Q3 2018 Sales and Revenue Call

Company Participants

- George Quinn, Group Chief Financial Officer
- Gianni Vitale, Senior Investor Relations Officer

Other Participants

- Andrew J. Ritchie, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Johnny Vo, Analyst
- Jonny Urwin, Analyst
- Michael Huttner, Analyst
- Nicholas Holmes, Analyst
- Ralph Hebgen, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Update 2018 Conference Call. I'm Sherry, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. The conference must not be recorded for publication or broadcast.

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

Gianni Vitale {BIO 19816633 <GO>}

Good morning and good afternoon and welcome to Zurich Insurance Group's third Q&A call. On the call today is our Group CFO, George Quinn. We have an hour today, so can I remind you to keep to two questions. And if we have time, we will come back to you with your follow-up questions at the end of the call. Before we start with the Q&A, George will make some intro comments.

George Quinn {BIO 15159240 <GO>}

Thanks, Gianni. Good afternoon, good morning, everyone, and thank you for joining this Q3 2018 Q&A call. Before I move to the Q&A, I'll make a few initial remarks for the first nine months. (01:18) to make good progress towards the 2017-2019 targets over the first nine months of the year. And we've also continued to execute on the key strategic priorities of strengthening the core business and increasing customer focus. And P&C pricing trends have been broadly stable over the most recent quarter, and we continue to achieve rate increases across all of the regions.

As of the prior year, the third quarter also saw a number of natural catastrophe events. However, I'm happy to confirm that the overall nat cat losses for the first nine months are only slightly above expected levels. And as you also have seen in the press release this morning, Hurricane Michael is expected to cost losses of around $175 million in the fourth quarter.

In both instances, we believe that our losses compare favorably to those reported by peers with similar exposures, and is a testament to both the improved under rating and the effectiveness of our reinsurance program. They also serve as a reminder the need to achieve adequate rate particularly in commercial insurance. And we've continued to focus on profitability over volume in the quarter.

Our Life business continued to deliver on the strategy of focusing on capital-light and protection business, coupled with success in winning a large corporate protection tender in Chile. And this continues (02:42) good margins, while also ensuring that our Life business remains cash generative.

Farmers continue to deliver a steady performance with improvement in underlying customer metrics and the performance of the Farmers Exchanges with this showing improved retention and growth in both new business and policy count over the quarter. Combined with a further improvement in underwriting performance and surplus of the Exchanges, these trends should be supportive of future growth in the business.

The quarter has confirmed a very strong capital position with our Z-ECM ratio remaining stable at 134%, providing us with continued capital flexibility. We continue to review the capital levels of our business in light of growth opportunities and the macro outlook. However, near-term focus remains on delivering on our dividend policy and growing the dividend over the planned period.

Before we move to Q&A, I just want to mention the sale of our Venezuelan business. This will give rise to a $258 million non-cash charge related to foreign exchange movements previously recognized within shareholders' equity on the completion of the transaction. As a non-cash item, I confirm that we will ignore it, but we consider future dividends.

I'll now be happy to take your questions.

Q&A

Operator

We will now begin the question-and-answer session. The first question is from Farooq Hanif, Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks very much. Knowing what you know now, do you include the 95% to 96% combined ratio in saying that you're confidently achieving the targets for 2019? That's question one.

And then, question two is, you commented that in the past, recently, the expense ratio in P&C has not going down because of mix basically. But if that stabilizes now, would you now expect some sort of improvement in the expense ratio to come through in the next, sort of, year and a half? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Farooq. So, on the combined ratio, knowing what I know now, I wouldn't change the guidance that we gave at the half year. And just to remind everyone, what we said in the half year was that there's a number of things that we're in the process of completing. The most significant of which is obviously expense related. We do still expect to see some improvement in underwriting performance. And given where we are, we expect to be in that 95% to 96% range, albeit likely towards the upper end of that target range.

So, nothing in Q3 would change our view of what we expect to deliver there. I mean, one, really, it's a bit pedantic. I mean, effectively the combined ratio is not one of our targets, but, I mean, we all recognize that it's extremely important to the delivery of the overall goals that the group has.

On the mix impact, so would we expect to see benefits in the expense ratio as mix remains stable? Yes is the short answer. I mean, the way that we look at it today is – I mean, we try – we break it apart. We have the, what we refer to as OUE, I guess, the administrative or other underwriting expense ratio and then the commission ratio. You all saw what happened there at the half year. If mix is stable, you will see all of the benefit of the expense seep (06:44) through with no change in commission.

Having said that, and yet just to repeat something I said at the half year call; well, I don't anticipate that we're going to see a change in the commission rate to the extent that we saw in the first half of this year and in the near future. If we can improve the quality of the book by continuing to move from some of the more volatile individually large exposures to something that's maybe a bit more retail light, I mean, that would be something we'd be continuing to try to do. So, I don't (07:20) possibility that you still see some movement on the commission ratio. But certainly if it remains stable, you absolutely would obviously see the benefit of the efficiency gains that we've achieved.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, it's very clear. Thank you very much.

Operator

Next question is from Andrew Ritchie, Autonomous. Please go ahead.

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

Hi there. First question on the loss environment. Could you just clarify what has been the man-made loss experienced in the quarter? Obviously, you've talked about nat cat. I'm not sure if you are including large man-made within that. Obviously, there's been quite a lot of man-made events.

Related to loss environment, what about broader attritional trend; some of your peers have been talking about quite a lot of casualty related claims inflation, certain classes, particularly professional lines. What are you seeing? Are you seeing anything unusual and is that of a concern?

And the final question on the loss environment. I'm assuming any crop-related losses which I think they may have been from Michael or included in the Michael number. My only other topic is a very simple one on the ROI and reinvestment rate in P&C. It was tantalizingly close. The reinvestment rate was tantalizing close to the portfolio yield in Q2. Is it now above that in Q3? Thanks.

A - George Quinn {BIO 15159240 <GO>}

That was a very long winded (08:57) question.

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

Sorry.

A - George Quinn {BIO 15159240 <GO>}

So, man-made losses. So, we haven't (09:05). We don't include man-made in the nat cat numbers that we've referred to in the press release or in the various conversations today. And I guess for the same reasons I gave at the half year, we're trying to avoid that man-made becomes some mini version of nat cat that we're trying to encourage people to pay less attention to. When we think of attritional, we think of all the large man-made or otherwise included in the attritional.

Maybe we still have further improvement to de-lever to get to the goals that we have for next year. But as I said to Farooq on the answer to the earlier question, I don't see anything from a large perspective or even man-made perspective in the Q3 numbers that would change our view of what's possible next year.

Broader attritional trends, maybe particularly in casualty impact of professional lines. I mean, there are pockets where you can see maybe a bit of frequency pickup. So, for example, I think we talked earlier in the year (10:16). Well, the overall outcome is actually much better than we expected, and that trend hasn't changed. If you break it apart, what you see is a bit more frequency, but quite a lot less severity around that line of business.

On the professional lines part of that, I guess, there's no secret between us that if you look at the overall performance that we've had in the last couple of years. Within the overall improvements we've achieved, professional lines, clearly, financial lanes have been a bit difficult. Less of a U.S. issue for us, much more of a European topic, and certainly an Australian topic, for reasons I guess everyone is relatively well aware of, I don't see the same impact. I wouldn't say it's completely where we want it to be at in the first nine months of this year. But, I mean, then the overall performance is not causing significant stress. So, we're seeing at least as much good news as bad news around things like financial lines.

So, I mean, overall, from the loss environment, I mean, obviously, I did look – I did follow some of the public announcements. I mean, we've obviously had our own large loss challenges in the past. I mean, our message to the (11:35) internally is that large losses are just a bigger version of losses. They need to be controlled as part of the underwriting process, and we're trying to make sure that both the risk acceptance policy that we have on the incoming side and the reinsurance cover that we have can protect us as much as we could reasonably expect. So, I don't have a particular problem with large or man-made in the quarter.

On crop, I mean we do include any crop cat losses in the nat cat announcement. So, there is some crop in the Michael number, but I think it's going to be pretty small. I don't recall from memory precisely what it is, but I mean, obviously, there is a particular crop that's exposed. There's actually a relatively high value crop in that particular area. But I think from what I've seen so far, it hasn't been particularly impacted by the event.

On the ROI topic, I mean we don't give an update today on the overall number. I guess the best I could tell you is that maybe it's even more tantalizing close than it was at the half year.

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

Great. Thank you very much.

Operator

Next question comes from the line of Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon. First question on pricing, some of your U.S. peers started to comment that they price in the – and that's what obviously is to be expected, the higher interest rates. You report stable rate increases. Does it mean you are still running your actual engines with last year's risk-free rates or how should we compare your rate increases to the rest of the market? That's the first question. And secondly, on this 3% price increase, can you remind us how much you think this is, in percentage point, ahead of claims inflation?

A - George Quinn {BIO 15159240 <GO>}

Thanks, Thomas. So, on the – just to remind people, the (13:44) have given us pure rate today. So, the headline rate doesn't take into account impact of loss cost inflation. It's not an economic margin expansion number. So, it's purely rate. On interest rates, I mean, so we do update the systems from time to time as interest rates change. I mean, we try not to do that every single day of the week or every week of the month. There'll be some impact of that in there, but I don't think it'd be particularly material.

On the second question, which is really that economic margin expansion, I wouldn't give you a definite answer to the one I gave at the half year. So, the rate that we are achieving is ahead of loss cost inflation. But, obviously, again, less that number net and maybe somewhere around half of that (14:39) reasonable reflection of what's happening on the margin side of things.

Q - Thomas Seidl {BIO 17755912 <GO>}

On the interest rate, in your plan for 2019, do we expect more pricing headwinds from peers pricing and higher interest rates? Or are you basically expecting a stable situation?

A - George Quinn {BIO 15159240 <GO>}

I think, again, one of the comments that I think we made back at the half year is that if you look at the trends on pricing, so pricing in Q3, which I guess you can work out from the numbers, is pretty much slap bang in the same place as it was at Q2. And the actual mix has moved around a bit, so property, this is a U.S. commentary more than a European one.

So, property is are a bit lower. Liability is a bit higher. I think we try to have a realistic perspective on what's going to happen. We would expect rate to moderate to some degree. I don't expect it to fall back to levels pre the 2017 hurricanes. But by now, (15:41) market more or less has renewed loss (15:43), and it certainly makes conversations with clients a bit more challenging. And that in some way I'm sure will feed through into pricing.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thanks, George.

A - George Quinn {BIO 15159240 <GO>}

That's what we've been seeing (15:54).

Operator

Next question comes from the line of Jim Shuck from Citi. Please go ahead.

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

Hi. Good afternoon. First question is around the 95%, 96% combined ratio for 2019. I mean you do mention that's not a target as such. It's an ROE target that really matters and it's the interaction between the combined ratio and really the investment income that's important, it's driving different exchanges and economic profit.

I guess if we look back over the past few periods, it's the investment income that's been a source of positive surprise coming through. I'm just surprised to see that happening and I'm just wondering, if you could elaborate a bit on where it's coming from because the 95%, 96%, we've had the uptake in interest rates. But that feeds through in a very slow phased fashion. So, it doesn't really have much impact by 2019. So, just keen to understand really what driver is of the absolute increase in investment income?

Next question really just, you mentioned on crop development about natural catastrophes, small impact. Just keen to get an update really on what's happening relative to your accrual rate on the combined ratio, particularly in Q3 because I think a lot of the crop actually runs through (17:14) in the third quarter.

And then just one other quick one, could you just – in the (17:24) commercial lines premium growth. In the period I think – there was a – Q3 seems to moderate in terms of the reduction. So, I think we're down four at H1 and only down one at nine months; if you could just elaborate in terms of the portfolio repositioning in the quarter, please.

A - George Quinn {BIO 15159240 <GO>}

Excellent. So, James don't take this personally, just a reminder for everyone that just because the way my brain works, I (17:48) with two questions.

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

It's two areas of conversation.

A - George Quinn {BIO 15159240 <GO>}

Yeah. So, on the two questions, 95%, 96%. And again, you're absolutely right, so the – I mean I guess the reason that we've been a bit relaxed by the fact that we've carried it to the higher end of that range, i.e., 96% rather than 95% is because you've seen more investment income. And that's meant that we still expect to be in the place overall (18:20) components are slightly different.

What drives this – I mean a combination of different things. So, going all the way back to the start of this process, I mean not very deliberately, but the investment income view that we had in the targets was one of the obvious areas of potential upside. I think that became obvious to everyone fairly quickly, so we struck the investment income element of the target, a relatively low point in 2016. Again, it wasn't deliberate, just the way it was. But we certainly benefited from that in terms of helping make sure that we can achieve the goals that we'd established.

What drives the more recent change, which again is still something that – I mean is a trend that we think is going to continue a bit for the remainder of this year into next. I mean really it's the group's overweight position in the U.S. market. And if you look at the premium split, the tenure of the business, certainly the longer tail – actually a significant component of the business overall is North American. And that's where I guess, we've seen the most reaction. So, we benefit a bit from that.

I mean back to Thomas' point earlier, I think there's probably a limited period during which you can really retain that because the market is competitive, but we're certainly in that phase where I think we retain some, if not all, of that benefit for our shareholders.

On the crop side of things, I mean you're right. I think not all crops obviously, but certainly some of the key crops, especially the key crops; well, I shouldn't say key crops, but the main crops that we're covering, they have key dates, October – maybe October more than September. I mean, I don't want really to start to give detailed information on crop today for obvious reasons.

But we don't see any particular issues around crop currently. I don't expect it to produce the same incredibly strong performance as last year. But I do expect that we have a pretty good year for crop. Obviously, the year is not over, so we need to be a wee bit cautious, but the business has been performing well, as has been for the last two, three years.

Commercial lines, I wouldn't attach too much significance to it in terms of that movement you see. Again, we talked last year that – I think the team are definitely doing all the right things. We're focused on a few areas of the book where we really believe we can continue to drive improvement.

Jim Shea and the team have clearly communicated their priorities on countries. The countries they are working on executing. But I mean, you will see some periodic movements quarter-to-quarter depending on the exact mix of what's renewing. But I mean, our overall stance on commercial lines is that it's the most competitive part of a portfolio overall, it's still the most challenged from a profit perspective, and we continue to do what you, I think, would expect us to do in that environment, which is to shift capital towards the higher performing parts of the portfolio.

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

And would you – so would you be expecting that portfolio to return to growth in 2019?

A - George Quinn {BIO 15159240 <GO>}

No.

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

Okay. Very clear. Thank you.

Operator

Next question is from Nick Holmes, Société Générale. Please go ahead.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Hi there. Thank you very much. Just coming back on the expense ratio. Just wanted to ask, is the lack of growth in P&C making you a bit concerned about the target, I think, you have for the other underwriting expense ratio, the OUE, which I think you did say was 13%. Is that looking a little bit more difficult? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Nick. I'm getting really concerned because I have a list of 55 different targets, which is probably more my fault than your fault. Again, I think, if you look at the premium development in the quarter, I mean premium is fairly flat and the commentary we've given around expectations is not based on a growing scenario. I mean, we haven't anticipated that in the P&C business, either this year or last year. So, that's not causing me any significant concern. I mean, obviously, if the market was very strong, pricing had improved, there was the ability to grow, I mean, we would take that opportunity. I mean, unfortunately, market is not really offering that currently.

Q - Nicholas Holmes {BIO 21515144 <GO>}

Okay. Pretty clear. Thank you.

Operator

Next question is from Vinit Malhotra, Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. Thank you very much. Just on the Life side of things, the new business value is up fairly strongly in the third quarter, I would say. I mean, it was up 2% at 1H, 6% in nine months. Please, could you comment a bit about what's driving this, there's some one-off, or is it just – the mix effect is much lower than you imagined? So, that's the first question.

And second question is more, just looking at this U.S. auto – the commercial auto side, is there any update there? Because the reason I ask is that I've come across this rule that in December, the U.S. Government mandated truck drivers to have an electronic logging device which was specifically designed to reduce or hope to reduce accidents. Are you hearing any about this from your teams? Or is there any – or is it too early to think about claims effects or accident numbers from this kind of regulation? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Vinit. So, on the new business value topic first. As you look at the key drivers, I mean, we've got various markets. Italy has been doing well; Chile, because of the transaction – this tender that we won in the period; the joint venture in Brazil. Spain's been going well. Switzerland's been going well, partly offset by some of the other countries. So, I mean, mix and volumes, not having a major impact, but certainly some of the businesses are showing some pretty strong performance on new business value.

I mean, actually the major drivers of the change in the number that you see over the nine-month period, a combination of – I mean, the usual suspects, operating variances (25:14), benefits from the economics side of things, and some relatively minor changes on the model side of things.

So, I mean, we are pretty happy with where we stand. You clearly see that volumes are up more significantly than the new business value. And that's driven by the same factors we've discussed on these calls before. I mean, we have a mix of businesses, some of which are higher margin than others. And those that contribute to the growth in the nine months are typically some of the lower margin product, particularly the business in Spain which has been doing well, actually for us.

On the second question, so I think I read also something in the newspaper about this telematics proposal around commercial auto. I mean, way too early to talk about anything here. I guess, if you were optimistic, and I'm not sure I'm an optimist, but I like to believe occasionally I am. I mean, I stare at the trends on loss cost on commercial auto and hope for the same trend to be seen on the retail side of things, it's still not there. Loss cost inflation still runs a pretty healthy clip on commercial auto in a way that you just don't see on the retail side of things.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

Next question comes from the line of Michael Huttner, JPMorgan. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. Just two questions exactly. The first one is, how quickly does this new business value become earnings and cash flow? Just maybe you can remind us. And the second is – and I missed the beginning of the call, so probably (26:58) was already asked. The (27:01) which is down; can you maybe (27:05) a few of the drivers, I had in mind; QBE, minus 1%; reduction in debt, minus 1%. But I was a little bit surprised that the earnings weren't – organic wasn't stronger.

A - George Quinn {BIO 15159240 <GO>}

So, on the business value topic, so how quickly does it covert into earnings? Obviously, heavily impacted by the particular line of business; so if you look at the areas that are stronger on the growth side, so, I think I mentioned earlier Chile, the joint venture, Spain, maybe isolate those first; they are relatively short-duration businesses. So, they earn into income (27:50) really pretty quickly. Switzerland and Italy, which are the other two bigger contributors to the upside on new business value in the quarter, more traditional in nature, tend to have maybe a longer, more traditional type earning.

And if you look at the areas where we've seen slightly weaker performance; so, you look at the UK, which is entirely driven by – or almost entirely driven by the disposal of the corporate savings book a year ago (28:20) especially relevant. New business values in Australia are slightly weaker, again a traditional product, so earns in over a longer period. I mean, long story short, if I look at the drivers, probably the things that drive performance are slightly shorter in duration, and maybe the average of the overall portfolio. But you wouldn't measure that in quarters, Michael. We're talking fewer years than maybe the average.

On your second question, Z-ECM, so, yeah, the – number of moving parts and probably the one thing that would be very hard for anyone externally to predict, we have a bit of model change in the quarter, so there's a regular process, whereby we go through and update the model for what's taking place. And I think that's the part that we've probably explained why people may have anticipated that the thing would rise when it has fallen slightly. So, that model change was very slightly negative.

I mean other than that, all the components that drives Z-ECM are as you would expect to see. So, capital generation from earnings as expected, dividend, accrual as expected depending on what you're expectations are. And other smaller items but we have a small model change which is slightly adverse since the half year.

Q - Michael Huttner {BIO 1556863 <GO>}

Brilliant. Thank you very much.

Operator

Next question is from Johnny Vo, Goldman Sachs. Please go ahead.

Q - Johnny Vo {BIO 5509843 <GO>}

Yes. Thank you. Just a couple of questions. Just the first question in regards to your exposure to Italian BTPs, you've got about $10 billion on balance sheet. I had assume most of it is in your Italian business. Has that had any effect on your ability to – or potential ability to look at remittances going forward and what you can do there? That's the first question. The second question is just in relation to the Life business as well. You've got 25% like-for-like growth. Are we expecting that to continue at trend? And also why do you continue to grow in lines where the profitability is incredibly low? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Sorry, I might have expected (30:40) that second question slightly differently from you Johnny (30:44).

Q - Johnny Vo {BIO 5509843 <GO>}

Yeah.

A - George Quinn {BIO 15159240 <GO>}

So, on the exposure. So, you're quoting numbers from last detailed external reporting. We'll obviously update when we come to February. I mean you should expect that number to drop by the time you see the figure in February. I mean it won't half, but there'll be a meaningful reduction...

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - George Quinn {BIO 15159240 <GO>}

...in the BTP exposure. On the impact on remittances, don't expect any. I mean there could be small impacts. I mean we do have this counterintuitive, well, counterintuitive to me at least, impact that's caused as we reduce some of our exposure to BTPs. That drops the discount rate from a statutory perspective and that typically requires actually a bit more capital locally. But overall, within the book, that causes no stress whatsoever. And I think I said at the half year that given we were $3.7 billion in that cash remittance from last year, we will be more than $7 billion when we get to the end of this year. And there's no change to that guidance today.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

A - George Quinn {BIO 15159240 <GO>}

On this APE growth versus new business value topic which I guess is along the same lines as the answer I gave for (32:03), so why would you do this? I mean, there is an ROE optimization in this. And from time to time, for example – and this is clearly true in the Spanish markets. So, with a partner there, maybe we do make a decision on whether we have a short-term opportunity, even a near-term one to drive sales in a way that will actually benefit the group's overall ROE and use some of that capital, we think, reasonably efficiently.

Now, is there a trend at 25%? Unfortunately, no, there's not. As I mentioned earlier, there are a number of things in the APE growth which is exceptionally high in the nine months which are more – I mean, not entirely one-off in nature, but obviously we have the impact of the Swiss business in Chile which is a two-year process, so that tender won't come around again for two years. And whether you win it or not, will have a reasonably significant impact on APE.

I mentioned that Spain was a driver. And I think as you've seen from us over the course of the last – certainly last couple of years, I think we are quite sensitive to market conditions. And that business can grow faster, can grow slower depending on our short-term views of the market opportunity. So, we're very, very happy with Life performance. But, please, don't extrapolate 25% APE growth.

Q - Johnny Vo {BIO 5509843 <GO>}

Okay. Very clear. Thank you.

Operator

Next question comes from the line of Jonny Urwin, UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, everyone. Just one question for me, please. So, the reinsurers have been talking about raising cap budgets for next year (33:46) raised its budget today. What are you guys thinking? I appreciate your book isn't really growing like some of the reinsurers. But has the increased frequency of losses through this year and last changed your view at all? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Interesting question. So, we've been through the process recently; (34:04) to the approval point with our board in December, and we have been paying particular attention to cat. I mean, I don't expect we'll give guidance for a higher expected long-term assumption around cats next year.

And I think if you look at the portfolio overall, we're still at touch bearish around property in the U.S. I mean, the cat market seems to attract tons of capital. I look at the pricing that we can achieve on the reinsurance side, which remains attractive as far as we are concerned. And therefore – I mean, for us having significant increases in the amount of cat exposure that we would take is not obvious from where we stand today.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

Operator

Next question is from Ralph Hebgen, KBW. Please go ahead.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah. Hi. Ralph Hebgen from KBW. Just wondering perhaps on the nat cat claims again in the third quarter when I realized you're not disclosing what they were. But perhaps any color on that would help. Perhaps you can disclose the overall entire nat cat claims which you had in 3Q, that might help us to project what it might be by year-end.

And also just as a piece of confirmation, the 95% to 96% of combined ratio target range for 2019. Presumably, you have to think about as including a normalized 3 percentage point contribution from nat cat.

And the second one is, just perhaps some color on U.S. lines of business. What, sort of, momentum are you experiencing there in terms of rate increases? What are the lines which are still generating good rate increases? And are there any where you see the pace either decline or actual reduction (36:08) in rates? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Ralph. So, I appreciate you trying to help me on the color topic. But unfortunately I'm going to refuse your help. All I can really say there is that – we had a big debate about whether we even really talk about it at any great substance at all. So, I mean the guidance today indicates, it's a bit above 3%, but I mean it's not particularly material as far as we're concerned.

So, I think even in a normal, well, I guess in a normal quarter, you would see the numbers are normal half. But I mean there's nothing surprising in there as far as we are concerned, given the events that the market has seen. In fact for us, I think as I said in the introductory remarks and of course this hopefully is confirmed when you see the actual figures in February, we take it as further evidence that the approach that we have to nat cat management both from what we underwrite and from what we reinsure, works. So, we're pretty happy with where we stand there. But we're slightly above 3%.

And yes, let me confirm that we're not assuming that 95%, 96% is dependent on a zero nat cat year. So, we're assuming the normal nat cat load for next year.

Momentum on rate, it's a really good question. So, I think it was in response to Thomas' question earlier. I think I said, I think we believe it will moderate. I don't have any evidence that it's moderated yet. So, the numbers that you see today, again, if I focus in on the U.S., I think to the first decimal point, the overall rate change in Q3 is identical to Q2.

But from an outlook perspective, I mean, even with the events that we've seen this year, I don't expect that it continues at that level. So, we would anticipate some moderation of reentry (38:12). So, momentum has been good. It had not yet slowed down, but we are anticipating that it may well slow down a bit as we move into 2019.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Lovely. Thank you very much.

Operator

We have a follow-up question from James Shuck. Please go ahead.

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

Thanks for taking my question. So, George, I just wanted – you've affirmed the, kind of, targets over the period to 2019. I just kind of wanted to ask about the unofficial target, the 14% BOP ROE target for the current year. Just wanted to see, I know you've put a slide up, kind of, going illustratively, that's what can be achieved, but just (39:01) to see whether you still think that that is illustrative or whether it's actually achievable?

Secondly, on Farmers, you talk about the discontinued business no longer acting as a drag, and premium growth is up 4% year-to-date. I would think that that is broadly tracking the market, given what retail rates are doing in the U.S. As you expand out – or as

Farmers expands out from West Coast to East Coast and various other initiatives, would you expect that top line to begin to accelerate from that 4%? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Good questions. On the ROE topic, I mean I'll do a fuller update when we get to the Investor Day. But just to repeat something that I said at the half year, obviously one of the things that we had in that illustration of what we believe is achievable for the group was an expectation that the Australian business that we're acquiring would be in for the full year.

I mean that will not happen given the delays that the seller has on the closing date. So, I mean that will have some impact, but if the question to me was, do you think that the underlying potential of the firm has changed? I don't at this point. But I will give you a more detailed update at the Investor Day.

On the discontinued business, do I think that the growth could accelerate? It's a tricky question to answer. I think on the positive side of things, if I look at the growth rate that the Exchange achieves and the expansion states, typically the Eastern states, that's well into double-digits. It's a very, very small book of premium either.

They are growing at pretty handy rate on what's (40:50) meaningful book of business. I mean is that sufficient to deflect against other market factors in the book? I don't know yet. And certainly from an overall planning perspective, maybe if I reflect what we are thinking about for next year, we haven't anticipated yet a significant acceleration and growth. More steady as we go, is our assumption currently.

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

Okay. Thank you very much.

Operator

The next question is a follow-up from Farooq Hanif. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi. Thanks. Going back to Life, so when you, sort of, very simplistically plug in a strong increase in APE into reported earnings model, it hits earnings. So, do you think actually for 2018, there might be a slight depression of earnings? I mean I know you talked about double-digit growth and I was just, kind of, wondering how you position that. Thank you.

A - George Quinn {BIO 15159240 <GO>}

So, I'm not sure I see that. I think again if I go back to the drivers of new business value on the growth side of things, they tend to be the short duration products, and, in fact, some of them, I think as we have discussed here before, look more like P&C and the way they act than say traditional life products. And if there's been any slowdown, certainly it's been in some of the more traditional life markets. So, I think guidance on growth around operating profit, I wouldn't change what we said back at the half around this topic.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

The last follow-up question is from Michael Huttner. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Just on the deals that you've done in Life, so just wondered if you could remind us of the timetable when they come into earnings?

A - George Quinn {BIO 15159240 <GO>}

Yeah. So, the outstanding deals we have, QBE is essentially as of today at least, all closed apart from one country which is Colombia and should close maybe the first of the year next year, certainly, earlier in the New Year at latest (43:01). On the Australian transaction, of course we are – I mean we're subject what ANZ has to do with, I mean, a fairly complex de-integration of three different components.

I think the guidance we had given the market is end of Q1. So, I mean, I would have – I have no additional information beyond that. And Adira, I think we're expecting that to close early in the New Year. Those are the key dates for the transactions.

Q - Michael Huttner {BIO 1556863 <GO>}

Got that. Thank you very much.

A - Gianni Vitale {BIO 19816633 <GO>}

Well, that was the last question. So, Thanks a lot for dialing in. If you have any further questions, please don't hesitate to all the IR team. And with that, thank you very much, and good bye and have a good day.

Operator

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