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Earnings Call

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Call Participants

EXECUTIVES

George Quinn

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Mario Greco
Group CEO

ANALYSTS

Andrew Sinclair
BofA Securities, Research Division

Andrew James Ritchie
Bernstein Autonomous LLP

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Ismael Dabo
Morgan Stanley, Research Division

James Austin Shuck
Citigroup Inc., Research Division

Kamran Mark Hossain
JPMorgan Chase & Co, Research Division

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

Peter Eliot
Kepler Cheuvreux, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Q4 2023 Analyst and Investor Conference Call. I'm Sandra, the Chorus Call operator. And the conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to 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 very much and good afternoon, everybody, and welcome to Zurich Insurance Group's Full-Year 2023 Results Q&A Call.

On the call today is our Group CEO, Mario Greco; and our Group CFO, George Quinn.

Before I hand over to Mario for some introductory remarks, just a reminder, the Q&A, we kindly ask you to keep to a maximum of 2 questions. Thank you.

Mario Greco
Group CEO

Thank you, Jon, and welcome to everyone and thanks for being on the call.

As tradition, before we answer your question, I wanted to provide you with few remarks on our results. We've made a very strong start to our new financial cycle and we're well ahead of all targets for the '23 to '25 cycle. We have seen particularly strong growth in both P&C and Life, with the management action of farmers already showing excellent results.

Given this positive momentum, we expect to achieve EPS growth above 10% over the cycle. BOP is up 21% to a record level of $7.4 billion, with earnings per share up 12% in U.S. dollars. BOPAT ROE is strong at 23.1%, with returns remaining extremely high even as we have continued to carefully grow the business in P&C, with 10% growth in gross written premium in constant currency for commercial and 13% for retail.

In Life, where we saw 26% like-for-like growth in new business premiums and 39% growth in BOP. I'm particularly pleased with the strength and the speed of the improvements at farmers, where Farmers Management Services business operating profits grew by 10% year-on-year and the Farmers Exchanges reported a Q4 combined ratio of 89.8%, a substantial improvement from earlier in the year. A proposed dividend at CHF 26, up 8% on prior year or 19% in U.S. dollar terms, will be supplemented by share buyback of CHF 1.1 billion.

Now looking at the business segments, starting from Property & Casualty, the Property & Casualty business today reports an excellent combined ratio of 94.5%, with BOP up 7% on a reported basis, or 10% in local currencies. The strength of the group's reserves is evidenced by consistent prior year reserve development. The steps taken to manage exposure to natural catastrophes has resulted in a cat loss ratio within the guided range and improving year-on-year. Commercial insurance continued to show strong returns, contributing $3.5 billion to BOP at a combined ratio of 91.4%. Commercial overall saw 7% rate increases, 9% in North America. In property, rate increases have remained in the teens while rates in commercial, auto and excess liability are seeing continued momentum. Overall, we see a stable outlook for commercial rate for the rest of the year.

In retail, we continue to see early signs of results improving. Various weather events impacted the results in the second half, and there is significant room for improvement, which we expect to deliver over '24 and '25. Across Retail P&C, we saw rates increased by 4%, with higher rate increases achieved on the motor portfolios.

On Life, the Life business performed extremely strongly, reporting an all-time high BOP of $2.1 billion, with top line growth across all parts of the business. Life new business premiums grew 24% in U.S. dollar terms. Short-term insurance contracts saw insurance revenue increase at 13%, while fee revenues from investment contracts were up 22%. We continue to expect this business to grow strongly going forward, with BOP in 2024 anticipated to at least match the record result achieved in 2023.

In farmers, 2023 was a transformational year for farmers, with the management actions we outlined back in November having a significant impact on the performance of the business. Looking into 2024, we expect the momentum to continue. Farmers Management Services saw BOP grow by 10%, supported by growth at the Farmers Exchanges and a return of the margin to 7%.

The Exchanges saw a dramatic improvement in the combined ratio, which fell below 90% in the fourth quarter, with the surplus ratio already approaching the lower end of the range indicated for the end of 2024. Underwriting results should continue to be supported by continued rate actions, the benefit from expense measures taken last year in underwriting optimization. We now expect mid-single growth in the exchanges premiums for 2024, with growth in policy in-force anticipated by the end of the cycle. Let me also stress that we made triple digit profit on the farmers reinsurance management.

Looking to the future. I'm pleased at the start we have made to our new cycle and I see significant opportunities for the business to continue growing and to continue generating attractive returns for shareholders in excess of the market and the peers.
Thank you very much for listening and we're now ready, George and I, 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

Couple for me, please. First was on farmers. Really impressive results, good turnaround there. But just checking for 2024 on the Farmers Re quota share, I just really wondered if you can give us some color on the nat cat limits in that agreement. I know there were some limits in '23. Will you be capped out again in nat cat exposure in '24? Can you give us any color on that? That's my first question.

And second was just on cash flexibility. Good to see the buyback announced today. But just wondered, with the German back book disposal falling through, what impact on liquidity is there from that? Where is excess cash today? I know you previously announced that CHF 1.8 billion buyback after the German life disposal, well before the Farmers New World Life transaction. I can't help but feel there must be some impact on free cash that's available from that. Always a little bit tough to get visibility on cash for Zurich. So, sorry, a long way of saying, can you give us an update on cash? And actually, if you can touch on also what are the options for that German back book portfolio after it didn't go to Viridium?

George Quinn

Andy, it's George. So on Farmers, I think it will be a public document in due course. So when you see the quota share, you'll see that because of the improvement -- well, not only the improvement that was achieved, but also the positive impact of the presentations that the exchanges made to the reinsurers last year, a number of the features in the contract that mitigated risk to the reinsurers have been slightly softened. So, you'll see in particular that the cat limit has been very slightly raised. I think it's about 150 basis points higher than it was previously. And, of course, that also reflects the fact that farmers -- the exchanges is partway through a program to cut cat exposure. If you recall Raul's presentation from November, that was something else that was extremely important to them to bring down some of the volatility at the exchange.

On the cash topic, the funny thing on Germany is thinking back when we first announced the transaction that we've just obviously commented on publicly, it was a very small negative for cash. It was never a liquidity-driven topic. And if you recall the motivation, the motivation was capital volatility and it wasn't local capital volatility, but it was the volatility caused in the Swiss system. So, it never really had significant cash consequences, but it did have obviously significant capital consequences.

So, I think given what we just announced, maybe at the margin, the liquidity impacts are immaterially positive, but there's certainly no significant negative impact from the announcement. However, the capital volatility topic is still there. On options, I mean, it's probably too early to say much. I don't think there's anything that you would read into the announcement that's relevant for the broader sector or the broader back book market in Germany or other markets necessarily. But I think for us, we'll let the dust settle and then reach a conclusion on what the best way forward is going to be. But we don't believe we lack options here.

Andrew Sinclair
BofA Securities, Research Division

That's great. Really helpful, and all the best, George, for your next steps.

George Quinn

Thank you.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Bernstein Autonomous LLP

First of all, just echo my colleague there. Good look, George, in your next steps. But my Bloomberg says that since May 2014, which I think was your first day, the shares have had a total return of 201%. So hopefully, your successor can be that, but congratulations on that and good luck for your next steps.

Two questions. First of all, commercial ex crop, you flagged a slight deterioration in the XXX underlying combined ratio. I'm wondering if some of that is self-inflicted in terms of additional prudence in loss picks towards the year-end, given various debates on loss costs. So just maybe give us a sense if there was any additional prudence put into those commercial underlying loss picks at the year-end. I just would have expected to see maybe some ex crop, small improvement given rate. And the second question on retail underlying. I think you said in the past, you'd hope to get back at some point to the first half '22 levels of profitability, which is, if you like, before inflation kicked in. Is that still a reasonable objective and over what kind of timeframe?

George Quinn

Thank you, Andrew. And maybe we'll have a love in. I can congratulate you to on your new role. On commercial ex crop, if you cast your mind back to the Q1 call this year or last year rather, so Q1 2023. I made the comment there that, obviously, we're seeing significant discounting benefits. If you look at the group's performance overall, we're a bit a point better if I take out the impact of cat and other smaller topics. And that point is entirely driven by discounting. It's even slightly more pronounced, as you point out, on commercial ex crop. I think if you look at the book overall, again, I think I highlighted earlier last year, some of the areas where we were increasing loss picks.

So from a line of business perspective, we've done some stuff around excess liability and no surprise, commercial auto is another area where we've increased loss picks. I mean the strength of the performance of the commercial business overall, I mean, it creates the space where this doesn't create challenges for us to do this. So, I think at this stage of the cycle, particularly in commercial, we would want to be a bit prudent. So, that's what we've done during the course of the year.

I think if you look into 2024, maybe I'll comment on crop. Because we talked to ex crop, I mean, we got a wee bit of work to do to get crop right. But the good news on crop is it's in the private product that we sell. We know what we need to do. We have a new Head of Crop in place as of February 1, and we're looking forward to seeing strong execution here. I mean, that's a reasonably meaningful upside benefit for the P&C business.

On retail, you're absolutely right. I indicated that we would get back to where we were in the first half of '22. We're still confident we will achieve that. So it's been a bit slower this year. And if you look at the trajectory, again, the second half is a bit weaker. Maybe lost cost trend has been a bit more persistent than we had initially assumed. But we've had a good start to the year with the key renewals in Germany and Switzerland being very strong for us. So, we think we'll get this thing back on track and we'll get it back to the levels that we saw in the first half of '22.

Mario Greco
Group CEO

And if you remember, we always said that retail will get back on standard terms by '25. And we're always being very cautious on the fact that it's going to take the full cycle to completely recover retail and we still see that.

Operator

The next question comes from Michael Huttner from Berenberg.

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

Fantastic. And we'll miss you, too. 2 questions. Can you give a bit more detail on the crop, the measures and what happened? Because I didn't think that it would be, but maybe I didn't think at all quite as high. I think the last memory is the guidance would slightly improve on 2022. And then the other is maybe you can give a little bit more color on the rate rises at the start of the year. So, you've got this lovely slide, I think Slide 6 or Slide 8, which shows the motor pricing by country in quarters. But maybe you can maybe explain what happened in January in Germany and Switzerland and other countries, so that we can have even more confidence in your plan turnaround?

George Quinn

Thank you, Michael. So on the first topic on crop, if you think of the way that, I mean, any U.S. crop insurance book made up, it will be -- the vast bulk of it will be MPCI and there is a private component. So, this typically picks up, for example, hail exposures, other things that MPCI doesn't cover. I mean, often the private product is a close companion to the MPCI product. So the way in which the private product is written is quite important to the market positioning around MPCI. If you look at our books, if you look at MPCI, I mean, your outcome is typically going to be determined by a combination of 2 things.

So, what your state mix is and what your fund designation is, which means the extent to which you use the federal reinsurance program. If we look at MPCI and we compare it to the market, we're in a good place. And also from the feedback we get from the reinsurance brokers, we've got a strong MPCI book. I think last year we had intended to execute some changes around some of the capacity we deploy in private. And we weren't as successful as we would have wanted to be there. So, we've reinforced what the expectations are for this year. I think the team have a very clear understanding of what's expected of them, and we expect to see a meaningful improvement in 2024. So, I mean, that's probably more than you needed, but that's the whole story on crop.

On January, I mean I mentioned in response to Andrew's question, we've had a strong start to the year. I'll avoid, Michael, giving precise numbers. But, for example, in Germany, where about half of our retail book renews at the very beginning of the year, we're in double digits for price. So, I think we're in good shape for what we need to achieve this year. I mean, Switzerland, it'd be kind of unusual to see double digits here because of where lost cost trend is in comparison to the other European markets. But this is the strongest renewal that I think I've ever seen, certainly in my tenure at Zurich on the Swiss book. So for the 2 key drivers of our auto performance, we've had a very strong start to the year.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

And also from me, congratulations and good luck. My 2 questions. First one, could I just come back to commercial and maybe commercial ex crop? I mean, I guess last year you were sort of highlighting, pointing to a margin improvement which isn't in the outlook statement this year. And I'm just thinking, I mean, given the sort of pricing over the last few years and given what you were saying about the loss picks and presumably some of that prudency can unwind at some point. I think I understood from your answer to Andrew's question that we should expect some improvement, but just wondering if you could clarify that, George.

And then the second one was wondering if I could come back on capital management. I guess, originally the buybacks were to offset earnings dilution, but I guess it hasn't really played out that way for one reason or another. But I'm just wondering, can you clarify how we should think about that going forwards? Is that how we should think of buybacks as a tool?

George Quinn

Yes. Thanks, Peter. So maybe just to -- again, for everyone's benefit, restate where commercial has ended up. So, we've got about 90 basis point improvement overall in the commercial combined. If you look at the drivers of that, I mean, that's more than explained by the benefits we've had from discounting in crop.

But the headline number has improved over the prior year. In terms of what we expect for 2024, I think our focus for commercial is really the growth plan that we outlined at the Investor Day back in November of 2022. We'd highlighted there that in particular, mid-market was going to be extremely important to us. And in fact, if you look at the different segments of the market today, mid-market for us, direct markets, which is not a common segment for the commercial sector in general. And then E&S, all have stronger rate dynamics than the large corporate, we would say that is North American commercial. But again, it's growth that we think is more important here.

The overall returns are very attractive still in this market. We expect that to continue to be the case for quite some time to come. And we think we can benefit from the foundation that we've got by expanding. I mean, there's certainly room for some lines of business to continue to improve. If you look at rate trends by line, I mean, the 2 that stands out are property cats, DLSIs. I think rate at the end of last year was still in excess of mid-teens. Not obvious that that's slowing down any significant rate. So that probably continues. Rate environment around liability is much more benign than it was before, although primary and excess have different dynamics. And the other one that's showing significant rate is commercial auto, although maybe slightly in contrast to property cat, commercial auto needs significant rate. So, I think that maybe at the margins, there's room for improvement around commercial, but our priority is actually to grow the business overall.

On the capital management topic, I think the earnings dilution commentary was primarily in the context of the German topic. I mean, we highlighted that the accounting change meant that what we'd planned, and in fact, I think by then had executed around buyback on Germany, would also deal with any earnings dilution that came from the farmers transaction. But because we don't do these things very often, I think that there may be, I mean, there could be a different rationale at a given time.

We want to avoid that we give up blocks of earnings even if we don't like the risk characteristics without addressing the risks that that creates for earnings. That's certainly something we would always think about from a disposal perspective. But I wouldn't say that buyback is always about earnings dilution. Maybe one last comment on the German topic. I mean, I think you can assume from the package that we've announced today with the dividend change, the buyback that we've announced that it's a signal that we have high confidence that we'll find solutions in Germany.

Operator

The next question comes from Kamran Hossain from JPMorgan.

Kamran Mark Hossain
JPMorgan Chase & Co, Research Division

Two questions for me. I'm just following up on the -- I guess on the capital management topic. Though it feels like this year, you've a very strong solvency position. Clearly, you would have hoped the back book deal would have happened, and that happened last year. But how should we think about share buybacks in the context of kind of the rest of the plan period? Should we assume that actually you'll continue to pay out a relatively high percentage of earnings? Or is this kind of a one-off related to this year?

The second question is on farmers. Really good to see the turnaround kind of happening so quickly. Just interested in the quota share and kind of how that moved up to 10%? Given that the kind of support you've lent to the exchanges, do you expect that will last for longer so you get to participate in the upside. And just interested also as well, so there's like 2 and a half questions. You mentioned the reinsurers were happy with the performance. So did you proactively go for 10%? Or were the exchanges not able to fill the whole program? So, you stepped in, I assume, it's probably the earlier rather than the latter.

George Quinn

Yes. Thanks, Kamran. So on the first part on capital management, I mean, the priorities we've got haven't changed. So the aim would be to invest, expand earnings, which expands the dividend. I think what we signaled back at the investor update is that I think in the past, we were somewhat reluctant to consider buybacks and we're signaling that, I mean, in substance it may not change, but we may not wait as long before considering whether supplementary buybacks were appropriate. And the key thing here is going to be whether we can deploy the surplus beyond the dividend and something that helps support the group's ambitions for earnings growth in the future. That would be a preference, but we will consider it more frequently.

On the quota share, I mean, It's a good question. So, we end up with 1.5 points additional on the quota share. If you look at what's happened, I mean, in essence, they had one participant on the program and they were actually in the program for a reason. It was nothing to do with the quota share. It was actually more focused on the cat side of things, and that organization felt that they couldn't continue on either. If you look at the remainder, I think small net increase in participation by the other participants on the cover. So, we've stepped in for a small additional piece.

I mean, obviously, if you look at the returns that we achieved on the quota share last year, I mean, we've talked in the past that farmers has had to offer the market various forms of risk mitigation. If you look in the investor deck today, we're highlighting that it's one of the top 3 returns on capital the group has because of those features, but we don't expect it to stay that way forever. I mean, we expect, given the turnaround that the exchanges have achieved, they'll have far more competition for participation on the quota share. Some of the risk mitigating features will eventually disappear entirely. And at that point, we don't expect to play a significant role in the quota share.

Operator

The next question comes from Dominic O'Mahony from BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Just firstly, on farmers. Clearly, the pricing is very strong. I'm just trying to unpick price versus volume, and I'm guessing it's something like a 10% volume reduction coming through, give or take. Is that about right? And really into 2024, what sort of volume reduction are you expecting from the actions that have been put in place so far?

And then just on the crop business. Again, just following up, really on what Michael was asking, could you help me understand the delta between what you would describe as just the conditions for crop and the impact that's had on the market versus, actually, you feel like there are things you need to fix? Which way round is it? And what he said, does that mean that you're going to have to reduce maybe some volume going into 2024?

George Quinn

Yes. Thanks, Dom. On farmers first, I mean, I think your rough rule of thumb is not far away from reality. I mean, the business overall has had a very substantial rate in the course of 2023. I think they're above 20% on all the key lines of business. And of course, they've given up some policy count as part of that process to get it back to the level of profitability that they're targeting at the exchange. If you look at what they're intending to do this year, I mean, rate is going to continue to be a theme, I think, throughout the year. So they already have plans. In some cases, filings in place for additional rate to keep up with lost cost trend in 2024.

On top of that, they also -- they're continuing to look at the cat topic. I mean, I mentioned it earlier. So, they'll have quite a targeted effort to reduce cat exposure in some of the most cat exposed parts of the portfolio, and that will likely also have some impact on policy count. I think the only reason I'm a bit cautious about where policy count is going to trend is if I look at the current profitability of the exchanges, I look at kind of how far these plans extend. I mean, at some point, I think that day gets closer, the exchanges should be in a position where they can expand policy count. They're not quite there yet, and I don't know whether it's later this year or whether it's next year. But given the extent of the turnaround, I mean, they'll start to operate from an entirely different starting point. And that will make growth not only driven by rates, but also policy count possible for the exchange.

Mario Greco
Group CEO

Also, I'd like to add the point that after the transaction we did in November, acquiring the 3 brokerage businesses from the exchanges, this is already changing something, especially in tough markets like California. We're really starting now growing this brokerage business, which allows us to keep the customer relationship. And so the reading of the customer numbers and the policy numbers is starting to be different than it was in the past, because we can retain the customer relationship now and we can park as policies, the customers into the broking relationship, but we maintain the relationship on other policies. This will be a growing interest over the next months and will create us opportunities over time to come back with the original products to these customers.

George Quinn

Dom, on the second point on crop. So, I guess good question. So what's driving the delta? If you look at MPCI for us, given our state mix, we would have been slightly adverse to plan, but it wouldn't have been that significant. It really is the private side of what we're doing at the moment that is causing us more challenges. I don't think that it necessarily means we would have to accept significant attrition. I mean, the market is pretty dynamic in cropper and private product and the connection back to NPCI. I think we just need to take steps to contain some of the capacity we're deploying on the private side. I mean, I think if you look at the overall crop performance, there's detail in the investor slide deck. I mean, looking at the figures, looking at the plans that we have for this year, I think there's about $100 million of upside and that's mainly driven by private.

Operator

The next question comes from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

So firstly, George, thank you very much again from my side for all your help over the decades if we include your previous incarnation and especially for the extra insight and effort you go to in answering questions. With that in mind, I have 2 questions, please. Firstly, in terms of the EPS growth, obviously you've raised the target from over 8% to over 10%. You only gave that target in November. Mario, I heard what you said about kind of greater confidence in the Life top line growth being very strong and farmers turnaround, which is more of a balance sheet issue really, rather than an earnings one. So, really my question is, what has changed since November to cause you to raise that target? Which areas are you actually now more positive on than you were previously?

My next question was on, I suppose, the overall risk appetite within the group. If I look at the required capital, the market risk has gone up from 50% to 54%. Interestingly, business risk has gone down from 10% to 7%, which I wasn't too sure why. And then also your retention levels on the reinsurance programs, they haven't kept pace with inflation. So it looks like you're carrying more risks as we go into 2024. Perhaps you can just comment on that and the ability for you to deploy capital more fully by taking on more risks as we go beyond.

Mario Greco
Group CEO

James, can I take the first question? It's Mario here. Nothing has changed with respect to November, but we realized after November that we were not clear. I mean, we always thought of exceeding that target. And if you look historically back, we've been delivering in excess of 11% EPS growth since 2016 to today. But we thought after November that we were not successful in explaining that we had confidence in exceeding. And so we have tried this time to be more explicit on that. But no changes in our forecast, no changes in our numbers. We just thought about changing the words and hopefully, this time we'll get it better.

George Quinn

I was about to say almost exactly the same thing, James. So on the risk appetite topic, I think we have a pretty healthy risk appetite when you look at what we do. One of the positives, negatives -- well, I think it's a positive. It's not a negative from a CFO perspective is that we are growing the book generally across the board and not in peak risk. The capital consumption under either an internal capital model or SST is quite moderate, but that doesn't make us want to chase, for example, peak risks to try and deploy capital at a faster rate.

So, actually, I think we're quite happy with the way the system works because it ends up with an outcome where the company continues to be very well capitalized. We don't chase esoteric risks in the hope of achieving extraordinary outcomes. We're aiming for consistency, good execution, good delivery and earnings, consistent growth in dividend. So, you're absolutely right on your observations around the capital topic, but actually, I think it's a positive rather than negative.

Maybe one last comment on retention. I mean, you mentioned that it hasn't kept pace with inflation. Again here, this is something where I think it's a positive from our perspective. It's a source of volatility. We've actually been able to bring down retention compared to points in the past, even in a market that was not particularly supportive of retention reductions because of the experience the reinsurers were seeing. And I would take that as a bit of a vote of confidence on the efforts that we've been undertaking to bring down cat exposure. So, I think for me, none of this is accidental. It's all pretty deliberate. It actually reflects our preferences for how the group is run.

Operator

The next question comes from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

The first one is just looking on P&C. It's somewhat going over a question that you gave an answer to a little bit. If there's any additional color you can give at this stage ahead of P&C triangle disclosure, some of the key trends we'd likely to be seeing on the analysis and any quantification to liability movement, perhaps even if that's on a gross basis?

The second one is on how you're thinking about debt leverage here. If there's any further distribution over and above the regular dividend from here, would this likely be needed to be considered with debt action or not? Do you still think there's headroom for higher debt leverage from here?

George Quinn

Yes. Thanks, Will. So on the triangles, I don't think you'll see anything especially different -- anything especially different from what you've seen previously. I mean, probably the slightly more unusual feature in last year's numbers on reserves, I mean, it's been a fairly constant theme of the last several years that as we experienced social inflation, we were booking increases to liability that was being more than offset by the benefits we were getting from workers' comp. The net was positive, but at the same time we were building a stronger reserve position around U.S. liability in particular. You won't see that as strongly last year. If you break apart the movements, the U.S. liability movement is much smaller. I mean, in some quarters, last year we actually had positives on U.S. liability, some negative. The overall is not particularly significant. We continue to see workers' comp benefits.

And the other thing you will see in the triangles is the point I made. I mean, I made it back at Q1. I made it again today. I mean, we have increased ticks on commercial auto. Probably not surprised given the trends in commercial auto in the U.S. On leverage, I mean, you've seen leverage come down over the course of the year. It came down in the quarter because we didn't refinance an instrument that matured at the beginning of Q3. I think we kind of flagged that in advance, so it probably shouldn't be a surprise. I think we've also kind of flagged in advance that we've probably got some refinancing points coming up this year that we might not refinance without tying our hands at this stage.

So, I think when we think about all the corporate finance topics, we always have leverage in mind. I expect to see it to continue to fall. I mean, it hasn't been a challenge for us because, of course, we're currently not paying very much for it and therefore, allowing it to expire without a mature, without refinancing. It's a relatively straightforward thing for us to do. I mean, when we think about leverage and capacity and I know that everyone's got their own favorite metric, whether it's tangible, book, pick a rating agency. What we try and do is to take into account -- I mean, it's probably biased towards the way the rating agencies would think about it. So, we bring in things like pension liabilities, and we use that to make sure that not only do we maintain reasonable debt leverage levels, but we also maintain respectability to the sector. So, we would see ourselves in the range in comparison to our key peers.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

George, echoing peers with best wishes and thanks for all your interaction over the years. First of all, can you come back? The EMEA underwriting experience in the second half of the year, you've been very clear about the optimistic outlook. But I'm still trying to be clearer on the experience you had in the second half in EMEA, because by my numbers, your undiscounted attritional loss ratio deteriorated not just on the first half, but also on the second half last year. And I would kind of assume that there would have been more positive momentum from the rate increases kind of earning through. So, I don't know if I'm missing issues of seasonality or maybe the fact that your cat losses were higher that also affected the attritional loss ratio. But I'm just a bit confused on why the second half EMEA attritional loss ratio was so high. So if you can help me understand that, please.

And then secondly, could you give us a bit more color on the outlook for your Life businesses, please? So again, on Slide 35, where you show the new business CSM, how are you thinking about momentum in those 3 buckets for protection, unit linked and savings? How should we be thinking about growth and the extent to which that comes from volume or margin? And then also when you show your country breakdown, you've been very clear that profits overall should be remaining at the high level you hit last year. How are we thinking in terms of countries; EMEA, Lat Am, Asia Pacific? Are we seeing a similar dynamic there, or could there be any outsized movements in any region?

George Quinn

That sounded like a lot more than 2, but thank you for the good wishes. On the first one, you kind of answered your own question a wee bit. I mean, it's obviously not cat, but there is a weather component that wouldn't meet the definition of cat. So when we talk to the teams, it's not pure loss cost trend in the traditional sense, but there is an attritional impact from the frequency of some of the smaller events that we've seen in the second half. And of course, that has to find its way into pricing, and that's part of what we're dealing with as we go forward. So, we would see that as the key driver.

On outlook for the Life business, I mean, if you look at the drivers, we're slightly unusual in that. We're not quite as CSM dependent as some of the traditional writers because we've got a large PAA or almost P&C light book, which is dominated by the Santander business. If you look at these 2 things, I think new business CSM, I think we've found a good level. I wouldn't expect it to fall back. And in fact, one of our key priorities internally has been to try and find ways to improve the growth characteristics around new business CSM.

I mean, it's not an easy topic to undertake. It's obviously partly impacted by where interest rates are, but we're looking to try and inject a bit more growth into that topic in the future. I think on the PAA side, I wouldn't necessarily see that as something I would expect to continue at quite the same rate. It's been a very strong year. So, I'd expect it to come back a bit from where it is. And then overall, when you look at the operating profit outcome, we've highlighted the fact today that within the $2.1 billion, we would highlight probably only the loss component effects as not particularly sustainable because of course, it can never go negative or positive from an earnings perspective. But with the growth that we'd expect to see overall for Life, which would be in the mid-single digit range, we'd be back at least to where we ended 2023.

From a country breakdown perspective, I'm not sure I would pick out anything in particular. I mean, the dynamics that are driving the business at the moment come from -- I mean, it's a Europe topic, it's a

Latin American topic with a joint venture, and then essentially it becomes an Australia and Japan topic in Asia Pacific. If you look at all these key markets, I mean, I think they're all in good shape. The businesses are progressing well. Maybe Germany has more to offer us as we get more into the Postbank thing with Deutsche. But I don't expect anything to produce significant deviation at this stage. I mean, events can turn out definitely, but we're pretty happy with how we're positioned from a country breakdown perspective.

Operator

The next question comes from Ismael Dabo from Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

Apologies if I'm being a little too specific. But at the Investor Day, you gave a 2025 EPS of about $0.404 for 2025. So basically, with your new updated guidance, should we now be expecting something closer to $0.425? And is this including or not including buybacks?

For my second question, I noticed something a little small in your reinsurance treaties. It looks like you didn't renew U.S. property quota share. Can you talk a little bit about that?

George Quinn

Thank you. So on the first one, you'll forgive me if I don't give an EPS forecast for 2025. So, I think maybe to help everyone get the moving parts, the starting point is $0.321. Of course, we've indicated today that we expect compound annual growth in EPS in excess of 10%. That excess of 10% includes all of what we have announced up to now. So, that also includes the impact from the buyback that we've announced today.

On the property quota share, you're absolutely correct. We did not renew the property quota share. I think we've been pretty straightforward in the past that we had less appetite at the price levels than we saw previously. The market has brought it back to a level that we're far more comfortable with. So, we've non-renewed the U.S. property quota share and you can see that none of our reinsurance attachment points have changed. So, we maintain essentially the same net risk position, but we have more property in the mix from a performance perspective.

Ismael Dabo
Morgan Stanley, Research Division

Great. And George, thank you for your contributions throughout the years and best wishes on your next endeavors.

George Quinn

Thank you.

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. One question I have would be again on the farmers. Now, I mean, we saw the -- I think it's Slide 58. We saw already the 91% in the November presentation, and the 89% is sort of a good outcome, of course, to be congratulated. But it's more the nat cats that has really changed the picture, isn't it? So is that something that you would say was really that much of a difference from active underwriting? Or was it just some bit of luck helped here as well? So just trying to understand, because otherwise, the turnaround, of course, has been fast, but hasn't been a huge surprise because it was meant to be. 94% became 91% and then 89%. So that's on farmers.

And secondly, on Life. On Life, I'm just curious about what will drive growth of earnings from here now?

Mario Greco
Group CEO

Let me send you a doctor.

George Quinn

I hope you're okay. So on farmers -- so first of all, I mean, you're absolutely right that there's a cat component that's driving the Q4 number. But I don't think we've ever been able to claim that when the result was negative because of cats, that we had no responsibility, or rather the exchange had no responsibility for it. I mean, we've transparently given the fairly detailed movements around the ex cat accident year, and you can see it improving, improves further towards the end of last year. And I think from our perspective, when you can see in Mario's introduction, also in all of our communications that, I mean, we're really pleased with the work and particularly the outcomes that Raul and the team have achieved at exchanges. And if you compare it to where we were, say, I don't know, last October, I would argue that where we are today probably is a surprise to many people, maybe not to Raul, but to certainly many people. So, we think it's ahead of schedule. We're happy with where they are.

Mario Greco
Group CEO

And there is a piece of cost improvements, which still has to be seen in the numbers, the reduction in the commissions, while the cost cuts that have been taken at the farmer structure are already in the numbers of end of year, the renegotiation, the commissions hasn't yet taken effect. And so this will be a further improvement starting with this first quarter of this year.

George Quinn

On the second topic on Life, I think my answer would probably be similar to the response I gave well earlier. I think the sources of growth that you've seen in the course of 2023 are likely to be the biggest generators of growth in 2024. Again, you look at the key markets. For us, I mean, the business is growing in Japan, growing in Australia. The joint venture with Santander continues to fire on all cylinders. And our European businesses, it's been tougher here because of the interest rate environment. But again, if you go back to the presentation, some of you may remember it from our German CEO, Carsten, at the investor update in November. I think, again, there you see insights into the broader change that he's trying to execute in the business in general and the positive impact that has not only on the people who work here, but on distribution and ultimately on customers. So, I think overall Life growth will continue to come from the same sources because essentially we have the same risk appetite as we had before.

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

All right. Sorry, I got hit by some weather myself, but all the best, George.

George Quinn

Thanks very much, Vinit.

Operator

We have a follow-up question from Andrew Sinclair from Bank of America.

Andrew Sinclair
BofA Securities, Research Division

Just first wanted to continue on Life a little bit more. Actually, I was just looking at some of the Q4 figures you had in a slide pack today. I think on Slide 11, it was a really big jump on the investment contracts, fee revenue in Q4. I was probably a little bit surprised by that. I didn't think markets were quite that good in

Q4. And likewise, just if I look at the protection figures, they also really jumped in Q4. Just really, what led to that jump, specifically in Q4 in each of those lines?

And then finally -- sorry, George, probably just finished on a technical question. You've put a few comments and pieces of guidance in the pack in terms of discounting and unwind and fee and all that sort of thing in the pack. Just really wondered if you can talk through that guidance a little bit, please?

George Quinn

Thanks, Andy. So, Life, Q4, I mean, there aren't too many things I would pick out. I think, first of all, from a fee perspective, I mean, we have a relatively unusual fee business. I mean, it's grown out in some of our key European markets of our need or desire from a regulatory perspective to reduce property exposure over the last 7 years or 8 years. That's a business that continues to find quite a bit of traction in the, I guess I would call it the qualified institutional market, and that's part of what drives some of the growth that you see here. I think the thing I would highlight, though, if you look in particular, in protection, the Australian business did some repricing towards the end of last year. That's had a significant positive impact on that business.

So if you look at the performance of Australia over the course of last year, in particular, I think it was the TPD business had produced poorer performance earlier in the year and the [aim] repriced them. It's one of the benefits that we have in the Australian market. Assuming that we reprice the entire portfolio, we can reprice, which, of course is not a feature that we find in too many other markets. I think on outlook, I mean, I'm not going to go through all of the different outlook topics because I'd probably bore you to death, I mean, given you've probably read most of it already.

I mean, if you look at the key businesses, we've given indications around top line for P&C, so we've indicated mid-single digits. So, I'd say that's a point of strong confidence for us, given where we are at the moment. And in particular, if you look at our track record of delivery around top line guidance on P&C. From an underwriting perspective, I touched already on kind of what the commercial dynamics are likely to be. I mean, retail will be a bit different. Again, I think if you make an assumption about a trajectory that takes us back to the first half '22 by '25, as Mario highlighted earlier, that will give you a sense of kind of where the retail side of that is going to go.

Andrew Sinclair
BofA Securities, Research Division

Sorry, George, just to save you going through all the guidance, I was really just looking for the guidance around discounting and unwind of financial expenses.

George Quinn

Yes. All right. I'm glad you stopped me because I would have gone on for a while. So on unwind, I probably can't give you much better guidance that you can see on that slide in the deck. That's a slide we used already at the half year. It gives you a sense of, I mean, how quickly the reinvestment rate, or its equivalent on the unwinded discount feeds into the discount rate. I mean, the challenge on that has been because of the transition starting point, with some markets still in negative rate. The dynamics and the sensitivities are quite hard to lay out clearly. But after another year or so of this, that will be completely gone. And then you'll see a fairly somewhat linear response to the reinvestment rate versus book rate, given the almost 5-year duration on P&C.

I think the only other thing I want to highlight is that -- and I know that everyone looks at this differently, but there's a preoccupation about the impact of higher discount rates, the higher unwind. But, of course, that also reflects a higher investment return opportunity at the same time. And we're not trading that away as part of our P&C business at the moment. So, I think as you think about unwind, you would expect investment income to at least offset in almost all cases, the impact of higher unwind.

Operator

The last question for today's call is a follow up from Michael Huttner from Berenberg.

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

Fantastic. It was on the capital generation. Your peers have a ratio in solvency. I know it's SST. So, it's more complicated, but I worked out the figure was 29%, the $5.1 billion minus the SCR, the increase in required capital. Is that about right? And can you give a feel for how come these numbers are so huge? In the past, I think we've been used to more like 20%.

George Quinn

I think your number is almost completely right. I think it may be slightly smaller than the number I would have in mind. So, that might be just in 30s compared to 29%, but it's close enough. And why is the number so large compared to what I guess it was in the past? I don't know the answer to that, Michael. Obviously, it reflects the economic profits. But I don't have an answer immediately for you on kind of how we got from where we were to where we are.

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

It's good enough. More is always good.

Operator

Gentlemen, that was the last question. Back over to you for closing comments.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Yes. Thank you very much for dialing in. If anyone has any follow-up questions, 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.