Investor Day

Company Participants

- George Quinn, Group Chief Financial Officer
- Mario Greco, Group Chief Executive Officer

Other Participants

- Andrew J. Ritchie, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Jonny Urwin, Analyst
- Michael Huttner, Analyst
- Nicholas Holmes, Analyst
- Peter D. Eliot, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...interest of keeping everything to time today. So I know some people want to get away at the end of the day to the U.S. for somebody else's Investor Day. Good morning and welcome to everybody here in the room and on the live webcast to our 2018 Investor Day. Before I hand over to Mario to start today's proceedings, I would just like to take you through a couple of points of order for the day because we do have a slightly different structure to the presentational format that we've used in previous years. In terms of today's agenda, we'll start with a couple of presentations from Mario and George to take you through our progress against the targets and the priorities that we set out back in 2016. Afterwards, you'll have the opportunity for a Q&A session with both Mario and George before we break for coffee at 11:00 AM.

After the coffee break, we will have the first of our four breakout sessions where you will have the opportunity to meet with the management teams from North America, Switzerland, Ireland and our Australian life business. And then we'll break for lunch in the court room, which is just outside of here, which is also where the coffee will be served at 11:00 AM, at around 12:15 for the lunch before returning to the remaining three breakouts this afternoon, with the aim that we will be finished at about 4:00 this afternoon.

For those of you joining us in the breakout sessions, you'll find that your name badges have a color code on them: yellow, blue, red or green. That corresponds to each of the rooms that you'll be in. You would – the attendees will be staying in the same room throughout all of the breakout sessions and if you want to leave your personal belongings in there over the lunch break, please feel free to do so. We'll make sure the rooms are secured over the lunch. And we will have our management teams move between the rooms to reduce the number of people moving through the corridors.

Those of you with the green badges will be staying in this room, whereas, the other three colors will be up on the first floor and you will find stairs at the back of the hallway outside, which take you up to the business center in the three rooms upstairs.

Before I pass you over to our Group CEO, Mario Greco, to start today's proceedings, could I just ask you all to switch off your mobile phones, so we don't have any interruptions with the webcast that's being recorded today.

And with that, Mario over to you.

Mario Greco {BIO 1754408 <GO>}

Thank you. So using the microphone to start with. Can you hear me? Let me check again. Does it work? Good. Okay. So good morning, everybody. Thanks for joining us for the 2018 Investors Day. This is the second year in the third-year plan, so it's quite a fundamental step for us to measure where we are and where we're going for the final step of the journey to 2019. And we feel very good about the progress we made and the reach of targets that we had so far and we feel that all the targets are in sight for us to be reach or didn't by the end of next year. So the purpose of today is to show you how we got here, show you what we have been doing in order to get here and give you confidence as the same confidence we have that the final part of the journey will be successful and will be completed.

And finally, I'd like to give you some light on what's coming next. So what kind of expectation you should have on us for the next year and where we're heading with that. In order to do this, as Richard introduced, we have a different program with a number of units explaining how they are running their business and how they are delivering on the targets. These units all together make more than 40% of our BOP. So they're very relevant.

Now, the themes - yeah, the themes that we'll be showing you, their performances and their results. You see them over here in North America, you met Kathleen last year when she was the newly appointed CEO of North America. Dalynn Hoch is the CFO of North America. Paul Horgan is running Commercial Insurance in North America.

Switzerland is led by Juan Beer. Juan joined as CEO of Switzerland at the beginning of this year, long experience in the property and casualty and in Switzerland over the past years. Bettina Bornmann is the CFO of Switzerland. Sandro Meyer is leading the Life business in Switzerland.

The Australian team, very important for the progressive acquisitions we made in Australia. We made Australia one of the most important countries for us. Tim Bailey, CEO; and Mark Henderson, CFO of the Life business. They can convince you why Australia is so important for us and what is - what we see as good as the market there.

In Ireland, which is a niche, a small island, but an extremely important business for us, extremely profitably growing. Anthony has been leading this business for a number of years, and David has been Head of Life & Pensions also for a number of years. And so we thought it was important also to show you some of the small, but strong units we have across Europe.

There are other colleagues who you will be able to meet, especially Amanda Blanc. Amanda, can I ask you just to stand up? Sorry for that. Amanda just joined us as Head of Europe a few months ago. There is Alison Martin over there, Chief Risk Officer, I think you know Alison. And Jim Shea will join us for lunch too, Head of Commercial Insurance. So you will have a full exposure to the management team and the people running the businesses.

Now, back to the content. Where are we after two years? As I said, we feel quite good on what we have achieved over two years. The target, they're all in sight and we have made steady progress on all these targets. But especially, we have restored the discipline, the management discipline in the organization and now the management discipline is extremely strong. Efficiency is coming back and I'll give you then supporting points for all these things in a second.

We have maintained the strong balance sheet. So the characteristic of Zurich of being extremely solid on the capital side has been untouched, but in cash generation, if anything, has been strengthened. The dividend concerns that you had or some of you had two years ago, I think hopefully, they shouldn't be there anymore. We demonstrated that the dividend is not just sustainable, but that we can increase the dividend and actually we increased the dividend already a year ago.

How we did that? We turned around the business. The fundamental issue that we had on the business was the volatility, the volatility of the P&L, the volatility of the results and the unexpected fluctuation of this. How we eliminated it or how we mitigated it? By changing the business, changing the business in balancing better between Life and Property & Casualty, inside Property & Casualty, getting a better balance between Retail and Commercial, inside Commercial getting a better balance between long-tail and short-tail business.

So, a complex rebalancing of the business over two years, which is very promising and has just given us some traction, but has more to come for the next years. At the same time, we have been rebuilding the franchise. We made a number of investments and we made a number of divestitures, all follow the same thoughts that size matters for Retail in given market. So, market by market, we try to understand where we could either acquire the size to be leading, to be competitive or not if we had alternative to walk away. And I'll show you how many of these things have been done over the last two years and I think it's a very solid track record of acting with a purpose and doing that in a disciplined way.

The fundamental idea, the fundamental vision we have and I'm going to come back at the end of my presentation on this is that we're living in a transformational time for insurance. This transformation is customer-led. Customers are changing the nature of our industry. They use technology. They use information tools to take control of the relationship with insurance companies. There are many choices to react to this situation, but between the two fundamental choices, become a commodity player and play just a size game or become a customer-oriented organization and work out the strengths and the value of having millions of customers around the world, which is the second one, two years ago.

And then we have been developing progressively the elements that we need in order to succeed in that. So we are two years ahead of that. And I think we're quite advanced and we're starting to record the benefits of it. And this is what leads to us being ready to change the gear and enter into a new phase where the fixing, the discipline, the reestablishment of deficiency is in the back; it's been done and we completely turned the company towards the future of it, which is leading this transformation in the industry.

Now on the target, why do we feel good about these targets? These are the targets that we announced at the end of 2016. You'll know then. You see that on all of them, we've been progressing and we see the achievement inside for all of them. BOPAT ROE, above 12% and growing. We passed the 12% threshold already last year, but just stripping off the catastrophes in the United States. At each one, we were above it, not stripping off anything. So sheer numbers, above 12% and we'll keep growing.

Expense savings, I think you all have trusted that we're going to deliver, I mean, every quarter, we deliver on expense savings; it's going to be $1.1 billion nominal reduction by year end; it will progress to $1.5 billion at the end of next year.

Z-ECM remain extremely strong. The strength of it has been improved by some actions we have taken, either on the books of business or the asset choices, but it has been maintained strong cash remittances. We continue to deliver cash. I'll come back to this. I'd come back to the cash targets. Also for Life, George also will talk about this. We remain extremely cash-rich business.

And the dividend, the payout ratio is 75%. Some of you were skeptical when we announced that back in 2016. I think you can appreciate today that it makes sense for us. If you're capital-rich, you need to pay out dividends. Otherwise, you're just stacking the company, the business with unnecessary capital. The AA position that we have is extremely solid. We can afford to continue paying the dividends and actually we raised the dividend already a year ago.

The company that you see today through these meetings is very different than the company in 2016. We tried to - we thought about how do we represent that? We're still a very different organization and it's always difficult to put a few words about a thorough organization of 50,000 people. But fundamentally, what you had in mind was a very complex organization. Zurich years ago stood for organizational complexity, product silos, center-driven - hierarchical and centric-driven (00:13:40), and playing as the balance sheet provider. All these things are quite different today.

Today, we have a very disciplined organization, which is gathering around the target for the whole organization. The organization is customer-oriented everywhere. There are no more product silos. The footprint that we have geographically started being extremely focused. The capital base has remained strong and the business has been empowered with the capacity to drive the business development.

Management team, you have seen progressively the management team changing and you see today still a combination of people like Conder (00:14:28) who has 11 months in the job and people like Anthony Brendan (00:14:32) who's been four years in the job. And you see that pattern over the organization and that is bringing us energy, results and steady growth. How have we done that and how have we brought back discipline to the organization?

Definitely, the cost exercise has been important. That was the initial signal to the organization that things would be different and would be changed. First of all, let me start off with this side of the chart. This is a comparison with a number of peers. It bases everything at 2015. It's difficult to do it without zero basing stats, but if you zero base 2015 for all of us and if you look at other underwriting expenses, which is a data that you'll have and you'll know where to check, we are at the second best in the reduction of other underwriting expenses from 2015 to today. This one company has reduced more than us but others have either not done much or have increased the costs.

What it took us internally? So what you see there is the cost base is, in 2015, $10.3 billion. Many of you remember that number. We told you at the time please memorize it. This is our basis. This is what we will use as the starting point.

By the end of 2018, we will be $1.1 billion below that number and as you see, the main contribution so far has come from the group. So from the head office, from the center unit. That was an important message to the old organization, that it was starting from the head - the movement to become lighter, simpler, it started really from the head, right.

And then, as you see operations is growing and you remember that we saw that the contribution of operations in IT will go through the years and will be the predominant one in the (00:16:48) $400 million that we will have to achieve in 2015. Strict discipline, no jokes about it. The group is delivering steadily quarter-by-quarter. And I think this is pretty much what keeps us confident that the last change (00:17:07) is going to come.

But having restored discipline in the organization and managing control of the organization, then the business needed to be turned around. And the purpose of this was to reduce the volatility as I said, and stabilize the sustainability of the earnings over time. This is how we did that.

First of all, you see that Life has been growing and will further grow with the OnePath acquisition. Bear in mind that these are historical numbers before the OnePath acquisition, which is sizable because it will further add to (00:17:47) of Life a big chunk of it.

So more and more, as some of you've discussed a while ago in meetings with me, we are becoming a real composite company, which was (00:18:01) mentioned that Zurich had before. On the Property & Casualty part of that, again we wanted to balance it and so it's not true that we had any preference between Retail and Commercial, but we want right balance of the business. This is what insurance is all about. So Retail now is 60% of the business, Commercial is 40% of the business, which again reassures us on the stability and sustainability of our earnings even going forward.

And then inside Commercial, we have been, again, trying to balance better between long-tail and short-tail. Many of you remember how many times we discussed the combined ratio of Zurich and why was the combined ratio higher than the market and you remember my arguments. I mean, our underwriters have not involved, they are as good as anyone and so probably better than the markets because we can select them because we're a huge underwriting organization; thousands of underwriters work for us.

If we have a combined ratio above what you think we should have, it's about the business composition, it's about being exposed to long-tail. And you cannot run long-tail at the same combined ratio of a short-tail simple business. So, we changed the composition. We went into a thorough restructuring of our books. This is what we have been doing. The new business gross written premium, you see the growth of specialties. The blue color at the top, you see Property and you see Casualty coming down. And then, you see what this did to total gross written premium. New business on the left side and total gross written premium on the right. Why is that important? Because this is what we see on the combined ratio. Structurally, if you have a book which is biased to Casualty, you have to work with a higher combined ratio. There is no way you can have in Casualty this combined ratio here simply because the duration is much shorter, right. And so, if we have to work with the 95%, 96% combined ratio, we need to progressively move our books towards a shorter-tail liability, which is happening, which is what we're doing and this is what then the (00:20:26) countries can demonstrate to you.

Life. Life has been growing. Life is more and more important for us. Now, how we did that? Geographically, what you see is that emerging markets are strongly pushing our Life results up. You see that Continental Europe is steady. It produces roughly CHF 600 million of BOP each year, doesn't lose anything, but doesn't grow much. That's what Continental Europe stands for; steady, steady business. But then you see Asia-Pac and South America really pushing the Life results up. And further to that, the OnePath acquisition will give another kick, another boost to this result when we will finally conclude it.

Now, this business is extremely cash-accretive, which is something that we want to stress further and further and we haven't been clear enough on that. This is not the Life business that you often see with other industries - or, sorry, with other companies in the industry. This is a business that creates other emerging markets, this much of cash remittances every year, right? And why is that? Because fundamentally, the business we do in Life is protection. 80% of our new business value comes from protection products and very, very little, almost nothing comes from savings and annuities.

We are in the Protection Life business. This is what Zurich stands for in Life. We know the other business too. We know unit-linked. We know corporate and pension and savings, and we play on those businesses. But this one, this is our world. Our market share in protection is huge. We have a market where we have above 20% market share. We have markets where our market share is above 10%. The leading position we had in protection is extremely strong and frankly is undisputed.

Behind that, there is a wealth of knowledge and skills; 40 million customers around the world, 400 underwriters are underwriting this business in the different geographies, 15% internal rate of return. It's a massive, massive business that we have built over time.

In 2008, we decided to get out of savings and annuities. It was an important decision at that time. It was painful. I mean, at the time, the Swiss business left the guaranteed group schemes, they can talk about that later; that was a visionary step back in 2007. The market didn't follow us. We were considered crazy to do that. 10 years after, this is our strength. With a bold vision, we moved ahead of the market and now this is turning us as a powerful protection engine. The capital position has always been very strong. And I don't think anyone has doubted this over time. The Z-ECM stays comfortably at 134%, AA rating by Standard & Poor. I don't think we have any issue there. But if you look at the cash remittances, and again, if you - if I go back and think about all the questions I had two years ago about the sustainability of the dividend, why wouldn't the dividend be sustainable? And this is why we raised the dividends. Over three years, we created $10 billion of cash. We distributed $8 billion in dividends. It's an 80% pay-out out of cash.

In any cash-rich business where we keep producing cash with a strong capital position, why wouldn't this be sustainable over time, especially because we keep creating cash? Right. And again, this is why we raised the dividend a year ago, probably ahead of your expectations and frankly even ahead of our plan.

The capital position hasn't been damaged or diminished by the transactions we made fundamentally because we have been acting on both sides. We've been acquiring businesses and we've been disposing of businesses. The common theme is that we do believe that size matters. We do believe that market share, brand strength, customer penetration is helped by size in market. Right? And we want to have leadership position in the markets that we target. If we cannot achieve it, we're ready to step out and move out of the country and take the bold decision to leave countries. The countries that we had left were good countries, we had no issues about and the business that we have sold in those countries were profitable business, but we didn't see the possibilities to have a leadership market share there. We didn't see the opportunities to further grow in those markets.

Now, look at the consistency of what we did. On crop, now we are the second biggest crop servicer in the United States. We like the business. We had a strong business before. We went for sizing that business. Travel, a very bold choice. We were a marginal player in travel and services. We thought that it was important for touch points for loyalty to have travel and service offer in our books. Front progressive (00:26:25) acquisition, we're now number two globally worldwide. And now, we're integrating Cover-More and we're bringing Cover-More together with the business and so there is further opportunities for growth of that for the benefits of the customers' loyalty and for the benefits eventually of U.S. shareholders.

Australia, number of progressive acquisitions moved us from being number eight player in Australia to number two player in Australia. Argentina, we are the biggest composite in Argentina and we are the number three in Property & Casualty, the number one in Life. Chile, we're the biggest company in Chile after progressive acquisitions. Indonesia, we bet on the growth of Indonesia. Out of the three Asian giants, India, China, Indonesia, we picked Indonesia as the one where we can really play a leadership role. Why is that? Because in Indonesia, you can control. You can own the company yourself. It's a market that allows you to make investment and run the business. India and China don't - or India doesn't and China maybe, but Indonesia has a track record for that. And so we went to Indonesia, now we're the number six company in Indonesia, the biggest Western company.

So common theme, common logic, very persistent, very disciplined in executing. All the deals have been well structured financially and they have been accretive of our returns. On the other side, you see how much opposite transactions we've - we made, how much business has been divested or closed by us. And again, there's nothing wrong about this business. It is simply that we didn't see the same opportunities to grow, to have leadership and to try to market for those businesses. So I hope you see why this is accretive to capital or hasn't diluted our capital position and I hope you understand also what's the vision we had behind our M&A behavior if we buy or if we sell.

Now, what's the purpose of all this? What's the vision we have behind of that and where are we heading this group and this organization. As I said, Zurich, it is an extremely strong franchise that needed management discipline, that needed to get retuned to deliver targets. But it was extremely strong financially and with it an extremely strong franchise too. However, the world is changing. The customers are making this a very, very different industry. So in 2016, simplifying a lot, we face two choices. You can either be one of the two, but you can be both. And the two choices where we can play a size game, we can be a consolidator, we can be simply a manufacturer, producing for others. This is a possible game. It's the easiest game. It gives you relatively low ROEs and it calls for consolidation. You have to be a compulsive buyer because you just play scale. You have to be the big manufacturer of the world.

And then you have the second option, which is own the customer relationship with the client. This is an industry where every client works with five, six insurance companies. It's a great opportunity. You don't need to do that. I mean we don't do that. As customers of every other industry, we don't have relationship with five, six providers. In insurance, you do because you don't care because insurance are undifferentiated.

So this is where we saw the opportunity to be a customer-oriented company and build them the customer relationship. This, as we know from every other industry, promises higher returns than equities and promises higher growth, but at the cost of a transformation.

Option one was the easier one. You just stay as you are and you just buy everything which – that you can find. Option two is the promising one, but it calls for a (00:30:55) transformation of the organization, which is what we started in 2016 and we're still on the journey of that and it's a way to go still.

Now, why we think that the customer journey is the one that promises the higher returns. These are all evidences from ourselves, right. So this is not market data. This is not estimates, this is not consultants. This is our business. So please customers, what we call the promoters, the customers who are happy with our company. First of all, the higher retention, right. They buy more product and they stay longer with us. And you see that from Farmers, at the upper end and from Spain here on the right.

Now, why is that important? Because customers which stay longer with us, again the evidence is that the loss ratio is much better and the acquisition costs are much lower. That is Farmers, this is Switzerland, right. We know these things. So we know that there is a lot of value in doing systematically developing ourselves into a customer-oriented organization. The question is how to do it because nobody's done it before.

So we started introducing customer satisfaction measures all around the organization. It was a brutal shift. It was imposed. At the beginning, people were saying why we have to do that? Today, we measure roughly 400 touch points with customers. Almost every interaction the customers have with us is measured. It triggers a request of satisfaction and it triggers calls back on what have we done that hasn't pleased you enough.

The Net Promoter Score is moving up. Again, the basis is different. Farmers is moving up 3 points from a higher basis. North America is very high. And all the countries have different starting points. But also, we're learning what makes the customers happy which, interestingly enough, not surprisingly are very simple things, very little things, that simply insurance companies never did it before. Just don't keep the people waiting for a long time. Sounds simple, right? But customers or insurance company wait for many minutes at calls, train the people. The people doing the calls, I mean simple things. This is not revolutionary. It's revolutionary to do these things one after the other, every day and everyday a little better. And we are gathering all this information and we're starting to get better every day by using this information across the organization. And you see how these little things then move the customer satisfaction, which is another important thing that we get the evidences of what works and how much that works.

Now data. Data is supporting all this. So we understood that and so we went, this was another acquisition. We went bolt-on on data and we acquired a company, which specialized on data in architecture for customer and for customer satisfaction. We transformed that (00:34:29) into a captive organization. Now we call it the Zurich Customer Active Management. And we use it internally to provide us the information on what moves the customers, on the sales or on the desire to leave us.

So how can we sell more to the customers? How can we predict what the customers want or how can we predict when the customers would not be pleased with that. And again, don't think this is perfect, it's not. Don't think this is done, it's not done. This is what we're doing. This is how we are transforming the business from inside and this is what the business can tell you later on in the breakout sessions.

Partnerships and expansion of the touch point, we're trying to create more touch points. You know that insurance has always been a business where the customers didn't even know what they purchased, didn't know what they were covered for and so didn't trust insurance companies. One way to respond to this is to create more touch points, to create repeated services.

And so this is what we're doing. In the ecosystem world that everyone is mentioning, we are creating services that our customers can use. This is complex because typically you need to have that on a global scale. So you need to have global agreements that you activized and activate this agreement in the different countries, which the flag that you see here is where we are activating these different agreements progressively and we're starting to make use of them. Some of these things are very, very infant-stage still.

Here at WellCare. WellCare here it's all born a year and a half ago, right? So it's just starting walking around the room. Benestar is the newly created company, has AUD 50 million revenues. It provides wellbeing services to companies, so many of these things just started. Cyber, we signed partnerships with independent companies to provide cyber services to customers.

Again, the purpose is build touch points, get in touch with the customers repeatedly over time for services, not for claims, don't pay claims, prevent and service the customers. Partnerships; we're still developing partnerships because we want to expand our customer bases. We're doing this in two ways. One is signing new agreements especially in the bancassurance world where we think we have technology and the culture to run the bancassurance agreements very well. We have a track record and a history of the bancassurance agreements of the past. Deutsche Bank initially, Santander and Sabadell are the following; and then ANZ just coming.

But also, we're developing innovative initiatives. Farmers has started what is called Toggle. This is a millennial-dedicated company. It was started brand-new with Farmers people, just carved out from their duties and they created Toggle, they launched it and they are progressively doing insurance on-demand under this Toggle brand name.

Spain in six months to launch Klinc, which is pretty much the same concept, very innovative for the Spanish market. CoverWallet is a partnership where we work on SMEs in Spain and on Switzerland and has been extremely promising. So we continue to look at opportunities to expand the customer size and the customer reach.

So, where is this bringing us and what does this say to you for the future of the organization? We're going to deliver 2019. So expect us to be extremely swift on delivering 2019 and possibly beating all of those targets by the end of 2019. We will be precise, we will be disciplined and the focus will not change in any way until the end of that.

But what happens after? What happens is that we continue building what we think is the strength of this company in the future. We continue building the customer relationship, we continue growing the Life business, we continue growing the touch points of the customers, and we will maintain the same approach to M&A, to capital deployment and to cash generation that you have seen so far. And I think this leads nicely into George's presentation on how we've done this and what are the financial strengths that we have today. Thank you so much and we will have Q&A after George's presentation.

George Quinn {BIO 15159240 <GO>}

Good morning, everyone. Can you hear me at the back? Good. So maybe just before I start, so I've got a few comments and then we'll hand it over to (00:40:12) the Q&A, we'll have the break and then the country teams will spend more time with you going through their businesses. I think as you saw from the presentations that we've made from Mario's comments this morning, we're delivering on all of our targets. I don't think it's just a case that we're on the right track. I think we're simply delivering on the commitments. This is not something we're building up to, we've been delivering the commitments from the day that we made them. They're not designed to be average over the period.

About two weeks ago, Mario and I were at the Global Leadership Team meeting with several of the people that were in the room today. And I said there that if you'd offered me two years ago when we set the targets for the firm, what we now know today, I'd have taken it. I wouldn't take it today though. I think the firm is capable of quite a lot more that we've seen already.

So, key message from a finance perspective, I mean not surprisingly, you could get bored listening to me say this, but we are on track. We're not only on track, we have been delivering the group targets that we set out in November 2016.

P&C profitability is better. I'll come on to that in more detail when we go through the presentation. But as Mario highlighted, just as importantly, the volatility characteristics are completely different from the ones that you saw before from the group. And it's not as if on volatility, we have not been tested.

Cost reduction, so cost reduction is also a significant contributor to the overall improvement. I think it's not uncommon to see cost reduction programs (00:42:02) probably a bit more unusual to see one where the benefits are actually visible rather than being reinvested. And I think you saw that earlier on Mario's presentation, on the expense development in the peer group.

Life, I mean if I smiled a lot, I would smile a lot on the Life topic. Life has been the standard of success. Profitability improving. Cash remittance, which is very close to my heart, is up. Risk preferences are unchanged. The Life business is in great shape and we expect its contribution to further increase over the coming years.

It's probably not a surprise that we'd also focus on capital management, in particular the extraction of capital from the non-core businesses. What may be slightly more of a surprise is that we'll intensify our focus on capital allocation in the core business in 2019. It's not just about management of capital in the non-core segment, and in fact in many ways, capital management in non-core is easier. Core capital reallocation needs to be a bit more surgical. Lastly but definitely not least, all the steps that we've taken, whether they're strategic or financial, they may be designed to benefit all of our stakeholders, but our shareholders are central to the proposition and we expect you to continue to benefit from the improvements in our performance in the years to come.

Here are some of the highlights in a bit more detail. On the ROE, as Mario mentioned earlier, this is the headline figure. There are no adjustments. It was above target last year. We expect it to be above target this year. And as you know, this is only part of the story because we're looking to lift the return on equity for the group above 13%.

The most significant driver of this has been the improvement in the combined ratio, 6 points between 2015 and the first half of this year. But it's more than just a profit improvement story and you can see strong growth both in the Life business and in Farmers. And I think just the growth picture in Farmers doesn't begin to represent the extent of the change that the team there have undertaken.

Capital is very strong. We're above all the relevant capital thresholds, whether those are the external measures such as SST or the S&P requirements. And probably the most common temptation of this relatively late-stage in the economic cycle is to reach for a bit more investment income, to improve short-term returns. We haven't changed the asset allocation in any material way and we have no plans to do so.

Our businesses generate very high payout ratios by design. This is not an accidental by-product, that's how we do business. We were above the run rate last year and we expect to be above this year. And I'll come back to this slightly later in the presentation. It's also a very good proxy given the nature of our business for capital generation.

I was going to say that this is a bit boring, but it's not. So, this is one of my favorite slides if you've been to any Investor Day we have presented in the recent past. I can't do my job without an ROE slide. And that's because I've always seen this is one of the most important parts of my job. Probably the most important message from this, I mean, there's quite a few ups. So, of course that's not just subliminal, but the message behind that.

There are some downs. I'll come on to them in a second, but the most important thing I wanted to say on this slide is that as targets incorporate the kind of flexibility, that means that we can deliver on the commitments that we make, even when we experience the known unknowns. We still anticipate the roll-up of excess capital. That will slightly reduce the ROE.

That hasn't changed in the picture we've presented over the last few years. Of course if we manage this well, it offers potential upsides. The other components, loss ratio, expense savings, U.S. tax, internal capital reallocation, more or less unchanged. Just one other comment on the excess capital point. I mean, that obviously also rolls up in the form of additional tangible book value per share.

And it means that we're not only delivering an improved performance on the capital that you trust us with, we're also growing it over time. Two points to note. First, I think as you know from the comments earlier in the year, closing date for OnePath is delayed. Originally, we expected to have closed by now. Current feedback from ANZ is that we can expect that to happen sometime around the end of Q1 next year.

As a result, that means that we'll have no more than nine months of the business in 2019. There are still some risks to the closing date. But based on the conversations and our engagement with our friends at ANZ, end of Q1 does look likely at this stage. That means that the first full year – first full run rate year will be 2020.

Just a reminder to note, again, something we've mentioned before, the impact of Venezuela, that will have an impact on the reported NIAS ROE that we have next year as we recycle the unrealized currency translation adjustment through the P&L and back into equity as we complete the transaction. No impact on capital, no impact on cash, and most importantly, no impact on dividend.

Past three years, I mean, it bears repeating, we made very significant improvement in underwriting performance with the accident year combined ratio ex-cat, showing a 3.5 point improvement between 2015 and 2017 and we expect further improvement this year.

That improvement has come despite a continued soft market in Commercial Lines, which has only (00:48:40) seen a relatively modest improvement following the nat cats in 2017. And looking forward, we expect to see further improvements over 2019 as we continue to deliver on plans of changing the business mix that you heard from Mario earlier, particularly in Commercial Insurance, and reducing the overall cost base of the group, and for next year, bringing the calendar year combined ratio into that range 95% to 96%, likely at the upper end of that range. It's not just the absolute level of the combined ratio that's improved, but also the volatility. As you can see on the slide, there is actually a quarterly volatility from large manmade losses, so it's remained in the 2 percentage point range through each of 2016, 2017 and 2018 compared to the 8 percentage points that we had in 2014 and 2015.

The one thing you don't see in this slide is the impact of nat cats, but I think you're all reasonably familiar with it. We had estimated claims last year related to the three hurricanes of net $700 million. And we've absorbed the impacts of the catastrophe experienced in the first nine months of this year, with the cost of nat cats only slightly higher than our historical average.

The fourth quarter, we'll see the impact of hurricane Florence which, to remind you, we estimated at $175 million and the impact of the wildfires in California. Although at this point, I don't expect the wildfires to be particularly significant for us. And again, I do expect that for the entire year that we'll compare favorably to our competitors in these particular markets.

We've used every single lever and it demonstrates the impact and the effectiveness of the changes in underwriting and the usage of reinsurance to manage exposures. I don't have a slide on reinsurance today, but if we showed you the progression of our reinsurance buying, we only buy more. This year again, we are buying more reinsurance coverage. It also reflects our view that all claims, attritional, large cat, are all to be managed rather than explained.

Not so long ago, and Mario referred to it in his comments, that one of the key concerns was the strength of our reserves. Notice that we had a different viewpoint. We added disclosure to try and help improve understanding, but I can understand why some of you had concerns. Seen from today, the picture looks entirely different.

If I exclude the impact of Ogden last year, the general trends that we've seen over recent years has been towards higher PYD and this hasn't been at the expense of reserve strength, the adequacy of the reserves on the balance sheet. And in fact, on an internal view, we see reserve strength or the quality of our reserve position as having improved modestly over the same time horizon.

As you saw earlier in the year, this gave us the confidence to lift the guidance around reserve development to the upper end of our target range back in August. The amounts are not particularly large. We're not particularly dependent on them, but it doesn't hurt.

In addition to focusing on the overall underwriting performance, we have been working to structurally change the business mix. This calls for changes to products, geography and customer segmentation. And as you've heard from Mario earlier in terms of business mix, we've been focused on growing our exposure to shorter tail lines of business, while reducing the exposure to some of the longer-tail liability lines.

It's one of the more challenging aspects of managing the P&C business and it's one of the areas where the ambiguity that, of course, you ordinarily suffer from is probably most evident. If we take our North American business, for example, one of our higher loss ratio businesses is workers' comp, lowest loss ratio business is probably the cat-exposed large commercial. So, if you see it through a loss ratio lens, the answer is simple. The only problem is that this requires us to give up a higher profitability business for something that is almost certainly one of the weakest currently, if you look at our through-the-cycle performance, also one that would introduce much more volatility. So you know for sure that if we did that, that slide I showed you two slides ago, we won't be showing you that slide next year.

But then why would you give up apparently higher probability business for lower. And of course that's a risk preference issue. I mean, given the longer tail nature of some of those – particularly U.S. long tail lines, we need to take into account some of those longer-term risks such as inflation.

So as a result, you'd see us not only shrink long-tail commercial in favor of short tail, we'll probably tend to still shrink all of Commercial, especially the high end and long tail in favor of SME and Retail. That's where we believe the sweet spot currently is.

Geographic mix is also evolving with higher structural growth in the Latin American and Asian Pacific businesses. And as you can see, we have a higher contribution from these businesses. Just to state one thing that is hopefully obvious, the combined ratio indication that we've given – I gave earlier in the presentation includes any pressure on any component of the combined ratio from those shifts. And you've seen some of that already.

You've heard about the customer dimension from Mario and just to emphasize that we don't ignore that from a financial perspective. We've made several changes over the last 18 months to how we measure and compensate performance. And for example, our group-level (00:54:52) includes key customer metrics like NPS scores, customer retention, growth and SME so that we can focus at the (00:54:59) level and the things that we think build future value in the business.

The other thing is that all of leadership team members, which includes me, we know have customer satisfaction metrics in our individual performance objectives. So if you're a Zurich customer and you've recently had a call from me, you know why.

As I said earlier, I mean, we're very pleased with the performance of our Life business; we believe it's well positioned to continue to grow profitably as a result of the decisions that we made over a decade now. Not just at a group level, but also some of the countries to focus on the parts of the market that have become incredibly fashionable today.

We also appreciate that it's not always that easy to model the development of our Life business based on the disclosures that are generally available and as I've discussed with some of you over the course of last year, I've got a slide coming up that I hope will help take it a step further giving you some guidance and somewhat granularity and some changes to ongoing disclosures that will help you do what you want to do around this topic.

Here we have a slightly different breakdown from our traditional disclosure of the Life results, you've got EMEA broken down into Continental Europe and the UK, Irish and international business and that's useful for the – for this thing I'm going to show you in a second to help form a view of where the business might be headed.

As you can see, the strong growth in recent years has been primarily driven by Asia Pacific and Latin America, which grew by 31% in 2017, while our UK, Irish and Zurich International business grew by 13% and the Continental European business by 4%. And (00:56:59) growth and BOP that we've achieved was driven by an 8%increase in revenues and the major effort that we've had on expenses of 4% decline in operating expenses, which clearly demonstrate the benefit of, I'd say, cost control even when we have revenue growth.

If you look at each of the regions and the underlying drivers of revenues, you can see here that again in Asia Pacific, in Latin America, 80% of the revenues come from loading fees and technical margins, that's probably what you'd expect to see. UK, Irish, International, similar proportion from loadings, unit-linked fees at a similar level. Next may be a bit different, but the strategic driver is exactly the same.

And in Continental Europe, as you'd probably expect, slightly less, about 67% of revenues coming from loadings fees and unit-linked fees. Just emphasizes how we make money in Life business, no matter what the geography throws us. Tell me if you guys noticed I mean (00:58:09) Richard and the team helped me prepare these presentations, well that's an overstatement of my role on the preparation of the presentation.

But it says in my notes from Richard that this is an interesting slide. If you're one of these people that can immediately see that this an interesting slide, welcome. You would bet (00:58:29) like me. And despite what anyone else says, this is not a slide with too much confusing financial information. I mean, the message is probably not obvious, but that's part of the attraction of this slide.

I'm not going to tinge you how to use it. I mean I think that as you spend 5 or 10 minutes with it, you'll know what you need to do with it. We'll try to break it out into various segments. We'll try to give you overview of trend. We'll try to give you overview of what we think the profit driver for that particular segment is. And more importantly, we'll try and keep this disclosure consistent so that you can model it going forward. So we'll break EMEA down with the full year results that we'll have in February. And maybe the last thing I need to say in this slide is that we expect the trends to continue. So this is not purely historical, this also has forward-looking value in it. And that's it for this interesting slide.

Dividends, if you are here, you're almost certainly here at least in part because you like dividends. So I mean looking at cash remittance is important, but in particular, looking at cash generation, which is one of those precursors to cash remittance, is also very important.

On the left hand side of this slide, you can see how the in-force contributes towards operating cash generation. But our new business, as you can see, has a pretty similar profile. I think it's important to remember, I'm sure you all know it, but it's important to remember that the underlying in-force reported values, also new business values in MCV are much higher on an undiscounted cash flow basis when you put the real-world investment returns into it, I mean not a giant surprise, but maybe explains why you see quite a lot more cash from our businesses than perhaps at times you would expect. And in fact, the difference between the undiscounted and those more economic numbers, two times.

As a result of all of this, we expect the low cash flows to give it into Life cash remittances that will exceed $1 billion for our business and we expect that to continue over the next several years.

So maybe I'll turn to some of the M&A that we have actually done and have actually closed and therefore is impacting the performance of our business. I'll start with RCIS. So, RCIS is something in particular Kathleen is very familiar with, having led that acquisition at the end of 2015, closing in 2016 and where we now have three years of results behind us.

So, maybe the one cautionary statement here, I wouldn't necessarily take the performance of this business over the last three years and extrapolate it into the future. I mean, you can be lucky in insurance and there's no doubt that we've had a combination of good judgment about the capital choice we made here, boosted by better good luck (01:01:42).

RCIS performance has been extremely strong and not only has the addition of RCIS may help to significantly diversify the business and reduce the volatility of the U.S. to – mainly because it's non-correlated cap exposure, but most importantly from my perspective, the financial performance has already repaid the goodwill on the business and it didn't come with much capital.

Macquarie is another example of a very successful M&A transaction. Tim and Mark will cover this in the breakout session in a bit more detail. But it's a testament to the strengths of the Australian Life team that they've handled a very complicated integration (01:02:28) very quickly. We have no issues. And you can see from the performance of the Zurich business in Australia in this year how this team can do in a very difficult market environment in general.

Lastly, Cover-More – actually, this is the first full year of Zurich ownership. Business is performing well. We're obviously driving growth through a combination of some of the organic things that are taking place in Cover-More and some of the additions that we've completed to build out this global platform. So we've made acquisitions this year in Latin America and Ireland. Cover-More is well placed to continue to build on its position as one of the leading global travel insurance and assistance groups. It's not yet a major contributor to group earnings, but it is to strategy. And I do expect that the earnings contribution will rise as we complete the build of this global foundation and focus on converting that growth in revenues into growth in income.

OnePath and QBE are more or less yet to come. While neither of these two things is risk-free, we think this track record is a good sign of what we can do with this type of transaction. I know given the severe gyrations in some of the emerging market currencies, just to touch how we manage foreign exchange risk within these markets and I have chosen Argentina as the fairly obvious example.

Important to recognize that not all the business is really local currency; some of it is actually denominated locally in U.S. dollars and for the largest line of business has a heavy U.S. dollar driver behind both the premium and the claims, just given the nature of how that market operates. And while we do have a policy generally in the group that we look to closely match assets and liabilities by the usual currency gyration, etcetera, we also generally look to hold some U.S. dollar assets to provide hedges against currency devaluation in the countries where we can. And in fact, if you think back to the first half results in the Life business in Argentina, you might remember we had a one-off and that was the revaluation of those U.S. dollar assets more than offsetting what was taking place on the devaluation side. We've also done that partially in Venezuela. And that has certainly benefited us even as we come to the exit of our relationship with Venezuela.

Overall, it means that in our Argentinian business, we have a long U.S. dollar position and that should help partly offset some of the translational impacts that we would normally suffer on equity. We will suffer some of the short-term currency challenges, but the market, particularly on the P&C side, has a long history of rapidly adapting to inflation. So, I mean we're not concerned about the short-term macro challenges we see in some of these markets.

We benefit from strong operating capital generation, and not only that, more by questions by design, the financial analysis is relatively simple and straightforward. So if you think about after-tax earnings, you think about capital generation, you think about cash remittance, they're all pretty much the same number. I mean that's part of the construction of the book, but you need to be thinking somewhere in that mid $3 billion range and rising.

And in this chart on the left hand side that you can see that I mean not only do we have strong operating capital generation, but it's been growing; we expect that to continue. It's not just about economic earnings though; it's about our ability to convert it into cash and we have a particularly strong track record in this regard. I highlighted earlier that we are more than comfortably on track to meet plan target of more than $9.5 billion, which is after all the holding company costs, all of the funding costs of the group that 2018 will be another strong year for cash remittance for the group. And in fact some of the CFOs that are instrumental in helping the group achieve these outcomes are here today and you could chat to them about how they worked their magic around these topics, and in fact, one of them for tomorrow.

Turning to the dividends of the payout ratio here, I think you know how we think about this. As we look at it, I mean there will always be some volatility, hopefully up than down. If you look at it over the last couple of years, adjusting for the obvious exceptional items, we're get (01:07:27) into the weeds of all the small things, we see is around that payout ratio target that we have committed to. Going forward, we'll continue to look through one-off items, positive or negative.

I like this slide a lot. I think we told you when we launched the current plans back in 2016 that we're focused on providing shareholders with an attractive level of return, primarily through dividends, I mean, that sort of thing.

As you can see over the three years, 2016, 2017, 2018, we've paid out $9 billion dividends and other capital returns where the vast majority comes from the annual dividend. At the same time though, we have used some of the remainder of the capital generation, combined with some of the capital released from the non-strategic businesses to make net investments of $3.3 billion to fund and support future growth.

Last slide on my part of the presentation. I've only got one point on this slide that I really want to reiterate. We will intensify the focus on capital allocation in 2019. It is not really at all about the non-core segment as I mentioned earlier, but it's about a renewed effort to improve the capital allocation in the core business because that's where more than 97% of the group's capital currently sits. And it's not all working as hard as it should. I see this as one of the single largest opportunities that we have in 2019 and this will be my highest priority for next year.

With that, end of my presentation. I think we can start the Q&A, Richard.

Q&A

Thank you, George. Mario, if you could join George on the stage. We're now happy to take your questions. Just start with – if we can keep it to a maximum of two questions per person and if we get time, we'll go back around before the end. Go on James, you are first. If you can just keep your hand up so they can see where to bring the microphone.

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you. It's James Shuck from Citi. So two questions from me. George, capital allocation, you've obviously given us a teaser for the year ahead and going into the Investor Day next year. If I think about the ROE of 13% and that target, obviously Farmers is making a very high ROE within that number. Excluding Farmers and also probably LatAm as well, the underlying businesses are probably – there's probably a large chunk of that that's making low-single-digit kind of levels. So just interested know where is the most room to improve the underperforming units, if possible please.

And then secondly around that sort of local view versus global units, I'm just interested to know about direct platforms versus kind of a more local view. So if you were to take a centralized view and move to global platforms as opposed to local businesses, what is the best potential on that side, please? Sorry, I'm not feeling too well so, excuse me.

A - George Quinn {BIO 15159240 <GO>}

I hope (01:11:03). I'll take the first one and then, Mario you want to take the second one. So, on the first one on the cap book. So, maybe in defense of my colleague is a bit more – is a bit harsh to say that Farmers in Latin America are fabulous and maybe the others are where all the improvement can be. There's no doubt that we benefit significantly from other Farmers in the group.

I think if you look at all of our businesses, there could be improvement even in the best ones. I think – I tried to avoid that we did too much of what we did in 2013 and create an immediate expectation of this giant bloke that can be completely unlocked. But I think at the same time, if you think of the change in the market environment in 2013 and some of the things that we would have wanted to have done then are more possible today.

There's more than active market to allow us to look at either moving the money around, reinsuring or doing other things. Those are all some of the challenges that we have. I'm not going to get into a long list. I'd like to actually do some of it before we get into the detail of where we think we can see the benefits. But when you look at the group overall, I mean even at a 13% ROE, what do we have? Couple of points of improvement from Farmers?

I think if you allow for that, it probably understates the performance of the rest because the group has a famously modest risk appetite when it comes to assets; so we don't chase asset risk maybe so much. So I think the benefit of having Farmers is more stability in the balance sheet and in the other part of the operating performance. But there's loads of room for improvement in the P&C business. You can see areas where we underperform at the moment, but we think we can improve. On the Life side, it's no great secret that on the back book side, I think there are opportunities for us to do more and improve performance there. I mean these are all topics that we want to spend more time on and act upon in 2019. Mario.

A - Mario Greco {BIO 1754408 <GO>}

So, platforms. It's – so history is – hasn't been positive for us, hasn't been positive for the industry. This is a service industry, service has to be delivered locally, even things like direct. We don't believe that you can have a global platform servicing all countries in the same way. We tested that years ago, we went strongly into building global or regional platforms. With sales, we went back, we thought about that. Now, we have some service platforms around the world. We want to have standards. We want to have a common experience of customers touching Zurich. We want to have know-how transfer and we want to learn from what succeeded or failed. But we don't believe that you can run this business with global platforms. And so we're not going there.

That side, Michael.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you very much and I like your energy, even haven't heard your new guys, but your energy is very good. The – two questions, one, in the past, you've given us a cash flow figure; here you've given us a cash flow indication. And I just wondered whether you could give a little bit more insight into what's different from last year. Is there still some uncertainty? Why is the number a little bit lower? And where you would see that cash flow develop in the next couple of years? The figure I have in mind is well over CHF 4 billion annually, but maybe I'm too optimistic (01:15:07).

And then the other question is on the ROE slide. So, George, you sounded almost tearful as you said that you're going to reduce workers' comp, which is a really high ROE business. Sorry, I'm exaggerating. But the – in the slide, I think it's slide 25, the ROE slide, I can't see the impact of reducing that high ROE long-tail business. Maybe you could help me on that. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yes. So, on the cash flow number first. So, what's changed from last year? And I think as we approach things, this time last year, there were uncertainties around some of the way our business was structured and operated and we've resolved one of the major ones positively, which is the U.S. tax reform topic. So, that's one of the big uncertainties gone.

I'd say the remaining uncertainty that we have – that we allow for in our cash planning is around Brexit. I think we know what the answer there is going to be; we've allowed for it. It's just not really clear what Brexit is going to be at this stage. Maybe we can chat that over lunch, but until we see everything aligns, I don't know there. But I mean incrementally, I mean, we are in a stronger position than we were a year ago and we're already in a pretty strong position to begin with. I'm going to avoid the temptation to quantify a number. I mean, we'll come forward next year with our plans for whatever that piece (01:16:35) is going to be, whatever those targets will be, but I'm sure you'll still see cash as part of that.

On the ROE, the concept that I would be tearful about reducing (01:16:47), I'm just looking at Kathleen because she suffers on this topic all the time from me. The reason you don't see it of course is that I mean it has quite a long time before it has an impact on ROE because you've got a long-tail business that's throwing off quite a lot of investment income.

So even if you had a radical reduction and that's not really what we're looking for, we're looking for a shift in mix. I mean, you would take several years to see it. I mean, one thing that you're an aficionado of is IFRS 17, I mean once we have that, you'll see those changes come through much more rapidly, but even those four or five years away. So it's that accounting thing; that means you don't see it there yet.

Andrew.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Thanks. It's Andrew Ritchie from Autonomous. First question on Commercial versus Retail and other. I sort of detected another step away from Commercial in your commentary as in a further change in business mix. I mean, I guess Zurich is still one of the four global commercial franchises in terms of market capability, but the emphasis on getting closer to the customer, that's obviously Retail (01:18:08) Commercial. Is there still – have you sort of slightly more given up on what the expected profitability can be of Commercial? I know that has been slightly more challenging to improve than maybe you expected?

And the second question, a simple one. George, you talked about additional reinsurance purchased for 2019; I guess you're negotiating that right now. But could you just give us a flavor as to what areas you are buying more reinsurance for? Thanks.

A - Mario Greco {BIO 1754408 <GO>}

Yeah. So Andrew, I'll start with the Commercial question and then George will address you on the reinsurance one. So on Commercial versus Retail, at the beginning, when we choose to go for the customer-oriented journey and not a consolidator journey, it was just because we were very well aware of the strength of our customer model in Commercial. We thought we have the culture to do that. We have a very strong skill base on serving customers and so we can expand on that and we can make that the differentiating factor of Zurich.

So, we like what we do on Commercial. We think we are unique and we think we will keep strengthening that. However, when it is too much is too much, I mean, insurance is about balance and you have to get the proper balance. And second, the market is quite soft and so there is an element of tactics in what you do, right? Strategically, we want to become a customer-oriented company. But tomorrow if we had a soft discount request by customers, we will consider that with the finance side on (01:20:04) with the combined ratio targets in mind and we will take appropriate decision. And this is tactics versus strategies.

We can't just grow the business and their relationship destroying the P&L and destroying the profitability of the business. And it's about finding the right balance and I think we have got the right balance over the last years. Combined ratio improved. We haven't lost. Actually, we have acquired many customers, but we have been very careful in balancing our exposures where we wanted these exposures to be. And I think in the break-out, I mean, Juan Beer in Switzerland has been running the Commercial business for years. He knows that well. I mean Paul has been running the U.S. business Commercial for many years and he knows well. I mean they can give you live examples of this in the breakout.

A - George Quinn {BIO 15159240 <GO>}

On the reinsurance topic, so without necessarily giving my shopping lists in public, I mean we focused earlier this year around liability. So I think as you all know, we put a large liability program in place in the U.S. That will take some time to earn in. You can see in GWP, but you haven't yet seen it in the income statements. That will be middle, end of next year before the full effect comes through.

That, for us, is strategic. So we would expect to keep that in place in the long term. We're looking to support our clients. Just from a mix perspective, we'd like to shift the mix. And reinsurance, given that that business is actually profitable, is a good way to do that.

We also focus on Financial Lines earlier this year. We've added on the Financial Lines side and one of our major markets is a market that we see is a bit more challenged. We're looking for the package of reinsurance to help us not only with things that will give hopefully positives in profit and upsides to the reinsurers, but also ways in which they can help us bridge to some – a more focused business in some areas. And certainly, Financial Lines is one of those areas.

Billing credit (01:22:16) earlier this year as well. Current focus is cat, but then we're talking particularly about the region. That market – I think we see as generally is good value. But even though the exposures are relatively modest, maybe we could bring them down in a few of the areas that maybe haven't been tested so much by a bit more. I think you probably also remember that about two years ago, we did a – not a strategic, more a tactical cover around property, especially the large corporate commercial property in the U.S., we're looking at extending that concept. We get good support from reinsurance partners around that topic.

And then the last one, so when I presented the slides early, you saw that one with less volatility, which is of course really good news. The challenge with it is that we've got quite a lot of reinsurance and we have manmade accumulation. And that doesn't work so well for us currently. So we're working with the particular partner we have there who (01:23:13) done a great job to restructure that cover just to make it swear a bit harder for our shareholders. They've benefited from the improvements that we've made as much as we have. But we need something that works for us there. I mean these are really the changes that we're making in the reinsurance program.

Hadley? Or Nick?

Q - Nicholas Holmes {BIO 21515144 <GO>}

Nick Holmes of Soc-Gen. Just one question for Mario, please. With your customer-focused strategy, is there a danger that you might actually end up giving away profitability? What I'm thinking here is that I imagine like most insurers, your most profitable customers are those that are least price-sensitive. For example, renewal pricing, we know, is differentiated somewhat against new business in the favor of the insurer, generally speaking. And I just wonder what your thoughts are about this, whether – how you're going to really provide good pricing to customers that is in your interest and in theirs? Thank you.

A - Mario Greco {BIO 1754408 <GO>}

Yeah. Nick, this is a very fundamental question. So on pricing, pricing matters, but not that much. Customers are not that price-driven except for some specific lines like motor where the service, the product is a full commodity. And you see the other across markets. We have run research over years across markets, service matters much more. So to move what is on this chart here creates higher retention and higher product density. You don't have to discount. You have to provide the services.

What drives that is not at all any pricing pattern and any pricing reaction of the customers. It is simply starting to make insurance relevant for the customers and trustworthy, which is what this industry has never been, right. And this is confirmed all over the world by every market research you make. So there is a huge, huge potential to move that. And we experienced ourselves that potential, positive and negative, almost every day.

But then what you see on the bottom is the profitability impact of that. So if the customers are more persistent with us, so they stay – if they stay longer, their loss ratio is naturally lower. And if the customers stay longer with us, our acquisition costs (01:26:16). Remember that acquisition costs are the highest costs that we have in the Insurance business. The thing that it cost us the most is acquisition, right. And insurance for centuries has been journey, right. You spend every year to acquire 20%, 30% of your business that you have lost on December 31. So, I mean, we have no doubt that this is profit-enhancing. The question we are trying to challenge ourselves and to assess ourself is how fast this would turn into profit, how do we measure that? I mean, it's the same question in the sense that the board has asked us, how do we measure the speed of development of this and what is exactly the measure of success, over which timeframe? But, I mean, we are absolutely clear that this is a profit driver. This is a growth driver and it can only be beneficial if we do it right.

Peter.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thanks a lot. Peter Eliot from Kepler Cheuvreux. Two numbers questions please. George, you commented that we're at the top end or even above the top end of the guidance range on PYDs and heading upwards. So, I'm just wondering if you could comment whether the guidance is out-of-date in that respect or how we should think about that.

And secondly, just returning to the ROE walk. Apologies if I missed it, but I was surprised by the full percentage point given to Venezuela, maybe I shouldn't be. But could you just explain the moving parts there? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Sure. So, the – I think you're completely current on PYD. So, we announced earlier this year just given the recent experience what we see in the strength of our reserving position, we think the top end is more likely – I think we're not avowed to raise that guidance again. So, that's what we think we're going to be.

On the ROE walk, the reason it's a full one point. So, there's about $250 million, $260 million of unrealized currency translation adjustment on Venezuela that currently sits in equity. The accounting is that when that transaction closes, it recycles through income and into retained earnings. So it's in the balance sheet already. There is no cash impact. Unfortunately, there's no tax impact. So that's going to be why you get the bigger impact than you anticipated, but that's a driver.

Vinit.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Vinit from Mediobanca. Just two questions more on the Life side please. So George, you said that it should continue into the future as well, this strong result. Could you comment a bit, is it more due to the in-force management nature of activities which you control or is it more just reliance on markets which are different, I assume? So could you just comment on what is driving this because when you look back at some of the commentaries over the year, there's been a lot of mentions about policyholder crediting rate in EMEA and those kinds of drivers as well. So please comment on that.

And secondly, it's a Life question, but maybe a bit more strategic as well that one of the reasons you are so happy with Life is protection and one of the possible reasons is the corporate life book. Now when you go to these customers from the GI side and say, hey, we don't want to do that much business with you, how does that work with this whole relationship as a combined entity? Thank you.

A - George Quinn {BIO 15159240 <GO>}

So, I think maybe the second question, I think it's safe to say that that's not how we approach it. I mean, obviously we want to be a full-service provider as much as we possibly can be to our corporate clients (01:30:15). I think on these topics around the employee benefits side of things, I think we have a leading proposition. I think we do that at least as well as our peers in the market, maybe a bit there (01:30:25) in some cases. So we don't say we don't want that, we only (01:30:30) want that. That's not how it works.

On the Life side, so what drives the confidence? So you mentioned the crediting rate topic, which of course is one of the macro-driven issues. And I think one of the things that drives the confidence is that we're not really dependent on that. I mean we do get some ups and downs, so of course we had a benefit earlier this year because of the change in crediting rate in Germany, but actually I mean our business is driven by a combination of a very well-placed in-force portfolio that will drive income even with short-term volatility and a book that's focused on protection fees, albeit fees, some of them do have exposure to asset markets and they can go up and down a bit. But I mean, you see the relative weights of our business. I mean we're not as macro-sensitive as we would be if we had a much larger guarantee with the reinvestment challenges that come from that.

In fact, I was chatting to one of you before we came in here about interest rates. I mean you guys follow this at least as closely as I do. I mean in Europe, I mean we go up a bit, we go down a bit, and we end up back where we started. We're fortunate that we don't have that much exposure to that particular issue. That's what drives confidence.

Jonny?

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, Jonny Urwin, UBS. Just two questions please. So, quick clarification on the ROE walk on slide 25. So the 50 bps potential reduction from OnePath being delayed, is that assuming it doesn't come in for the whole year? It looks high if it does close in at the end of 1Q. And secondly, on claims inflation, what are you seeing on longer (01:32:18) in the U.S., particularly workers' comp? There were a few signs of increasing frequency on claims inflation coming from some of the U.S. reporters. Thank you.

A - George Quinn {BIO 15159240 <GO>}

So on the ROE walk, so we have an assumption that the thing closes and (01:32:33) for nine months rather than 12, but all the expenses. So of course, there's a running cost that we associate with it currently. We have no transaction to put it to. So that maybe causes it to be a bit higher than you may anticipate. On inflation, I mean you do see some variation around frequency and severity.

I'd say that the current inflationary trends around workers comp still seem to be extremely benign. And of course, that's partly reflected in a market condition around the pricing side of things that is particularly positive for workers' comp. And inflation, there is some fluctuation to infrequency and severity, but the overall answer (01:33:11) is still very low by historical standards.

Farooq.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thank you. Farooq Hanif from Credit Suisse. You showed the relative improvement in your expenses versus your peers. Obviously very impressive. But when you benchmark on an absolute basis like-for-like with your peers on business lines, do you think there's a lot more to do? That's question one. And the second question is, obviously you've been cutting expenses if you talk about it being a (01:33:50) of net cut and we've seen that in the numbers. But companies do need to invest obviously and you've talked about services. You've done a lot of partnerships. But to what extent can you give us a guide to how much you think you need to invest in those partnerships or in acquiring or building internally that framework? Thank you.

A - Mario Greco {BIO 1754408 <GO>}

So, I'll take the expense question because I don't want George to scare the colleagues here. So, better take it myself. Look I mean, yeah, the potential for expense reduction is huge in the industry. The industry hasn't been reducing expenses for many, many years. And so compared to any other industry, close or distant from us, we will reduce expenses over, over years. Everyone will do that, right.

And so the process will continue and it will make the industry more and more efficient and it goes together with transparency, with the customers seeing exactly where their money is going. I think we have been acting as never done before in the industry because I've never seen, I have no memory of anyone reducing the nominal expenses ever before, right. And this has been strongly beneficial because it also reduced complexity.

When you talk about simplicity in insurance and when you talk about getting people back to business, it's also about the cost reduction unfortunately. I mean the reduction in the group costs improved a lot. The business focus that we had in the countries, not just because it took away charges, but it took away securities (01:35:41), it took away requests, it took away things that consumed time. And we still have to completely turn around ourselves, our industry and our company to customers, to business. And so there is more to come in and it will continue.

About how much we need to invest. I mean, to be honest with you, this is a journey where every morning, you discover what is the next step in the journey. So I can tell you this now. I mean definitely, we want to come next year with a better answer and with a clear assessment. I mean so far, what we knew three years ago was that investing $800 million per year was more than enough in restructuring and turning around the business.

Now if we look back on how much of this $800 million went into these new initiatives, it was a portion of it. Because a part of the investments have been in restructuring ourselves. And so not everything went into customer-oriented changes. And not just because we did not want to do it, because the beauty of this time is that it is extremely cheap to invest in application, to invest in connectivity. There are lots of opportunities out there, which cost you nothing compare with the IT costs of 10 years ago. But I can't give you a number today and hopefully we would be more precise in a year time because as I said, this is a journey where every day, you discover what's going to be the next step in the journey.

Okay. I think we're going to have to stop it there to try and keep the day on track. But hopefully over the coffee break now, you can ask further questions and I'll see this breakout sessions later and also management will be around over lunch if you've got further questions you'd like to put through.

Thank you. Coffee will be served outside. Perhaps just one reminder, if you've got a green label on your name tag, that's in this room for the breakouts afterwards at 11:30, red, blue and yellow are upstairs on the first floor – on the mezzanine floor. Thank you.