Q3 2021 Sales and Revenue Call

Company Participants

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

Other Participants

- Andrew Ritchie, Analyst
- James Shuck, Analyst
- Louise Miles, Analyst
- Michael Huttner, Analyst
- Peter Eliot, Analyst
- Thomas Fossard, analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good morning, good afternoon everybody welcome to Zurich Insurance Group's Nine Months 2021 in the Q&A Call. On the call today, we have our Group CFO, George Quinn. But before I hand over to George, for some introductory remarks, just remind us of the Q&A please keep your questions to two. George? Thank you.

George Quinn {BIO 15159240 <GO>}

Thank you. And so, good morning, good afternoon to all of you. Thank you for joining us. So just before we start the questions, a few introductory remarks. So as you've seen from today's press release, the group has continued to make strong progress towards 2022 strategic and financial goals.

The underlying operating trends as the business continued to be very strong and we expect this to continue through 2022. Rates have continued to be very strong with for example at the nine-month point to North America increases 13% with 12% in the discrete of quarter.

We've absorbed the impact of several major events throughout the course of the year, including the June weather events in Europe, the major flooding in Germany in July, and hurricane Ida in the US in August. We estimate the impact of Ida to be around $450 million. The combination of substantial rate and a strong market discipline extends the very positive outlook for margin improvement.

In the life business, we've reported life new business value up by 25%, helped by a favorable mix and higher sales and we continue to manage the business for value rather than volume with a focus on our preferred segments have protection and unit-linked. Farmers has benefited both from the inclusion of the MetLife P&C business that we acquired earlier this year and also growth on a like-for-like basis.

The Group's SST ratio remains very strong, 203% up materially from the 182% that we reported at the beginning of the year, but then modestly from the 206% at the end of the first half. As we plan to transition to IFRS 17 in 2023 we've adjusted assumptions to reduce the potential for volatility and our life business post aoption[ph]. We may take some additional steps as we continue to optimize for IFRS 17 but I don't expect this to be significant.

With that, I'd be happy to take your questions.

Questions And Answers

Operator

The first question comes from Louise Miles from Morgan Stanley. Please go ahead.

Q - Louise Miles {BIO 20765435 <GO>}

Hi there, good afternoon. Just two questions from me, please. And the first one is on the life APA. So I noticed life APA, third quarter in 2021 was down quite a bit, looked like it was down about 10% versus 2020. They are able to give a bit more color on this. Presumably some of the effects. But I think there must have been something else as well that I missed. And then on the second question, I guess I'll ask a quick one on the life back transactions. Obviously, you said at the beginning of the year you aim to do something in 2021. We've got less than two months, less now. So what is the update here and how that being an unexpected delay or were you always expecting it to be an announcement at the very end of the year and if you can you able to kind of give us a bit of color on the life back book transaction and market conditions at the moment. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Louise. So on the first one on APA, Europe has got slightly tough comparison to the prior period. And then they had a very large transaction. We had a one-off deal to help boost the volumes last year. I mean, as you can see from the new business values we've actually driven a substantial improvement and new business margin over the course of the year, which has benefited and new business value development.

On the (inaudible) I'm going to resist the temptation to say too much because I'm going to cover in someday, so the investor update next week. I think all I would say is it's a very high priority. We are very keen to demonstrate progress rather talk than about it. In terms of my view of timing I'd like to see it faster, but we are working as fast as we can currently to try and demonstrate progress.

So, if you allow me, I'll come back to it more next week. From a perspective of the market. I mean the -- I mean there is considerable interest in the market. So, there's a buyer pool out there. I think that construct a good indication of what the market prices for these types of assets and from what we've seen and the prices that we would expect to achieve a consistent with what we would need to get to live up to a commitment that the things that we do in the bank book should be ROE accretive.

I will come back to more next week if you permit me.

Q - Louise Miles {BIO 20765435 <GO>}

Yeah, that's fine. Thanks very much.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. My first one, George I'm wondering if you are just able to comment on how comfortable you are with your reinsurance cover, as it stands at the moment and any thoughts you might have on looking into next year. Whether I mean just depends on prices, but whether you might be looking to pick up more copper next year and then the second question was just on the solvency. I just wonder if I could sort of clarify the process that led to the assumption change. I mean, my take is that your work on IFRS 17 just caused you to take a closer look at assumptions and in taking that closer look you decided to strengthen the assumptions. Is that correct or is there sort of close linkage to IFRS 17. Thank you very much.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Thank you. So on the reinsurance topic, I don't expect us to significantly change the program that we're going to place. I think we like a combination of something that gives us some protection from frequency and something more significant it protects us from severity. So we would be looking to maintain the structure in a form that's as close as we can. The one that you see today. I think when it comes to more cover I mean, to be honest, I would rather manage the incoming risk than look to buy more reinsurance if we feel that there is a pressure to do that. And I guess we'll come back to this topic later in the call, but I mean, from an overall perspective, I mean we've just been through the planning process for next year, we've allocated out the capacity and expected losses from (inaudible) is consistent with the level that we've communicated in the past. So we will use the incoming side of things to manage it more than get to relying on the reinsurance side.

On the solvency topic, it's an interesting one, because, you got this for unusual and at least partly unexpected (inaudible) SST and IFRS 17 and across the key generics is best estimate assumptions. I mean we are a boat to move into parallel run for IFRS 17 next year, which means we're about at the transition date for us and if we leave any vulnerabilities particularly on the life side on the best estimate assumptions there is a risk that their P&L relevant for us to create volatility. So rather than going to the point where we see this in the middle of next year. I mean, have to rerun the entire thing, I mean -- this feels at the right time to address this issue. So we've been looking at the assumptions that we have in the life portfolio and if we feel we have a vulnerability or a concern we want to probably make sure that it doesn't show up as P&L volatility within IFRS 17.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. That makes a lot of sense. Many thanks. George,

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

The next question comes from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. And the, really only one question is when will this growth coming from it was really growing at 11% at the moment, I don't get it. I must be getting adultery (technical difficulty) 3% and is it sustainable should we start seeing[ph] a growth stock and we should trade you at 30 times or something that's really my only question. Thank you.

A - George Quinn {BIO 15159240 <GO>}

I mean, what you're seeing at the moment it's obviously a combination of very strong rate on the commercial side that completely outweighs and I think is happening around GDP. I mean I think the really positive despite from what we see at least in Q3 as the rate continues to be very strong. We've seen it sometimes very slightly in the US, but I mean, I expect that we'll continue to see a significant positive gap between headline price and loss cost trend. I mean, well into next year, which means we'll continue to see margin expansion play out for at least another 12 to 18 months. Everything being equal.

I mean the GDP part, you've been around long enough to recognize from the past that even when GDP is strong as the cycle is not your friend, you don't see the GDP benefit there either. So I mean I know you know, you need to view GDP from a longer-term perspective. We've also had the benefit in this quarter, we highlighted the growth in customer numbers.

So, our retail business has been doing pretty well. All of that is clearly rebates from what's been happening over the course of the last 18 months and as some of the key markets have opened become more open we've seen a significant rebound in retail activity, which has been a significant tailwind for us. So as we look into next year I still expect the Group overall retail and commercial to produce overall growth rates well above GDP.

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic. I am in for the ride. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Michael.

Operator

The next question comes from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. My first question is just one question in the sense is one sentence in the press release, I think we could do a lot more color on, and the sentence is technical profitability is expected to continue to improve despite capital cities[ph] which are three to four points higher than long-term average. I guess it leads me to two related questions. What do you mean by technical profitability is it expected to continue to improve. I mean, I think if I mathematically work out what you're implying for the full-year 21 cat load, I think at the half year you said it would be up about 5 points. If I assume an average in Q4 it now looks to be more like 6 or 6.5. Are you suggesting that the underlying ex-cat has improved sufficiently to offset that that miss, if you like and also you used the term long-term average.

I guess, the problem is the long-term average keeps going up, so how comfortable are you, you said in the past, an average of 3.5. Is that still the right number. And the second question, maybe it's not a question. Maybe it is just a comment, I thought we had dealt with the life assumption changes in the SST updates in Q4 in 20 -- beginning of 2020 and I guess are we to assume that this has follow through impacts on the likely emergence of cash in the life business or not. I'm confused. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yeah, I'm sorry to hear you've confused, Andrew. So on the first part on the cat losses. The comment I am making is about the I mean, as you'd expect given the rate that we see in the rate in excess of loss constrained we continue to see a significant improvement and the ex-cat combined ratio for the group. You saw evidence of that at the first half and even with a very significant cat losses that we had we produced a very strong technical performance.

I think the comment in the press release wasn't intended to mean that no matter what happens from a cat perspective, we can absorb all of that because that's clearly, I mean that's not possible for us to do given you can't have short-term volatility from current -- with the comment I was making there was really about what we're seeing in terms of the underlying trend, which continues to be very strong.

So as I guess the key thing then becomes, what do you think the cat load should be. I mentioned in response to the earlier comment, I think it was the earlier question from Peter we've just been through the planning process. I think you sounded, right, if you look at the last five years.

I mean last year if you include COVID we had more significant losses 2017 was also a pretty significant year but again if we look at what we believe, if you look at what the models are telling us updating it for current trends we want to maintain a cat load for the Group just around this level that we've indicated is a long-term average. So that means that if necessary we will take just to make sure what we bring into the portfolio in the first place it gives us higher confidence so that's the outcome at the end of the process. So we're not sitting here simply accepting will come through. Not necessarily believing a very long-term view on the model[ph] side, we actively manage this to try and maintain an outcome that is consistent with the guidance that we gave you. But this is a pretty extraordinary year. If you look at what's happened I mean you've seen it. So we've seen Texas freeze. We've seen the hailstorms across Germany, Switzerland, mostly at the end of Q2. We then got the floods principally in Germany in the middle of July, we then got hailstorm again in Europe towards the end of July, and we coupled that with Hurricane Ida at the beginning of September.

So I mean, if you ask me, do I think that's a new norm I don't believe that, but it is clear that there is increasing frequency and severity trend for cat[ph] events. As I told you (inaudible) cover the investor update next week and I will get into a bit more depth to what we are doing to make sure that what I am describing to you is the outcome that we achieve. On the SST assumptions, I mean, I guess, here the, I mean there is now been running the IFRS 17 environment for quite some time.

I'd say that we start to get a bit more familiar with how it works in some of the key drivers within it. I suspect there's still quite a bit more learnings to be done before we get to the publication point in 2023 and here mainly because of the way the CSM works and the risks will start pose significant volatility into the life result.

I wanted to be more conservative over some of the key assumptions in life, just to reduce that risk to an acceptable level, so I think we're trying to be prudent today, rather than to reflect particularly negatively about life business. We don't have that. On the cash things, sorry, go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

(inaudible) cash sorry.

A - George Quinn {BIO 15159240 <GO>}

]Yes, so on the cash side. I don't expect it to have a significant impact on cash, I mean what we've done is, it's not tiny. But given the the period over which this impacts local statutory performance, you won't see this of any meaningful impact.

Q - Andrew Ritchie {BIO 18731996 <GO>}

And to be clear, there is no impact on our IFRS 4. I guess we've got Q4 or the second half 21 and full-year 22. There is no impact on that?

A - George Quinn {BIO 15159240 <GO>}

No, there is no impact. I mean, the key issue here. If they get into that alone like an IFRS 17, (multiple speakers) so I mean IFRS 4 is maybe you look at it, let's call it significant groupings of individual contracts to construct portfolios and you look at headroom across the entire portfolio and IFRS 17 changes the approach to that and it means you are just at more risk of volatility around some of the longer-term assumptions in a way that you would not recognize IFRS 4 because you'd have positive headroom from other parts of the portfolio that would offset, so I mean that's the motivation for today. But you won't see an IFRS 4.

Q - Andrew Ritchie {BIO 18731996 <GO>}

I particularly ask, back to the non-life underlying question. Are you suggesting, clearly it's not been possible to offset all of the additional cat, I get that, might be suggesting shouldn't necessarily assume a bottom line impact of all the additional cat, do you see what I mean, I think you were willing to give color around that back in Q1 I think.

A - George Quinn {BIO 15159240 <GO>}

I think yeah. So I would summarize it exactly as you have just done. I don't expect to offset all of it, but given the improvement we're seeing I expect to absorb some of it.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Excellent. Thank you.

Operator

The next question comes from Will Hardcastle from UBS. Please go ahead.

Q - Will Hardcastle {BIO 22230376 <GO>}

Hey, afternoon, everyone. Just the first one is a clarification on that cat losses year-to-date. So you're running three to four points above. I'm just trying to understand is that for the 9-month run rate. Well, that's what you're saying for the full year and just linked with that, I guess how far through the aggregate protection are your nine months. Is there any color you can provide on that. And then the second question is just thinking about clearly very good about the rate exceeding loss cost inflation for longer[ph], I guess just what we talk in that inflation within that, is there any early signs of any emerging quarter on quarter. I think it was fairly sanguine at half year, just if anything caught your attention quarter on quarter that's noteworthy. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yeah, thanks Will. So the three to four points is year to date. So I guess without making any forecast for Q4 we've had a reasonably quiet quarter so far. But in general, Q4 is one of the quieter quarters in the year. On the aggregate, I think I mentioned this to you guys early in September. I mean given the number of losses I suspected back in September that we will go through the aggregate and you can imagine, given the numbers that we have. So cannot aggregate at this point, it is exhausted. But we said that all of the regional (inaudible) are currently untouched. So the group is still a significant protection against severity.

On the inflation topic so it depends whether we're talking inflation in the traditional sense or inflation in the social inflation sense, maybe I'll cover both. I think in the traditional sense of the CPI topic, I mean I actually where we see it probably we spend more time on it is actually in a bit of competition for talent, I mean, some of our markets, we're seeing quite a better demand. We've got a good team, they tend to be (inaudible) to other organizations, and we've had to work hard to try and make sure that we hang on to them.

And so, we're certainly seeing some impacts of inflation from that competitive aspect. Otherwise, on the traditional inflation side, it hasn't shown up in a particularly significant way. I mean there is certainly some of it already in Texas freeze. We talked about that at half-year. I mean, we don't see significant evidence that it's having a continuing impact on the portfolio. So for the time being inflation despite the headlines for example from last night is manageable for us. On the social inflation side of things, the reality is the cost[ph] particularly in the US are still reasonably quiet. So we haven't seen the throughputs that we might have expected. And I mean the most recent what we've done in underwriting (inaudible) no significant change in the loss cost assumptions that we had before. So we're still in that 5 to 5.5 range if we're focused on the US.

Q - Will Hardcastle {BIO 22230376 <GO>}

Thanks, George. Just as a follow-up on Q4. I guess you're saying that (inaudible) US hurricane periods is that right. Obviously, we can get cat loss in Q4, but how much. I think it's well below that sort of long-term average for the annual run rate, is that the message normally.

A - George Quinn {BIO 15159240 <GO>}

Yes, you can definitely get cat losses in Q4. If all this maybe you'll remember some of them. I guess the point I was making as you say it tends to be a lighter quarter than the (inaudible) Q4 for example, and I guess the point I was just making was that so far, albeit we still have another half of the quarter to run it's been reasonably quite.

Q - Will Hardcastle {BIO 22230376 <GO>}

Thanks.

Operator

The next question comes from William Hawkins from KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks, George. Andrew stole my thunder. I kind of echo his question and employed comment about this technical profitability statement. Can I just clarify your answer was helpful. But I'd like to just understand why, I mean you were very clear saying you've taken more (inaudible) but hopefully some but not all of this will be absorbed by the underlying experience what exactly is the underlying experience. Is it kind of one-off in nature or something that's sustainable, because the bigger picture that you are giving us as you know, there is no major change in your rating commentary relative to June. And my guess would be if anything inflation is a bit worse rather than a bit better. So it's the extent that you are absorbing some of these nat cats, what is enabling you to do that. I don't know if you could, for example, just be timing issues that you've decided to be more optimistic in your initial loss picks but maybe something more fundamental.

Secondly, please. When you're talking about the rating outlook. A lot of what I'm hearing from you is kind -- kind of term stronger for longer, you're talking about the good news lasting for longer, what do you actually think about the good news in itself because as you said, we have seen in the US rates increases fading slightly, so is it your expectation that they continue to fade, will remain at this level, but we should take the clock out longer or are you actually optimistic that maybe rates could tick up again, given the pressure that people are seeing.

And then lastly, please just to check, I think you may have just alluded to this, but I wanted to check. I've had a rule of thumb in my mind at the Group level that we've got about 8% rate increases about 5% claims inflation. So the net benefit to the attritional loss ratio per year is about three points if that understanding has been correct is that sort of still where we are or do you want the 8 minus 5 equals 3.

A - George Quinn {BIO 15159240 <GO>}

Yes, thanks. So on the first one. I guess what I would say is that I'm a cautious person. I think I tend to have a more conservative outlook of what might happen with price with certainly recent experience would have taught us to expect so I guess what makes sense of the answer to Andrew and again more price than I expected we would, when I commented back at the half year, which I guess connects to the second question about rating outlook I expect it to moderate. I mean, to be honest. I know I made a comment on the Q2 call this environment seems to be lasting for longer than certainly I expected. I had an investor criticize me for potentially talking down in the market.

I'm not only talking in the market. I don't want us to be optimistic about where pricing is headed. But one thing that is absolutely crystal clear, is this thing has sustained itself for much longer than certainly I would have expected, and that additional benefit that it brings us will help us deal with that topic that we covered earlier, but I do expect it to moderate. So, I mean the comment I would make today given from -- given where we are currently. I mean, I would expect this still to be positive on price versus loss cost trend through most if not all the next year.

So that would push the point at which we would hit peak or -- peak or low. I'm not sure what the right characterization would be but the strongest outcome for underwriting margin I would push that somewhere into 2023 at this point. On the -- (inaudible) I mean it's not bad. I think the -- the only thing that I may recommend. I think five overall on the inflation side is quite higher than I would have had in my very simple (inaudible) but it's not going to be fairly far away.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you, George. That was helpful.

A - George Quinn {BIO 15159240 <GO>}

You're welcome.

Operator

The next question comes from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. George, thank you. So my questions both on the non-life side, just coming back to the Ida[ph] catalog of $450 million. You said, I mean I would have guessed it would have been lower, because many of the peer group we can see we're somewhat in line with the three hurricanes individually in 2017. And this 450 feels a bit higher also given that it might have some aggregate cover benefit, I am not sure again, if you could just comment a bit about is this 450 a bit higher or anything that you can add to that. Please be helpful.

Second thing is BI litigation is now sort of happily forgotten topic or at least favorably emerging topic compared to six, eight, or nine months ago, but is there any room you think of the PYD[ph] movement, given that we have seen several favorable outcomes on litigation BI in the US mainly and could that be somewhat helpful also in this very busy quarter from PYD perspective. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks Vinit. So the -- I mean is slightly hard to compare things to the peer group, I mean we do regular updates with leadership here and what we see in the peer group and we say on year to date what we've seen from the US peers we don't think we are out of line compared to others. We see ourselves as (inaudible). So far, it doesn't make a difference in how we manage the topic, but certainly compared to the US peers we don't see ourselves as an outlier.

On the, on the BI litigation topic I think in the US I don't expect the US outcomes to lead changes, I mean -- I mean from a very early stage. We've established reserves for the claims that we knew we would have to cover. We've had pretty good success. The industry has generally only the motion to dismiss approach and I don't really expect that to change given how far we move through the process. If you look at the remainder the UK continues to trundle along. I mean, there's a couple of topics that have been tested in the UK currently you'll appreciate, I can't speak to any of them specifically, other than to say that I mean we feel comfortable with how we reserved around the UK topics. I mean the one place that has produced a particularly positive outcome is Australia. So we saw a ruling in the appeal court in Australia, few weeks back, that was heavily favorable for the insurers that's currently being appealed this month.

I don't know precisely when we'll hear the outcome, but if that stands up an appeal. I mean that does offer a modest potential positive for us. The reality is that on the BI litigation topic, actually, to the extent we're successful most of the benefits will probably flow to reinsurers but in the context of Australia we would also keep some of that, but we'll wait for the appeal process to complete before we reach (technical difficulty).

Q - Vinit Malhotra {BIO 16184491 <GO>}

Alright. Thanks, sir. Very helpful

Operator

They the next question comes from James Shuck from Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi, thank you. Good afternoon, George. So couple of questions on Farmers just looking at the growth in premium income posted at nine months. Like for like basis is up 7%, but the like-for-like basis on fee income is only up one, seems to be a slowdown in management fees certainly at the headline level, I think we're running at 70 plus percent at H1 and that declined to 13% at nine months to (inaudible) what's happening there. Pleased to be helpful.

Secondly, just more broadly, we have a lot of focus on US commercial lines and the raised outlook just keen to get your thoughts on commercial lines, particularly in the EMEA region and little bit starting to see signs of hardening market beyond the US, and some of the factors affecting that please. Thank you.

A - George Quinn {BIO 15159240 <GO>}

So thanks James. So on the -- on the Farmers topic, I think there's two key topics that bridge between the two issues. So what we've reported today is GWP and of course the driver eventually is the premium, because that's the input into the fee calculation. It's also impacted by the slide[ph].

We've got some costs running through on the restructuring side related to the nat P&C acquisition. Those cost will always still run through most of next year. So as we get into the back end of next year you'll start to see not only the 7% margin. You expect to see on the -- on the let's call it the original Farmers business but also 7% margin on the acquired MetLife P&C business. I think the reason why you then see this delta between first half and second half. In the first half of the year, some of the Farmers growth is driven by the absence of the rebates that were provided when the lockdown started and that also distorts what we then earn by way of the first half -- second half.

I mean the good news on Farmers is when we have growth and the underlying farmers portfolio the MetLife P&C acquisition goes very well, rollouts of the approved products into the exclusive agent channel and in fact the rollover into the independent agent channel were essentially exchanges no offer for the first time, a standard product rather non-standard product is a very high take-up and I mean, albeit, we've only had a few months. The revenue trends that both we and the exchange see have certainly exceeded the expectations that we had at the point that we stopped the deal.

On commercial you're right, we do tend to focus more on the US market, just because there are so many external sources of perspective on price. If you look at Europe, which means the UK essentially when it comes to commercial again there has been very strong and it's also started to moderate in Q3. Again, we're not seeing a significant drop-off, I think you'll see a gradual decline over the course of the end of this year and well into next year. And if you look at commercial beyond the UK it never really saw the run up and rates that you saw in the US and UK markets and one of the things that we've been trying to do internally is address the issue of US liability (inaudible) Continental Europe, which of course should attract the same pricing trends as we've seen for the risk directly that's been tougher in the market in Continental Europe with less support. One last positive thing I'd probably draw in France, in Germany have been good more recently, but still UK, US are the dominant factors in price trends.

Q - James Shuck {BIO 3680082 <GO>}

That's great, thank you very much, George.

Operator

The next question comes from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. two questions, the first one would be on the dividend outlook, I appreciate it's still pretty early and the year is not over yet, but any comment George that you would like to make in light of the cat load environment and the profitability of the group, so far and the growth as well that you expect to report this year and make sure in terms of premium growth. Yeah, how should we factor all these elements in your thinking regarding the dividend.

Second question would be related to the inflation topic, and more specifically on the wage pressure maybe in the US. I know that your workers' compensation book is excess layer maybe you are a bit more utility to any things happening on this side. But at what kind of level of wage increases you will be less comfortable regarding the profitability of your workers' compensation book? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Thomas. I was joking with Mario before we started before the Q&A was over. I would have covered my entire presentation for the investor update, which is not a real risk. I think you are rounding out the last pieces of it. I mean I will do something that's a bit more detail next week, around the dividend topic, I mean I think today. I just want to reiterate the commitment we've made to investors. We've got an earnings target. So hopefully end of next year as you've heard today we fully expect to achieve that. It's important to us that investors benefit in the same way. So, while I can't comment on the dividend decisions, we're going to make for the end of this year and certainly not the end of next year. I would expect dividends to track those commitments on the cat topic, I'll repeat what we said previously unless there's something above the cat, that change our outlook and again in my opinion, there is note we will look through these events. When it comes to making recommendations to the Board and to shareholders on dividends and if you look at the history over the last few years, I mean we've had periods when the effective peer has been above 75 and pays when it's been below.

And that's kind of what you need to expect given that we can eliminate all of the volatility, even if we want to try and make sure that is very tightly controlled. So, if you bear with me and you have time next week I will comment a bit more specifically on this issue. On the wage pressure topics -- what was the question on growth Thomas?

Q - Thomas Fossard {BIO 1941215 <GO>}

Dividend.

A - George Quinn {BIO 15159240 <GO>}

Growth in the dividend.

Q - Thomas Fossard {BIO 1941215 <GO>}

No, growth impacting the dividend.

A - George Quinn {BIO 15159240 <GO>}

Okay. So, you mean the capital utilization and dividend. I think this was the question. All right. Not a concern for me. So the, I mean we were looking recently at, we're looking at the plans for 2023, we were looking at how much organic capital. We expect to generate and we were looking at how much growth and we expect to the (inaudible) use of that organic capital and even if we have more significant growth rates in the plan and you might be accustomed to given Zurich seems to be we are still not using all three organic capital that we generate.

So the growth in business is not constrained by dividend and dividend will certainly not be constrained by what we do. On the wage pressure topic and again I'm going to touch on inflation, next week, because it's, obviously an important topic and I mean wage -- wage inflation because it plays into the cost of living adjustment in workers' comp and because of the way that workers comp benefits that all combined with the point that you made about the high deductible nature of what we do, I don't expect this to be a significant issue for us.

I mean in essence, we end up with reasonably. I mean I can not quantify more precisely next week, but a very significant part of our portfolio ends up being more of a catastrophic type cover for major injury and other types of very significant workers' comp claim rather than the run of the mill slip for injury stuff that is mainly actually covered by our clients. So the wage increase topic doesn't appear to be -- certainly hasn't traditionally been a major issue for us. If you look at what we've got because of the nature what we end up covering medical cost inflation ordinarily much more important driver of our outcome.

Q - Thomas Fossard {BIO 1941215 <GO>}

Excellent. See you next week.

A - George Quinn {BIO 15159240 <GO>}

See you next week. Yeah and if you haven't already recognized the Group CEO Mario Greco was also in the room with us.

Operator

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

Q - Michael Huttner {BIO 21454754 <GO>}

Fantastic, thank you so much. And I was just asking for maybe (inaudible) CEO will answer. An update on deal appetite and I think George, the sell-side kind of Group virtual meeting you kind of, we spoke a little bit and I think we asked about Australia and then the other question is really very geeky, the natural catastrophes, what impact do they have on cash remittances either the timing or the amount. That's all, thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. So the man on my left is shaking his head, so he's going to decline the opportunity to give the to your question,

A - Mario Greco {BIO 1754408 <GO>}

Sorry, Michael.

A - George Quinn {BIO 15159240 <GO>}

No change. Michael, I mean, I think, I mean, obviously, we are focused on doing the things that were part of the priorities that we set for the end of 2019. And I mean, you remember that none of those priorities were M&A, I mean we have the luxury that we have a very strong balance sheet as the right thing comes along at the right time, at the right price, then we have the flexibility to take a look and to say whether it makes sense, but it's is not a major thing for us on the cash and.

A - Mario Greco {BIO 1754408 <GO>}

You did mention, we did discuss. I don't know if you mentioned, I probably mentioned it probably didn't know there was a story I don't know where it came from that Zurich was looking to sell its services to any operations

A - George Quinn {BIO 15159240 <GO>}

I think that was you rather than me.

A - Mario Greco {BIO 1754408 <GO>}

Probably. But I think it was actually (inaudible) I don't think I made it up completely.

A - George Quinn {BIO 15159240 <GO>}

I'm sure you didn't. But as you can see, I'm not going to comment on that. This the second issue, I think was cat (inaudible). I mean we gave an update for the half-year of what we expected. I mean this also slowly but as well as given the flexibility that we have the cash remittance plan. I don't expect to significantly deviate from that though I know that some of you be thinking it will be the impact as we move into the early part of next year as it has an impact on dividends that we declare then. I mean, we've just been through the detailed planning process, we think we have got a very good line of sight to what the cash flow should be up for the businesses next year even allowing for the events that we've seen and we are highly confident that we're going to deliver the cash remittance commitment that we've made.

Q - Michael Huttner {BIO 21454754 <GO>}

Brilliant, thank you.

Operator

Thank you everyone for starting in. That is the end of the call. If you have any follow-up questions please get in touch with one of the IoT. Thank you.
