Q3 2019 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
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jonathan Hocking, Analyst
- Jonny Urwin, Analyst
- Nick Holmes, Analyst
- Peter Eliot, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Results 2019 Conference Call. I am Shai, 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 Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

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

Richard Burden {BIO 1809244 <GO>}

Good morning and good afternoon everybody, and welcome to Zurich Insurance Group's third quarter 2019 call. On the call today is our group CFO, George Quinn. Before we start with the Q&A, George will make a few introductory remarks, and when we come to the Q&A, as usual, ask you to keep your questions to a maximum of two, if we have time we will come back to you after, if you have follow-up questions.

George let me pass over to you now.

George Quinn {BIO 15159240 <GO>}

Thanks, Richard. And good morning and good afternoon to all of you. And thanks for joining this call on our Q3 results. So before we move to the Q&A just a few initial remarks on the third quarter. Just as a reminder, the focus of the third quarter releases as you've known from the past typically on revenue trends, we've got some qualitative commentary around the performance of the business and we will of course, provide the full detail of the full year. However, I can confirm that we remain fully on track to meet or exceed all of the targets for this year.

Over the first nine months, we've continued to progress the strategy of focusing on customers and developing our distribution, while at the same time simplifying operations. And I'm pleased to say that this has been rewarded by solid development across our business. If you allow me, I'll turn briefly to P&C, because I'm sure that many of the questions will relate to the kind of pricing and claims trends that both we and the industry in general are experiencing.

P&C pricing trends have continued to accelerate, particularly in specialty and in North America with rates comfortably ahead of lost cost trends. I would say that North America commercial lines rates also show signs of improvement. And in addition to tier [ph] rate, but also increasingly seeing improvements in terms and conditions. We're also increasingly optimistic that the current trends will sustain themselves through 2020, and continue to broaden in each of the geographies.

The increases that you've seen from today's press release are also increasingly been seen within P&C. Top line and now it will be supportive to earnings over the coming years as both the growth -- the growth and the rate tends [ph] into the P&L.

Turning to claims trends, which I know has received a lot of attention in recent weeks. We're obviously not immune from the general market trends and recognize many of the comments from TP [ph] as particularly in the US. But I would remind you that we took action beginning already four years ago, and those actions are focused to a large degree on the lines that have been in the headlines, namely commercial auto and general liability, where we're taking clear action in terms of loss picks and on volume. And as such, I feel that we are probably in a relatively -- position to manage some of these trends, than maybe the average and the industry.

Just turning to recent weather, weather trends and following on from the relatively light weather and nat cat trends in the first half, trends have been more normal since the half year. Based on our current expectations around crop and the impact of cat that we've seen in Q3, we would expect the combined ratio to be slightly higher than the midpoint of the 95%, 96% combined ratio range that we've talked about previously.

Our life business continues to deliver on a strategy of focusing on capital like savings and protection business with our Swiss and Irish businesses continuing to show particularly strong performance particularly in corporate life and pension sales. And, I mean, we continue to believe that the strategy is the right one, especially in this low yield environment. But it cannot ancillary [ph] us completely. We will work hard to compensate, but I expect that the life business will face some modest headwinds from interest rates, against that P&C will not only benefit from a positive trend that's continuing longer than we had initially anticipated, but also one that is still accelerating and one as I mentioned earlier that we expect to see broaden into the European markets. Farmers continue to deliver steady performance and continues to execute on its customer-focused strategy and the surplus continues to build, and is now at an all-time high. I mean that business continues to perform very well.

Z-ECM ratio is 113% in the upper half of our target range, and the reduction since the end of Q2, principally reflects the falling yields over the course of the quarter. I mean, as you would imagine, we continue to have substantial capital flexibility. Mario, I and the entire team look forward to seeing, many, if not all of you at the Investor Day next week. We will give you further insights into how we're thinking about the future. So if you don't mind, please focus your questions today on the quarter or the year-to-date.

We'll now be happy to start the Q&A.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from the line of Nick Holmes, Societe Generale. Please go ahead.

Q - Nick Holmes {BIO 3387435 <GO>}

Hi there. Thanks very much. I have just one question which is, what are your thoughts about making changes to the bond yields sensitivity in the Z-ECM ratio calculation, because it's just clearly too conservative isn't it, compared to peers?

A - George Quinn {BIO 15159240 <GO>}

Thank you. I wondered how long I'd have to wait for that question. So maybe, its sort of benefit everyone who may be doesn't understand quite as well as you and some of your colleagues. So obviously we apply an internal model. Let me model the impact of interest rates. That model is entirely based on swap curves. There is no ultimate forward rate. And I think, I mean, that has the impact that well, I think most observers can readily easily recognize that in the real world, we probably have less sensitivity to interest rates than some of our European peers, public sensitivities are higher, principally because of the absence of that ultimate forward rate.

I mean, you have seen the impacts of interest rates in the quarter and that's principally driven by Germany. So I mean it is a very strict market view of things. I mean despite that the capitalization is still strong, but we are going to take a look at it. I can't tell you today, what we'll do. I mean, I think, as you probably also aware, the (inaudible) is looking today at the Solvency II and UFR [ph] construct. We did some rough back of the envelope work. And we estimate that if we apply the Solvency II type UFR to model with increases that ECM ratio by about 20 points. So we need to take a careful look at this, because of course, I mean these things are very complex, and they kind of unintended consequences. I mean, probably all I can say today is I'll update you further when we come back at the full year, but as a topic, we're looking at trying to find a way to be more consistent with the peer group.

Q - Nick Holmes {BIO 3387435 <GO>}

That's really interesting. Thank you. So are you saying that 113% would be 133% with UFR?

A - George Quinn {BIO 15159240 <GO>}

So, we estimate roughly. So I mean, we obviously have a very sophisticated internal model. We've done a far more simplistic calculation. I'm not sure I'd necessarily claim that we'd be precisely 133%, but we estimate the difference of the current Solvency II UFR apply to Z-ECM is of the order of 20 points versus where we are today.

Q - Nick Holmes {BIO 3387435 <GO>}

Okay. Thank you. That's very clear. Thank you very much.

Operator

Next question comes from the line of Vinit Malhotra, Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Well, yes, good afternoon. Thank you very much. So one question on the top line reported today. And George, you just said that you expect pricing (inaudible) to improve outside US as well. Now in the EU segment, we can see very strong growth, as well, so I think it was 5%, 1H and 6% for nine months like-for-like. And in the past it was linked to the Swiss business, and you mentioned Italy, I think in the past. Could you just comment a bit about where this growth in the third quarter probably came in.

My second question is just on the Swiss Solvency, sorry on the Z-ECM, the kind of volatility is like, I was advised that as of now the Z-ECM is probably closer to 120%. Now, if I just look at the euro swap curve simplistically, it's up around maybe 30 basis point, you show a 10 point of sensitivity. So again, you know from 113% to 120%, is there something else that has happened in quarter-to-date? Or does it just the fact that we can't just simply liquidate [ph] at euro swap and apply to the sensitivity because of definition? Just any comment would be helpful. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah, great, thanks Vinit. So on the growth topic, the -- I mean Europe -- Swiss business is the one that still stands out as driving growth, but I mean we see growth across mainly driven by commercials. So commercial is the one that I actually see most of the rate in Europe and in fact if you look at retail in Europe, we will see the impact of pricing on retail as being, I mean, quite a bit lower than the -- far more positive environment we see around commercial. But Swiss is the strongest than the UK, but for example, both Italy and Spain also contribute over the course of the quarter.

On Z-ECM, I think the challenge with Z-ECM -- one of the challenge with Z-ECM, the challenge was modeling interest rates as the sensitivities tend to be parallel shift and if everything was parallel shift there would be perfect guides. The challenge for us, and it goes back again a bit in the answer to Nick earlier, I mean, it's really a long end to some markets has had an impact on us. And because we have no UFR in the model, I mean we are exposed to that entire movements, whereas for example if the German curve flattened, if we'd have UFR, you probably wouldn't see the impacts of that. So I made apologies that it's hard to use those simple sensitivities, but it's very hard to give you a sense of, I mean how the model responds to steepening or flattening or twist, I mean it's obviously a very complicated topic.

But I mean just to go back to what you said, I mean we haven't formally estimated it. But given the interest rate moves you've seen, given other changes that we anticipate, I mean, today, we would anticipate that we will be back lately very close to the top end of our target range.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much.

Operator

Next question comes from the line of Andrew Ritchie, Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. George is inevitable, I'm going to touch on the US casualty topic. You used the phrase at the beginning, not immune. Just want to explore what you mean. I guess you mean you're seeing -- you're observing those trends for severity and a bit of frequency. It's not requiring you to further increase loss picks or is it and that's being offset by something else? Or is it causing you to think about the seasoning of loss picks and maybe holding onto reserves for a bit longer because of the uncertainty of the environment. So I'm just trying to reconcile the phraseology not immune versus it doesn't sound like it's causing you to kind of change guidance. Any other phrase I picked up in your opening comments was you talked about headwinds from low rates in life. Are you referring to the sort of economic effect of low rates or on IFRS earnings. And I'm curious to know what you're referring to just some things like, is it just (inaudible) drag or something what you intending to mean by that? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Thank you. So the, let's start with liability. So the no immune comment. So if we had a full quarter as well as the disclosure, and we were talking about PYD, I'll be giving you a number for PYD that you would all instantly recognize, I know you would ask me to break it down. And within that you would discover, there are several gross loans positives, and maybe a bit further forward in the list would be an adverse number and that would be, what we've done in general liability reserving in the quarter.

I think we obviously we look at the same market dynamics as everyone else. The -- I mean from as far as we can tell excess (inaudible) is still the main issue in the US, certainly as broadened across a larger group of lines, but we see it mainly in excess GL [ph]. It seems to be more a severity issue than a frequency issue from our stacks. But again, I mean, within the the scope of our overall loss picks, are overall reserving, I mean we are happy that we can manage that, and if I maybe one comment is slightly forward-looking.

And I think that we had not yet done in Q3 with the complete of what is comp reserve review. And I think as we've talked about before, I mean, we benefited from the fact that we've seen pretty strong posted it on there in workers' comp and that's certainly been a significant benefit for us in managing the market challenges that we see around GL. One of the comment on commercial auto, because that was also a topic, some of the peers last week, I mean we haven't -- we've seen almost no movement in commercial auto. I think if you look at the '16 and '17 absolute years, we have a very immaterial positive reserve development.

I think if you look at the industry on (inaudible) cards and compare them to us we compare very favorably. And in fact, I mean if you isolate say the top four carriers of which I would view as one. Again I think we compare favorably within that group. So I think the comment was just to recognize that there is something taking place, we benefit from on the pricing dynamics. So, I mean this line of business sees the most price action. I mean if you look at the year-to-date rate on the GL, probably enter double-digit sometime end of Q1, beginning of Q2. By the very end of Q3, it's almost doubled again. So I mean there is a market pressure that's driving that. I think we are happy that we can manage the challenges, that is lying currently quarters to it.

So on the life comment. So the life comment was intended to be, I mean, not a very scientific or mathematical comment. So maybe one that was a bit more economic in terms of outlook, rather than immediate IFRS impact. I mean really just to reiterate, I mean we have a book that is generally positioned well for a low interest rate environment, but positioned well. It doesn't mean that at every circumstance which is significant earnings growth. And as I look forward, and if I compare to the last three years where I mean life has been the -- I guess the positive surprise on accounts perspective well, and see that we work hard to deliver net [ph] performance.

I mean, I suspect we'll see P&C pickup some of the significant benefits we talked about really from rate, but I expect life to slow down a bit, just given some of those economic headwinds.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

Operator

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

Q - James Shuck {BIO 3680082 <GO>}

Hi, good afternoon. Two questions from me please. On Farmers, you had some issues around kind of trying to sell life products through the Farmers networks. Q3 seems to got a bit better versus H1. Just be interested to see whether you actually seen any tangible improvement there? And also on the P&C side, Farmers only grew GWP at 1% at nine month as the same as H1. I'm still waiting for that to accelerate a little bit. I know you mentioned the Eastern states improving, but the headline still isn't. And I would have expected the Uber deal to contribute towards that. And I guess, kind of, how is your claims experience going with Uber in the light of one of Farmers' competitors withdrawing from that segment. That's the first question.

Secondly, just around crop insurance, please. What was the crop insurance experience in Q3? And when you're guiding towards slightly above the midpoint of 95%, 96% for full year, what are you assuming for crop within that, please? Thank you.

A - George Quinn {BIO 15159240 <GO>}

That's the longest, two questions I've ever heard. So on the -- first of all, on Farmers. So I think the short summary here would be that we -- there's a long way to go. I think before, we'd be happy with the progress that we see on the life side of Farmers. I mean I know that Jeff and the team at Farmers -- for working hard there. I mean there are some operational changes. They've made to try and create focal points. So we really have the expertise to do this well both within Farmers or life within these changes. So we think the benefits are still yet to come. And we wouldn't necessarily yet start to celebrate what we've seen in Q3. There's room for very significant improvement.

On the growth topic for the exchanges. I mean in this case, I think, Uber actually works against them, because of course this is a GWP story. So, we're talking of a comparison to a period that had, I guess one of the first Uber contract against one that doesn't. And while I hesitate to say if you take something out and the comparison looks fabulous, I mean if you do look at the ex-Uber picture, it is pretty consistent with what we've seen in the last couple of years. So, I mean the growth rate would be higher if I take the growth in the prior period, driven by Uber. So it's a slightly strange, but I think Uber works against them (inaudible).

On -- I mean, it's almost impossible for me to comment on the motivation for the -- that was -- of the exit of this relationship. Otherwise exist between Uber another insurance company, all I can say it's only based on the feedback that I've heard from Jeff and the team this relationship runs well. We don't see it deviate significantly from the expectations. And I know the team enjoy working with Uber and hoping to be able to support them further in the future.

On crop insurance, so what am I assuming. So again, I'm not sure if I had the opportunity to speak to you guys as a group, so as to make sure that everyone has got the same information. I was asked about crop back at the BAML conference, by the investor side and basically what I said to them there is that prevented planting as I guess, you guys have heard already from some of the more important peers in the market. I mean that is going to produce a cost to the business. So having had, I mean, what really three absolutely fabulous years on crop, we're going to pay a bit (inaudible) this year. The estimate I gave around the end of September was that we would expect to see -- and just to keep it simple, combined ratios for crop probably edging into the three digit area. So I think then I was thinking maybe high double-digits, low-triple, but I think today that would be in the low triple-digit range. So we're talking, somewhere 7, 8 points above our normal expectations. That assumption is purely prevented planting. So there's nothing in there about the revenue outcomes, and we don't see any sign from the market, that there is any cause for an expectation around the revenue outcomes that would be different from the plan, but we won't know for sure, until we get through a period that will run out to somewhere, early December, just given the late planting for a number of farming clients, the season will play run a bit longer than it normally does. But it prevented planting, and I'm assuming about 7 or 8 points one crop versus a normal expectation.

Q - James Shuck {BIO 3680082 <GO>}

Great. Thank you, George.

Operator

Next question comes from the line of Farooq Hanif of Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Thanks very much. Can you comment in the year-to-date, what's been happening in your shift towards the kind of mid-corp segment in US commercial that you highlighted and kind of what progress you're making there? And then secondly, the strong LatAm growth in P&C, to what extent is this inflationary versus a real customer growth? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Farooq. So the story on the mid market part of the commercial business in the US and what progress that we made, we got some more expenses and we did a main summary so far. So I mean Kathleen and her team are working hard to reshape our existing mid-market business. But I think more importantly to create footprint that will serve mid-market clients and the brokers in a way that mid-market segment expects to be served. But I mean, to be honest, I don't expect that to be a significant generator of identical profit.

I mean in fact not only this year, but also in next year. We are more likely to see additional costs in the US as we build the necessary footprint. But I mean that's within the guidance we have given for the cost outcome for this year, and you need to come to next week's Investor Day to hear more about the cost picture that we assume for the next three year period.

Strong LatAm, so the -- I think if you're look at like-for-like, so that adjusts for the impact of transactions, but also for foreign exchange. And of course the synergy, adjust for foreign exchange, you will pick up some inflation impact. We have a reasonably sizable business in Argentina, that's mainly retail auto focus. That's a business that is almost entirely -- it is imported, so therefore it carries quite a bit of inflation risk. But has the products are structured in the way they typically reprice very quickly deductibles typically float with the result that I mean you get back to a dollarized answer pretty quickly, but it will tend to overstate the growth on a like-for-like basis. So inflation in Argentina post slightly flattening the growth rate than we're achieving in Argentina.

Q - Farooq Hanif {BIO 4780978 <GO>}

Just coming back on that, I mean, you're still quite happy that you're getting decent double-digit growth, underlying?

A - George Quinn {BIO 15159240 <GO>}

Yeah. So I think the -- I mean again if I look to -- I mean a good indicator across the entire region, which is the joint venture. I mean their back well into double-digit growth again. I mean I think we're back in the 20s. So even if I extract a reasonable number for the impact of inflation in some of the stronger inflation markets, I mean the underlying is still strong positive growth.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thanks very much.

Operator

(Operator Instructions) The next question comes from the line of Jon Hocking, Morgan Stanley. Please go ahead.

Q - Jonathan Hocking

Hi there. Good afternoon everybody. Just got two questions, please. Just given what you're saying about that your sort of reserving position in the US on both rates and tenancies moving the right direction. Are there any lines of business where you had sort of reduced exposure on just a note attractive enough to sort of tilt back into those lines. That's the first question. Secondly on Farmers. Given where the surplus sits now, is there an opportunity with the exchanges to accelerate into the expansion states vis-a-vis capital really not what's holding that back. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you, Jon. So the -- on the reserving and the impact of things we've done in the past in terms of reduced exposure could we reevaluate risk appetite. So the answer is yes, but it quite goes in both directions, though. So, on the positive side, I mean, I think you guys are all aware that I mean we have a reasonable -- we have two very substantial core shares in place in the US. One is around the casualty book, and one is around property. The casualty one is intended to be strategic and therefore longer term. And therefore, you shouldn't expect to see any significant change there. That's not true of the property position. That was always intended to be a bit more tactical. I mean we have been looking at that quite closely. Just given the trends that we're seeing in property, I mean, we may reduce the session to the core share as we come up to renew at the beginning of next year. I don't think we'll eliminate entirely, well, we just see how the market circles, but certainly that would provide some, I mean, reasonably modest incremental growth to the US book.

One additional comment to make on that though, we're not intending to carry more cat risk. So we will spend a bit more money at the same time making sure that we hold the retention at the levels that you guys have seen in the prior presentation.

On the flip side, though, the -- it was done to limit the -- and this is a global comment rather than North America. We're looking to limit the business around credit and surety. I mean based on the feedback that we get, I mean, growth is almost limitless around that topic or the potential for growth is almost limitless. And we've told the business earlier this year that at least a step one, we do not want to see capacity grow around that topic. And that's principally driven by the fact that, I mean, we don't see broad themes in credit and surety, you do see an individual markets, idiosyncratic topics and they range from things like (inaudible) in the UK a year ago to most recently Thomas Cook in Germany. And you guys have seen the impact of that on us, where we have a combination of both retention at the level that you are fairly familiar with and the additional costs that we'll incur in reinstating the reinsurance.

So I think probably the book will shift a bit into next year and the year after, more likely and looks a bit more short tail. But with the additional caveat that I think we've currently reached a tipping point for our appetite around credit and in fact that may even start to scale back as we move into the latter stages of the credit cycle. And I've talked so long in answering your first point, and I have forgotten your second point. What was the second question Jon, sorry?

Q - Jonathan Hocking

Just on the Farmers surplus and whether that giving you the opportunity to expand faster?

A - George Quinn {BIO 15159240 <GO>}

So Jon, that's a yes. So the -- I mean the issue with Farmers, I don't think it's not a capital issue that holds the exchanges back here. I mean you need, the right people with the right skills and the right capabilities to divest in the right way. And of course they don't grow on trees. So when that tends to be something that limits it, play more than in many other factors.

Q - Jonathan Hocking

Okay. Great. Thank you very much.

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Thanks, and thanks for taking my questions. Just to focus on the casualty stuff a bit more. So I was just trying to gauge, George is that comment that you're not immune to these trends? Is that incrementally more cautious versus 3Q. Secondly the -- I think you mentioned in the past the US loss trend was running around 10 bps higher than Europe. Is that still the case? And then, are you seeing any deterioration on your GL book or is it just building in a bit more prudence? Thank you.

A - George Quinn {BIO 15159240 <GO>}

So the -- I think, I mean the real reason for the comment I made at the start with simply to relate the fact that, I mean we recognize with in our portfolio, that the general trends that I think we hear from others, they haven't had the same financial impact on us for a number of reasons, which range from some of the steps that we took some time ago to reposition some of these businesses. So that could be loss picks, it could be the size of the business. It could be the reinsurance program that we have in place around casualty in the US.

But I mean, there's no doubt and if I think I mentioned already last year when we had either Q3 or full year. I mean, we already so adverse on the US GL book, but we had the benefit that we had a very substantial positive for that development around workers' comp. That trend hasn't changed into this year. We've tried to make sure that we reflect our expectations for this year and the loss picks that we made earlier in the year, but the selling more inflation across the entire market than we would have anticipated a year ago.

I don't expect that's going to cause us a significant challenge in our results for 2019. I mean, we believe that we can manage that within the overall portfolio we have. So I guess, maybe slightly more cautious, but I'm not trying to signal that we think we have a problem there. I mean, quite the contrary, I think we've got the ability to manage this.

On lost cost rent -- on loss cost trends, so if you look at the US. And the US is probably up by maybe 20 basis points, 30 basis points over the figures I gave back in the Q2 call. I mean Europe tends to be a bit more stable around this topic. So I wouldn't expected the picture to have change markedly other than, net-net, we see a bit more loss cost inflation in the US.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks, George.

Operator

Next question comes from the line of William Hawkins, KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, there. Thank you very much. First of all, George, is there any chance you could give us an update on where you think you're SST ratio has moved to by the middle of the year or may be at the end of September? Some kind of update on that would be helpful. And then secondly, I think you've alluded to this passing but just to be explicit, you made the comments about your combined ratio. Given that you said that you -- at the first half, you expect your investment income to be stable for the full year versus prior year. Are you sticking with that statement or would you like to be a little bit more cautious on the outlook for P&C investment income given how yields have fallen. I suppose, if you can just think about next year, as well as the ouster would be helpful? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Good. Okay. So apologies on the SST topic, I cannot give you an update today on that. I mean SST has a different methodology from Z-ECM. SST does permit a slightly -- a bit more conservative UFR methodology than the Solvency II. So, I do have a number for you, but directionally, I mean if you applied that SST permitted UFR, you would now expect to see the same size of movement that you've seen in Z-ECM.

On the investment income topic, with the caveat that I gave earlier that you need to adjust for the hedge fund topic and the investment income. So for the yield component, no change to our view that may -- we will expect to see something broadly similar, but of course if interest rates remained where they are -- where they where, if that makes sense, where they are and when they're still lower than they were certainly the first half of the year. I mean that would have an impact on investment income expectations for next year and potentially beyond.

I think the only thing to bear in mind there is that, I mean the duration of the liabilities and therefore the assets is around five years. So it's a reasonably slow burn. But I mean, just given where we are, if interest rates remain where they are, more lately that's a bit of a headwind, rather than a tailwind for us.

Q - William Hawkins {BIO 1822411 <GO>}

And I know it's a really complicated equation in practice, but I mean, are you guys comfortable in general, you can pass on the strain of low yields to the customer by adjusting the combined ratio down, even at this very low level for yields?

A - George Quinn {BIO 15159240 <GO>}

So I think that -- I think -- whether it's because of interest rates, whether it's because of the GL topic, whether it's because of net accumulations over the last few years, when you've got a rate environment that is way ahead of loss cost trend. And in fact that gap has opened up again in Q3. So I think there is a piece in there that I guess you could attribute to the impact of yields, but it's hard to do that very scientifically. So I think the overall rate environment is doing more than enough to help us with the yield issue coming.

Q - William Hawkins {BIO 1822411 <GO>}

That's great. Thank you.

Operator

Our next question comes from the line of Peter Eliot, Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. George, just want to follow-up quickly on your comment on Thomas Cook. Because this fund is behind the curve here, but last time we spoke, I thought that the message was we shouldn't really expect anything material. And it seems -- were a little bit different. So I was just wondering if you could update me anyway, on your thinking there and any quantification you could give would be great?

And the second thing was just since we're on SST in modeling, what if we take the opportunity to ask your interest rate sensitivity in your SST is relatively high and that compares to peers who showed very little sensitivity. I mean my understanding was that the new SST framework with very insensitive to interest rates. So I was just wondering if you could explain that to me or what you know, why you have the largest sensitivity. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yes. Thanks, Peter. So on Thomas Cook, I think last time we met, I talked about the loss, I gave a very broad indication where the loss would fall. The thing that I'd like to have that conversation with the impact of reinstatement premium. I don't expect the combination of these two things to be particularly significant in the group's results for the year. But certainly, if you look at -- what you can - - what I can, if you look at our Q3 results, I mean there's a delta in there that's driven by crop in Thomas Cook. But I mean for example the -- I mean if you think of our normal retentions, I mean, today, I would expect Thomas Cook, the net claim payment, plus the reinstatement premium to be around twice normal retention levels.

On SST modeling, so the answer is relatively simple and straightforward. Currently, I mean modeling of interest rates, doesn't take full advantage of the UFR that SST permits, and that's why you see this much more sensitive picture than our SST than you might see elsewhere. I mean that's obviously a topic that as we look at the, the need to be a bit more consistent, but we're also going to consider as we approach the year end.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah, I mean, if I can just follow-up that very quickly. I mean obviously just that Z-ECM is used for your internal view and management view and my interpretation was with the SST really it's only purposes is regulatory. So I guess I'm just wondering why there should be any need to divert from the regulatory framework.

A - George Quinn {BIO 15159240 <GO>}

Yeah, I --

Q - Peter Eliot {BIO 7556214 <GO>}

Make sense in their lines on --

A - George Quinn {BIO 15159240 <GO>}

So, specifically, we don't deviate from the regulatory framework because that wouldn't be permitted.

Q - Peter Eliot {BIO 7556214 <GO>}

I'm sorry.

A - George Quinn {BIO 15159240 <GO>}

We agree with them and the approach that we take and of course, I mean one of the challenges with these complex models as the overhead of running these things is pretty substantial. So to the extent that we can have consistency between them, it makes life a bit easier. So we've taken a relatively pragmatic approach to some of these topics in the past, an agreement with the regulator, but I guess that did not anticipate the size of the move that we saw back in Q3, but I agree with you, I mean the SST serves an important part of this for the regulator. I mean we will have another look to see if there is something we should do, but I just -- recognizing. Of course, I mean we don't have a freedom in SST, that's something that if we do wish to change things, (inaudible) will expect to review and take their decision on whether they are comfortable with any change we may or may not propose in future.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great.

A - Richard Burden {BIO 1809244 <GO>}

Okay. As we have no more questions on the call, I'd just like to thank everybody for dialing in today. If you have any follow-ups, please feel free to contact the IR team. Otherwise, we look forward to seeing you all in London next week. Thank you.

Operator

Ladies and gentlemen, this concludes today's Q&A session. Thank you for participating, and wish you a pleasant rest of the day.
