Q4 2014 Earnings Call - Q&A

Company Participants

- George Quinn
- James Quin
- Martin Senn

Other Participants

- Anasuya Iyer
- Andrew J. Ritchie
- Andy D. Broadfield
- Farooq Hanif
- James A. Shuck
- Marcus P. Rivaldi
- Michael I. Huttner
- Nick Holmes
- Paul C. De'Ath
- Ralph Hebgen
- Stefan Schürmann
- Thomas Seidl

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to the Zurich Insurance Group Annual Results 2014 Conference Call. I'm Stephanie, 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. After the presentation, there will be 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. James Quin, Head of Investor Relations and Rating Agency. Please go ahead, sir.

James Quin {BIO 18345789 <GO>}

Hello and welcome to Zurich's full year results presentation. I'm joined by our CEO, Martin Senn, and our CFO, George Quinn. Martin and George will make a few short comments before we open the Q&A. And as usual, please keep to two questions.

I would now hand over to Martin.

Martin Senn {BIO 3241585 <GO>}

Thank you, James, and welcome to everyone on the call on my behalf as well. We are one year into the three-year strategy we outlined in December of 2013. And as I explained in my presentation this morning, we have made good progress in a number of key areas and across each of our three strategic cornerstones, namely, investing in priority markets, managing for value and growing our operating earnings.

In terms of our targets, we are very well positioned in two of the three, our solvency, as measured by the Z-ECM ratio and cash remittances. These two metrics are important reflections of our overall financial strength and resilience and underpin the CHF 17 dividend per share that the board of directors is proposing.

Where we are less satisfied is with the progress made in translating these initiatives into improved earnings, with an ROE of 11% below our 12% to 14% target range. While an 11% return is not a bad outcome in itself, there is a gap to close. And we have actions underway across the business to ensure that we will deliver on all three of our targets.

And with that, I will now hand over to George, who will give you a short overview of our financial results. Thank you.

George Quinn {BIO 15159240 <GO>}

Thanks, Martin, and good morning or good afternoon from me. I'll make a few short introductory remarks on the results. And as I do that, I'll try and answer some of the questions that we've been receiving this morning. And I'll focus first on Q4 standalone.

So our business operating profit of just over $800 million is below expectations and that's mainly due to a 99.4% combined ratio on GI business and reserve additions that we made in non-core, which mainly relate to U.S. asbestos and environmental liabilities.

In GI, the accident year ex-cat combined ratio was 98.2% for Q4 compared to 94.8% in the first nine months of the year. The increase is due to four factors, which are in roughly equal measure. So we have a slightly higher level of large loss. We have adverse experience on U.S. crop. We have an uptick in the attritional loss ratio, and we have slightly higher expenses.

To put it in some context, compared to where we were in the nine-month results, we've increased the attritional loss ratio booked for the full year by about 30 basis points in Q4. It's a fairly small adjustment, obviously, overall for the year, but it magnifies because of the impact in the quarter.

This doesn't make the Q4 results any better, but hopefully, it does explain to some degree why we wouldn't extrapolate this into future periods and why instead we would actually ask you to focus on the full year picture. Now, on that basis, we did make good progress in a number of key areas. So even with a weaker Q4, our accident year ex-cat combined ratio in GI improved by 1.5%.

Our Life business results were impacted by some of the management actions that we took last year, as well as the costs of some of the central initiatives that we are undertaking in execution of our strategy. And Farmers, we believe, has clearly turned the corner, with a return to growth and positive momentum on all key metrics.

There are positive trends in the performance, although we clearly need to do more to improve our ROE and deliver on the 12% to 14% target. But this isn't any different to the picture that I set out at the December investor update. And while the gap between our 2014 performance and our target is perhaps slightly wider than expected, the levers that we intend to apply are no different to the ones that we discussed back in December.

So namely delivering, number one, on the GI turnaround plans, further underwriting initiatives in priority markets, in-force management in Life and with an acceleration of plans relating to efficiency.

Lastly, in relation to our balance sheet and cash position, the macro environment, lower reinvestment rates and the strength of the dollar and Swiss franc against the euro present us, obviously, with some challenges. We've tried to give you a steer in the presentation on what these factors might mean for our starting-point earnings in 2015, but nonetheless, we remain in a very secure position in terms of both solvency and our ability to extract cash from the business.

As you know, the board of directors is proposing an unchanged dividend of CHF 17 per share. And as we said before, the main driver of dividend and dividend growth will be the overall earnings level. And our aim is to grow operating profit earnings. At the same time, as I said last December, we are highly unlikely to simply add to our equity over the next two years without taking options to deploy our surplus capital within the business or return it to investors. And this remains an additional lever to allow us to improve our ROE and achieve our targets for 2014 to 2016.

With that, we'll now open it up for questions.

Q&A

Operator

We will now begin the question-and-answer session. First question from Mr. Paul De'Ath, RBC. Please go ahead, sir.

Q - Paul C. De'Ath

Yeah, hi there, good afternoon. Thanks for taking my questions. A couple of things. Firstly, on the Z-ECM ratio, this obviously remains at an elevated level. Where do you expect that moving? I mean do you plan on more re-risking in order to improve returns and bring that number down? That's question one.

And the second point, again on the solvency position, you've given some guidance on the FX impact on earnings, but if you could give us some kind of steer as to whether or not the FX moves will have any impact on the solvency position over the next year that would be very helpful. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Great. Thanks, Paul. So on the first one, just a reminder the Z-ECM number we published today is the September end position. So we'll have an update again with the Q1 results. I mean I think if you look at I mean what might happen, the things we may do, I think from a re-risking perspective, we'll take some steps to address the issues of negative interest rates, especially in Switzerland, and perhaps elsewhere in the portfolio. And I think that will add a very, very small amount of additional risk to the portfolio. I don't think that will be particularly material for us and maybe a couple of points. The FX move will also have some impact, but again, I expect it to be pretty modest, maybe at the same type of order.

I mean when we present the next Z-ECM ratio, it will include the plans for 2015 and the growth that we currently plan for and the risk capital that it requires. But I mean I don't expect to see a major change beyond those two items and the impact to growth. So I mean Z-ECM, we're well above target range; target range again is 100% to 120%. Our aim – in fact, more than our aim, our intention by 2016 is to make sure that we're back in that range.

The capital priorities we've set out before, but obviously, number one is to maintain and eventually grow the ordinary dividend. Number two is to invest for growth. And the growth can be organic or inorganic. And then number three, to the extent that we haven't achieved target capitalization levels through number one and number two, we'll return capital to shareholders.

Q - Paul C. De'Ath

Okay. Excellent, thanks.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

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

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

Hi there. Could you just remind us – clearly, you've put 2015 as an element of a transitional year and there's quite a few projects where you anticipate payback in 2016. Now, I can identify one of them which is the Brazilian extended warranty business. What are the other areas of investment where there could be some payback in 2016?

So I think there's Brazil extended warranty. I guess you would hope to reinvest the capital freed up from Farmers Re. What other areas are there where there's a return in 2016 maybe not evident in 2015? Thanks.

And, sorry, the second question was you used the term acceleration with respect to costs or efficiencies, roughly that term. Can you just give us some update on the progress on the $250 million cost saves? And again, do we assume the non-Life expense ratio should fall from 2016, given less investment/more payback? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yes, thanks, Andrew. So on the first topic of investment, I mean I'm not sure I'd necessarily think of 2015 as a transitional year, but I understand why you put it that way. I mean the most obvious thing is Brazil. But on top of Brazil, we'll have – I mean if you go back to the Q2 presentation, we talked about some of the – I guess, the operational leverage that we described around Santander and the fact that the growth rate we see in Santander is significantly faster than the growth rate on the expense of the amortization side of the upfront.

Just one comment on the capital from Farmers Re, so I mean I guess we haven't discussed that topic in detail. I mean you've seen in the presentation already today that I've mentioned the fact that we're going to trade away the – I mean part of the volatile income stream in return for capital release. It will take us a bit of time to achieve that capital release. So I don't necessarily expect to have all of that in my hands this year and, in fact, it will need time so that, obviously, the team at Farmers can have a discussion with the regulator and make sure that the regulator is comfortable with the plans that we are proposing.

So I mean overall, from a – I mean what changes 2015 into 2016, I mean my guess is I mean you'll see I mean relatively modest impacts from things like Brazil. You'll maybe see a stronger impact on the Life side from things like Santander, Sabadell and other transactions that we've done more recently. I mean what would be more transformational? I mean we have to come back to costs and efficiencies.

I guess this comes on to the second part of your question. I mean it's a topic we've been spending a lot of time looking at. If we simply allowed the – if you look at the expense ratio for GI on a pro forma basis, if we do nothing, it will rise into 2015. And given the market conditions and given the challenges that we face, I mean that's not something that Mike Kerner and the team are prepared to countenance.

I mean overall, though, I think we need to tackle costs and efficiencies across the entire group and not just for GI. So I mean I think that will be a much bigger theme this year that you'll hear us come back to in May.

On the $250 million saves, I mean the $250 million are essentially above – we say, above the business use, above the legal entities. We are currently on track for delivery of that. And I'm highly confident we'll deliver the remainder in the course of this year. I mean I think we're up to about $100 million saves on that piece for 2014. We'll get the remainder in 2015.

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

Can I just clarify on investments? The investments you made in 2014 to Brazil, Sabadell, that wouldn't be part of the $3 billion reinvestment that you talked about at the Investor Day. Is that fair?

A - George Quinn {BIO 15159240 <GO>}

No. That would be unfair. I guess we did those before I mentioned the $3 billion.

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

Okay.

A - George Quinn {BIO 15159240 <GO>}

So these are incremental.

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

So none of the $3 billion has occurred then as far as you're concerned at this point.

A - George Quinn {BIO 15159240 <GO>}

No. And maybe one additional point on the capital front. I mean I think as you would appreciate, I mean the $3 billion was sized based on our reasonable expectation of the amount of money we'd have complete flexibility over. I mean to the extent that we can grow organically, I mean our ability to use capital and grow organically is much larger than $3 billion. The $3 billion is the, I guess, the limit where we have complete flexibility or fungibility.

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

Okay.

A - Martin Senn {BIO 3241585 <GO>}

Andrew, just to add from my side as well, on the aspect of efficiency and the respective improvements, and George just highlighted the fact that it has to go beyond GI and it has to encompass the whole group. Clearly, with the headwinds we're facing and the macroeconomic environment, there's a strong sense that we have to look on how we transform operations, technology altogether.

This is a consideration which has to obviously go as well beyond 2016. But clearly, just to give you some example without being able to put a price tag on to it, that would mean initiatives in relation to data centers, data center consolidation, real estate consolidation, further procurement savings, end-to-end process redesign. That's an area, I think, where we still have quite some work to do in absolute terms. And these are kind of the topics when we talk about accelerated focus on efficiency, we really want to put our hands on moving forward.

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

And the acceleration is just reflecting the tougher backdrop. Is that right?

A - Martin Senn {BIO 3241585 <GO>}

Well, it's reflecting that, but the tougher backdrop is as well putting the right sense of urgency on these initiatives.

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

Okay. Great. Thanks.

Operator

Next question from Michael Huttner, JPMorgan. Please go ahead, sir.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Thank you so much. So my first question is could you just possibly walk through the combined ratios in the fourth quarter by country or geographic area? I couldn't quite match the numbers I'm looking at with your comments, you see, and I'm kind of thinking, well, I must be wrong, because you know your numbers, I don't.

For example, I don't think you mentioned Germany. Germany had a high combined ratio in Q4. I think the UK was mentioned as a source of high large losses. In fact, the UK was – it had a magic quarter. I can't – and I'm not trying to criticize this. I just want to better understand what – the feeling I had is that, as CFO, you got a bit fed up with your non-Life guys and effectively you added a lot to reserves, but that's just a feeling.

And then my second question is on the reserve releases. So the impression I have is that you're still quite confident that 1% to 2% is a kind of normal run rate. However, 2014 was 0.6% and you guided us just thinking of 2014 as a normal kind of base. And of course, if I were to add the U.S. asbestos, which now is non-core, but it was originally in non-Life, of course, that 0.6% would even be lower. So I just want to have your sense of why you're so confident on that number. Thank you.

A - George Quinn {BIO 15159240 <GO>}

On the first point, Michael, so I'm going to avoid going through the thing country by country, but maybe try and explain I think why some of the confusion arose. Maybe for everyone's benefit to repeat what we had in Q4, so we've had a combined ratio that's about 3.4 points worse than the nine months and that's a combination of expenses, which is about one point. So if you'd normalize for one-offs, it's crop in the U.S., which is about 0.5 point.

And then on individual large losses, I guess we picked out UK and Brazil. I mean Brazil is I mean almost all of the impact. So large losses we see higher by about one point. And then we have the attritional impact, which is, I guess, the second point that you made, I'll come back to in a second, which is the further one point deterioration for the year. But obviously, given that's current accident year, you wouldn't expect that to repeat every single quarter.

So apologies for using UK. I think you're right on the UK result overall, but we picked out examples of large losses. We weren't looking to try and confuse you.

On the attritional, I think this is your second point. I mean if you look at a number of businesses, you see attritional numbers that are weaker than we'd like to see. If I look at the portfolio overall, I mean the things that stand out for me, I mean you can find in almost every geography we operate some small deterioration, again, in line with the comments that I gave at the very beginning of the call.

The things that stand out more though – I mean to come back to your example – did I get for some reason bored or irritated or whatever it was with the actuarial team and somehow make them do something they wouldn't ordinarily do, obviously, the answer is no. I mean yes, the things we did change in Q4, I mean things like I mean high excess energy books, I mean some – the kind of topic that's notoriously difficult to reserve. And essentially in that book, we've seen poor experience in 2013.

And in fact, if you cast your mind back to Q2, you might remember it being one of the reasons why we did not achieve the expected PYD level in that particular quarter. And I guess we looked at 2013, we looked at the rate improvement that we believe we have achieved in 2014, and we've concluded at the end of the year that we don't want to give quite as much weight to that at this stage. I mean that's an example of the kind of thing we went through. But it really wasn't – and I wouldn't want people to walk away with the impression that this is some addition of excess conservatism. We try to do the process as consistently as we always have.

On reserve releases, I mean we end up for the year at 0.6%. Again, for the quarter, we're beneath the guided 1% to 2%. I mean you've heard me talk before in prior quarters, if you look at it closely, there are individual items that, I believe, from a longer term perspective, I wouldn't necessarily multiply up so, therefore, it leaves me with confidence.

And to be honest today, when I look at what we do and the expectation we have, I still wouldn't change my view that I expect 1% to 2%. But obviously, it's disappointing that I can't demonstrate that and I simply have to again hold the prospect of it.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Brilliant, that's really helpful. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

Next question from Andy Broadfield, Barclays. Please go ahead, sir.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Hi there, good morning or good afternoon for you. I just want to follow-up very quickly on your comments with Michael putting the two things, the true-up and the reserve releases or the attritional and reserve releases together.

It feels cyclical, in fact, just looking from the outside in. And I appreciate you say there's no significant individual things, but is that not a sign of a cyclical trend that actually the claims inflation is running slightly ahead of where you expect it, especially after a period of such low claims inflation I guess we're all looking for that sign, if there is one, so just your thoughts on that, please.

And then just on the investment side, are you able to give us kind of an indication of the percentage of your – how would I put this, the allocation of risk to investments now as a sort of percentage of your overall portfolio? And is it sort of maxed out now or would you consider re-looking at your risk allocation to investments from a strategic level rather than just a tactical level?

A - George Quinn {BIO 15159240 <GO>}

So what we'll try and do is I'll try and answer number one. I'll deal with the numerical part on number two. And maybe Martin could comment on the strategic aspect of the risk allocation of the capital allocation to investments.

I mean the answer to that question number one, Andy, is yes and no. So I mean you've been in this business long enough to know that everything is cyclical in insurance. So I mean there isn't an aspect that doesn't have some cyclical feature. But is it claims inflation coming back? I don't believe it is. If it was claims inflation, then we'd be talking about workers' comp today, because that's the first place we're going to see it.

So I mean I think we get – I mean if I look at what we've got – again, going back to the comments I made to Michael, I mean a part of the driver is this issue I referred to around excess energy. So again it's high excess book, I mean very hard to get the number right. I mean we do our best, but I mean we're not always perfect. And here, we've made a decision that we would be more conservative and will carry that conservatism into 2015.

On the remainder of the book, I mean I don't think claims inflation. I think some of the other attritional stuff that we see, I mean maybe a bit economic activity. I mean certainly in the U.S., on our commercial auto book, we think that's part of the driver for the change again that we made in Q4. But in general, if it was inflation that was coming back, I mean you see it first in the most inflation exposed lines, and I mean currently, I don't see it there.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

And then, sorry, just on that very quickly, there's no sense that terms and conditions have moved over time at all. I mean that's certainly not my sense. But I'm just trying to think about the drivers that could cause these things to sort of move slightly faster than you expect.

A - George Quinn {BIO 15159240 <GO>}

I mean I think to be honest, I mean I guess we come back to the rate environment. The rate environment is tougher. So I mean if you look at the book overall, I mean pricing that we see in Q4 I mean is spot on where we were in Q3, I mean the composition is different. So if you look at the individual parts of GI, we come to the same place. We're a bit stronger in Latin America. We're a bit stronger in North America. We're a bit weaker here or there. But I mean the overall environment is pretty competitive on the rate side. So I suspect this may be a bit more that chipping away at the edges than anything else.

On the risk allocation, if you've got the slide pack, again, it's the nine-month position, so that's the one I'm going to give you now. So I mean it won't have changed dramatically by the end of the year. Slide number 50 is the one that has the detail on it. And on this, we have – 58, sorry, my eyesight is not as good as it used to be. I need to buy glasses.

So the – I mean overall, we've got about 38% of the risk in ALM and market risk. We have about 10% in investment credit risk. I mean we're close to the halfway mark, which is broadly consistent with where we've been in the past. And Martin, do you want to add a comment on this one?

A - Martin Senn {BIO 3241585 <GO>}

Yes, thank you. Thanks. Hi, Andy. Well, look, we have actually last year largely in the first half completed the re-risking by putting an additional $2 billion of risk capital in the investment strategy. That has led mainly to a purchase of equity and corporate debt. It was at the time $2.5 billion equity, $5 billion of corporate debt and credits all together. There is at this point no plan whatsoever to increase the allocation to investment management with regard to risk capital.

What I should stress, though, obviously, is that there's going to be some shift to think about negative yields in Switzerland, so bonds, Swiss bonds, corporate and – corporate bonds partly negatively yielding, but definitely government bonds. So this became for us clearly a non-investible asset and any new investments from maturing assets we have to look and diversify into other categories across the globe.

Having said that, we will not on the back of that materially change the risk allocation. It might be $100 million here or there, but it's not going to be a significant impact on the risk capital. And the last thing what I should say is we have started last year as well to shift a good part of our investments into less liquid assets. We will continue doing that. But that as well is not going to impact the risk capital usage. As we do that, there is capital neutral.

Q - Andy D. Broadfield {BIO 7273415 <GO>}

Okay, very clear. Thank you very much.

A - Martin Senn {BIO 3241585 <GO>}

Okay.

Operator

Next question from Thomas Seidl, Sanford Bernstein. Please go ahead, sir.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yes, thank you. Good afternoon. Two questions. Unfortunately, on the same topics we've discussed already. First, on the reserves side, when I look at slide 28 on the reserve diagonal, I make two observations here. There are three vintages where you increased the ultimate loss ratio even though just one year before you decreased. And secondly, the loss began in year one is dramatically down to 66.6%, so why should we be confident and comfortable with the further reserve outlook just looking at the plain data here? That's my first question.

And second question. With the investment income and you just commented, Martin, I mean credit spreads interest rates have fallen dramatically last year. I mean I look at slide 56, with the re-risking, you managed to keep the debt yield at 3.02%. Now with QE and spreads further falling, should we not expect Zurich to take more credit risk or is it just that you accept lower investment income and, hence, overall lower margins?

A - George Quinn {BIO 15159240 <GO>}

So on the first one, Thomas, I guess when I look at the diagonal on slide 28, and if I look at the last – or I guess, when I look at the first line, so the initial reserves, say, in the year, and I look at 2005 and on I mean I'm not sure that the pattern is very different from what you'd expect to see given the rate improvement in the book, and not only in the book, but also in the market.

I mean I guess the challenge would be I mean where does it go from here? So I mean I think from a pure rate perspective, I don't think the market is going to drive further improvement for us. But I mean I don't look at that and believe that's a signal that things are too optimistic.

I mean in fact, if you look at the last diagonal, which I guess is the most recent view, and again, you think about rate improvement, say, 2013 over 2014 – or 2014 over 2013, I mean that doesn't look unreasonable to me.

A - Martin Senn {BIO 3241585 <GO>}

Just on – thanks, Thomas. No, I think at this point, you should not expect us to employ more risk capital. We want to stick to our discipline of managing assets relative to liabilities risk adjusted.

And with that the initiatives we undertook already, it's making us pretty comfortable in the way we are positioned at this point. Naturally, there is an ongoing review with regard to our strategic asset allocation. But clearly, there's no need or any intention for us to change that allocation. The capital we have, I think George has made a point to that, that we want to primarily use to grow the business organically or inorganically and when that it is not possible, then at one point, we obviously will as well think about deployment of capital in other ways, but not sort of load up and chase yields on the investment management side, because that's at one point when financial markets do sort of reposition itself will hit back.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Martin Senn {BIO 3241585 <GO>}

And frankly, I'm not trying to lead to any sort of market call here, but everybody's going to play into the same direction, chasing yields that we want to avoid and then to protect the investor over the cycle and that just depended on the income on investment side. And that brings us back to our strategic priorities and as well, of course, and I have highlighted that, the urgency to become much more efficient all together within the group.

Q - Thomas Seidl {BIO 17755912 <GO>}

And just one question on that. Should that then mean that the debt yield, on slide 56, would fall 20 basis points, 30 basis points this year, just as it did from 2012 to 2013?

A - Martin Senn {BIO 3241585 <GO>}

What I can say with regard to the impact on the business operating profit – or the investment income, rather, you would still see kind of a flattening out. Now, that flattening out in the number is probably going to be bigger and I would guide you with a number of about $100 million of negative impact on the investment income for this year, i.e., 2015.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Martin Senn {BIO 3241585 <GO>}

And that's all together across all asset classes, right?

A - George Quinn {BIO 15159240 <GO>}

Yes.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. And that's not just GI? I thought it was just the GI number you mentioned in the paper, no?

A - Martin Senn {BIO 3241585 <GO>}

Yeah, that's just GI, Thomas.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. And overall?

A - George Quinn {BIO 15159240 <GO>}

I mean so overall, I mean the impact on Life will be much, much less, because, of course, the policyholder will actually bear quite a bit of the risk. So I mean the additional impact we don't expect to be materially above the $100 million that you've seen already on GI.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - Martin Senn {BIO 3241585 <GO>}

Yeah.

Q - Thomas Seidl {BIO 17755912 <GO>}

All right. Thank you.

Operator

Next question from Farooq Hanif, Citigroup. Please go ahead, sir.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thanks for taking my questions. I want to turn to your cash remittances, slide 19. I mean you talk about the $500 million of special additional cash remittances from Farmers and Global Life, but it sounds from what you're saying that the capital release from Farmers is going to be multi-year and there's more that you're looking to do in Global Life. So I was wondering if you could comment on whether we're likely to see more of this kind of above budget release in the next few years and where it could come from.

And perhaps related to that, second question, I mean you talked about the phase one of Global Life kind of restructuring where – which seems to be sort of efficiency focused. Is phase two more capital and capital release? So could you sort of just talk a little bit about that as well? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thanks, Farooq, for the questions. So first of all, on the cash remittance topic, I guess I want to avoid that, certainly, in the case of Global Life, I would create expectations for more than the $500 million we've indicated for 2015 and 2016. So I still expect them to come in at or around that level.

I mean I think the inflection point for them will be beyond that. And at that point, we expect to see less cash reinvested and more cash come back out of Global Life. But certainly, for the next couple of years, I mean I think it's always possible and if we see the opportunity, we would take it, but from a plan perspective, we assume $500 million per annum.

Farmers, I mean I think I mean given what we're doing on the core share side, we certainly expect that to have an additional benefit above the run rate for us. I don't expect it will come in a – I don't expect it to come in a series of payments. I guess it can always arrive that way. I think it's more likely that, I mean hopefully, we reach agreement at some stage and there would be again more of a one-off increase in the cash flow from Farmers. But I mean that's yet to be seen and I think to be honest I think that will take more than 12 months to put together.

I mean overall, we remain very optimistic on the cash front. I think if we were setting the target for three years for cash today, we'd be setting it higher than – more than $9 billion. So we – our expectations for 2015 and for 2016 remain positive, but obviously, I don't want to reset the target today.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. And so – I mean okay, so obviously, you don't want to talk about expectations, but just in terms of sort of phase one, am I right in thinking it's more just straightforward cost cutting?

A - George Quinn {BIO 15159240 <GO>}

Yeah, sorry, Farooq. I didn't answer the second one.

Q - Farooq Hanif {BIO 4780978 <GO>}

My apologies, yeah.

A - George Quinn {BIO 15159240 <GO>}

Sorry. So the – I guess the – I'm not sure I'd split it in quite the way you do the – I mean I think Kristof and the team have been pushing a number of things along at the same pace. So they have a team focused on the in-force management piece, which is around managing the policyholder behavior, working on the expenses, looking at the asset allocation, I mean doing all the normal things that you would do. And I mean we have high expectations for that piece, but I mean we haven't weighted on the capital side.

So I mean we have a number of things in train. I mean we're looking at various parts of the portfolio to see if there are alternative structures, whether we can turn around or exit. And I think at this stage, I mean I think our expectations are I mean relatively modest for that piece given the market conditions currently. But I think we do expect to see some change on the capital front alongside the in-force piece.

So the in-force piece will continue through 2016 for a minimum and I think probably beyond that as well. And on the structural options, I mean that's a topic I think we'll also pretty much continually look at and review to see whether or not we have options available to us that would improve returns to our shareholders. But we do both in parallel.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, thanks very much. Thank you.

A - George Quinn {BIO 15159240 <GO>}

And I guess maybe – sorry to – because I guess I now connect part two of your question to part one. Sorry, I should have done that at the start. So I mean what that would mean is if we are more successful on the structural side, then you could see again another one-off on the Life side. But again, from a forward-looking perspective, I haven't had a trigger for that today, so I haven't planned it yet.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay, yes. No, that's clear. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

Next question from Mr. James Shuck from UBS. Please go ahead.

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

Thank you. I had two questions, please, just reflecting again on the efficiency side, I'm just interested to try and think about some ratios and where you might kind of see yourself going if you were to be kind of closer in line with peers. So if I normalize the expense ratio in 2014, because you've got about 50 basis points of one-off benefit, your GI expense ratio is about 31.1%. Obviously, a large part of that is commission expenses, so the non-commission expenses is 17.4%.

Could you just sort of indicate where you kind of see that going? It's obviously far too high at the moment, but in the medium term, what is the kind of aspirational kind of level for you to get that down to? And then, although it's not an ideal number, we don't really have a better sort of way of looking at it, but just on the Life side, Life operating expenses in relation to reserves, about 89 basis points, also looks very high. Obviously, that's boosted somewhat because of the very high number in LatAm. So could you just comment directionally about where that 89 basis points should go to in bringing you back in line with peers or even beyond?

And then my second question was on – again, on the net cash remittances, please, on slide 19. I'm just keen to get some insight into the actual free cash generation underlying these numbers so we can try and draw some views around actually what remittance ratios were driving these numbers. Thank you.

A - George Quinn {BIO 15159240 <GO>}

I'll do the second one first, because it's easy. So I'd just knock-off the $0.5 billion, James. $3.2 billion would be the one I'd work from. So that'd give you a sense of the extent to which we're converting earnings into cash.

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

Sorry, not so much earnings to cash, but free cash generation to cash remitted.

A - George Quinn {BIO 15159240 <GO>}

So I mean if you're looking for the slide that we normally publish with Q1, you'll have to wait for Q1 for that one, so apologies, but we'll give you more detail on that as we do our normal disclosure at Q1.

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

Okay.

A - George Quinn {BIO 15159240 <GO>}

On the expense side, I mean I understand why you do it. I'm not sure that we would necessarily split it apart and only look at, I guess, what we would describe as the other underwriting expenses, so I guess the central non-commission part of the cost. I mean overall, we haven't set a target yet. I think our view is it would be wrong, and for the reasons that Martin gave earlier, to establish a purely top-down view. And what we're trying to do is to go through the process that's triggered by a peer comparison, but then to try and decompose that and look at the things that really should drive efficiency for us.

So we have been doing some peer benchmarking lately. I think it would be fair to say that we see ourselves as with considerable room for improvement. But what we're looking to do is rather than have a top-down view of a number, which then tends to be something that's applied somehow evenly across the organization, we're looking at more of a program that will be transformational, again, with the focus that Martin described around all the key cost drivers for the entire group GI, which, of course, is the bulk, but for everyone else an addition.

So again apologies, I won't give you a number yet, but it will be a topic that we'll come back to at the Investor Day in May. And I guess the key aim here would be to come up with a program that I mean wouldn't be a temporary reduction in expenses, wouldn't be a diet, for example, but would be something that would be, I guess, longer lasting.

On the Life side, I mean I agree with you. I think the – if I compare this to peers on the Life side and I mean use some of the metrics that I think most investors would commonly use, we also look a bit high there. I think, as you mentioned, partly that's expected I mean given where we are in terms of the current stage of maturity of our Life business. But I mean it's clear to me that I mean Kristof also sees expenses as a way that he can achieve his plan over the course of the next two years.

So I mean again today, I don't have ratios for either of these things today, but it is a topic we'll come back to with more chapter and verse in May.

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

Okay, I look forward to May. Thank you.

A - George Quinn {BIO 15159240 <GO>}

Thank you.

Operator

Next question from Stefan Schürmann, Bank Vontobel. Please go ahead, sir.

Q - Stefan Schürmann

Yes, hello. I have two questions, the first one on the Life side. In fact, can you maybe give us an update? I didn't find any numbers for reserve adjustments. You must have increased reserves there again. How much was that in Q4?

Then the second one on non-Life growth, just a small one on Switzerland. Q4 saw a drop in top-line of 17%. Is there some one-off, or is there a trend? I mean I would have thought that you would rather try to gain market share than lose, so will you just explain on this one, please?

A - George Quinn {BIO 15159240 <GO>}

So on the first one on the Life side, I guess I mean it's relatively routine for a number of adjustments to move through the Life business and go in both directions. I mean if I look at it from a net perspective, there is no net impact from reserve over the course of the whole year. So I mean the Life headline number, I think, is relatively representative of what they've actually achieved despite the fact we've had a number of things, like Farmers New World Life, the German reserve adjustments that we made earlier in the year. But the thing nets out to broadly zero, so I mean what you see is what you get in Life.

I mean on the Swiss business, we don't see anything unusual in Q4, to be honest. So I mean we're not – I mean over the course of the year, we've grown our Swiss Life business, so we're running at a rate that's I mean probably a bit ahead of market. It's been one of the areas where we've focused the investments for growth and it's certainly an area where we look to take market share going forward. So certainly, from an annual perspective, we're happy with where it is. We're not concerned or see anything unusual in Q4, and we look forward to see this business continue to grow faster than the peer group.

Q - Stefan Schürmann

I mean in non-Life, I'm talking non-Life, their gross written premiums into Q4 were clearly down.

A - George Quinn {BIO 15159240 <GO>}

I understood that. So my comments on gross written premiums were for the full year.

Q - Stefan Schürmann

Yeah, okay. Very good, thank you.

Operator

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

Q - Nick Holmes {BIO 21515144 <GO>}

Hi there. Thank you very much. Just coming back on cost efficiency and you mentioned, Martin, the sense of urgency. I wanted to ask when do you think the GI expense ratios are going to start to show some improvement. I mean they've clearly got worse in all of the segments in 2014. Is 2015 too early to expect improvement? Is 2016 more realistic?

And as a sort of second question to that, how important is pricing in U.S. commercial do you think for your expense ratios? I mean if there is a severe softening in that market, how worried are you that that's going to endanger the U.S. expense ratio? Thank you.

A - Martin Senn {BIO 3241585 <GO>}

Thank you, Nick. Let me take the first question and then George takes the second now. I cannot elaborate further than what we have said, and George has mentioned with regard to the structural consideration on efficiency. Very complete to your question, clearly, the ambition has to be to have some impact already starting in 2015, without any doubt in GI and then beyond that into 2016 and beyond, obviously, look for the group as a whole, and not just GI, on how can we accelerate the focus on the efficiency and with that as well get much more efficient all together along the lines I have said. And that's beyond GI. But the bulk of that should be, obviously, coming into 2016 and beyond, okay.

Q - Nick Holmes {BIO 21515144 <GO>}

But – as a follow-up we can expect you would hope to see some improvement by the end of this year.

A - Martin Senn {BIO 3241585 <GO>}

Some improvement, yes.

Q - Nick Holmes {BIO 21515144 <GO>}

Okay.

A - George Quinn {BIO 15159240 <GO>}

On the second point, on pricing in U.S. commercial, I mean maybe just to give a bit of the history and I guess you guys will follow the market statistics, I mean for our North American business, the commercial part rather than the global corporate part, I mean we improved in Q4. I mean but at 1.1%, we were close to flat in Q3. I mean 1.1% is – I mean essentially means flat when you think about inflationary increases or claims cost inflation.

I mean what implications would that have for the expense ratio? I mean we have a plan that obviously anticipates what we think the forward trajectory of rates will be over the next couple of years. I mean we'll set our expense base accordingly. If we saw a significant softening, I mean not just in North American commercial, but in any other part of the book, it would have implications.

I mean I think first, we'd look at tiering the portfolio, so trying to maximize the share that we can take of the parts of the business that we think are more profitable. The NAC team, in particular, have a predictive analytics project running, which is again aimed at risk selection, so we'd hope to see benefits come from that.

I mean for the entire business, if the business cannot produce the required returns, do costs come under pressure, whether it's North America, Europe, or just about anywhere else? I mean absolutely, they do.

Q - Nick Holmes {BIO 21515144 <GO>}

Yes, I understand. Just as a very quick follow-up, I mean MarketScout is forecasting minus 5% price changes by the end of the year. Is that something that you would be kind of comfortable with, with your cost base? You could control that or would that be something you would feel is perhaps not just incorrect in terms of forecasting, but might give you problems?

A - George Quinn {BIO 15159240 <GO>}

Yeah, so the – I mean I guess that – I know the market – I saw the same report. So MarketScout is zero for the U.S. commercial market for January.

Q - Nick Holmes {BIO 21515144 <GO>}

Yes.

A - George Quinn {BIO 15159240 <GO>}

And I think – and I guess there's some hockey stick to the rate reduction, because I think, as I read it, there was a more modest reduction by mid-year, but it seems to accelerate into the second half of the year. I mean I guess we have our own view of what will happen on rates. I mean I don't want to give you it here, but I mean it wouldn't be entirely consistent with MarketScout, although we do see the same headwinds coming for the commercial business, especially in the U.S. So this will be a tougher year as well.

But I mean I guess MarketScout have given their view and they've given a commentary as to why they believe it to be the case. And you guys can be your own independent judge of how you would view rates to move. I mean again, all I can repeat on the rates overall is that we have plans for the next two years and plans beyond, and if we're not producing what has to be produced, we look at all the things that we have under our control that help us get to where we want to be. And costs are clearly very high on that list.

Q - Nick Holmes {BIO 21515144 <GO>}

Understood. Thank you very much.

Operator

Next question from Marcus Rivaldi, Morgan Stanley. Please go ahead sir.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Good afternoon, everyone. Couple of questions, please, on cash and capital. So first, on your capital, the stated solvency ratios, obviously, do benefit from a regulatory regime that takes a longer-term view on discount rates for particularly longer-term liabilities. If you were going mark-to-market today, what – would that be a difference in your ratios? And on that, does that feature or do you consider that mark-to-market position in your thoughts around capital management internally and maybe in discussions with regulators? So that's number one.

And secondly, on the cash side of things, obviously, you've had a stronger year on cash remittance than the $9 billion run rate would suggest. In the past, George, you've suggested that you'd take maybe that bonus from this year and use it to give yourself some comfort of smoothing out and ensure you're going to hit the $9 billion for over the three-year period. Is that still the case or would you be thinking, well, I've got this excess cash now, maybe I could deploy it into a share buyback more immediately? Thanks.

A - George Quinn {BIO 15159240 <GO>}

Could I just ask a question, Marcus, on the first one?

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Yes.

A - George Quinn {BIO 15159240 <GO>}

So that I understood it, so you mentioned the use of long-term rates.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Yes. I think that UFR sort of inclusion within Swiss solvency tests and obviously, within the Solvency II.

A - George Quinn {BIO 15159240 <GO>}

So I mean I guess as I look at, we use interest rates that reflect the key rate durations of the liabilities, so they're relatively matched. So I don't see this same mark-to-market component that you do. So I mean my view is that what we have today is actually a mark-to-market with no adjustment.

So I mean I guess the more – I mean the ultra conservative view, which feels to me would actually be the wrong way to look at it, would be if I used current interest rates across all key rate durations. But I mean that just wouldn't be the way we manage the business. So we don't do what I think you've suggested. I mean we use the traditional approach and we discount market base rates at the key rate durations.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

I was just thinking I mean the point being really is we all hope we're going to get growth back in Eurozone and elsewhere, and inflation, but are regulators taking a more cautious view that you're finding at the moment that what if we do get a period of very low interest rates for an awful long time?

A - George Quinn {BIO 15159240 <GO>}

I think on that one, I mean I guess the – I mean the challenge there would really be on the really long duration liabilities, so I mean extrapolation in the context of Solvency II, because that's been a lively discussion with the regulators I mean only very recently. So I mean I don't really expect them to change that.

And again for us, I mean given that we're not playing at the very extreme end with the heavy guarantee business, I wouldn't see that as a major risk factor for us. I mean if that became a topic, I mean it would not be good for the industry in general. I mean it would be very bad, but I wouldn't see that having a particularly negative impact on us.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay.

A - George Quinn {BIO 15159240 <GO>}

On the cash side, I mean just to be careful, I think I understood the question. But you used the words smoothing out. So I've got $3.7 billion in year one, maybe I'll only take $5.3 billion over the course of the next two years to smooth out to get $9 billion, or $5.4 billion to get just over $9 billion. I would not do that. It's important to me that we continue to focus on cash and we continue to take every step that we can to liquefy the earnings. So I mean I think it would be reasonable to expect that the $0.7 billion excess that we have today is something that today we'd be projecting to be at least $700 million above the more than $9 billion target.

I think the point you're really making, though, is around I mean how would we use the money. I mean if you look at last year, I guess, I've ended with excess cash of maybe around $1 billion. And – I mean I guess, you'll see us do more of what we did last year, but – so invest in things like the Via Varejo distribution agreement in Brazil, the agreement with Bank Sabadell in Spain.

So I mean on projects, we really believe it's – even if they're not immediately profitable, for example, in the case of the Brazilian deal because of the upfront amortization, if they can contribute positively to our plan, particularly for 2016, I mean that would be a good use of our cash. I think that's how I'd answer you. Hopefully that covered.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Yeah. I wasn't trying to just smoothing. I think it's more we don't know how uncertain the world can be. It's more a question of you've got a dividend to meet every year and it gives you a bit more leeway to make sure that that is secure in future from cash at center. But it doesn't sound as if you feel like it's burning a hole in your pocket and you want to again use it very, very quickly outside of that investment in the business.

A - George Quinn {BIO 15159240 <GO>}

Well, the – I wouldn't use the word – expression, burning a hole in my pocket, but I guess I'm keenly aware that there's two parts to that ROE calculation. So I mean obviously, I'd push Mike, Kristof and Jeff hard on the R side of the equation and I think the team expects me to help them manage the E side of the equation. It can't just be one. So again, for the achievement of our targets in 2016, management of E is going to be an important part of it.

Q - Marcus P. Rivaldi {BIO 5739374 <GO>}

Okay. Thank you very much.

Operator

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

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hello. Good afternoon. Ralph Hebgen from KBW. Two things. On P&C, I remember at the Investor Day in 2013, you gave a sort of indication that you would expect P&C business operating profits to increase by about 5% on a annualized 9M 2013 basis. And the question is in light of the general dynamics, which you're seeing now, would you stand by this guidance or this indication for the future?

And the second question is related to Life profitability. It's just – I'm just looking for perhaps a qualitative evaluation of the dynamics in your Life book. I see that, obviously, acquisition costs have gone up, as you wrote 18% increase in APE, but you have – it appears at least that you've written that business at lower profitability although, also, it looks as if the business was less capital consumptive. So I'm not clear on the profit dynamics. There seem to be lots of dynamics which pushed in different directions perhaps. And I would value just some evaluation of how you describe your Life – the dynamics of your Life profitability.

A - George Quinn {BIO 15159240 <GO>}

Yeah, okay. All right. So on the 5% CAGR for GI, I mean I think the way to think of that – well, let me, first of all – I guess we set these – we gave these indications, because we're looking to give an indication to the market of what we believe we can achieve. So we wouldn't remove them without careful consideration. And we wouldn't remove this.

However, I think if I look at our GI business, I mean I expect Mike and the team to deliver what they've committed, but where I would expect them to be to get some slack is on foreign exchange. So for example, on pure translation adjustments, if the dollar strengthened incredibly or continues to strengthen significantly over the course of the next 24 months, I would not expect GI to make up the difference.

To the extent that foreign exchange rates drive expense issues because we're overweight in a particular currency in the expense mix, that's a different topic. That needs to be addressed. But overall, currency adjusted, I expect us to hold to that 5% CAGR.

On the second topic, I mean I think your summary is it's absolutely spot on, so particularly in Q4, so what you're really seeing here is a substantial rise in APE. It's driven by corporate life and pension business in the UK, which is both low margin and capital light. So it's a volume play. So we're looking to add more of that to the platform to achieve the scale required to be profitable.

I mean across all of the corporate life and pension business, the corporate risk element is currently profitable already, but the broader platform will take a bit more time before we reach the level of profitability that we've targeted. But that's what drives the characteristics that you see especially in Q4.

Q - Ralph Hebgen {BIO 6297020 <GO>}

And would these characteristics remain the same if you exclude the impact of the UK single premium pension contract?

A - George Quinn {BIO 15159240 <GO>}

No, no, not at all. So I mean you see volume would drop.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yeah.

A - George Quinn {BIO 15159240 <GO>}

New business value would increase or new business margin would increase. I mean it's really CLP that's driving this.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Would you have guidance of how much – or could these impacts be quantified from the UK?

A - George Quinn {BIO 15159240 <GO>}

For Q4 or going forward?

Q - Ralph Hebgen {BIO 6297020 <GO>}

No, for 4Q – Q4, sorry.

A - George Quinn {BIO 15159240 <GO>}

Can I direct you to the IR team?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes, of course.

A - George Quinn {BIO 15159240 <GO>}

Would that be okay?

Q - Ralph Hebgen {BIO 6297020 <GO>}

Absolutely, thank you very much.

A - George Quinn {BIO 15159240 <GO>}

Thanks. Thank you.

Operator

Next question from Anasuya Iyer, Jefferies. Please go ahead.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Hi, it's Anasuya. My first question is on the loss reserves addition in your non-core business. How often is this review done? Is it quite regular or part of a larger review? Basically, is there risk of more strengthening here?

And my second question is where do you see your reinvestment yields being currently, particularly on the GI book? So how much dilution in yields do you expect over the next year or two from the low interest rate environment? Thank you.

A - George Quinn {BIO 15159240 <GO>}

Yes, so on the first one, so non-core, I guess as everyone's seen, has had a loss for the quarter of just over $140 million, which is unusual given non-core's performance over several quarters, over the last couple of years. It was triggered by an external review that we conduct periodically on the reserves. The current frequency of that review is every two years. I guess it will continue at that rate or maybe slightly less frequently. So I mean I cannot promise for sure that there's no risk of additions to reserves, but I mean we have booked to the point that we believe was indicated following that external review.

I guess it's also worth pointing out on non-core that I guess that's about half of the total impact in the fourth quarter. There are also additions to some builders' guarantee products in the UK and there's some impact from some property exposure that we've had from some of the Dunbar Banking assets that we've held for some time.

I mean I think from a go-forward perspective, I really do not expect to see this type of topic recur on a regular basis, and in fact, from a planning perspective, I'd expect non-core businesses to be fairly flat. On the reinvestment yields, we have – I'm just looking at my notes, sorry.

So I mean for GI, in particular, I mean the book or accounting yields for Q – let's do the full year. It's the same for both. Well, for Q4, just over 2.6% is the accounting yield. If we did a new money yield on the entire portfolio, we'd be more like 2.2% so, i.e., what we're investing at.

So we've got about a 40-something basis point gap on GI. I mean given the duration of the book, I mean it would take a few years, maybe about four years' duration on GI, so it would take several years to feed in to that level. And of course that gap is reflected on the guidance we gave already today on the expected impact on investment income for GI for 2015.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Okay. Thank you.

Operator

We have a follow-up question from Michael Huttner, JPMorgan. Please go ahead, sir.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Yes, just on Germany, so a couple of years ago, we had these big reserve additions and I notice Germany in Q4, and I know it's a tiny part of your business now, but what it did miss, at 103% and I just wondered if it's the same sort of thing?

And then I just wondered if – and I know you said you have very little exposure to very long interest rates, but I guess there may be still some in Germany. Can you give an idea of what the impact of the ZZR is now? And maybe are there trigger points which will make it more onerous quite soon?

A - George Quinn {BIO 15159240 <GO>}

So, Michael, the Germany reserving topic was in the architects and engineers. I'm just looking at James. Can you remember what the – we'll have to come back to you on what the line was...

Q - Michael I. Huttner {BIO 21417183 <GO>}

Okay, no problem.

A - George Quinn {BIO 15159240 <GO>}

But it wasn't the same sort as...

Q - Michael I. Huttner {BIO 21417183 <GO>}

Okay.

A - George Quinn {BIO 15159240 <GO>}

A couple of years ago. On ZZR, so I mean to give you a slightly longer – slightly long answer to give you all the numbers that I've currently got, because we made a big effort to model ZZR, but again, it's based on interest rates per end of the year, so I guess it will be slightly tougher today if we were to redo it based on current.

So I mean if you look at the next few years, we currently expect the ZZR reserves to peak in 2021 and the requirement is going to be I mean somewhere between $4.5 billion and $5 billion. And I mean if I look forward, I mean we'll cover that out of what we currently have in unrealized gains. But I expect that from about – probably mainly from 2019 onwards, I could see a drag in BOP of maybe $150 million if we're not able to offset it through reductions to policyholders or other sources of efficiency within the portfolio.

So I mean without being completely relaxed about it, it doesn't cause me any immediate concern and I don't really expect to see it have any substantial impact on us through to 2018, given that we currently have in front of us.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Brilliant, that's very clear. Thank you.

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.