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Interim Management Statement Call

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Call Participants

EXECUTIVES

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Group CFO and Regional Chairman of Europe, Middle East & Africa

Richard Burden

ANALYSTS

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James Austin Shuck
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Johnny Vo
Goldman Sachs Group Inc., Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Presentation

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to the Zürich Interest Group Q3 Results 2017 Conference Call. I'm Sarah, the Chorus Call operator. [Operator Instructions] The conference must not be recorded for publication or broadcast.

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

Richard Burden

Good morning, good afternoon, everybody. Welcome to Zürich Insurance Group's Third Quarter 2017 Q&A Call. On the call today is our group CFO George Quinn, but before we start with the Q&A, George will just make a few introductory remarks. I'll pass it over to you George.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Richard, and good morning and good afternoon, everybody. And thank you, again for joining for this Q3 call.

So before we move to the Q&A, just a few initial remarks. First, you know from our comments at the half year results, we've changed disclosure for Q1 and Q3, with the emphasis now on revenue trends and some qualitative commentary on the performance of the business. We'll revert to our customary level of detail at the full year and the half year.

Now over the third quarter, we have continued to progress our group strategy despite the challenging backdrops of the natural catastrophe events that we've seen this quarter. I'm pleased to see that our focus on underwriting discipline and the use of reinsurance to manage our overall exposure has served us well on the quarter with the pretax losses from the 3 hurricanes coming in at $700 million, a level which we see as positive for a group of our size in the U.S. market.

Looking forward, we expect the industry losses to drive improvements in pricing across our business. As we highlighted in the previous press release, these losses will only have a relatively limited tax offset, which will naturally lead to a onetime increase in the overall effective tax rate for the year.

Away from the hurricane release and losses, we continued to see improvements in retention and new business across all of our businesses. Here we see the businesses return to growth with gross premiums up by 1% on a like-for-like basis, and we continue to make progress on costs while continuing to focus on further underwriting improvement.

Our Life business continues to deliver on a strategy of focusing on Capital Life and Protection business, with this continuing to support big growth in new business volume. Farmers continues to deliver steady positive performance in terms of top line development. Where the focus on rate continues to drive premium growth.

The quarter has also confirmed our very strong capital position with our Z-ECM ratio further improving to 136%, providing us with significant capital flexibility.

We continue to review the capital levels of our business in light of growth opportunities and the macro outlook. However, our near-term primary focus remains on delivering on a dividend policy and drawing the dividend over the plan period.

Before turning over to Q&A, I'd just also highlight as we had communicated in the first half results, we expect approximately $150 million of the $500 million anticipated restructuring charge for this year to come through BOP, with this largely impacting the P&C non-technical result.
With that, we'll move to Q&A.

Question and Answer

Operator

[Operator Instructions] The first question from the phone is from Vinit Malhotra from Mediobanca.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Just -- George, there was this comment in the press release which said additional efforts required on underwriting goals. Is this -- in the context of your comments just now, should we interpret it that -- are things the same as they were at 1H? Or are they better or are they worse? Any commentary on the underlying trends just a link to that? And second question is just on the Life, there's been 2 or 3 quarters now that Life's delivered and beaten consensus and our expectations on operating profit, and new business value looks -- so very high growth as well in the third quarter. Maybe just comment a bit about how we should think about the Life as well.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Vinit. So on the first point. I think the challenge here is simply that we had a relative lite press release today that focuses mainly on revenue trends. And I think this comment, I think it has been picked up by a number of people and probably given significantly more weight than we'd intended. I mean, probably the most important thing that I'll say on the call today is that our target and our expectation of achievement is unchanged. And that comment simply reflects the fact that we're 9 months through the year, with 3 more months to go.

On the Life side, I'm going to apologize in advance. This may happen a few times during the call, but hopefully you will understand that I cannot talk about Q3 performance. Life had a strong 6 months. We've seen very good performance in new business values through 9 months. If you look at the drivers, certainly, mix has helped us grow. Particularly in some of our higher growth markets has been an important contributing factor. I mean, we're very happy with the progress that Life has made. But again, just to remind people that at the half year, the guidance that we gave for quarterly operating profit, expectations around Life was somewhere in the high $200 million to around $300 million per quarter mark.

Operator

The next question is from Thomas Seidl from Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Three questions. First is on the cat losses. Could you give some color what were the main sources for those cat losses in terms of type of client? Was it SME? Was it the large corporate space? That would be quite helpful, I would say. Secondly, maybe related to that, you say, you expect price increase across the business. So precisely in what segments and what magnitude of price increases would you expect? And thirdly on Farmers, obviously, Farmers got a big help from the reinsurers, which one can hear in the market leads to very high price increase in the reinsurance. Does this mean that Farmers have to significantly up its prices going into 2018?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

So your last piece, Thomas, what was the question?

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

The last piece was Farmers got, of course, a huge protection from reinsurance, and this would lead to substantial rise in the reinsurance costs. My question is in order to sustain margins, does this not mean Farmers need to dramatically increase prices into 2018?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Great. Thank you. So on the first one, on cat losses, I mean, pretty much across the board the main source for all 3 of the events is the large corporate, probably as you would expect. We don't have a lot of SME business in the U.S. book. But depending on the particular event, you'll find significant amounts of large corporate and mid-market and some alternative market business in all 3 of the loss events. On the price increase topic, so maybe -- as you saw in the press release this morning, I've commented, we expect this to drive improvement across the business. I think, if you look at it in terms of where will you fit? Where will you see it most? Will you perhaps see it less? I mean, but then our U.S. Business, we've already issued a new target guidance certainly for all the property underwriters, and we have price increase expectations that start with even non-cat, non-loss-affected lines of business. And again, as you imagine, as you go up to the cat exposed loss affected, we have expectations of much more substantial rises. And if we look at actual price action in the market, I mean we do see price increase start to go through already. I mean, we certainly for that top group. I mean, both for what we see of us and what we see of other activities in the market, pretty substantial double-digit rate increases already going through. There is some anecdotal evidence that it already had an impact on other non-property lines. And my expectations is the further you move away from the precise source of the loss, the less pronounced the impact will be on pricing. But we do expect to see price improvements. On Farmers, I'm aware the speculation in the market is that obviously Farmers hasn't fade -- there's no official announcement from Farmers about their reinsurance program. So I won't comment on -- to the extent to which the market speculates on what the rate increase may or may not be for Farmers. What I will say is this, Farmers from a cat perspective, if you look at the premium they spend on cat cover as a proportion of the total premium volume it's a relatively small number. So even if you apply quite a large percentage to that, you end up with a large percentage of a relatively small number, which, in itself, is a small number. So we'll see how things turn out for Farmers. And certainly, I don't have signals from the exchanges of the team there that they expect this to be in any way a challenge for them.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Okay, but the premium spend is more, but the -- can you remind us what the recovery was for Farmers? It was very substantial now from reinsurance.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

You used to work for a reinsurance company, so you know how it works, Thomas. You know what the capacity is. You can probably give us a reasonable rate on lines and you can determine a reasonable number for the premium and then you can take your view of what the market reincrease will be. In the context of the premium volume in the Farmers rate, I wouldn't expect that to be a massive number.

Operator

The next question is from Michael Huttner with JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

The -- I think, so great results, but they're a little off today. What I would like to say is the last time I [indiscernible] level of disclosure. Maybe you could compete with [indiscernible]. Anyway. On the -- on my question, I have 3, the first one, yesterday, you -- there was this news that you'd sold a back book, and I just wondered what the impact is in terms of solvency and profit. The second is on tax. I think we've had this in the past that high losses create high tax charge or less tax recovery, however you look at it. And that seems to be an asymmetric problem and a non-symmetric issue. In other words, in good years, the tax is average. In bad years, in terms of low profits, the tax rise -- the goes up. The tax rate -- although, lack of tax recovery works against you. And I just wondered if you're planning to do anything about it. Or is it something which will continue as it is? And then, finally, you highlighted the return to growth in Q3 in general terms, which is lovely. And I just wondered whether you can say a few more words where it is and how much is pricing and how much is mix to get a feel for the improvement there?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Michael. It was a wee bit hard to hear you at the start, but I think you asked me about the solvency and profit impact from the recent back book transaction.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

That's it. Yes.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

The perceived taxes symmetry of kind of the cat events and then the source of growth that we've reported for the quarter. So on the German transaction that was announced yesterday morning, relatively immaterial impact for both. I mean the book is relatively small, diversifies well within our own overall portfolio. It is not going to be particularly material either from an operating profit perspective and nor from a capital perspective. On the taxes symmetry issue, I think the challenge here is -- I don't think that taxes symmetry actually exists. What you see at the moment is principally because some of the things we're doing from a restructuring perspective and the fact that most of that falls on the parent company here in Switzerland, our tax rate is elevated because we don't get full recovery of that restructuring cost. And what that does mean at the moment is that anything unusual that pops tends to attract that same 0 tax rate. If you look at the cat component on its own and you look at it over longer periods, that part of the restructure does exactly what we expect it to do. I think I'm less concerned about the symmetry. Maybe slightly more concerned about the volatility that it drives. We have the challenge that -- in which most circumstances, tax will act as a dampener on results overall. And in our case, because of the structure we have, it doesn't do that. And that is something we do intend to look at. On the growth topic, so if you look at the movements, the headline number is really quite small. You don't have the impression the business is growing very rapidly. If you break it apart though -- but personally, I see a much more positive picture. Within that, we have been trimming some of the more challenged line of business, which would be typically more in the North American commercial, corporate side of things. And through the year, we've been growing some of the businesses that are more stable that tend to have a lower loss ratio, tend also to have a higher commission ratio. But in general, more profitable and more predictable than the business they replace. So my growth perspective, we have seen more of that in the alternative market side of things. So the F&I book in the U.S. We've seen it in Latin America in mass consumer. In this quarter, one of the contributions comes from those recapture from of the premium from the Cover-More travel deal. So the headline number, up modestly within that. Actually, much more activity and, more importantly, a mix shift that from a longer-term perspective is beneficial for us.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Okay. In terms of the mix shift, is it captured in your 1% rate increase number?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

So the mix shift is quote and the -- so the rate entries that we quote for the quarter reflects the book that we have. It's not a market view.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I know it's the sector book that you have, but the book has changed. So I did [indiscernible] completely how you change things where you basket changes. Clearly, the basket has changed. So I'm asking not to dip into the same basket. But relative to Zurick, has it -- is that improvement more than the 1%?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

So the rate change is like-for-like, so it's the retained book. That one could be impacted new business. To the extent that we're sharing business that is less profitable and adding business that we see is more profitable, that's not reflected in the rate change.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And could you maybe give a figure for that?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Not here. Right now, I couldn't.

Operator

The next question is from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Back to the exciting topic of tax. George, I wonder if you looked at the proposed tax reform as I appreciate it's a long journey from proposal to finality. Obviously, there is a sort of quasar nil bill hidden within them. Do you have a view as to what potentially that could mean for Zurick or what mitigating actions you may have to take? Second question, the U.S. P&C results season has been littered with quite a lot of volatility in underlying loss experience x-cat across a number of lines, continued problems in areas particularly like commercial auto. Maybe you could just sum up how you're seeing the underlying loss experience x-cat across the commercial book, especially North America. I wonder if that's requiring even more aggressive action. Or does it change any of your views on PYD?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Andrew. So first of all, on the tax reform topic. You're absolutely right that the topic is clearly developing and actually changing before we reach some conclusions. I think we overall, we would support tax reform. It's important to recognize that together Zurick and Farmers employ more than 30,000 people in the U.S. So we have a keen interest in what takes place there. From an overall perspective, we'll see how it all lands. But I would say, what you would expect to hear from the announcements, to the extent that final proposals adopt features that make the manufacture of the product, in our case, insurance protection, which of course, is an important enabler for economic growth, that's problematic. We would pretend not to see that. I think today -- too early to reach any conclusions at this stage. We'll have to see how the proposal develops, and then at the end of that process, we can draw conclusions. On P&C and the performance reported by our Q3 peers or Q3, Q4 peers, so I can't talk about our performance in the quarter. Maybe what I can reflect on is what we see from a rate perspective and what that means, if anything, for the future. Overall, if you look at rate for the group, we've actually seen an improvement, a relatively a small one, in rate change in Q3. It's a slight improvement over where we were at Q1. So Q2, slightly behind Q1. Within that, where you see the strongest improvement is in Europe. LatAm and APAC also much stronger rate than we saw in either Q1 or Q2. Where things are weaker is North America. So we would see rate in North America as of Q3 as slightly negative. If you look at the lines of business, property, if anything, is actually slightly better. Liability, slightly worse. Motor, better than Q2, similar to Q1. Still not really a level that's transformational for Motor. Specialty, around the same type of level. And workers comp is the one that, again, has shown further slippage over where things were at Q2. But in the other businesses, within Europe, the improvement is actually mainly driven by the U.K. So we see commercial business there, in particular, Motor. I'm showing strong improvement, I mean, the other European businesses, generally, are in similar places to where they were at Q2. LatAm and APAC, both slightly up to reasonably strongly up. So overall picture for us as a second global P&C business, slightly better than was it at Q2, but the U.S. has suffered while our other markets have improved over the period. From a PYD perspective, to date, I don't see any of that driving any change in PYD expectations.

Operator

The next question is from James Shuck from Citigroup.

James Austin Shuck
Citigroup Inc, Research Division

Yes, it's James Shuck here from Citi. I had 2 questions, please. George, I appreciate you can't speak about the third quarter, but I just wanted to come back to the issue of the larger losses. You've kind of moved to this approach with large losses of saying it's up a bit or down a bit versus the prior year. That's what you did at Q1 and -- which was a bit better. I think, in Q2, that was a bit worse. If I kind of roll back a bit and look at what Tom de Swaan mentioned in 2015, he mentioned that large losses were 4 points above normal in 2015. So if I take 2016, which was 160 bps better than 2015, then the implication is that 2016 is about 240 points -- basis points above trend. And then H1's overall still seems to be running a bit high. So my question is can you give a little bit more clarity, please, about where the large losses are versus a normal run rate at H1, without necessarily commenting on Q3? That's my first question. Secondly, on your own reinsurance protection. So you obviously exhausted the aggregate cover as a result of the hurricanes. Could you give a little bit of insight into what your outlook is for reinsurance buying, whether the structure of it is as you would want it to be, whether the cost of it is as it might be? And connected to that, are you effectively running naked into Q4 in terms of large losses with no aggregate cover? Or did you buy more?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Yes, thanks, James. The first question was a bit complicated. It may require actually for us, to be face to face, I've a major [indiscernible] in my head. Yes, I think on large losses, through the first half, I'm not sure I saw any significant deviation from roughly where we would expect to be. There's been a huge improvement over that part of the performance compared to 2015. I think I talked about it a bit on the Q2 call. And in fact, it's something I intend to say a bit more about at the Investor Day. Maybe I'll cover it in a bit more detail there, if you don't mind, and I'll save the response for when I actually have something concrete in front of me that I can discuss with you. But I mean, today, I think I said on the Q2 call that I don't worry about large loss, per say, just more focused on driving the overall underwriting improvement that we want across the entire loss experience that we have, including attritional. On the -- on our own reinsurance protection, from an outlook perspective, I think the most important thing in this market is to try and be reasonably consistent over time. I think in the past, you've seen that one of the challenges has been that we've typically bought reinsurance protection for the balance sheet and very little from, I think, [containment] perspective. One of the changes that we made starting at the end of '15, 2016, was both around trying to protect against some of the volatility that we saw. But at the same time, making sure that we reinvested with savings that we saw from a relatively soft reinsurance market by taking a core participation, dropping retentions, and doing those anti-cyclical things that, over time, will benefit the company. I think the good news is, you can see the positive impacts of that already in the Q3 losses that we've reported for the 3 hurricanes. I mean, beyond that, there's also a risk appetite topic reflected in there that, I think, has been clear for some time that property care in the U.S. has been problematic. And we have substantially reduced our exposure to that topic, either incoming or through these tactical reinsurance before you even get to the cat program. So we would look for stability around the main cat programs or -- and look as far possible to renew it in a similar structure to the one that we have today. I think the area of question mark that we still have in our own minds is the volatility cover that we have. Well, from a good news perspective, it hasn't attached. So it won't always attach. But I think we'd like to look at that to make sure that, that money is working effectively for us -- well, as effectively as it can. So as we run into the renewals, we're not looking to shift the program significantly. We'll see how -- we'll see what the market offers. But the program we have today reflects mainly our preferences, and more or less, that's what we've been looking to buy as we go through the process. On the aggregate topic, we're not looking to try and reload the aggregate at this point in the year. We obviously still have cat peril protection. The covers that we have are typically 1-plus-1 reinstatements. Certainly, 2 of them don't look as though they'll pay us the cat peril programs. One of them, it may do. I mean, we've set the expectation on that loss, which is Maria -- I mean, at the attachment point for the time being. So I think we still feel that we have reasonable amounts of protection in place for the remainder of the year. But what it would mean is, for example, if we see a substantial U.S. event, we'll obviously have a substantial retention before we'll attach the cat program.

Operator

The next question is from Andy Hughes from Macquarie.

Andrew Hughes
Macquarie Research

A couple of questions, if I could. Does -- can I try the large claims one a different way, which is, if we look at what everyone else have said about current London market business in Q3, they've all talked about AIG, QBE, RSA. Also about lots of large claims in Q3 through London market, in large commercial, particularly, x the weather stuff. Is there any reason why you would be any different to this? And do you think this is just the market seeing what you've already seen in the first half of the year? And then the next question I guess, on the restructuring costs. So have you got quite a lot of restructuring costs still to spend in Q4? Or have you done a lot of these changes already? And should we expect a lot of announcements between now and the end of the year?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

On the last one, first of all, Andy, I can't separate out Q4. I'm not talking about Q3 yet, but I'm definitely not going to be talking about Q4 today. I think we did give clear guidance of where we stood at the half year. We had indicated to people that would we expect to be no more than $500 million for the full year. That's still our expectation today. And of that $500 million, as I mentioned on the introduction, $150 million of that will drop into the operating results from P&C, but within non-technical, just keep it separate from the remainder.

Andrew Hughes
Macquarie Research

The reason I was asking about that one was just because I haven't seen any kind of huge-scale announcements in Q3, unless I've missed something which would have indicated large amount of restructuring costs occurred in Q3.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

I can only restate the answer I gave you to the question.

Andrew Hughes
Macquarie Research

All right. No problem.

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

On the loss claim topic, I can't comment on Q3. It's obviously relatively difficult for me to do the relative comparison because I don't know what the others have in their portfolios. I think on the Q3 topic, I'd go back to what I said to James a few moments ago and say that, obviously, large losses were a real problem for us in '15. As I said at Q2, we've had a -- as James put it, I think, a bit up, a bit down or maybe even a bit down and a bit up, to get the right order. But we've seen a huge improvement over where we stood in '15. Again, I will talk about this a bit at the Investor Day. I'll look back over some of the historical experience and certainly recap where we were at the end of Q2 and give a view of how we intend to manage the topic going forward, without talking about Q3 or Q4. I'm afraid that's the best I can do for you today on loss claims.

Operator

The next question is from Arjan van Veen from UBS.

Arjan van Veen
UBS Investment Bank, Research Division

George, a couple of questions on -- firstly the legacy sales. You mentioned before the German legacy [indiscernible] probably it wasn't particularly material. But can you comment a bit more holistically about these portfolios? And so firstly, is there more of a plan to offload more of these opportunities? There's one large one in Europe that's been in the press. And also, is there capacity for executing on these deals to free up some capital? And then second question is just bit more -- dig down into the European. You commented on the U.S. quite a lot. Could you comment a bit about the volume trends in some of your core markets in Europe? In particular, does the comment that you made about pricing improvements across the portfolio going forward, how much of that applies to Europe?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Yes, great. So on the legacy topic, our aim for the legacy book is to get rid of all of it. It's obviously not causing us issues currently, but it ties up capital that we would quite happily redeploy somewhere else for a more attractive return. Again, there's been a lot of press speculation, which I'm going to avoid commenting on. Other than to say that I think you guys have a reasonable sense of what's in there. So we have a number of typically long-tail lines, the largest of which is the U.K. EL book. None of these things are there to be lost to the expiry of the last claim, but we're looking for better homes for this business, if we can find it. We'll take our time to try and maximize the tradeoff between price certainty and all key the drivers. But it certainly -- our intention is that we will dispose of all of this. We're not looking to retain any of it. So I would expect over the course of the next year, 18 months or so, you will see more activity. I'm not expecting that to cause any significant P&L volatility, but I do hope to see some reasonable capital release from it. On the European topic, so maybe just on the pricing topic to begin with. So again, on the various markets being compared again to where we were, say, Q1, Q2, Switzerland is similar to where we were at Q2. Germany is similar, slightly better. U.K. is the one that stands out, as I mentioned earlier. We've seen a pretty substantial pick up, particularly driven by the Motor side of the book. Actually, it's slightly stronger. Spain, similar to where it was. Slightly weaker, but again, a relatively high level. Spain is one of our top 3 markets from an overall perspective. If you're looking at growth, Europe, overall, from a GWP perspective, headline number is down 5%. So that's local currency. If you adjust for the disposals that we announced last year, down 2%. And the main reductions there are small movement in Switzerland. Small movement in the U.K., given that the market was weaker earlier this year. And of course, a slightly more competitive environment in Italy around some of the retail lines. But I mean, good rates and slight reduction in volume.

Operator

The next question is from Nadine van der Meulen from Morgan Stanley.

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

You've been asked this many times, but that Z-ECM continues to improve and strengthen. It's now at 100 bps, 36%. Serves over $6 billion, above the upper end of the target range. Could you once more comment on the potential use of excess capital? Could you comment on that? Should the range be revised upward perhaps if you're more comfortable with a higher level? And in that light, just -- yes, of the matter of dividends, to the extent that you can -- or will comment on it. The policy of 75% earnings payout or CHF 70, you commented in the past that the dividend is based on forward-looking earnings. And given this group capital strength that continues to get stronger, and expected earnings growth, is there a possibility of having a temporary payout ratio above 75% even this year despite the large losses that we've seen this year? And lastly, a quick one on the Ogden rate. Should there be a revision of the Ogden rate next year, from minus 0.75 to between 0 and 1? What would the impact of that in light of the additional reserving that you did earlier in this year?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Nadine. So on that ECM, we've seen a relatively modest move up. We estimate around 136%, end of the quarter. Today, no change in the commentary that you heard from us at Q2. So key priority for us remains operating performance and what the improvement in operating performance will do for the dividends. That's priority #1, 2 and probably 3 and 4 as well. We'll evaluate capital positions near, as we typically do, at the end of the year, but priority is operating performance and ordinary dividend. On the dividend growth topic, this is an important point. I have said a couple of times this year already that when the parent party needs to reflect sustainable earnings. It can be based on earnings that are temporarily boosted by an absence of natural catastrophes nor should it be depressed by the temporary occurrence of excess natural catastrophes. Also, frankly, restructuring impacts, such as Ogden and associated tax effects, I don't believe are relevant in assessing the group's ability to move the dividend. So what matters for us is their underlying sustainable levels, so that when we move the dividend, that becomes the new floor for the group. On the Ogden topic, it's another great question. So it's not entirely clear, at least today, when any change might take effect. But in any event, as you point out, we've absorbed a significant part of the impact of Ogden through the 6 months, either through reserve strength or through offsetting stronger PYD. That would mean that in the event that we see a positive -- so a reversal of all or part of the Ogden change, you should not anticipate to see that impact the P&L. So I would return that to the group's overall reserve strength.

Operator

The next question is from Johnny Vo with Goldman Sachs.

Johnny Vo
Goldman Sachs Group Inc., Research Division

Just a couple of quick questions. Just in regards to -- obviously, you've shown improvement this year, and you said that you feel like the underlying combined ratio is round about 98. And given the fact that rate increases are improving across the book, particularly in the U.S., and it's providing a bit of a tower end, do you see these rate raises as sustainable or more transient? That's first question. Just coming back to capital as well. Obviously, the capital is at -- or is that ECM, is at 136%. Your organic capital origination is 3% to 4% per quarter. So you're going to be rolling north of 140%. And not in relation to dividend, as you said dividends are more linked to sustainability. But if the capital position is very, very strong, do we look beyond dividends to other forms of capital returns above 140%? And then the final question, just in terms of the U.K. I noticed that you've disposed of the workplace pensions business. You have some other chattels and platforms in the U.K. Does this mark an exit from the U.K. discretionary wealth market? And what are your thoughts on that?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Johnny. So the -- on the rate increase topic, just to remind everyone, I'm talking about the rate side of it. We haven't discussed the inflation topic. Well normally Thomas will ask me about what's happening on the inflation side of things. We would still see, even with this improved rate performance in Q3, that margin is eroding. And in fact, that's what we allowed for when we put together the targets last year. So it's -- I guess, maybe it's a smaller negative, to try and characterize it directly. On the U.K. -- sorry, the capital topic, that's a great way of asking the same question that was asked earlier. I'm not going to say more on that topic that I've said already. I can't add anything to the comments that I've made, particularly to Nadine. And then on the U.K. topic, I think it's the first time I've heard the U.K. business described as having chattels. I haven't used that one in a conference call so far in my career. This book, in particular, was one that suffered from a scale issue. Obviously, the buyer that has that scale can benefit from the additional volumes that it brings. So I wouldn't look at this as signaling some broader read-across. If you looked at our portfolio in the U.K., corporate savings business, not just for us, but for the entire market, it has been particularly competitive. And that's what led to that decision on the transaction.

Operator

The next question is from Farooq Hanif, Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

I was going to ask the inflation question. So I might just stop with one. Just on the everything you said, so inflation, rate, change of mix, are you still looking for basic defending underlying loss ratio? Or do you think we will -- we could -- without making specific forecast, but we could see some improvement in underlying loss ration if current conditions persist? That's question one. Question two, going back to capital, at H2, you gave some math on constraining capital with the rating agency and how that's aligned with Z-ECM a little bit? Obviously, some of this Z-ECM move is pension related, and it might be Life related. I'm just wondering whether you think any of that math has really changed. So I recall at 2Q you talked about a $2.5 billion surplus versus the real constraints that you have. And last question, very quickly, what's happening to earned premium? So we've got the GWP -- is there any only thing that we need to take into account in 3Q qualitatively?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Thanks, Farooq. So on the inflation topic, this issue, what can we expect? I think it's difficult for me to make any predictions other than the ones you've heard from me in the year so far. Richard and the team asked the U.S. team last night to provide updates on what we see in the market. So I've got anecdotal information that would imply something more positive, but I don't really have something that's systematic in my hands yet. So therefore, I'd be cautious about predicting the scale of what we might be about to see from the market movement in the U.K. But if I look at it objectively, given what we've seen from the hurricanes, given the comment that we made this morning in the press release, you would expect to see tailwinds around the technical performance, which probably replaces the headwind trend that we saw. Too early to quantify that in any way meaningful, I think, today. The -- that's a good question on the capital topic. I think I said on the Q2 call that this was a capital equivalent of a solar eclipse. And it felt like a solar eclipse, it doesn't last forever. So I think you should refer back to the commentary I gave you at Q2 for a sense of roughly where we are from a flexibility perspective. On the earned premium side of things, no change to guidance. So we expect earned premiums to broadly flat for the year.

Farooq Hanif
Crédit Suisse AG, Research Division

Sorry, just following up on that, that's broadly flat in like-for-like terms x-FX? Or just broadly flat numerically?

George Quinn
Group CFO and Regional Chairman of Europe, Middle East & Africa

Broadly flat numerically.

Richard Burden

Thank you. That was our last question on the call today. Thank you very much, everybody, for dialing in. If you do have further questions, please don't hesitate to call the Investor Relations team, and we'll be happy to answer them.

Thank you, and goodbye.

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