S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

FY Nine Months 2020 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Results 2020 Conference Call. I am Alessandro, the Chorus Call operator. [Operator Instructions] And the conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast.

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

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning, and good afternoon, everybody. Welcome to Zurich Insurance Group's Third Quarter 2020 Q&A Call. On the call today is our group CEO, Mario Greco; and our Group CFO, George Quinn. As usual, for the Q&A session, so we kindly ask you to keep to a maximum of 2 questions.

But before we start the Q&A, as usual, with the Q3, George will make a few introductory remarks before going on to your questions. George, I pass over to you.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Richard, and good afternoon, good morning to everyone. I mean, over the third quarter, the group overall has successfully managed, I mean, what have been a series of unprecedented challenges related to COVID-19, not only that, but a global recession and, of course, a record number of hurricanes making landfall in the U.S.

We've continued to deliver strong growth in Property & Casualty. That's driven by commercial insurance, but we've also seen our life business return to growth in Q3. In the P&C business, pricing momentum in commercial remains strong, both in North America and in other regions, and we expect this to continue through the remainder of this year and into next, which will support further improvement in the underlying accident year loss ratios.

Our balance sheet remains very strong with our conservatively calibrated Z-ECM solvency returning to the midpoint of the 100% to 120% target range. I might be over saying, we think the Z-ECM has served us well. It's informed our decision to move away from interest rate-sensitive life business already over a decade ago.

Having said that, the high level of calibration and conservative assumptions that underpin the model, I think we believe cause unnecessary uncertainty. Therefore, we intend to change reporting from the fourth quarter to focus on the Swiss solvency test ratio. It's obviously still conservative, but it's much more aligned to metrics that you see reported by peers.

From a COVID-19 perspective, you'll have seen already today that we've reported claims, net of the associated frequency benefits, an unchanged level since the end of the first half at $450 million. And I think as you know from earlier in the crisis, we've worked hard to further clarify wordings of the policies. We knew and today I'm happy and I'm confident that we only have limited exposure to any new developments in the pandemic.

The combination of flexible and resilient business model and the increasingly evident and through of higher commercial pricing, it gives me great confidence that we'll emerge strongly from this year's disruption and be in a strong position to take advantage of new opportunities as they present themselves.
I'm now happy to take questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Jon Hocking from Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 2 questions, please. Looking at the rate momentum, particularly in the North America business, can you give a little bit of color in terms of what you're seeing sort of 3Q and 2Q and how that might be impacted by the top of mind that you're seeing renewals in the 2 quarters? That's sort of first question.

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

George Quinn
Group CFO & Member of the Executive Committee

So on P&C pricing. So you see the overall headline numbers today. And I mean, things have not slowed down in Q3. If you look at the key commercial markets, which are the main drivers for us, if I picked out North America in the overall picture would be, I mean, pretty much exactly the same then to the first decimal point. Within that, there's been a wee bit of movement. So you see property as -- we see property at roughly the same level. We would say that liability is actually progressively stronger again in the rate environment in Q3 compared to Q2.

Motor slightly down compared to Q2, but obviously, property and liability dominate the book. But I think -- I mean, we still expect this to continue. You've seen some of it come through the top line in the course of this year, but obviously, not a huge amount yet. You're see more of it next year. And I think if we look at the growth rates that we're reporting today and we look at the plan we have for next year, I mean, you will see a pickup in growth.

I think I said back at the half year that I mean with currency, we thought that maybe the headline number would be flat through the year, maybe underlying up to. I think we're going to be a bit stronger than that before we get to the end of the year, and we'll be stronger than that again next year.

On Farmers, I mean, there's clearly still work to be done. I mean, obviously, they do -- can you still hear me?

Jonathan Michael Hocking
Morgan Stanley, Research Division

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

George Quinn
Group CFO & Member of the Executive Committee

Yes. Sorry. So I was just saying that -- okay, so I mean there are 2 more pandemic-related topics in the Farmers number. I mean that's a -- you still hear me now, Jon?

Jonathan Michael Hocking
Morgan Stanley, Research Division

Yes, I can hear. You're cutting in and out, but I can hear you now.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Sorry, I got a bit of technology trouble. Yes. So Farmers, obviously, we have the $311 million that we reported in the first half, which is the return of frequency benefit. They've got the impact of the commercial rate share. I mean they are still filling rate at a lower level than we've seen in prior year. So that will have some positive impact. But the main focus both at the exchange and in the conversations that we have with them is try to grow that policy count footprint because that's crucial for growth for next year. I mean, we've seen some early positive things over the course of the last couple of months. I think it's obviously way too early to declare victory. But it's that policy count growth topic that we're completely focused on and working through the management company to try and support the exchange in delivering that. But Farmers has more work to do.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

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

Second question, just on the life outlook. There was a degree of confidence expressed in the sort of recovery in profitability in the second half for the half year. What's your latest thoughts on that? I mean, in particular, I guess, one area that's come to light additionally since the first half is Australia disability income, I don't know if that's impacting your outlook in aggregate.

George Quinn
Group CFO & Member of the Executive Committee

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

On loss cost trends, I mean, our view is not different today. I mean it can bump around a bit. But I mean, overall, from a pricing perspective or the loss cost elements we add into pricing, if we look at it on the basis that we think is more consistent with the U.S. peers, I mean we see it around 5. I think I gave some commentary at the half, of course, there's a wide range of actual assumptions per line of business with excess GL being the standout. And I think from all the reviews that we've done, I mean, I think we're happy that what we've done addresses the social inflation trends.

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

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

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

I had 2 on the Z-ECM, please. I mean the first one, I mean, you've always been very clear on your guidance or your target range under the Z-ECM ratio. I mean, now you're moving to SST being the primary reporting metric. I guess the obvious question is what sort of target range you have in mind there? What should we -- how should we sort of think about that?

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

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Peter. So it's on the first one. If you allow us, we'll come with the target range in February when we switch to SST. I mean we have done the work to try and calibrate it in a way that we think is consistent with what we do with Z-ECM. We've also looked at what other people do in terms of the ranges they give. I don't think we're going to surprise anyone. I think the range will be very familiar when you compare it to, I think, what you would typically see from similar players in the European context. But that's something we'll formally bring forward in February.

From a modeling change perspective, I mean, really worth saying, first of all, that I mean the vast majority of the change that we've seen on Z-ECM is driven by market or market-related movements in the quarter. Obviously, credit and equity generally have been very positive, maybe slight offset with what's happened on interest rates. There are 2, I mean, relatively small adjustments we've made. One is around how we looked at reserving for nonlife. We've made that consistent between Z-ECM and SST. And there's also a small update on the life replicating portfolio in the quarter, but the vast bulk of the change is all driven by market, which I think is what you'd expect.

Peter Eliot
Kepler Cheuvreux, Research Division

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

George Quinn
Group CFO & Member of the Executive Committee

It's a good point. But I think we've -- I mean there's only so much that we can do to make the thing comparable. I mean we're not going to go through the full-scale Solvency II exercise, and it's not relevant for us anyway because it's how the regulatory system works. And I guess, if we were -- I mean, if we're very mathematically to say, you would end up with different target range if you were trying to be consistent with European peers, given that SST as a -- we think, a more conservative measure of solvency.

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

Operator

The next question comes from Hanif Farooq from Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

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

And then secondly, on the kind of underlying combined ratio picture. So if we take the sort of $450 million net number, which presumably hasn't changed since 1H, so you're kind of running at a 96% combined ratio in the first half. I'm guessing with some additional kind of reserving. Just wondering what your thoughts are on underlying combined ratio?

And then if we start thinking about next year, I mean, the numbers are astronomical here in terms of claims inflation versus pricing versus mix change, and it's just lots of big numbers. If you can give us some sort of thoughts to help us with our modeling, that would be great on sort of underlying combined ratio for 2021.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So on the Z-ECM topic. I think -- I mean, again, we'll do more of it in February. So we'll bring forward the overview of the target capital ranges. I mentioned earlier to Peter that you expect that to be pretty much in line with what you're seeing elsewhere. We've had some significant conversations internally. What does that mean? Are we still operating Z-ECM somehow in the background, but not showing it to you?

And I think the way we've agreed to do this is that I mean SST will become the prime measure for the company. So it will be -- it will make it certainly more consistent. I mean for the reasons that you're all well aware of, it won't make it entirely consistent with the Solvency II reporters. But it's -- I think it's good enough for government wide.

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

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

I think in particular, on the interest rate topic, I mean, that decision that we've talked about a lot about 10 years ago, in fact more already to deprioritize the more interest-sensitive guarantee products, I mean I wasn't around, but I'd be surprised if it was only Z-ECM that drove that decision. I think it was the thinking of the people around the table. I mean we can take Z-ECM out of the mix, but I don't think it changes the perceptions that most of the key management team have about risk and how we should deploy our capital. But we will use SST as the prime measure going forward.

On the -- on what's happening underlying, I mean, it's actually an easier conversation to have in February because, I mean, both for you and from Andrew's comment earlier, I can actually show you some numbers. I can show you the improvement, and we can talk about what that means when you then roll that forward into next year. But I mean we expect to see a significant continuing improvement in technical profitability.

The margin improvement, the difference between the headline price and the underlying loss cost inflation is obviously more than sufficient to offset other factors, for example, lower interest rates. So we do expect to see a continued improvement in the overall economics of the commercial part of our P&C business. But it'd be easier to make use of that in detail when we come back next year.

I think -- I mean, just to give you one jumping off point, I mean, we did talk at the half year call, that's -- I mean, we saw about 0.7 of the combined ratio or loss ratio improvement. If you take out the excess cats from COVID and other things, so we saw ourselves towards the bottom end of the 95%, 96% range. I would expect that, that point improves again before the end of the year. And that gives a starting point for next year, which would expect to improve upon slowdown.

Operator

The next question comes from Hossain Kamran from RBC Capital Markets.

Kamran Hossain
RBC Capital Markets, Research Division

It's Kamran Hossain. It's not the first time we've been called the same. Two questions on P&C. The first one is, I guess, brilliant rate rises this year. But what -- listening to next year, do you think premium growth will begin to match or exceed rate rises? And if I look at the jaws between rates and P&C growth, the jaws actually seem to be widening as the year goes on. So any thoughts on that for next year?

And the second question is just on COVID claims. How is your degree of confidence in your estimates? Or has it changed over the year? Are you more confident now? Do you have any numbers on kind of IBNR to total COVID reserves? And maybe how that's moved as the year has gone on?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So on the first one, so if you allow for the fact that -- I mean, the figures I gave earlier, I mentioned the 18% and 16% for commercial in U.S. and in Europe. If you allow for the fact that commercial is about half of the book overall, low for the underlying loss cost inflation, mean that means you'll see that -- I mean, about half of the headline number come through as growth. We will start to see a much higher growth rate next year. I mean I would allow for us to do things around the portfolio to try and improve some of the characteristics.

And one of the things we talked about already before is that, for example, from a credit perspective, this feels like a good point at which to think about starting to rein in capacity. So -- and I don't think you'll see precisely 50% of the headline number, but you'll see it get much closer next year. So you should see a significant growth rate in the P&C business overall, and certainly far more significant than you've seen this year.

COVID claims. So I mean there's, I guess, a psychological thing around the COVID topic around, I mean, can you feel incredibly confident and then there's a mathematical thing. We've been running this process since about March. And the components have moved around a bit. But the totality of what we've reported, I mean, hasn't changed significantly. We reported today that the net number is in the same territory. We've looked at the risks that we have from what's taking place now in Europe and whether that might drive, I mean, the possibility of another significant lows.

And when we run the models, we just -- we don't see that outcome. And of course, that's a combination of the exact circumstances of what's taking place now, but actually, more importantly, the fact that -- I mean, some of the things that gave rise to claims before, I mean, the limits have exhausted or the contracts are renewed on a different basis. So I mean it's not that we have 0 additional risk. But when I look at the -- what the scenarios tell me, I mean, maybe we could have a large property loss equivalent.

So I mean -- but I wouldn't say that we don't pay attention to, and we're not careful around it. It's not a major source of concern for us. I mean, we think that we have the COVID topic, I mean more or less actually behind us at this stage. And from an IBNR perspective, I think I said at the half year that about half was IBNR, believe it or not, that continues to be true today.

Operator

The next question comes from Nick Holmes from Societe General.

Nick Holmes
Societe Generale Cross Asset Research

Two questions. The first is with business interruption. Do you have any concerns left about adverse legal rulings? Or do you think we can now basically draw a line under that issue? And secondly, with the dividend, is there any concern you have that the Swiss regulator might try to copy the French and Italians and become a little bit stricter?

George Quinn
Group CFO & Member of the Executive Committee

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

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

From a dividend perspective -- sorry, Nick. So from a dividend perspective, I mean, I think just from a general regulatory perspective, I mean I think we were -- we benefited from the fact that FINMA took a facts and circumstances approach to the payment of dividends last year. So FINMA asked that all the financial institutions, including the insurance companies, take a look at stress scenarios and form a view of those risks prior to the payment of dividends. So I mean, we did that, but you've already seen that, that led to the same decision as the one that was taken initially.

I mean I'd be confident that FINMA is likely to do something, although, I mean, it will partly depend on the circumstances that we find ourselves in, in January and February of next year. But I mean the most important thing that we can do is make sure the company is well capitalized, make sure that we've got the cash in the right places, make sure we deliver the performance underlying that we've committed to. And I think at that point, we've done everything that we can.

I think the positive thing is that, I mean, FINMA has demonstrated that they're a pretty consistent organization. They have conducted stress tests over the course of the year. So I think they're well informed in terms of where the industry stands and where the individual companies stand. So while I can't tie their hands, I'm pretty confident that FINMA will continue to look at it case-by-case rather than take a very broad brush approach, which, for me personally, doesn't make sense.

Operator

The next question comes from Vinit Malhotra from Mediobanca.

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

So my 2 questions. The first one would be, just looking at the sales figures in LatAm raises a question for me that in the life, we saw what I can say a 22% growth. And in nonlife, we still see compression. And in life, I mean, in nonlife you've mentioned the mass consumer business. Is this just a little bit contradictory? And if you could just comment on what's happening in the LatAm business. So that's just the first question, please.

Second question is, with the pickup in U.S. 10-year, the reinvestment yield, could you provide us an update? And do you think this is going to be a topic for next year's pricing or any of other significance that you can point out to?

George Quinn
Group CFO & Member of the Executive Committee

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

I think the challenge on the P&C side is, I mean, we're more a mass consumer. It's typically not -- it's not always linked to the same things that cause you to interact in a branch or with a bank cash machine where you can actually buy actually sort of Santander product in Latin America. I mean, it's typically much more connected to mass consumer brown, white good sales. I think -- I mean, that's been a bit harder to try and find ways to bring back. But I mean, from what we see the partners do, I think we feel confident you'll start to see that growth coming back. It's just taken a bit longer. And I think the circumstances for the retailers is going to be slightly more challenging than it has been for the banks. I think that's part of why you see this the slight lag on the P&C side versus the life side.

On the 10-year rates, so obviously, the increase in the 10 years, it's a relatively recent phenomenon. So we haven't tried to update the numbers this week to precisely model what the impact of that is going to be. I mean, obviously, I can see the reinvestment rates that we've run at in the P&C business through Q3. I think year-to-date, it hasn't really changed the picture significantly from what you saw at the half year. I mean I think I'd make the point that we're not a highly interest rate-sensitive business. So if we do see in the U.S. market interest rates pick up, I mean that does allow some room to accept a slightly lower technical margin, but yet, achieve the same overall economics.

I think in my experience, there tends to be a bit of a lag. So I think actually, if we see a sustained pickup in the 10-year, there's probably a period where that actually gives a bigger benefit to the insurance. It wouldn't last forever, and the market will eventually correct. But if we do see a sustained pickup, I think that will actually work in our favor in the short term. And from a longer-term perspective, I don't think it changes that much. The key drivers are the other things we've discussed at this point.

Operator

The next question comes from Edward Morris from JPMorgan.

Edward Morris
JPMorgan Chase & Co, Research Division

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

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

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Edward. So I think on the targets, I mean in the last target cycle, it was really important to us that every single year, we ticked all the boxes on the targets. When we set the targets last time, I think one of the targets, which was the EPS growth, mean, I think that was always something you had to measure over the course of the 3-year period, but we certainly had the same aspiration around ROE and cash remittance. Now of course, as you point out, this is a year that we did not anticipate, I guess, no one did.

Having said that, we said at the half year that our expectation is that through the course of the 3-year period, we can deliver the targets that we've committed to, that's ROE, that's cash remittance, and that's that earnings per share growth that we introduced just over a year ago or just about a year ago. So if I think of next year, I mean, I'm not going to try and qualify them all. I think on the ROE side of things, I expect a significant bounce back. I don't necessarily anticipate at this stage that the pandemic topics continue to have a significant impact into next year other than the change in the expectation of what's going to drive the group's performance, i.e., something that's maybe a bit more -- bit less retail oriented and a bit more commercially driven.

From a cash remittance perspective, I mean, I guess it's pretty clear that we're going to be below run rates this year. I mean next year, at the very start of the year, there will still be some impact from financial markets related topics to COVID or actual COVID claims. But over the course of the year, I mean, I'd expect to start to see us come back in line with the run rate. And I mean, we've been looking at it very recently. So our expectation is that by the end of the 3-year period, we will achieve at least the commitment we've made of $11.5 billion of cash remittance.

Earnings growth, obviously, this year is going to be significantly disturbed. It creates a new basis into next year. So while I'm not going to make any promise, all things being equal, you would expect to see a much higher growth rate. But of course, it's the start to end picture that's most important. And all of what we currently do is aimed at making sure that we can drive out that performance that we committed to. So if you think of each of those 3 things in that context with those comments around timing, we are committed to the targets that we gave last year. We're not revising them.

On the dividend topic, it's tempting, but I'm going to resist the temptation to start to give you my views. I mean, I think all I can say at this stage is we have a policy. I mean you guys have seen us operate this policy for the last 3-some years. Within that period, we've had some volatility. So you've got to gauge into how we think about that topic there. But my expectation is we have a policy, and we're going to apply that policy. At this point, I can't say more than that.

Operator

[Operator Instructions] The next question comes from Michael Huttner from Berenberg.

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

Two questions. One is on the U.S. tax. And if -- because I seem to remember last time when the tax rate dropped, it impacted your remittance from the U.S. a little bit, not much a little bit. And the second one would be on the combined ratio. Your comments today seem much more positive than half year. They were already a bit strong at the half year, but so I'm kind of guessing, 94.5% underlying this year. And at the half year, I seem to remember you were kind of pushing away pushing back to thinking that maybe we could reach 93% or below at some stage in the foreseeable future. But it sounds like this is actually something you're beginning to think. Is that a fair comment? And have you built kind of reserves using all these frequency benefits, which would allow you to do that?

George Quinn
Group CFO & Member of the Executive Committee

Thank you, Michael. So first of all, on U.S. tax, obviously, we don't know what will happen on tax rate yet, but maybe just a helpful reminder to everyone that about half of the profitability comes from the U.S. So therefore, for each one additional point or change of 1 point on the tax rate, you could expect about 0.5 point change on the group's tax rate. From a remittance perspective, I get -- I mean, appreciating that I don't know what will come. The impact on remittance last time came from the -- some of the additional things beyond the actual change of rate, and in particular, the so-called BEAT tax. I mean I have no idea what will happen with that. I mean, if I just assume it will stay in place, it doesn't become more onerous, I wouldn't expect, other than the incremental tax costs that you'd see any significant impact on U.S. remittances back to the group.

I mean, obviously, it's very early stages that there are only very high-level proposals. It's not even clear that majorities exist and the right parts of the U.S. legislative process to actually push through some of these things. But I think the only guide I can really give you at this point is for every 1% move and the -- or change in the rate the U.S. would enact, you can expect about 0.5 point change on the group.

On the combined ratio, so first of all, I apologize, I'm going to resist the temptation to go along with some of your forecasts about the future. Maybe just to reiterate some of what I said earlier. So I said we were towards the bottom end of 95%, 96% -- the bottom end of the 95%, 96% range. I expect to see further improvement through the second half of the year on an ex cat basis.

Again, I think without the ending point for this year and a revised view or an updated view of what's happening on price, I mean it would be a bit mad for me to give you forecast today. But I mean the one thing that's clear to me, and it's -- I can see it in the numbers, our ex cat accident year performance continues to improve, which is exactly what you'd expect to see given the rate environment that we're currently in.

Michael Igor Huttner
Joh. Berenberg, Gossler & Co. KG, Research Division

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

George Quinn
Group CFO & Member of the Executive Committee

So you need to think of what's taking place on the technical side, i.e., the margin improvement in the context of the duration of the assets. So we -- on the P&C business, we've got about a 5-year duration. You need to increase it to a level that at least offset. And I think the point I made earlier was that we're actually above that point today. But you have to hold onto it for 5 years to achieve that outperformance over the period.

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

But having said that, we need that strength because life will not be quite as strong. And Farmers will not be quite as strong as the underlying assumptions that we had when we put those targets together. So we not only need that higher rate to help us with the investment income challenge. It's also going to help us with some of the pressure that I think you're generally seeing around the retail side of the business. So our commitment is that we'll deliver the targets that we signed up to a year ago. I can't promise. We're going to do better than that.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

Just -- I mean, I guess, with the backdrop of a company that obviously you looked at a few years ago now being bought, I mean a lot of things have changed since then, and you've acquired many things yourselves in that time. I'm just wondering if I could give you an opportunity to remind us of how your thinking on M&A has evolved over the time frame and how your sort of priorities might have changed. And whether post-COVID world, there might be some opportunities or any general comments you might be able to make on that outlook?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Peter. Richard was telling me that we're coming to the end of the Q&A. So I was hoping I would avoid this question. So I mean you're absolutely right. There are things being bought. I appreciate the way you phrased that. I mean I think for us, I mean our approach to M&A has been -- I mean, I think it's well signaled, the types of things that we do, the things we've done in the past are a pretty good guide to what we think about in the future. So it tends to be market focused where we're not dealing with large multi-market integration topics. I don't think our philosophy is necessarily going to change. In general, that's what's pretty well for us. And I think from our perspective, there's no reason to change that.

I will add the normal disclaimer, though that -- I mean, the responses that I gave to Michael earlier about the targets that we have for the 3-year period, they're entirely organic. They don't require us or rely on us doing M&A at any point in the cycle. So it's -- there's no pressure or driver to do that. But of course, if the right opportunity emerges, it would help us get to one of our strategic priorities a bit quicker and the price is right, then, of course, we would take a look. But there's no change in the way that we think about it compared to what you've seen from us over the course of the last several years.

Richard Burden
Head Investor Relations & Rating Agency Management

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

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