S&P Capital IQ

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Zurich Insurance Group AG SWX:ZURN

FQ1 2016 Earnings Call Transcripts

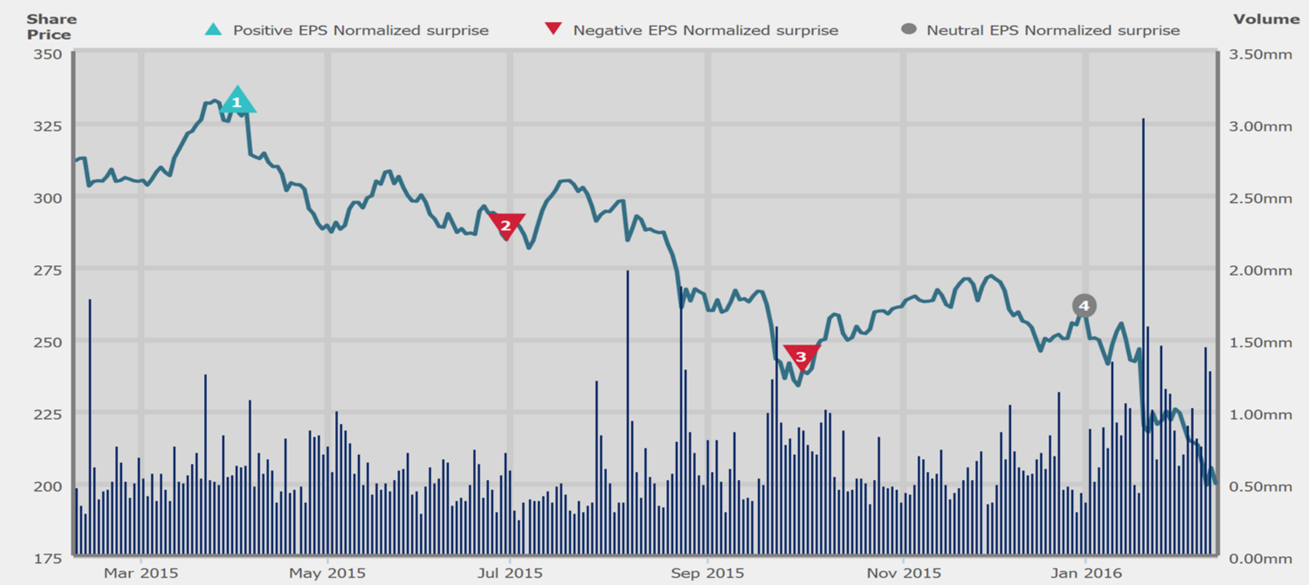
Thursday, May 12, 2016 11:00 AM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.41	5.81	▲7.39	7.36	22.35	23.79
Revenue (mm)	-	-	-	-	49004.64	50422.89

Currency: CHF
Consensus as of May-12-2016 10:39 AM GMT

Stock Price [CHF] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	6.62	7.75	▲1 17.07 %
FQ2 2015	8.00	5.27	▼2 (34.12 %)
FQ3 2015	1.88	1.37	▼3 (27.13 %)
FQ4 2015	2.76	(2.71)	NM

Call Participants

EXECUTIVES

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Gianni Vitale

Mario Greco
Chief Executive Officer

ANALYSTS

Andrew Hughes
Macquarie Research

Andrew James Ritchie
Autonomous Research LLP

Dhruv Gahlaut
HSBC, Research Division

Farooq Hanif
Citigroup Inc, Research Division

James Austin Shuck
UBS Investment Bank, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

Nick Holmes
Societe Generale Cross Asset Research

Paul De'Ath
RBC Capital Markets, LLC, Research Division

Ralph Hebgen
Keefe, Bruyette & Woods Limited, Research Division

Rene Locher
MainFirst Bank AG, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Vinit Malhotra

Presentation

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to the conference call on the results for the 3 months to March 31, 2016. I am Cher, the Chorus Call operator. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Gianni Vitale, Senior Investor Relations Officer. Please go ahead, sir.

Gianni Vitale

Good morning and good afternoon, and welcome to Zurich Insurance Group's Q1 Results Analyst Call. On the call are our CEO, Mario Greco; and our Group CFO, George Quinn.

Mario will make a few comments, and then we will go -- then we will take your questions. [Operator Instructions]

With that, I will now hand over to Mario.

Mario Greco
Chief Executive Officer

Thank you, Gianni. Good afternoon, ladies and gentlemen. Thank you for joining us.

And I'm here, as you expect, with George Quinn, our group CFO. And before we start answering your questions, I'd like to have a few words about my priorities for the remainder of the year.

As you know, while I've worked with Zurich in the past, I started CEO only March. My first priority has been to develop a deeper understanding of challenges and opportunities for the company and to identify the best way forward to help it achieve its full potential. This is an ongoing process involving discussions with key business leaders, with employees, with brokers, with customers. What I can say today is that the group is fundamentally sound. Reserves are adequate. Capital is strong. And the brand is very strong. That gives us a very firm foundation on which to build over the next months and years.

My second priority has been to build confidence in Zurich. Confidence is vital to our success. And it can only be achieved through transparency, through clear communication and by delivering on the group's strategic objectives. Today's results are a step in the right direction. And they provide the early evidence that the measures that we started last year are improving the performance of General Insurance and also the continued progress in Global Life and on Farmers is visible and is supporting the group results. We expect to see further improvements during the year, particularly in the second half. And our capital position, as I said, is very strong still today.

My third priority is to position Zurich for the future. And it begins with shaping a clear and simple group strategy for the next years and a strategy that will differentiate us among our competitors in the eyes of the customers. As you know, we will present this strategy to you at our Investor Day on November 17. Until then, we will continue to provide you with as much transparency as we can into the ongoing execution of our strategy. And of course, we would take measures between today and November. Thank you very much for listening. And now over to you, and George and I will be glad to answer your questions.

Question and Answer

Operator

[Operator Instructions] The first question is from Dhruv Gahlaut, HSBC.

Dhruv Gahlaut
HSBC, Research Division

Firstly, in terms of PID -- sorry, PYD. You've had a favorable result this quarter. Still I think there was a negative movement in the international and the other business. Could you give us further details where this is coming from? Secondly, in terms of your costs, I thought you were expecting $500-odd million this year. Any changes to the overall number of $1 billion, or are we still shooting for that this year?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Thanks, Dhruv. It's George. So first of all, on the PYD, I mean, you're right. The overall impact for the quarter is 1.5% positive. There's a negative impact, I mean. I think, because of the way we've added it together, it appears to be in IM, but it's not. It's actually in the group piece of the reserve development. And essentially, what's happened there is the original -- the initial proposals from the units was actually for a stronger PYD outcome. And we decided to strengthen other reserves elsewhere, so the group Re components, in the quarter. So I mean that's why you see that negative impact in the chart in the appendix. On the reorganization, I mean, the guidance that we gave at the full year around costs for this year and next year, we haven't changed. The process continues. Under Mario's leadership, we're looking again at efficiency in expenses. I mean it's an increased focus area for us. We've made the comment several times today that being competitive and being more efficient and in fact creating more room to invest for the future is absolutely crucial for us, but there's no change to the guidance that we gave on the amount or the particulars at this point.

Dhruv Gahlaut
HSBC, Research Division

Sorry. Can I just follow up on the first point? So I -- is -- are you guys saying that it's more of a cautious approach in terms of the way you've added reserves this time and it could actually be that you -- as in this could get released in a few quarters?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I mean it's a small number, so we're [indiscernible]. So I mean it's probably more prudent to be [indiscernible].

Operator

The next question is from Nadine van der Meulen, Morgan Stanley.

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

A brief question. Well, first of all, can you give a general comment on the reserve positions? Are you comfortable with the reserve levels in both the U.S. and Europe? And perhaps, you can, yes, comment on that in a bit more detail. And secondly, the Z-ECM quarter-to-date, if you could provide an update on that. And if not, I believe [ph], sorry, that was, I think, 110%, yes. And on top line, so premiums in life sales were down. Can you comment on top line pressure going forward?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So first one, general comment on reserve position on Europe and EMEA. I mean we are -- sorry, Europe and the U.S. I mean we are comfortable with the reserving position on both. They both contribute in relatively modest positives to the overall positive PYD you've seen for the quarter. I think most of the discussion we've had so far or we've had is probably focused on the U.S. position. And maybe just a couple of quick comments on that: I mean, if you look at our U.S. book, I mean, we have a reasonably large proportion of liability, which is not uncommon for a mid-market commercial player. Within that, we have workers' comp, auto liability and general liability. If you look at the issues we faced certainly last year, they've been focused on the auto liability line. If you look at the other components of the book, I mean, they've actually performed pretty strongly for us over a fairly long period now. If you look at our workers' comp book in particular, which is about 25% of the book by written premium, I mean, we believe, if we do a peer comparison for, I mean, the, for example, IBNR as a percentage of the incurred or look at the implied 10-year to ultimate ratios, we're generally more conservative than the peer group. And in fact, if we move to peer group or even industry relative reserve, I mean, that would imply a reasonably significant release from where we currently stand for the U.S. So overall, I mean, we feel comfortable with the reserve position that we have for the group and for our major units. On Z-ECM, I mean I don't have an date for the quarter, Nadine. The -- we've given a figure for the quarter-end of a midpoint of the range. That compared to the figure that we had at the end of the year of 121%. It's come down through a combination of the on-boarding or the completion of the RCIS acquisition and the impact of financial markets in Q1. And that's principally interest rates rather than equity market spreads. If I look at interest rates, I mean, the curve hasn't changed much since the end of the quarter, so I'd be surprised if there have been a significant move. On top line, I think your comment was life. Is that right, or was it GI?

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

On both, I suppose. Well, on GI, I suppose it's expected, as expected, that those premiums are coming down. But yes, on life then particularly, yes.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Yes, okay. So there's one comment on GI. I mean I think, as you point out, I mean, I think we're just about exactly where we guided people to expect us to be. I mean, given the focus that we have on profitability for GI, it's inevitable but just given the portfolio adjustments we're making that we would give up some of the lower-performing parts of the portfolio. And we'd expected to see a roughly mid-single-digit decline in premium volume, and that's what we have today. On GL, I mean GL is a bit harder to judge. I mean APE is a relatively blunt measure of volume. We could easily be impacted by the timing of, for example, some of the larger CLP, so the Corporate Life & Pensions, transactions. From a new business value perspective, I mean, the year has started very well both from mix and from model change. And I mean we don't see an issue on the top line. If you break it up into the various parts, I mean, we see strong performance in Latin America. The joint venture has grown at local currency 29% in the quarter. I mean that won't continue, but it's a very strong result, I mean. And in general, we have small offsets elsewhere in the portfolio, but I mean the growth look -- outlook for us, we expect to see growth from the life business through the course of the year. Mario?

Mario Greco
Chief Executive Officer

Can I add a comment? This is Mario speaking, Nadine. Can I add a comment on growth, especially in GI? I think one of the most important corrections that were taken at the end of last year, and I'm fully supportive of that, was abandoning the -- a strategy called the malfi [ph], which was a growth strategy, and go back to the older principle of underwriting discipline and underwriting focus. And so you underwrite for profits. You don't underwrite for size, for premiums. This is what we're doing in that -- from that side. We will keep on doing that, and the growth will just be a consequence of it. And if it is negative, be it. And there is no way in which we can solve an expense ratio issue by growing the size. If the expense ratio worsens, we would take more actions on costs, but we will not delegate it to underwriting discipline.

Operator

The next question is from Paul De'Ath, RBC.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

Just first question is really a follow-up to, I think, Mario's comment, so on the expense ratio and the sort of the correlation to the, I guess, expense efficiency programs that you're running at the moment. I think previously you've guided to the fact that the expense ratio should kind of remain flat despite the pickoff coming down because of the -- of again the top line also shrinking. Is that still the best way to think about it going forward, that you're sort of effectively going to keep that expense ratio at the level it is at the moment? And that's the first question. And then secondly, it was just a question on Farmers and Farmers Re. Can you just remind me the current state of play in terms of the quota share position? I think it's been coming down recently. Is there a scope for it to come down further? Or are you now at a point where that isn't going to move around too much going forward?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the efficiency program, first of all, Paul. So the guidance that we gave was for this year. So the expectation was that, given the combination of the cost cuts that we were making and the level of the impact on the top line, you'll see the expense ratio year-over-year be broadly flat. That shouldn't be taken as a sign of the ambition that the group has for the cost ratio. I mean it will have to come down further for us to be competitive, but the guidance was really for '16. On Farmers, so the quota share has -- as you pointed, has come down significantly in the course of the last 2 years. The All Lines Quota Share, I think, has come down from something like 18% and 14% to 10% last year, to 8% this year. I think we've been relatively clear that from a longer-term perspective we don't intend to be a reinsurer, so over time, depending on the Exchanges' needs and the ways in which we can support them, I mean, likely that number comes down further. I mean, one additional point, there was also an Auto Physical Damage treaty in place, also a quota share, that was entirely terminated at the end of last year. I mean it's one of the things that obviously helped us avoid some of the more negative impacts of the Texas hailstorms on the Exchanges in Q1.

Operator

The next question is from James Shuck, UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I had 2 questions for you, please. Firstly, on the General Insurance investment income in the quarter. It was plus 8% quarter-on-quarter. I think, in the notes, you referred to the inflation-linked bonds in Latin America which is driving that. Can you just shed a little bit more light on what's happening to the running yield and what your expectation is for investment income going forward? I'm surprised that LatAm inflation-linked bonds is a material contributor to total group General Insurance investment income. Secondly, Mario, I'm just interested to get your thoughts around the organizational structure of the group. It strikes me that at a group level you have the reporting, which is along the lines of Global Life and GI, whereas at the country level the individual units are run very much at a country level. And there may be some disjointing features as a result of that, so just interested to get your views on that. And just very quickly, if you're able to shed any light on if you have any exposures to the Canadian fires, please, that would be helpful.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Okay, so James, I'll start with the first one. So I mean you're right. I mean, ordinarily, you wouldn't see the Latin American business having significant impact, I mean, but given the size of interest rates there and the inflation moves, it does pick up a bit in Q1. Maybe to give you a sense of the overall, though, which I think is more meaningful: I mean the overall accounting yield for GI is slightly over 2.6 [ph] in Q1. And that's slightly up, I mean very slightly up, from the full year last year. And the portfolio, I mean, the turnover is roughly at 2.2 [ph], so again we have about a 40 basis point gap between the book and the new money yield in GI currently. So if things stay, we will see some further erosion on the GI token [ph].

Mario Greco
Chief Executive Officer

Yes, on your question -- this is Mario. On your question on organization, of course, I'm looking at that. Zurich is world famous for a complex organization, for having a metrics triple or even 4 layers of metrics, so I'm concerned about that. I'm looking into it. And I am also discussing with the board and with the colleagues ways to simplify and streamline the organization, but when we will have a decision taken, of course, we will communicate. And then you will know it, but I definitely have in mind that the organization has to be simple and has to promote accountability and ownership of results.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On the wild fire topic, James. I mean I don't have something for you today. Obviously, it's a too early a stage yet for us to have enough information from either reported claims or even -- I mean given the limited or in fact no access to the area, for us to survey and reach a conclusion. So I mean, at this point, I don't have something I can share you -- with you on the Canadian wildfires.

James Austin Shuck
UBS Investment Bank, Research Division

Could you just remind me what your market share is in Canada? And I presume you have a 275 million [ph] retention. Is that right?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Yes, so the global cat program kicks in at 275 [ph]. I mean obviously we have more reinsurance beneath that; now that depending on the size of the individual payer risk, events can kick in and attach. I think -- for Commercial, I think, I mean, our share overall is about 4% for Canada, so relatively modest.

Operator

The next question is from Thomas Seidl, Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

First question, on reserves again. I hear you're feeling confident on the U.S. reserve, particularly workers' comp. And when you look at the U.S. reserve triangles [ph] now half of your vintages are trending upwards, so you show a negative development. And now the workers' comp in particular in the recent year show a much more negative development in the markets. I wonder what data you could or other evidence you could give us to join you in the comfort about the U.S. reserve side. That's the first question. Second question, you had rate increases, 2.5% across the portfolio, in exchange for the 5% drop in top line. How does this compare to claims inflations? Or how is the net benefit you see from this rate change? And the third question, expenses. Admin seems to be fairly stable. However, commissions is trending up. Is this something you expect to continue, or are we stopping at the 14.7% we have right now?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So I'll start with the U.S. reserve topic. So I guess, to begin with, I mean, everyone is very familiar with what we reported last year. And from a reserve perspective, I mean, I guess that's almost entirely a U.S. issue. If you look at the 2 key themes, commercial auto and the construction book that we've talked about before, I mean they're the 2 largest drivers. Secondary impact is a small, relatively small, sub-line of workers' comp, which is the Defense Base Act business that we exited in 2014. I think if you look at workers' comp in particular, even West DBA, the Defense Base Act business, and we have positive runoff on workers' comp, I will repeat the comments, I think, I made in response to Nadine's question earlier. I mean we have gone back to study how we compare to the industry in general, particularly on workers' comp, with particular reference to the quality of the book, the mix of business that we have. So the -- for example, the extent to which we're rating guaranteed costs versus high deductible; the extent to which paid claims, with granularity about the quality of what we rate versus the peers; and then looking at the actual reserving position both from an IBNR standpoint and particular from a, as I mentioned earlier, 10-year to ultimate tail factor. I mean what that reveals to us will be the following. One is they're a mix of business. Guaranteed cost versus high deductible is not significantly different to the peer group. Our paids are not significantly different to the peer group, but we are more highly reserved. So if you use that measure of IBNR or you look at those tail factors. And in fact, again if we were to change the tail factor or adjust the IBNR party to one that was either in line with the peer group or in line with the industry overall, that would imply a significant release in the reserves for workers' comp. Now obviously we're not proposing that. We believe that the reserve position that we hold is appropriate given the risks that we run, but I mean I think fundamentally, Thomas, our view of this is different from yours. On rate increase, I mean you -- I think we tried to give a bit more information in the quarter, I mean, more than just about the rate increase that we've benefited from but also a sense of how that rate increase impacts the different tiers of our business. And of course, that's a very important indicator from, I mean, a forward-looking perspective. And you see in there that we see a combination of rate increase by the different tiers. You see retention rates. I mean I guess, in common with the market, our best clients are achieving small discounts, which simply reflects a relatively soft market environment; and abroad, very competitive market conditions. I mean that would imply for me that, I mean, not only it's in some areas slightly negative, but allowing for lowest cost inflation and margins are definitely softening overall for the businesses that we're in. But if you focus on, I mean, where we're tackling the issues: So I guess we talked before at the year-end around the lower-performing tiers being the key areas of focus. And there you can see that we're achieving significant multiples of the overall stated increase for GI, albeit at a cost of lower retention, but again I think, I mean, that combination is to be entirely expected. On the commissions side, I mean, we have a very small impact from the impacts of the mass consumer stuff we're doing in Latin America. We have a true-up on commissions in our trough business in the U.S., and that has a slightly negative impact in the quarter, but at this stage, I'm not aware of anything that would drive the acquisition element of the expense ratio either up or down, assuming the business mix stays relatively consistent throughout the remainder of the year.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

And the rate, the 2.5%, how does it compare to underlying claims inflation? Would you say 1%, 1.5% claims inflation right now?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So I don't have a precise number. I mean, for me, the -- I mean the net sum for the market overall is clearly slightly negative. I mean, obviously, we're achieving more than the market because of what we're doing on the portfolio and risk selection. I mean I wouldn't disagree with the number you gave, but I don't have a precise figure for you.

Operator

The next question is from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I guess I wanted to really understand a bit more about the benefits from change reinsurance, as they might accrue over the year. I think Q1 this year still included quite high large losses, at least 1 point higher than last year. Maybe just remind us what you've put in place for large losses in terms of aggregate reinsurance protection. I'm not talking natural catastrophe. I'm talking underlying kind of large losses. Just some reminder of the fact that we started Q1 last year quite strongly, and then we know what happened in the rest of the year. Can you just remind us what the arrangement was there? Also, are there any other reinsurance benefits in terms of the attritional level? If you've ceded on quota shares and some quite high-loss-ratio business, for example, are there some earn-throughs to occur there? Second, quick question: Your friends at the road produced a comprehensive walk-through from SST to Solvency II. I see you saved money by not doing the same thing, but can you just give us, directionally, would you kind of the -- I'm sure you've looked at it. Is there any sort of directional sense for you in terms of SST to Solvency II, and any measure of quantum? You have in the past sort of about 70 percentage points with some of the subsidiaries. Is that roughly still the right number?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Thanks, Andrew. So first of all, on the reinsurance side, I mean, you took the remainder of the aggregate cover we have in place. So as of January 1, we have an accident year cover at payer risk franchise [ph] is 50 million. Deductible is 300, and cover is 300. I mean I won't give you a precise update on where that stands after 1 quarter, but we have used a bit more than 1 quarter of the cover in terms of how much has been ceded to the deductible...

Andrew James Ritchie
Autonomous Research LLP

So you've used a bit more than 1 quarter of the deductible, not -- you haven't used the cover yet.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

No, [indiscernible] deductible. The -- on top of that, maybe just to give a touch more color, I mean, we've obviously added a number of new reinsurance programs, I mean, beneath that cover. So we have quota share in a number of places that were designed to bring the length size down more rapidly than we could do otherwise. And I mean I hesitate to take one example and turn it into some like a giant projection of the future, but then just to give you a sense, not only the -- I think, the potential benefit of what we've done on reinsurance but also the benefit of what Kristof and the team have done around underwriting. So I mean we have -- one of our larger losses in one of the components of like General Insurance is a net $35 million loss. If that had happened on the last day of last year, it would be a $50 million loss. If it happened on a contract that we had written starting this year, it would be a $15 million loss. So I mean we want to get all the execution absolutely perfect the first time at the gate across all of this. And I mean we will be impacted by the seasonality of, I mean, the different risked than we run, but I mean we're doing everything we can to avoid the pattern that you saw last year. And there's no reason for me to believe that, that's a likely pattern for us to repeat this year. And in fact, I mean, if you look at the aggregate cover in particular, I mean to the extent that we continued to see significant large loss activity, I mean we have 1 point more than Q1 last year, 1 point less than the year overall, so we see some improvement certainly versus the second half of last year, but we still expect there's more to come. But if we do have the same experience, we'll see significant benefits from the aggregate in the second half. I hope not.

Andrew James Ritchie
Autonomous Research LLP

And is there any benefit at the attritional level from the quota shares? I mean I don't know if you've quota shared some casualty business or something like that. Is -- does that come through?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I mean there may be a very, very small fractional benefit on the cedes, ceding commission, but I mean, if it would be immaterial, I would isolate it [indiscernible], but I mean it's not. On the topic of my friends at the roads, I mean you're right. So we haven't done the same thing. The figure that you referred to was sort of 70 point was our estimate of what we were seeing from an SST perspective versus what was typically standard model for most of the local businesses that we have in Europe. So from an overall internal model perspective, I think it would be a bit less, but there's certainly a significant difference between an SST solvency ratio and a Solvency II one. An SST is considerably more conservative, but I mean I couldn't give you more than we gave you last year at this stage.

Operator

The next question is from Farooq Hanif, Citigroup.

Farooq Hanif
Citigroup Inc, Research Division

Just on your 5% reduction in local currency, the GI top line. Is there anything that could have accelerated that, I mean, in terms of seasonality of renewables or further actions that you're taking on pricing later in the year? That's question one. And secondly, in the life business, I mean, you already alluded to LatAm being exceptionally strong in the quarter and not to be repeated. Could you explain that? But also I mean Asia Pac and LatAm both looked particularly strong, so I just wanted to get a sense of what become nonrecurring elements of that and what's driving it.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the 5-point reduction and, I mean, risks, I mean, I'd refer you, I mean, both to what Mario said in his response earlier and something that Kristof said at the year-end. I mean profitability is what matters mostly, yes. We'll drive the allocation of capital based on the profitability of the risks that are presented to us. We try to make a reasonable estimate what we think the impact of that would be on the portfolio overall, and at this stage, we see no reason to vary that estimate. Profitability comes first. So if we had to drive it harder, we would, but at this stage, we don't expect to see that. On LatAm, I mean I wasn't trying to talk LatAm down or to give you the impression it was one-off. I mean I think it's -- I mean it's just the strength of the business in Latin America given the local economy and the challenges that some of the countries have there. I think it's a surprising positive. I think we've said for some time now that we think that the growth rates that the joint venture has been achieving, I mean, at some point will not continue at that same very high level. And that's really -- I'm really trying to reiterate the same point. So there's no element that is nonrecurring, but just given the challenging environment, it's very hard for me to imagine that they can sustain this kind of growth rate. They can still grow, just not at 29% every single quarter.

Farooq Hanif
Citigroup Inc, Research Division

And sorry. Just I know I've used up my 2 questions, but just on LatAm and nonlife, I mean that just looks materially better than a lot of other companies reporting. Your mix is different. Your product is different, distribution different, but still, I mean, are you sort of happy now in the kind of -- in the 90s in combined ratio, that this will be repeated?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So the -- I think, on the...

Farooq Hanif
Citigroup Inc, Research Division

I won't hold you to it, don't worry, so yes.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I think, on the LatAm side, I mean, I think the team that we've had in position -- I mean, as you know, we changed, I mean, most of the management down there over the course of the last 12 to 18 months. We've got a stable team now down there from about '12. I think the steps that they're taking have had an appreciable impact on the result. I think, I mean, I'm not sure it will immediately continue at the levels you've seen. I think it will probably edge up again as we get through the year, but I mean, if you look at -- if we pick out our largest business there, I think it produced a loss in excess of $200 million last year. I mean we expect to see something more like breakeven this year but, I mean, not a low- to mid-90 combined ratios. So we have almost certainly some nonrecurring elements in the results that you've seen here.

Operator

The next question is from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

My peers are very good. Or you're very good. Most of my questions have been answered, but maybe in a bit of detail, can you -- on the tiering, can you explain a little bit the benefit which is yet to come from the accidents that you detailed on that nice slide? I'm thinking that obviously not all the price would have been earned through and maybe not all the cancellations, so maybe you can give some insight in that. I think that maybe we could do it, but -- well, no. I'm sure we can. We'd need the combined ratios for each tier. And then on a separate topic -- and here I'm just -- it's a stab in the dark really. The -- I had it in mind, but I may be completely wrong, that you had a plan or an idea to improve cash flow by reallocating capital. That might have involved some disposals. I can't remember what disposals you did make year-to-date, but if you did, could you maybe give an indication of how much they add to cash flow or something; and maybe, if you're considering more?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Okay, thank you, Michael. So the -- on the tiering topic and the impact to come. So I mean the figure that we've been discussing from a volume perspective is GWP. So the cancellations are in the GWP already. Obviously, the bulk number we're talking about is the end number, so the largest part of the benefit from a rate perspective is not in the bulk at this point. I think the -- I mean, apart from the, I mean, the obvious P&L benefit of the rate increasing in excess of the loss cost inflation, if you look at the Tier 4 element, I mean, that is really only partly about rates. I mean it's really probably more about risk selection than picking the risks that we feel we want to rate and offers the -- I mean not just a rate-risk reward, but we have the right understanding, the right information and the confidence in the loss control. So the -- I think there's a mathematical element that -- I mean I think I haven't tried to do it here. I mean obviously I can see our own internal forecasts. I think there probably is enough information to make a reasonable stab at it. The thing that you probably can do, and it's very hard for me to guide you on, is the benefit of that risk selection. Of course, that's really important when it comes to the large loss topic that I covered in the earlier discussion or the earlier question from Andrew. So cancellations, and most of the benefits from tiering from a P&L perspective are yet to come. On the cash flow, I mean the disposal -- so let me start from the beginning. So I mean you've heard it so often you're probably bored by it. I mean we're focusing the...

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Never, never, never. It's worth a lot of money.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So we're focusing on the retail footprint. And the aim there is to, I mean, simplify, the network can really focus our capital in areas where we believe we can achieve the scale that, I mean, retail really needs than -- other than if you're in a niche position. We don't have that many niche positions. It was actually nothing to do with cash flow. I mean it was a capital reallocation play, but it's not really to do with cash flow. The things you've seen so far, I mean, since the -- I mean I think you've heard on most of them already. So we've talked about the Middle East runoff topic. I mean we are active on a number of fronts currently. I do expect to have more to say on this on due course. I think, just to continue on expectations about here, I mean I think the -- I mean we have a program of disposals that would tackles about 10% of the underperforming capital. So I mean it would certainly take a significant step in the right direction, but there's much more to do to drive a much more attractive return on the bulk of that allocated capital, I mean, but you will hear more from us on this in due course.

Operator

The next question is from Andy Hughes, Macquarie.

Andrew Hughes
Macquarie Research

It's Andy Hughes from Macquarie. A couple of questions, if I could. The first one was on Slide 7, when I look at the different tiers. It kind of looks from both the charts, and look at the total, that Tier 4 is quite small. And otherwise, you couldn't get to the average of 81%; and the average, the 2.5%. Is that a fair comment? And I guess the second question was about the OOB stuff. And so I'm struggling a bit because obviously the OOB result was quite low in this quarter. And I know you're guiding towards increased marketing spend in further quarters, but also you're saying that you've retired a lot of expensive debt that would go through that line as well. So I'm struggling to see how you're going to get to $800 million for the full year. Is there anything I'm missing there?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On Tier 4, I mean, it's I -- we haven't quantified Tier 4. I mean Tier 4 is not that small. And in fact, if you look at Tier 4 from a contribution to loss perspective for last year, it's not small at all. It's actually very significant. And then that's -- I mean that's the key driver by the change that you're seeing here. I mean again, maybe just to emphasize again something I said earlier: It's only partly about rates. I mean, if anything, this is far more about risk selection. So I mean I wouldn't necessarily draw conclusions about the absolute volume, the absolute rate and that being the key driver here. I mean it's really about trying to select things that we believe we have a good handle on. On OOB, also we have a relatively low number for the quarter. We have an FX benefit in there that tends to -- that will be one-off in nature and therefore creates a lower-than-expected run rate. And we will have a modest increase on the marketing side before we get to the very end of the year. I mean, if you ask me today, I mean I think we're more likely to beat the $800 million than to land at $800 million, but we got more work to do to make sure that we can do that. But I certainly don't expect we're going to miss that number.

Andrew Hughes
Macquarie Research

Just to follow up on those Tier 4 side. So I was just curious how big it was in terms of proportion of the book because I was just looking at the charts. You can see that two of them are only -- it's easy to scale the two, Tier 1 and Tier 2, earning slightly above the 81%. And the Tier 4 has got a much lower retention. So I mean that was -- did -- it's not like a 1/4 of the premium income or anything.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

No, I understood the question, and I deliberately avoided answering it. If you can -- I think this will be more helpful. I mean, if you look -- I mean it's obviously not 1/4. I mean it's not 10% either. I mean this is -- it's a significant part of the overall portfolio. I don't think the absolute number, because of the comments I made earlier around the risk relation wasn't actually that important.

Operator

The next question is from Nick Holmes, Société Générale.

Nick Holmes
Societe Generale Cross Asset Research

First question is for Mario. I know it's early days, but I wondered, are you thinking -- or can you share with us any initial thoughts about business mix changes like, for example, moving more into personal lines, getting away perhaps from the commercial line focus? Second question, more for George, is you've obviously got quite big premium reductions in global Corporate and NAC. And I just wondered, do you expect those to continue? And how concerned are you that this is going to eat into the expense ratio this year? I mean I know you said that the expense ratio should be flat, but if this continues, that's going to be quite a difficult thing to manage.

Mario Greco
Chief Executive Officer

Nick, this is Mario here. Of course, you understand that it's very early days to talk about business mix. And this will be a big part of the thoughts on the new strategy and the new targets for November. But you ask me what are my early thoughts on it. So I do think that having a bigger share of retail SME business will be helpful. The question is more how to do it than how to achieve it, and it goes back to also the way we're organized and the way we pursue our targets. And so I'm keen to find ways to grow more the SMEs in the retail component in our books, but I'm not yet there. We're -- have planned programs, and I can discuss them with any of you.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Nick, on the second point, of the premium reductions. So I mean, so far, I mean, we've seen a reduction on the top line, which is in line with our expectation and what we'd indicated to you previously. I mean it won't stop immediately in Q2, nor do we expect that to continue indefinitely either. I mean, once we get the portfolio to the position that we are seeking to achieve, I mean, you should see the normal influence on top line that you'd expect to see in the business. From an expense ratio perspective, again the -- I mean the clear guidance to the business and the clear ambitions of the business is around profitability. So to the extent to which some of the volume reduction creates a challenge for expenses, as Mario said earlier and as Kristof has also said before, if that becomes an issue we'll go back and tackle it when it arises, but the immediate focus is on profitability. Within the different units, I mean, you've picked out global Corporate and NAC. I mean, obviously global Corporate in particular, especially in North America, was a large part of the challenge last year. And therefore, I think you would naturally expect that, that will be one of the areas where you will see a larger proportional decline than you would for the group overall.

Operator

The next question is from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Just 2 small questions. The first one, again on the reserving side. Can you maybe specify again on the reserving process? Did you do -- all the external reviews you have done, is that all done? Or are there more reviews to come later on from an external point of view? What's slated to just go to the normal end-of-year process on the reserving? The second one is on duration gap. Is there any change here, or is that roughly unchanged from end of the year?

Mario Greco
Chief Executive Officer

Thanks, Stefan. So on reserving and process. I mean process is normal. It will be the best description of it. I mean we're doing the same thing that we always do on the quarter ends. I mean we -- I mean I guess, in common with most companies, we have a continuous process now rather than a particular focus on any given quarter. And I mean, from an external review perspective, we've commented in the past that, I mean, certainly through the course of '14 and the early part of '15, we had a number of areas where we had mandated reviews by regulators. And again, that's a completely normal process in today's regulated insurance world. And I mean, for us, from an internal policy perspective, I think the only things that we have coming up that would be external in nature is that we would traditionally have an external review of employer's liability or APH exposures, I mean, typically every 2 to 3 years. At some point over the next 12 to 24 months, we'll conduct another review of those reserves to the extent that we still have those risks in the portfolio. On the duration gap, I mean, it's largely unchanged from the end of last year. I mean we're very slightly long on the asset side.

Operator

The next question is from Vinit Malhotra, Mediobanca.

Vinit Malhotra

Just very quickly, 2 things. First, on this, again back on Slide 7, just to understand. I understand this, the achieved price, technical price and tiering focus, was also there in the past. Have you seen any reason to change some of the underlying models that define these tiering or define these technical prices? Or maybe it's too early, but I just thought it's -- it will be helpful to understand and show us what kind of changes are going on in the group. Second question is just a little bit more on the cash flow. Obviously, given this slight bit of volume cut and also management actions that we had earlier heard about, like for example a U.S. extraordinary dividend, is there any update on these management actions you can provide, please? And I need a follow-up, quick one, just on the last comment you made, George. Did you say that the top line will continue in 2Q but not after? Or if you'd just clarify that, please, that will be great.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So taking the last one, first. So as just, I mean, to repeat again, the guidance for this year for technical and premium was that we expected to see a reduction in premium volume in the mid-single-digit range. So I mean, while we continue the actions that we have underway within GI and the market continues to be very competitive, I mean that will have an impact on volume. I didn't limit any period, but again I don't expect it to continue quarter after quarter. But today, I mean, we certainly haven't instructed -- I have not instructed GI that they need to stop those bagging point [ph]. What GI has to do is to deliver the planned profit for the year. And on the tiering, I mean, I guess it's -- I mean it's probably pretty obvious that the execution on tiering has been poor. Otherwise, we could not have ended up in the position that we ended up in last year. And a lot of what we did at the end of last year was to reinforce discipline around that topic. And Kristof and his team may have reinforced that process significantly. We've talked already about some of the changes that we made to promote that, so I won't repeat it here. I mean we have an altogether different focus on tiering. It's absolutely crucial for the delivery of the plan, and everyone completely understands that. On the cash flow, I mean, obviously, the volume side of things, I mean, that will have no impact on cash flow because the cash flows will be driven by the profitability at the end. And the improved profitability will have a much bigger impact than the volume cuts that we've seen. So that topic, no issue. On the management action that we're taking and to make sure that we maximize cash flows in a year where we will suffer a bit of a hangover from the GI performance of last year, I mean, I've got no precise update for you today. I mean we've talked in the past about the things that are possible. We're working on those. And we still remain very confident that we'll deliver cumulative cash flows over the 3-year period of more than $10 billion. That's the aim for the year.

Operator

The next question is from Ralph Hebgen, KBW.

Ralph Hebgen
Keefe, Bruyette & Woods Limited, Research Division

Ralph Hebgen from KBW. Just 2 things. One is, would you be able to talk about the large loss experience that you had in the quarter and put this into sort of like a framework of where your large losses were obviously in the third quarter and fourth quarter but also where you see them going over the remainder of the year? That's number two -- that was number one. And the second one is on the reserve releases. Well, obviously it was actually quite heartening to see that global Corporate and North America Commercial were material contributors to the reserve releases. Could you give us some more color on that? What were the lines of business that drove those reserve releases? And also, which accident years were behind that?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Okay, thanks, Ralph. So on large loss experience. If you compare it to the same quarter last year, we are one point heavier. If you compare it to the year overall, we are one point better. And obviously, it's a significant improvement over Q3 and Q4 last year. And I mean I think we hadn't necessarily expected to see a significant shift in the large loss experience in Q1 other than because of the grand incidence of events, because of the -- because the impact of the things that we've started, of course, wouldn't have had a major impact in Q1. And you'll see that more as the year goes on. I mean I think the things I can point to in Q1: I mentioned earlier that obviously we have in some parts of the portfolio more reinsurance protection, quite apart from the aggregate cover. I mean we have a loss that, I mentioned, is $35 million in the quarter. It would have been $50 million had it happened before the year-end. And if I -- given the new underwriting requirements that we have in place, if it was on a new contract that we ran this year, it would be $15 million. So I mean again, beyond the commentary we've made before that we expect to see further improvement on the large loss side because of the underwriting action and the reinsurance program, I mean, I can't give you very precise guidance because of course there will be some randomness in the outcome. But I expect to see further improvement over what you've seen in Q1. On reserve releases, I mean, it's a quarter that's flat bang in the middle of the guidance that we've given. And if I look at all of the areas that have been problematic in the past for us, they are all quiet. So commercial auto is stable, and DBA is stable. The contractor lending business is stable. The main positive are coming out of -- I mean the majority are coming out of, I mean relatively recent years, on property. So property is the main driver. But in general, I mean, reserve picture, I mean, actually fairly globally it's pretty consistent. I mean the one place that stands out as particularly strong still is Switzerland, but in general we are in a reasonably good position in those places.

Operator

[Operator Instructions] We have a follow-up question from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Sorry to come back. I just wanted to get a quick update on Farmers. You talk about putting through more rate actions. And I think the implication is you expect that to start impacting top line because you have a falloff in retention. I mean there's already been some improvement quarter-on-quarter in auto. I mean, what is the extent of rate actions? And do you really think the tradeoff between volume and rate is going to result into the premium shrinkage there? Or is that too strong? And the second question, just to -- I wanted to clarify, George. I think you said you're still going through the footprint examination process. That is all still happening, and that's why you have some pipeline or some modest things to come through. Is that what you meant?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So as to the second one is yes. So that's a good summary. On the first one, on Farmers, let me -- I mean we've seen very -- we've seen strong growth, but the Exchanges have seen strong growth in the first quarter. Obviously, the combined ratio also continues to be at a level that from a longer-term perspective is not sustainable. I mean that's been a key area for the Exchanges last year. And in fact, the rates that the Exchanges filed for, that Exchanges have filed for is the main driver of the premium volume. And I mean, given the plans that we know that Jeff and the team have for the remainder of this year, I don't expect we'll see shrinkage but I think we -- I think you would expect the growth rate to slightly cool compared to where we are today. So it won't go into reverse, but I don't think you'll see a continuing 6% increase in the continuing business. It will be lower in the remainder of the year.

Andrew James Ritchie
Autonomous Research LLP

And presumably, there's no impact on the fee level you think is the right level of fee level to charge yet because the underlying profitability is so weak. I don't know if you sort of thought of having to do some kind of tradeoff there yet.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So no. I mean we've guided everyone that 7% is the level that we expect to continue at. And you see us at 7% in the quarter.

Operator

Last question is from Rene Locher, MainFirst.

Rene Locher
MainFirst Bank AG, Research Division

Just a big picture question. So the first one is on debt. Have you changed anything in regard to your risk committees? I know it was a incident you had last year, but I was very much surprised to see what happened in the AMG. And my question was then, is the risk committee within the Zurich group really where it should be? So I was wondering, any changes here? And then just also in regard to group structure, Mario, you mentioned before that you would like to simplify the group structure. And then I was wondering. I have seen some press releases what was going on in Germany. Is this something we should expect also in other countries? And then perhaps again just big picture. Whilst I was checking a little bit on press releases when you were CEO of Generali, and at the very end, I'd seen that you are, well, let's put it that way, quite a big fan of insurance tax. So I was wondering, what are your plans for Zurich in regard to fintech or insurance tax?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

All right, so I'll start with risk committee. So I think, I mean, again, Rene, I mean, given the issues that we faced last year and the poor performance that we delivered, I mean, there are challenges in a number of areas of the organization. I wouldn't pick out risk as the only part. I would say risk, underwriting, finance, a number of areas have had to make significant changes to make sure that we can deliver on the commitments we've made for this year. I mean that there have been a large number of changes up and down the organization to try and make sure that we have no repeat of what we saw last year. I mean certainly risk has seen changes, as well as the other parts of the organization I mentioned earlier, but I wouldn't start to detail them here. But the changes have been significant across the organization.

Mario Greco
Chief Executive Officer

Yes, this is Mario, on the organization. So the decisions taken in Germany were taken before I joined, but I'm fully supportive of them. Fundamentally, Germany Zurich used to have 3 different CEOs. And this structure has been unified under 1 country CEO. And this allowed not just to simplify the business cards but also to unify functions and priorities in the market, and so that's investments also better finalized where they have to go. This has also been started in Italy and will likely continue in other countries. And again, it's a trend that I support. It makes sense. It is how the markets is organized itself, and it fits well with the customer organization and mindset. On fintech, Zurich has been investing heavily in data developments, data applications. Zurich has almost 600 people working on data analytics and data developments. So there is a lot here to build from, and there are probably -- there have been -- many more investments have been in a number of years. My efforts at this phase is to understand how to make the best use of this information and what else can be done with the information and with the skills and with the capabilities that we have in the organization. But I'm impressed by the amount of the investments made and by the skill set and by the data available.

Gianni Vitale

Okay, thank you. That was the last question. So thank you very much for dialing in. And of course, if you have any further questions, don't hesitate to call IR.

Thank you very much, and goodbye.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call. And thank you for participating in the conference. You may now disconnect your lines. Goodbye.