

Q1 2020 Sales and Revenue Call

Company Participants

- George Quinn, Group Chief Financial Officer
- Richard Burden, Head of Investor Relations and Rating Agency Management

Other Participants

- Andrew Ritchie, Analyst
- Edward Morris, Analyst
- Farooq Hanif, Analyst
- Jon Hocking, Analyst
- Kamran Hossain, Analyst
- Michael Huttner, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Results 2020 Conference Call. I am Alessandro 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. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it is my pleasure to hand over to Mr. Richard Burden, Head of Investor Relations and Rating Agency Management. Please go ahead, sir.

Richard Burden {BIO 1809244 <GO>}

Good morning and good afternoon, everybody. Welcome to Zurich Insurance Group's third quarter 2020 Q&A Call. On the call today is our Group CEO, Mario Greco and our Group CFO, George Quinn. As usual for the Q&A session we kindly ask you to keep to a maximum of two questions. But before we start the Q&A, as usual with the Q3, George will make a few introductory remarks before going on to your questions.

George, I pass over to you.

George Quinn {BIO 15159240 <GO>}

Yeah. Thanks, Richard, and good afternoon, good morning to everyone. Over the third quarter, the Group overall has successfully managed, I mean, what have been a series of unprecedented challenges related to COVID-19 not only that, but a global recession and of course record number of hurricanes making landfall in the U.S. We've continued to deliver strong growth in Property and Casualty, that's driven by commercial insurance. But we've also seen our life business return to growth in Q3. In the P&C business pricing momentum in commercial remains strong, both in North America and in other regions and we expect this to continue through the remainder of this year and into next, which will support further improvement in the underlying accident year loss ratios.

Our balance sheet remains very strong with a conservatively calibrated Z-ECM solvency returning to the midpoint of the 100% to 120% target range. And over time, we think the Z-ECM has served us well, it's informed our decision to move away from interest-rate sensitive life business already over a decade ago. Having said that, the high level of calibration and conservative assumptions that underpin the model I think we believe cause unnecessary uncertainty. Therefore, we intend to change reporting from the fourth quarter to focus on the Swiss Solvency Test ratio. It's obviously still conservative, but it's much more aligned to metrics that you see reported by peers.

From a COVID-19 perspective, you have seen already today that we've reported claims, net of the associated frequency benefits, an unjust level since the end of the first half at \$450 million and I think as you know from early in the crisis, we've worked hard to further clarify wordings as policies renew and today, I'm happy and I'm confident that we only have limited exposure to any new developments in the pandemic. The combination of a flexible and resilient business model and the increasingly evident and sort of higher commercial pricing gives me great confidence that we will emerge strongly from this year's disruption and be in a strong position to take advantage of new opportunities as they present themselves.

I'm now happy to take questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Jon Hocking from Morgan Stanley. Please go ahead.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you. Good afternoon, everybody. I've got two questions please. Looking at the rate momentum particularly in North America business, can you give a little bit of color in terms of what you're seeing on 3Q and 2Q and how that might be impacted by the types of minds that you're seeing renewables in the two quarters? That's the sort of first question.

And secondly on Farmers, obviously the top line has been impacted by what's been going all over the world and also the rebates, how confident are you that once we get through the -- this difficult period that we're going to see the top line go back to normal growth trends at Farmers? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Thanks, John. So on P&C pricing, so you see the overall headline numbers today and things have not slowed down in Q3, if you look at the key commercial markets, which are the main drivers for us. If I picked North America then the overall picture would be, I mean, pretty much exactly the same than to the first decimal point.

Within that there has been a wee bit of movement so you see property is -- we see property at roughly the same level, we would say that liability is actually progressively stronger again in the rate environment in Q3 compared to Q2. Motor, slightly down compared to Q2, but obviously, property and liability dominate. The book -- I think -- I mean, we still expect this to continue. You've seen some of it come through the top line and -- in the course of this year, but obviously not huge amount yet, you'll see more of it next year.

And I think if we look at the growth rates that we're reporting today and we look at the plans that we have for next year, I mean, you will see a pickup in growth. Like I said back at the half year that, I mean, with currency, we thought that maybe the headline number would be flat through the year, maybe underlying up to, I think we're going to be a bit stronger than that before we get to the end of the year, and will be stronger than that again next year.

On Farmers, I mean, there is clearly still work to be done. I mean, obviously, they do (Technical Difficulty)

Can you still hear me?

Q - Jon Hocking {BIO 2163183 <GO>}

You cut out at the beginning of the Farmers place, George.

A - George Quinn {BIO 15159240 <GO>}

Yeah, sorry. So I was just saying that -- so, I mean, there are two more pandemic related topics in the Farmers number, I mean that's a a common (Technical Difficulty) you still hear me now, Jon.

Q - Jon Hocking {BIO 2163183 <GO>}

Yeah, I can hear you. You're cutting in and out. But I can hear you now.

A - George Quinn {BIO 15159240 <GO>}

FINAL

Yeah. So a little bit of technology problem. Yeah. So Farmers, obviously, they have the \$311 million that we reported in the first half, which is the return of frequency benefit, they've got the impact of the commercial rate share, I mean they are still selling [ph] rate, but a lower level than we've seen in prior years. So that will have some positive impact. But the main focus both at the exchange and in the conversations that we have with them is trying to grow that policy count footprint, because that's crucial for growth for next year.

I mean, we've seen some early positive things over the course of the last couple of months. I think it's obviously way too early to declare victory. But is that policy count growth topic that we're completely focused on and working through the management company to try and to support these change and delivering that, but Farmers have more work to do.

Q - Jon Hocking {BIO 2163183 <GO>}

Excellent. Thank you.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there, George. The question, obviously I'm aware of the large losses in Q3, but I wonder if you could just give us a commentary on the underlying, more attritional loss type trend you're seeing. I mean you strengthened slightly some of the loss picks on liability in the U.S. in the first half. I just wonder, I mean, clearly it's hard to judge what's going on in the underlying loss environment, but do you have any updated view on underlying loss trend in some of the sensitive areas? And again, whether indeed pricing is still for sure, well above any loss trend? That's the first question.

Second question just on a life outlook, there was a degree of confidence expressed and a sort of recovery in profitability in the second half -- the half year, what's your latest thoughts on that? I mean, in particular, I guess one area that's come to light additionally, since the first half is Australia, disability income and it's obviously impacting your outlook in aggregate? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yeah. I could, so I think on the -- so starting with -- I mean what we see currently in terms of technical profitability. I mean trends Ex-COVID, ex-cat, very similar to the ones we saw in the first half of the year. So I mean, you obviously, you saw that improvement and we're seeing the -- that significant price trend, net of the impact of loss cost inflation feed into our underlying performance. So when we get to the end of the year, I would expect to report a set of numbers that would be completely in line with the commentary you're hearing around price.

On loss cost trends, I mean, our view is not different today. I mean, it can bump around a bit, but -- I mean, overall from a pricing perspective or the -- in the loss, throughout the

Bloomberg Transcript

FINAL

loss cost elements we add into pricing if we look it on the basis that we think is more consistent with the USPS, I mean, we see it around 5 I think I gave some commentary at the half, of course, there is a wide range of actual assumptions the other line of business with Excess GL being the standard. And I think from all the reviews that we've done, I mean, I think we're happy that what we've done aggressively the social inflation trends.

On the life outlook, recovery and profitability. So we said before the second half, the results would be second-half weighted principally because of what we're doing in Australia that continues to be true. So we haven't seen anything in the Australian market that is different from what we've expected. And in fact, I'd say that I mean, if you -- like you are asking me to do a bit of a compare how do we see things to-date, how we saw them in the first half, I mean, we're now through a round of price change on the DI markets.

We've seen some -- again, over the recent months, some good performance from the business following that. You will see, I expect what we've indicated in the second half and that's a significant contribution from the Australian life business, mainly because of what we're doing in re-pricing. It obviously helps, but entire market is doing the same thing. So I mean it creates, I mean, a very positive trend. And my guess at this stage is that probably that trend of increasing prices is not over yet on the DI side of the Australian life market.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Great, 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. I had two on the Z-ECM, please. I mean, the first one, I mean you always been very clear on your guidance for your target range under the Z-ECM ratio, I mean, now you're moving to SST being the primary reporting metric, I guess the obvious question is what sort of target range you have in mind there what should we -- how should we sort of think about that?

And then the second question is, I understand there were some modeling changes this quarter to get you sort of closer to the sort of SST framework. Just wondering, if you could quantify what the sort of impact of modeling changes was on Z-ECM number you reported this quarter? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Thanks, Peter. So on the first one, if you allow this will come with the target range in February when we switch to SST. I mean, we have done the work to try and calibrate in a way that we think is consistent of what we do in Z-ECM. We've also looked at what other people do in terms of the ranges they gave, I don't think we're going to surprise anyone. I think the range will be very familiar when you compare it to, I mean, what you would

typically see from similar players in the European context, but that's something we'll formally bring forward in February.

From a modeling change perspective, I mean, we were saying, first of all that, I mean, the vast majority of the change that we've seen on Z-ECM is driven by market or market-related movements in the quarter, obviously, credit and equity generally been very positive, maybe slight offset with what's happening on interest rates, there are two I mean relatively small adjustments we've made. One is around how we looked at reserving fund on life, we've made that consistent between Z-ECM and SST. And there's also a small update on the life replicating portfolio in the quarter.

But the vast bulk of the change is altered by market, which I think is what you'd expect.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. That's great, thank you. If I just come back very quickly on the first point, I mean, I guess your main European peers look at Solvency II rather than SST. So you're not sort of quite comparing apples with apples when we sort of look at the target ranges. I mean it's probably not a lot, you can say on that, but I guess your business profile is different as well. So I guess...

A - George Quinn {BIO 15159240 <GO>}

Yeah, I mean.

Q - Peter Eliot {BIO 7556214 <GO>}

I will wait till February, but...

A - George Quinn {BIO 15159240 <GO>}

It's a good point. But I think -- I mean, there's only so much that we can do to make the thing comparable. I mean, we're not going to go through the full scale Solvency II exercise and there is no reference anyway because of how the regulatory system works. And I guess if we were -- I mean, if we were very mathematically to say, you would end up with different target range, if you were trying to be consistent with European peers given the SST is we think, a more conservative measure of Solvency.

Having said that, I think that would be confusing for people, if we did that. So it would be our intention simply to accept the fact that this particular model is a bit more conservative. I think -- I mean, most people who know us well have an understanding of roughly, they can have range of conservatism that's in there. But we will reflect a target range that's pretty consistent with what you'll see from some other peers. So again, we won't surprise you by say, bringing a lower target range because the thing is more conservative, we won't do that. We'll stay consistent with the others.

Q - Peter Eliot {BIO 7556214 <GO>}

That's right, great. Thanks very much.

Operator

The next question comes from Hanif Farooq from Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah, hi. Thank you very much. I hope you are well. Just on Z-ECM, you're still going to be obviously using it internally to drive your economic thinking, but by not telling us what the number is, it -- we'll get less frightened when the thing falls below 100% and start asking questions on all the stuff. So it does give you more leeway in the public sphere to do things that you might not otherwise do, and one area presumably would be interest rate risk and asset risk. So just wondering if you comment on that, whether that's something that in my view would be a good thing to align you with others. What your thoughts are on being -- having that leeway?

And then secondly on kind of underlying combined ratio picture. So if we take the sort of 450 net number, which presumably hasn't changed since 1H, so you're kind of running at a 96% combined ratio in first half, I'm guessing with some additional kind of reserving. Just wondering what your thoughts are on underlying combined ratio? And then if we start thinking about next year, I mean the numbers are astronomical here in terms of claims inflation versus pricing versus mix change, and it's just lots of big numbers. If you can give us some thoughts to help us with our modeling that would be great on sort of the underlying combined ratio for 2021. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah, yeah. Okay. So thanks, Hanif. So on the Z-ECM topic, I think -- I mean again, we'll do more of that in February, so we'll bring forward the -- our view of the target capital ranges. I mentioned earlier to Peter that you expect that to be pretty much in line with what you're seeing elsewhere. If I had some significant conversation internally, what does that mean, are we still operating Z-ECM somehow in the background, but not showing it to you? And I think the way we've agreed to do this is with, I mean, SST will become the prime measure for the company. So it will be -- it will make it certainly more consistent I mean for the reasons that you're all well aware of, it won't make us entirely consistent with the Solvency II reporters, but I think it's good enough for government work.

I think the thing to bear in mind though is that, I mean we have a number of corporate finance measures that we need to manage day in, day out. So even though we don't talk about S&P a great deal today, it's obviously, I think, we think about a lot, we've got stress liquidity models, we've got other capital models, all of these things, I mean have to be factored into the decision making.

I think also -- I mean you couldn't think of Z-ECM of something that was kind of given to us and we all adopted it. I think, obviously, it makes far more sense if you see the other way around. I mean, Z-ECM was a development of I guess the way the company and the people who run the company think about risk, and even if we no longer have Z-ECM in future, I don't think you'll see any significant change in how we perceive certain types of risks.

FINAL

Bloomberg Transcript

FINAL

And I think in particular on the interest rate topic, I mean, that decision that we've talked about a lot, about 10 years ago, in fact, more already to de-prioritize the more interest sensitive guarantee product. I mean, I wasn't around, but I'd be surprised if it was only Z-ECM that drove that decision. I think it was the thinking of the people around the table.

I mean, we can take Z-ECM out of the mix, but I don't think it changes the perceptions that most of the key management team have about risk and how we should deploy our capital, but we will use SST as the prime measure going forward. On the -- on what's happening underlying, I mean, it's actually an easier conversation to have in February because, I mean, both for you and from Andrew's comment earlier, I can actually show you some numbers, I can show you the improvement and we can talk about what that means when you then roll that forward into next year, but I mean we expect to see a significant continuing improvement and technical profitability.

The margin improvement, the difference between the headline price and the underlying loss cost inflation is obviously more than sufficient to offset other factors, for example lower interest rates. So we do expect to see a continued improvement in the overall economics of the commercial part of our P&C business. But it would be easier for me to do that in detail when we come back next year. I think, I mean, just to give you one jumping-off point, we did talk at the half year call that, I mean, we saw about a seven-tenths -- about seven-tenths of a combined ratio for a loss ratio improvement, if you take out the excess cash from COVID and other things so we saw ourselves towards the bottom end of the 95%, 96% range. I would expect that that probably improves again before the end of the year, and that gives us a starting point for next year, we should expect to improve upon further.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, that's extremely clear. Thank you.

Operator

The next question comes from Hossain Kamran from RBC Capital Markets. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, George. It's Kamran Hossain.

A - George Quinn {BIO 15159240 <GO>}

Yeah, hi, Kamran. How're you doing?

Q - Kamran Hossain {BIO 17666412 <GO>}

Not the first time I've been called Hossain.

A - George Quinn {BIO 15159240 <GO>}

Yeah, I'll bet.

Q - Kamran Hossain {BIO 17666412 <GO>}

Two questions on P&C. The first one is, I guess brilliant rate rises this year, but at what -- listening to next year, do you think premium growth will begin to match or exceed rate rises? And if I look at the jaws between rate and P&C growth, the jaws actually seem to be widening as the year goes on. So any thoughts on that for next year?

And the second question is just on COVID claims, how is your degree of confidence in your estimates or has it changed over the year, are you more confident now, do you have any numbers on kind of IBNR-to-total COVID reserves and maybe how that's moved as the year has gone on? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah, okay. So on the first one, if you allow for the fact that -- I mean, the figures I gave earlier, I mentioned the 18 and 16 for commercial in U.S. and in Europe. If you allow for the fact that commercial is about half of the book overall, you allow for the underlying loss cost inflation, I mean that means you'll see about half of the headline number come through as growth, I mean, we will start to see a much higher growth rate next year.

I mean, I would allow for us to do things around the portfolio to try and improve some of the characteristics. So -- and one of things we talked about already before is that, for example, from a credit perspective, this feels like a good point at which to think about starting to rain in capacity. So -- and I don't think you'll see precisely 50% of the headline number, but you also get a -- you'll see again much closer next year. So you should see a significant growth rate in the P&C business overall and certainly far more significant than you've seen this year.

COVID claims, so I mean, there is I guess a psychological thing around the COVID topic, around, I mean, can you feel incredibly confident and then there's a mathematical thing, we've been running this process since about in March, and the components have moved around a bit. Totality of what we have reported, I mean, hasn't changed significantly. We reported today that the net number is in the same territory, we've looked at the risks that we have from what's taking place now in Europe and whether that might drive, I mean, the possibility of another significant low, and so when we run the models, we just -- we don't see that outcome. And of course, that's a combination of exact circumstances of what's taking place now.

But actually, more importantly, the fact that I mean some of the things that gave rise to claims before the limits have exhausted or the contracts are renewed on a different basis. So I mean, it's not that we have zero additional risks, but when I look at the -- what the scenarios tell me, I mean, maybe we could have a large property loss equivalent. So I mean, well, I wouldn't say that we don't pay attention to and we're not careful around it, it's not a major source of concern for us. We think that we have the COVID topic, I mean, more or less actually, behind us at this stage.

And from an IBNR perspective, I think I've said at the half-year that about half was IBNR, believe or not that continues to be true today.

FINAL

Bloomberg Transcript

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks, George. That's very helpful.

Operator

The next question comes from Nick Holmes from Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi, there. Thank you very much. Two questions, the first is with business interruption, do you have any concerns left about adverse legal rulings or do you think we can now basically draw a line under that issue?

And secondly, with the dividend, is there any concern you have that the Swiss regulator might try to copy the French and Italians and become a little bit stricter? Thanks, very much.

A - George Quinn {BIO 15159240 <GO>}

Yeah, thanks, Nick. So on the BI topic. So risk of adverse legal rulings, I think if we look at all the exposures that are out there I don't think that we have a view that we have any particular material risks there. I mean certainly, there's always the risk that's in one particular action or in one particular court case you can lose. But I mean, the trends that we've seen have tended to be fairly favorable to the insurers. And if you look at, I mean the U.S. as a main example, I mean the wordings, the exclusions have generally held out well there. And I think FCA in London has been the exception so far. Although, I would point out that certainly on our own wording our position was upheld.

So I mean, I wouldn't be surprised if along the way, and by along the way, I mean probably over the next year or even longer, we do from time-to-time see something go against either Zurich or the industry at large. From what we can see in terms of what that would mean financially. I mean there is nothing that's particularly trouble me at this point, I think, I mean, we have a good estimate, we certainly have some residual risk, but the residual risk is a very small proportion of what we see in the first wave. So, I guess, I am as confident as you can be around something that you don't control like a legal topic.

Q - Nick Holmes {BIO 3387435 <GO>}

That's very clear...

A - George Quinn {BIO 15159240 <GO>}

From a dividend perspective -- sorry, Nick. So from a dividend perspective, I mean, I think just from a general regulatory perspective, I mean, I think we were -- we benefited from the fact that FINMA took a facts and circumstances approach to the payment of dividends last year. So FINMA asked that all the financial institutions including the insurance companies take a look at stress scenarios and form a view of those risks prior to the payment of dividends.

FINAL

Bloomberg Transcript

FINAL

So, I mean, we did that, but you've already seen that that led to the same decision as the one that was taken initially. I mean, I'd be confident that FINMA is likely to do something, although it will partly depend on the circumstances that we find ourselves in, in January and February of next year. But I mean, the most important thing that we can do is make sure the company is well capitalized, to make sure that we've got the cash in the right places, make sure we deliver the performance underlying that we've committed to. And I think at that point, we've done everything that we can, I think the positive thing is that -- I mean, FINMA has demonstrated that they are a pretty consistent organization, they have conducted stress tests over the course of the year.

So I think they're well-informed in terms of where the industry stands and where the individual companies stand. So well, I can't tie their hands, I'm pretty confident that FINMA will continue to look at it case by case, rather than take a very broad brush approach, which for me personally doesn't make sense.

Q - Nick Holmes {BIO 3387435 <GO>}

That's great. And that's very clear. Thank you very much.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. George. So my two questions, the first one would be, just looking at the sales figures in LatAm raises the question for me that in the life we saw what I can see a 22% growth and in non-life we still see compression and in life, -- I mean in non-life it's mentioned the mass consumer business. Is it just a little bit contradictory, and if you could just comment on what's happening in the LatAm business. So that is first question please.

Second question is with the pickup in U.S. tenure, the reinvestment yield, could you provide us an update and do you think this is just going to be a topic for next year's pricing or of any other significance that you can point out to? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah, hi. Thank, Vinit. So I think in LatAm -- so obviously we are in different channels, so that has some impact. So the life growth that you've seen has been driven by, I mean, a very strong recovery from the joint venture with Santander. So I think between the Zurich team and the Santander team in the various countries down there, they've done a great job in finding ways to bring that growth back. I mean, it's not the first time we've seen that from them. So I'm not surprised that they've again demonstrated a really superior sales capability.

I think the challenge on the P&C side is, I mean, we're more a mass consumer. It's typically not -- it's not always linked to the same things that cause you to interact on a branch or with a bank cash machine where you can actually buy, actually Zurich Santander product in Latin America. I mean it's typically much more connected to mass consumer brown

FINAL

white good sales I think it -- I mean that's been a bit harder to try and find ways to bring back. But I mean from what we see the partners do, I think we feel confident, you'll start to see that growth coming back. It's just taking a bit longer. And I think the circumstances for the retailers is going to be slightly more challenging than it has been for the banks. I think that's part of why you see this, the slight lag on the P&C side versus the life side.

On the tenure year rates. So obviously increase in the tenures, it's a relatively recent phenomenon, so we haven't tried to update the numbers this week to precisely model what the impact of that is going to be. I mean, obviously, I can see the reinvestment rates that we've run at in the P&C business through Q3. I mean, I think year-to-date it hasn't really changed the picture significantly from what you saw at the half-year. I mean, I think I'd make the point that we're not a highly interest-rate sensitive business. So if we do see in the U.S. market interest rates pick up, I mean that does allow some room to accept the slightly lower technical margin, but yet achieve the same overall economics. I think the -- in my experience, there tends to be a bit of a lag. So, I think, actually if we see a sustained pickup in the tenure, there is probably is a period where that actually gives a bigger benefit to the insurance, it won't last forever, and the market will eventually correct. But if we do see a sustained pickup, I think that will actually work in our favor in the short-term. And from a longer-term perspective, I don't think it changes that much -- the key drivers of the other things we've discussed at this point.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks so much.

Operator

The next question comes from Edward Morris from JPMorgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everyone. Thank you for taking my question. The first one just relates to the targets that you outlined around a year ago at the Investor Day. I think fair to say that this year hasn't quite panned out as expected, but I just wondered if you could update on how you're thinking about these targets over the 2020 to '22 period, the ROE cash remittances, organic EPS growth should we really -- we be calibrating our expectations around 2022 now? And I'm just interested in your thoughts on your ability to deliver them for next year and then in 2022.

And then second question, I mean, I think you've already given quite comprehensive comments on how you think the regulator would think about the dividend. I wonder if you could just provide a few more thoughts on your own view of the prospects for dividend growth this year. Obviously, earnings are a little lower than maybe expected, I'm conscious the Swiss franc means the dollar cost of your dividend has increased this year and sales that some others in the sector are going to be minded towards holding a flat dividend. So I just wondered if you had any thoughts on how you're likely to approach that decision later on? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah, thanks, Edward. So I think on the targets -- I mean, in the last target cycle, it was really important to us that every single year we ticked all the boxes on the target, when we set the targets last time. I think one of the targets, which was the EPS growth, I mean, I think that was always something you had to measure over the course of the three-year period, but we certainly had the same aspiration around ROE and cash remittances.

Now of course as you point out, this is a year that we did not anticipate, I guess, no one did. Having said that, we said at the half year that our expectation is that through the course of the three-year period, we can deliver the targets that we've committed to and that's ROE, that's cash remittance and that's that earnings per share growth that we introduced just over a year ago or just about a year ago. So if I think of next year, I mean I am not going to try and qualify them all. I think on the ROE side of things, I expect a significant bounce back. I don't necessarily anticipate at this stage that the pandemic topics continue to have a significant impact into next year other than the change in the expectation of what's going to drive the Group's performance, i.e., something that's maybe a bit more -- a bit less retail-oriented and a bit more commercially driven.

From a cash remittance perspective, I mean, I guess it's pretty clear that we're going to be at the low run rates this year. I mean, next year the very start of the year there will still be some impact from financial markets, related topics to COVID or actual COVID claims. But over the course of the year, I mean, I'd expect to start to see us come back in line with the run rate. And I mean, we've been looking at it very recently. So our expectation is that by the end of the three-year period, we will achieve at least the commitment we've made of \$11.5 billion of cash remittance.

Earnings growth obviously this year is going to be significantly disturbed that creates a new basis into next year. So well I am not going to make any promise, all things being equal, you would expect to see a much higher growth rates, but of course, it's the start to end picture that's most important, and all of what we currently do is aimed at making sure that we can drive out that performance that we committed to. So if you think of each of those three things in that context and with those comments around timing, we are committed to the targets that we gave last year, we're not revising them.

On the dividend topic. It's tempting but I'm going to resist the temptation to start to give you my views. I mean, I think all I can say at this stage is we have a policy. I mean you guys have seen us operate this policy for the last three-some years, within that period we've had some volatility, so you've got a gauge into how we think about that topic there. But my expectation is, we have a policy and we're going to apply that policy. At this point, I can't say more than that.

Q - Edward Morris {BIO 16274236 <GO>}

Okay, that's understood. Thank you.

Operator

(Operator Instructions). Your next question comes from Michael Huttner from Berenberg. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic, thank you, George. Two questions, one is on the U.S. tax and if -- because I seem to remember, last time when the tax rate dropped, it impacted your remittance from the U.S. a little bit. Not much, but a little bit.

And the second one would be on the combined ratio. Your comments today seem much more positive than half year they were very -- a bit strong at the half year, but -- so I'm kind of guessing like for the half, underlying this year and at the half year, I seem to remember you were kind of pushing away, pushing back to same thinking that maybe we could reach 93% or below at some stage in the foreseeable future, but it sounds like this is actually something you're beginning to think, is that a fair comment?

And have you built kind of reserves, using all these (Technical Difficulty) frequency benefit, which would allow you to do that? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you, Michael. So, first of all on U.S. tax, obviously, we don't know what will happen on tax rate yet, but maybe just a helpful reminder to everyone that about half of the profitability comes from the U.S. So therefore for each one additional point or change of one point on the tax rate, you can expect about a half point change on the Group's tax rate.

From a remittance perspective, I guess -- I mean, depreciating that I don't know what will come. The impact on remittance last time came from the -- some of the additional things beyond the actual change in rate and in particular the the so-called beat tax.

I mean, I have no idea what will happen with that, I mean, if I just assume it will stay in place and doesn't become more onerous, I wouldn't expect other than the incremental tax costs and that you'd see any significant impact on U.S. remittances back to the Group, but obviously it's very early stages, that there going to be very high level of proposals it's not that majorities exist in the right parts of the U.S. legislative process to actually push through some of these things. But I think the only data I can really give you at this point is, for every 1% move in the -- or change in the rate that the U.S. would enact you can expect about half point change on the Group.

On the combined ratio so first of all, I apologize, I'm going to resist the temptation to go along with some of your forecast, about the future. Maybe just to reiterate some of what I said earlier, so I said we were towards the bottom end of a 95%, 96% -- the bottom end of the 95%, 96%, range, I expect to see further improvement through the second half of the year on an ex-cat basis, but again I think without the ending point for this year and a revised view or an updated view of what's happening on price. I mean, it would be a bit mad for me to give you forecast today.

I mean, the one thing that is clear to me and it's I can see it in the numbers, ex-cat accident year performance continues to improve, which is exactly what you would expect to see given the rate environment that we're currently in.

Q - Michael Huttner {BIO 1556863 <GO>}

And just if I may, just a quick follow-up and I know you answered Ed's question very fully, but you kind of indicated or maybe I misunderstood that adjusted for interest rates, you're still improving, the profitability in P&C is improving, surely that would mean that you'll beat your targets now rather than be in line, particularly the ROE target?

A - George Quinn {BIO 15159240 <GO>}

So you need to think of what's taking place on the technical side i.e., the margin improvement in the context of the duration of the asset. So we have on the P&C business, we've got about a five year duration you need to increase it to a level that at least offset. So I think the point I made earlier was that we're actually above that point today.

But you have to hold on to for five years to achieve that outperformance over the period. I mean, I certainly have a certain visibility into the future, but I'm not sure I'd be yet ready to give you a view that far out. But certainly at the moment, what we're seeing is more positive. I mean, I think one thing to keep in mind though, Michael, I think we said earlier in the year that, I mean, commercial is certainly much stronger than we had allowed for in the targets that we established at the Investor Day back in November last year.

But having said that, we need that strength, because life will not be quite as strong, and Farmers will not be quite as strong as the underlying assumptions that we had when we put those targets together. So we not only need that higher rate to help us with the investment income challenge, it's also going to help us with some of the pressure that I think you're generally seeing around the retail side of the business.

So our commitment is that we will deliver the targets that we signed up to a year ago. I can't promise, we're going to do better than that.

Q - Michael Huttner {BIO 1556863 <GO>}

Excellent. Thanks so much and thank you for your very full and kind answer. Thank you.

Operator

The last question for today is a follow-up question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you, Alessandro [ph] letting me come back, George. Just I mean, I guess with the backdrop of what a company that obviously you looked out a few years ago, now being bought. I mean a lot of things have changed since then and you've acquired many things yourselves in that time. Just wondering, if I could give you an opportunity to remind us of

how your thinking on M&A has evolved over the timeframe and how your sort of priorities might have changed. And with a post-COVID world, there might be some opportunities or any general comments you might be able to make on that outlook.

A - George Quinn {BIO 15159240 <GO>}

Yeah, thanks, Peter. Richard was telling me that we're coming to the end of the Q&A. So I was hoping I would avoid this question. So I mean, you're absolutely right. There are things being volatile, I appreciate the way you've phrased that. I mean, I think for us, our approach to M&A has been -- I mean, I think it's well-signaled the types of things that we do, the things we've done in the past are a pretty good gates to what we will think about in the future.

So it tends to be end-market focused, where we're not dealing with large multi-markets' integration topics. I don't think our philosophy is necessarily going to change. In general, that's worked pretty well for us and I think from our perspective, there's no reason to change that. I will add the normal disclaimer though that, I mean, the responses I gave to Michael earlier about the targets that we have for the three-year period they are entirely organic, they don't require us or rely on us doing M&A at any point in the cycle. So it's -- there is no pressure or driver to do that.

But of course, if the right opportunity emerges that would help us get to one of our strategic priorities a bit quicker and the price is right, then, of course, we would take a look. But there is no change in the way that we think about it compared to what you've seen from us over the course of the last several years.

Q - Peter Eliot {BIO 7556214 <GO>}

Great, thank you very much.

A - Richard Burden {BIO 1809244 <GO>}

Thank you. I think that was our last question. So thank you very much, everybody, for dialing in today. Obviously, if there are further questions, the Investor Relations team is available. So please do not hesitate to reach out to us. Otherwise, stay safe and have a very good afternoon, full-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.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have

no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript