the call today is our group CFO, George Quinn. [Operator Instructions]

But before we start with the Q&A, George would just make a few introductory remarks. George, over to you.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Richard, and good morning and good afternoon to all of you. Thanks for joining the Q1 call. Just a reminder before we start the Q&A, the focus obviously on Q1 and again at Q3 this year is on revenue trends, and also as important, the commentary on the performance of the business. You'll see the full running detail again at the half year.

Over the first quarter, we've made a strong start to the year, and we believe that we are fully on track to meet or exceed all of the targets for this year. The results clearly show that the strategy is working. And while the quarter has also seen benefits from the full inclusion of the Latin American acquisitions that we announced last year, we've also continued to strengthen our customer and partnership propositions, with the group having entered into a number of incremental distribution agreements in the year-to-date.

Perhaps most notably, P&C pricing trends have continued to improve, particularly in North America, and if anything, have accelerated over the course of the quarter. Rate is clearly in excess of claims cost. And the rest of the world trends have remained broadly stable. And we have seen some strong performances, particularly in our Swiss business as well as from some of our smaller country units.

In terms of nat cat and weather, I would describe the first quarter as relatively benign. There have been a number of weather events around the world. These have tended to focus on areas where we are less exposed than perhaps some of our peers are, resulting in overall cat losses that are slightly below our normal quarterly expectations.

Our life business also continued to deliver on the strategy of focusing on capital-light and protection business. And this continues to support good growth, which aims to balance return on capital, cash generation and new business margins, which, as you've seen today, remain at an attractive level. Our Swiss and Irish businesses have had a particularly strong performance over the quarter in the Corporate Life & Pensions segment.

Farmers continued to deliver a steady performance, continued to execute on its strategy to strengthen the agency force. And customer metrics have continued to improve. The surplus ratio has improved further and stands at the highest level for the exchange for some time. And of course, this will support future growth of the business.

The quarter also confirms our very strong capital position with a Z-ECM ratio at 125%, providing us with continued capital flexibility. We continue to review opportunities to release capital from non-core areas of the business. And following the announced sale of the U.K. Employers' Liability back in December and

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the more recent announcement of the transfer of our U.S. A&E book to Enstar in April, we've effectively removed all legacy A&E exposure from the group balance sheet.
With that, I'm very happy to turn to Q&A.

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Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Great results. And on the pricing, both of them, I'm not sure which. I was amazed, plus 4% like-for-like growth; in terms of volume pricing, plus 2%. Is the volume or the premium total of 4%, given that you've kind of got half -- half made us understand it'd be flat this year, a clear decision by the group saying that, yes, account margins, yes, will open the tap and in other words, will reach better than 96% by the end of the year?

And then the second question on solvency. You did say it was strong. I was hoping that you would kind of say, "Oh yes, but we had to adjust full year and this is the reason why." I just wondered whether you could explain a little bit the moving parts. The 125%, which to me is the same figure as December, obviously at 3 year it's up 1%, do you feel a strong result hoping? I just wondered, is there something missing? I would have expected the sale of these back books to release more capital.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Michael. So on the first question on pricing, I guess we're not open the tap kind of people, are we? Again, we typically have a far more disciplined approach than that. I think if you look at what drives that, and I referred to some of it in the intro. I mean in some markets, I mean we have seen stronger growth than we expected. Some of that was, I mean, part of the direction we gave the business. Some of it is tactical just given the market conditions.

But we certainly haven't sent a message to the business that now is the time to go all-in across the market. And in fact, I mean last night, we briefed our leadership team call -- our leadership team on the information we were presenting today. And one of the most senior underwriters joined the call to say that it's important that all the underwriters focus on the trade-off between retention and price. Just given the current market conditions, you can probably push a bit harder.

And so there isn't a volume goal out there. We haven't instructed people to grow across the various markets. But in some places, over the course of Q1, we have not only been able to achieve the rates, which I'll come to in a second, but some of the businesses, for example, the Swiss one, have produced good growth.

On the rates topic, if you allow me, I'll make a couple of comments on that before I move to the solvency topic. I think if -- I mean, certainly if you listen to us after the year-end on the roadshow, Mario said that we had a pretty cautious outlook on pricing. So I mean if you have a look at what we've seen in the first quarter, especially in the U.S., I mean the headline rate is not higher in Q1 than it was in any quarter last year. We're a bit over 4%. And we see the claims inflation trends to be broadly consistent with the figures that we saw last year, so just in the low 2s. So if this continues, I mean, there is the potential of reasonable margin expansion.

For the benefit of those of you that may try and compare the pricing numbers that we have to the -- the ones you've got from the peer group over the course of the last few days, I mean, the x workers' comp number would be about plus 6, just to put it in context.

On the solvency topic, I think you're completely right. I think the reason that you don't quite see the picture that you might have expected, I mean, given the market movements from a spread and an equity perspective, you certainly expect to see some recovery of the change we saw in Q4. I mean what really offsets this is mainly interest rates actually. So a combination of interest rates moves and in particular, the shape of the curve is what drives this economy, it particularly impacts the pension funds sort of things.

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So now I take the point. I guess my intro comment was more about the absolute level than the relative positioning.

Operator

Next question comes from the line of Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I guess one of the reasons why pricing appears to have picked up is there's greater fear on the industry on the state of let's call it prior lost cost, not current lost cost trends, particularly in casualty lines. I mean can you give us any sense of have you looked again recently at what's -- in terms of developing -- in terms of underlying loss trends on your liability reserves in particular? Have you felt the need to take any more remedial action you've been having? You've been taking some of the good news in workers' comp and adding to those lines. I guess I'm just trying to get some sense about the real confidence in higher prices coming through to better margin, or whether they make it even up in more conservative loss picks given the heightened uncertainty on prior year loss trends for the industry.

And secondly, could you give us a quick update in Australian life or the OnePath deal closure? Industry trends appear to have got worse again in terms of claims and is that going to affect the likely profit coming from that acquisition?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Andrew. So on the drivers behind the pricing change, I mean, my gut feel is it's more than just a fear of that prior development or even the need to have a more conservative pick on the current accident year. I mean that may be an element although -- but there's a basic profitability challenge and you see it in the commercial market more broadly last year. For us, I mean as you guys all know, even though we don't publish the detailed results today, we run Q1 in the same way that we run any other quarter. We've been through our normal reserve process. I think there's nothing in that, that had I presented it today would have surprised you. The -- you referred to the fact that last year, we had made some changes, especially in the U.S. where we've seen I mean fairly strong growth reserve release around the workers' comp topic, and we've recycled some of that into more conservative positions on, for example, GL. That's not something that's continued into Q1. I mean, we -- I mean, like any business, we have pockets of reserves that are more challenging. We have other pockets that are certainly more positive. And we still see the bias as more positive than negative in our book.

And maybe just -- so on the current accident year side of things, again, I think there, I mean, given the action that we've taken last year, we would expect to see improvements in current action year picks, especially around the U.S. And again, from a -- as I look out towards the end of this half when we formally report, I'm not seeing any evidence that would lead me to expect to see something other than that at this stage.

Australian life, I saw -- I guess you guys, you've heard from the reinsurers over the last few days and you've seen already some of the challenges in the market because of the Royal Commissions topics. Maybe I'll talk on industry now. I'll talk about our own business and how that performs and I'll touch on that closure date.

So on the industry more broadly, you see a number of challenges, both on growth and on DI in Australia particularly impacts the bank on sector. So it certainly impacts the business that we intend to acquire. From a Zurich perspective, I mean, our business actually has been doing very well. So we've taken market share over this period. The business has suffered a bit on DI, but the overall performance continues to be pretty strong. And in fact, the -- I mean, the Australians recently gave us an update. And if we had been presenting the Investor Day presentation today, you would see stronger numbers in terms of the outcome for Australia life. So I think there will be more what to do around OnePath when we acquire it. That's not entirely a surprise given what we knew was coming. But the bank sector certainly has more challenges

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than maybe the other names, including Zurich, have currently. On the closure, we expect it to close in Q2. So we should own this by the end of the quarter.

Operator

Next question comes from the line of Nick Holmes, Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

Just one question following up really on the question that's been asked before, but in a different way. Do you still expect the combined ratio to be at the upper end of the 95% to 96% target range? Or could it be better? I mean, that's basically what the numbers are suggesting? Or is it just too early to say?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Nick. That's a very good way of asking the same question. The -- I mean, we're not changing the guidance around the combined ratio today so we've told you to expect that we'll see this at the upper end of the range. I mean, we are seeing more positive signals than we expected around pricing, but not currently changing guidance.

Nick Holmes
Societe Generale Cross Asset Research

Okay. So it's too early to say?

George Quinn
Group CFO & Member of the Executive Committee

That's what I was implying.

Operator

[Operator Instructions] The next question comes from the line of Vinit Malhotra, Mediobanca.

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

Just quickly maybe one question because my pricing question have been addressed. The growth that we saw in EMEA, particularly Switzerland, you say it's Swiss commercial. Is it the commercial, like, large commercial? Is it retail? Is it international programs? Or is it domestic? Are you able to give us a bit of color? The reason for asking this is also again a bit of follow-up on an earlier question from Michael that how is the growth -- how are you thinking about your portfolio and the growth? Basically what have happened in Switzerland commercial?

George Quinn
Group CFO & Member of the Executive Committee

Yes, so today our Swiss business is -- has been focused on the larger end of commercial. And if I -- one of the things that the team has been doing is trying to find ways to be a more significant player on SME. But certainly the growth that you see in Q1 is driven by traditional markets in Swiss commercial. I think we're hopeful that over the course of this year, certainly next year, that we'll see the business here take up a more significant market position around SME. But that's not what's driving it in Q1.

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

And this was a higher combined ratio in the past in large commercial profitable. Is that one of the reasons why you're...

George Quinn

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Group CFO & Member of the Executive Committee

No, no. Sorry to interrupt you, Vinit, the -- so I mean -- I think you have to have it in your mind that when you look at large commercial generally in the global business, I mean you tend to associate it with higher combined ratios. That's not just true in the Swiss business. The Swiss business is very attractive. So I mean, we are delighted to see this growth here.

Operator

That was the last question.

Richard Burden
Head Investor Relations & Rating Agency Management

Thank you very much, everybody, for dialing in today. Obviously, if you do have further questions, please don't hesitate to call any of the Investor Relations team. And with that, thank you very much and have a good afternoon.

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.

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