S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

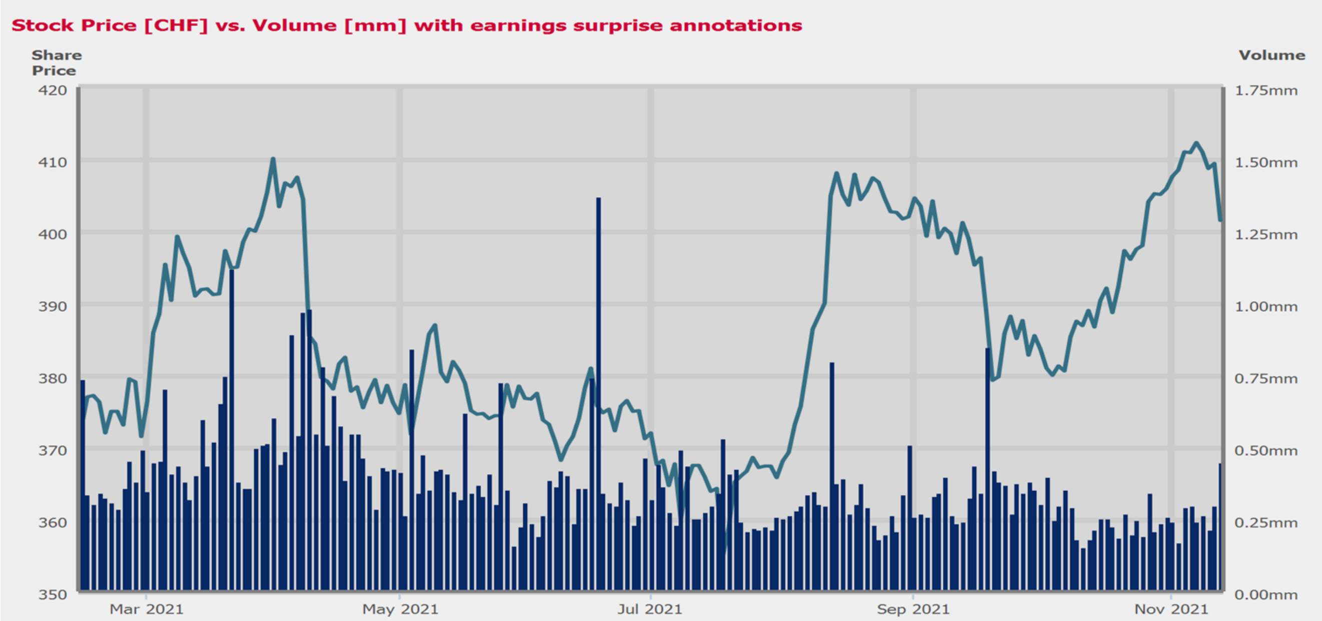
FQ3 2021 Earnings Call Transcripts

Thursday, November 11, 2021 7:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.84	NA	NA	6.64	27.12	NA
Revenue (mm)	NA	NA	NA	NA	49163.72	NA

Currency: CHF
Consensus as of Nov-12-2021 5:58 AM GMT



- EPS NORMALIZED -

	CONSENSUS
FQ3 2020	4.48
FQ4 2020	4.48
FQ1 2021	6.84
FQ2 2021	6.84

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EXECUTIVES

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Group CFO & Member of the Executive Committee

Mario Greco
Group CEO & Member of the Executive Committee

Unknown Executive

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

James Austin Shuck
Citigroup Inc., Research Division

Louise S. Miles
Morgan Stanley, Research Division

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

Peter Eliot
Kepler Cheuvreux, Research Division

Thomas Fossard
HSBC, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Unknown Executive

Thank you. Good morning, good afternoon, everybody. Welcome to Zurich Insurance Group's 9 months' 2021 Q&A call. On the call today, we have our group CFO, George Quinn. Before I hand over to George for some introductory remarks, just a reminder for the Q&A, please keep your questions to 2. George? Thank you.

George Quinn
Group CFO & Member of the Executive Committee

Thank you. And good morning, good afternoon to all of you. Thank you for joining us. So just before we start the questions, a few introductory remarks. So as you've seen from today's press release, the group has continued to make strong progress towards its 2022 strategic and financial goals. The underlying operating trends of the business continue to be very strong, and we expect this to continue throughout 2022. Rates have continued to be very strong. But for example, at the 9-month point in North America increases 13% with 12% in the discrete third quarter.

We've absorbed the impact of several major events throughout the course of the year, including the June weather events in Europe, the major flooding in Germany in July, and Hurricane Ida in the U.S. in August. We estimate the impact of Ida to be around $450 million. The combination of substantial rates and the strong market discipline extends the very positive outlook for margin improvement. In the Life business, we've reported -- Life new business value up by 25%, helped by a favorable mix and higher sales. And we continue to manage the business for value rather than volume, with a focus on our preferred segments of protection and unit-linked.

Farmers has benefited both from the inclusion of the Metlife P&C business that we acquired earlier this year and also growth on a like-for-like basis. The group's SST ratio remains very strong at 203%, up materially from the 182% that we reported at the beginning of the year, but down modestly from the 206% at the end of the first half. As we plan for the transition to IFRS 17 in 2023, we've adjusted assumptions to reduce the potential for volatility in our Life business post-adoption. We may take some additional steps as we continue to optimize for IFRS 17, but I don't expect this to be significant.
With that, I'd be happy to take your questions.

Question and Answer

Operator

The first question comes from Louise Miles from Morgan Stanley.

Louise S. Miles
Morgan Stanley, Research Division

Just 2 questions for me, please. The first one is on the Life APE. So I noticed the EMEA Life APE for third quarter in 2021 was down quite a bit. Looked like it was down about 10% versus 2020. Are you able to give a bit more color on this? Presumably some of it's FX, but I think there must have been something else as well that I've missed. And then on the second question, I think I'll ask a quick one on the Life back book transactions. Obviously, you said at the beginning of the year, you aim to do something in 2021. We've got less than 2 months left now. So what exactly is the update here? And has there been an unexpected delay? Or were you always expecting it to be an announcement at the very end of the year? And if you can, are you able to kind of give us a bit of color on the Life back book transaction, market conditions at the moment?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Louise. So on the first one, on APE, Europe has got slightly tough comparison to the prior period and that they had a very large transaction. We had a one-off deal that helped boost the volumes last year. However, I mean, as you can see from the new business values, we've actually driven a substantial improvement and new business margin over the course of the year, which has benefited new business value development. On the Life back books, the -- I'm going to resist the temptation to say too much because I'm going to cover it in some depth for the investor update next week. I think all I would say is that it's a very high priority. We are very keen to demonstrate progress rather than talk about it.

In terms of my view of timing, I'd like to see it faster, but we are working as fast as we can currently to try and demonstrate progress. So if you allow me, I'll come back to it in more depth next week. From a perspective of the market, I mean the -- I mean, there's considerable interest in the market. So there's a buyer pool out there that I think can put the -- that constructs a good indication of what the market price is for these types of assets. And from what we've seen the types of prices that we would expect to achieve are consistent with what we would need to gauge to live up to the commitment that the things that we do in the back book should be ROE accretive. But I will -- I'll come back to it in more of that next week if you permit me.

Operator

The next question comes from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

My first one, George, I'm wondering if you're just able to comment on how comfortable you are with your reinsurance cover as it stands at the moment? And any thoughts you might have on looking into next year, whether -- I mean, obviously depends on prices, but whether you might be looking up to pick up more cover next year? And then the second question was just on the solvency. I was just wondering if I could sort of clarify the process that led to the assumption change. I mean, my take is that your work on IFRS 17 just caused you to take a closer look at the assumptions, and in taking that closer look, you decided to strengthen the assumptions. Is that correct? Or is there a sort of closer linkage to IFRS 17?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thank you. So on the reinsurance topic, I don't expect us to significantly change the program that we got in place. I think we like a combination of something that gives us some protection from frequency. And of course, something more significant that protects us from severity. So we would be looking to maintain the structure in a form that's as close as we can, the one that you see today. I think when it comes to more cover, I mean, to be honest, I would rather manage the incoming risk than look to buy more reinsurance if we feel that there's a pressure to do that. And I guess we'll come back to this topic later on the call.

But from a -- I mean, from an overall perspective, I mean, we've just been through the planning process for next year. We've allocated out the capacity. And our expected losses from nat cat is consistent with the level that we've communicated in the past. So we'll use the incoming side of things to manage it more than get too reliant on the reinsurance side. On the solvency topic, I mean, it's an [instant] one because it's a -- you got this probably unusual and probably at least partly unexpected connection between SST and IFRS 17. And of course, the key connection is best estimate assumptions. I mean, we are about to move into parallel run for IFRS 17 next year, which means we're about to hit the transition date for us.

And if we leave any vulnerabilities, particularly on the Life side, on the best estimate assumptions, there's a risk that their P&L relevant for us and create volatility. So rather than getting to the point where we see this in the middle of next year, I mean, have to rerun the entire thing. I mean this feels at the right time to address this issue now. So we've been looking at the assumptions that we have in the Life portfolio. And if we feel we have a vulnerability or a concern, we [want to and] try to make sure that doesn't show up as P&L volatility within IFRS 17.

Operator

The next question comes from Michael Huttner from Berenberg.

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

The -- I really only had one question is where is all these gross coming from, if the [world] is really growing at 11% at the moment? I don't get it. I must be getting very doddery and old and thinking, well, it's used to grow at 3%. And is it sustainable? Or should we start saying Zurich as a growth stock, and we should trade you at 30x or something? That's really my only question.

George Quinn
Group CFO & Member of the Executive Committee

Michael. So the -- I mean, what you're seeing at the moment is obviously a combination of very strong rate on the commercial side. That completely outweighs anything that's happening around GDP. I mean, I think the really positive perspective from what we see at least in Q3, as the rate continues to be very strong. We've seen it come down very slightly in the U.S. But I mean, I expect that we'll continue to see a significant positive gap between headline price and loss cost trend, I mean, well into next year, which means we'll continue to see margin expansion I mean, play out for at least another 12 to 18 months, everything being equal.

I mean, the GDP partner, you've been around long enough to recognize in the past that even when GDP is strong, if the cycle is not your friend, you don't see the GDP benefit there either. So you've -- I mean, I know you know, but you need to view GDP from a longer-term perspective. We've also had the benefit -- in this call, I mean, we highlighted the growth in customer numbers. So our retail business has been doing pretty well. Part of that is clearly a rebound from what's been happening over the course of the last 18 months. And as some of the key markets have opened or become more open, we've seen a significant rebound in retail activity, which has been a significant tailwind for us. So as we look into next year, I still expect the group overall retail and commercial to produce overall growth rates that are well above GDP.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

My first question is just 1 question in the sense, it's one sentence in the press release. I think we could do with a lot more color on. And the sentence is technical profitability is expected to continue to improve despite cat losses, which are 3 to 4 points higher than long-term average. I guess it leads me to 2 related questions. What do you mean by technical profitability is expected to continue to improve? I mean, I think if I mathematically work out what you're implying for the full year '21 cat load, I think at the half year, you said it'd be up about 5 points. If I assume an average in Q4, it now looks to be more or like 6%, 6.5%. Are you suggesting that the underlying ex-cat has improved sufficiently to offset that miss, if you like?

And also, you used the term long-term average. I guess the problem is the long-term average keeps going up. So how comfortable are you? You said in the past, an average of 3.5%. Is that still the right number? And the second question, maybe it's not a question. Maybe just a comment. I thought we had dealt with the Life assumption changes in the SST update in Q4 '19 -- sorry, yes, in '20 -- beginning of 2020. And I guess, are we to assume that this has follow-through impacts on the likely emergence of cash in the Life business or not? I'm confused.

George Quinn
Group CFO & Member of the Executive Committee

Yes. So I'm sorry to hear you confused, Andrew. So on the first part, on the cat losses, so the comment I'm making is about the -- I mean, as you'd expect, given the rates that we see in the rate in excess of loss cost trends, we're continuing to see a significant improvement in the ex cat's combined ratio for the group. You saw evidence of that at the first half. And even with the very significant cat losses that we had, we produced a very strong technical performance. I think in the comment in the press release wasn't intended to mean that -- I mean, no matter what happens to my cap perspective, we can absorb all of that because that's clearly -- I mean that's not possible for us to do, given you can't have short-term volatility from cat.

But the comment I was making there was really about what we're seeing in terms of the underlying trend, which continues to be very strong. So I guess the key thing then becomes, what do you think the catalog should be? I mean, I mentioned in response to the earlier comment, I think it was the other question from Peter, we've just been through the planning process. And I think you're certainly right. If you look at the last 5 years, I mean, last year, if you include COVID, we had more significant losses. 2017, it was also a pretty significant year. But again, if we look at what we believe -- if you look at what the models are telling is, updating it for current trends, we want to maintain a cat load for the group that's around this level that we've indicated is our long-term average.

So that means that, if necessary, we'll take steps to make sure that what we bring into the portfolio in the first place, it gives us a higher confidence that that's the outcome at the end of the process. So we're not sitting here simply accepting what comes through, not necessarily believing a very long-term view on the model side. I mean, we actively manage this to try and maintain an outcome that's consistent with the guidance that we gave you. But this is a pretty extraordinary year. And if you look at what's happened, I mean, you've seen it. So we've seen the Texas freeze. We've seen the hailstorms across Germany, Switzerland, Austria at the end of Q2. We then got the floods, principally in Germany in the middle of July. We have then got hailstorm again in Europe towards the end of July, and we cap all of that with Hurricane Ida at the beginning of September.

So I mean, if you ask me, do I think that's a new norm, I don't believe that. But it is clear that there's a increasing frequency and severity trend around cat events. As a topic, I'm also going to cover at the investor update next week. And I will get into a bit more depth about what we're doing to make sure that what I'm describing to you is the outcome that we achieved. On the SST assumptions, the -- I mean, I guess here, the -- I mean, we've now been running the IFRS 17 environment for quite some time. I say that we start to get a bit more familiar with how it works and some of the key drivers within it. I suspect there's still quite a bit more learning to be done before we get to the publication points in 2023. And here, mainly because of the way that CSM works and the risk that we start to imports significant volatility into the Life result, I want us to be more conservative around some of the key assumptions in line just to reduce that risk to an acceptable level.

So I think we're trying to be prudent today rather than to reflect a particularly negative view of our Life business. We don't have that.

On the cash side of things -- sorry, go ahead. Yes. So on the cash side, I don't expect it to have a significant impact on cash. I mean the -- what we've done is it's not tiny, but given the period over which this impacts local statutory performance, you won't see this of any meaningful impact on [Zurich].

Andrew James Ritchie
Autonomous Research LLP

And to be clear, there's no impact on IFRS 4 as in -- well, I guess we've got Q4 or the second half '21 on full year '22, there's no impact on that?

George Quinn
Group CFO & Member of the Executive Committee

No, there's no impact. I mean, the key issue, I mean, if I get into a long lecture on IFRS 17. So I mean IFRS 4 is, maybe you look at, let's call it, significant groupings of individual contracts to construct portfolios, and you look at headroom across the entire portfolio. IFRS 17 changes the approach to that. And it means you're just at more risk of volatility around some of the longer-term assumptions. In a way that you wouldn't recognize an IFRS 4 because you'd have positive headroom from other parts of the portfolio that would offset. So I mean, that's the motivation for today. But you wouldn't see it in IFRS 4.

Andrew James Ritchie
Autonomous Research LLP

And can I quickly ask, back to the normalized underlying question? Are you suggesting -- clearly, it's not been possible to offset all of the additional cat, I get that. But are you suggesting we shouldn't necessarily assume a bottom line impact of all the additional cat? Do you see what I mean? I think you were willing to give some color around that back in Q1, I think.

George Quinn
Group CFO & Member of the Executive Committee

Yes. So I would summarize it exactly as you have just done. I don't expect to offset all of it, but given the improvement we're seeing, I expect to absorb some of it.

Operator

The next question comes from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Just the first one is just a clarification on that cat losses year-to-date. You say you're running 3 to 4 points above. I'm just trying to understand, is that for the 9-month run rate? Well, that's what you're saying for the full year? And just linked with that, I guess, how far through the aggregate protection are you at 9 months? Is there any color you can provide on that? And then the second question, just thinking about clearly very good about the rate exceeding loss cost inflation for longer. I guess, just whilst we're talking about inflation within that, is there any early signs of any emergence quarter-on-quarter? I think it was fairly sanguine at the half year, just if anything caught your attention quarter-on-quarter that's noteworthy.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Will. So the 3 to 4 points is year-to-date. So I guess, without making any forecast for Q4, we've had a reasonably quiet quarter so far. But in general, Q4 is one of the quieter quarters in the year. On the aggregate, and I think I mentioned this to you guys earlier in September, I mean, given the number of losses, I suspected back in September that we would go through the aggregate, and you can imagine, given the numbers that we had that we have. So cat aggregate at this point is exhausted. But having said that, all of the regional cat [toes] are currently untouched. So the group is still a significant protection against severity.

On the inflation topic, so I mean, it depends whether we're talking inflation in the traditional sense or inflation in the social inflation sense, and maybe I'll cover both. I think in the traditional sense of the CPI topic, I mean, actually, where we see it -- I mean probably what we spend more time on it is actually in a bit of a competition for talent. I mean some of our markets, we're seeing quite a bit of demand. We've got a good team. They tend to be attractive to other organizations, and we've had to work hard to try and make sure that we hang on to them. So we're certainly seeing some impact of inflation from that competitive aspect.

I mean, otherwise, on the traditional inflation side, it hasn't shown up in a particularly significant way. I mean, there's certainly some of it already in Texas freeze. We talked about that at the half year. But I mean, we don't see significant evidence that it's having a continuing impact on the portfolio. So for the time being, inflation despite the headlines, for example, from last night is manageable for us. On the social inflation side of things, reality is that courts, particularly in the U.S. are still reasonably quiet. So we haven't seen the throughputs that we might have expected. And the -- I mean, the most recent what we've done on underwriting, I mean, that leads to no significant change in the loss cost assumptions that we had before. So we're still in that 5%, 5.5% type range, if we're focused on the U.S.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Just as a follow-up on Q4, I guess you were saying that 2 [looking] quarters have become [in stalled] the classic U.S. hurricane period. Is that right? Obviously, we can get cat losses in Q4. But how much -- right, [anything we] -- is it well below that sort of long-term average for the annual run rate? Is that the message normally?

George Quinn
Group CFO & Member of the Executive Committee

Yes. So you can definitely get cat losses in Q4. And so if you're as old as me, you'll remember some of them. But I guess the point I was making, it tends -- as you say, it tends to be a lighter quarter than the certainly than Q4, for example. And I guess the point I was just making was that so far, albeit we still have another half of the quarter to run, it's been reasonably quiet.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Andrew stole my thunder, I'd kind of echo his question and implied comment about this technical profitability statement. Can I just clarify? Your answer was helpful, but I'd like to just understand the why. I mean, you were very clear saying you've taken more nat cats, but hopefully some but not all of this will be absorbed by the underlying experience. What exactly is the underlying experience? Is it kind of one-off in nature or something that's sustainable? Because the bigger picture that you are giving us is there's no major change in your rating commentary relative to June. And my guess would be, if anything, inflation is a bit worse rather than a bit better. So to the extent that you are absorbing some of these nat cats, what is enabling you to do that? I don't know, it could, for example, just be timing issues that you've decided to be more optimistic in your initial loss picks, but maybe something more fundamental?

Secondly, please. When you're talking about the rating outlook, a lot of what I'm hearing from you is kind of that kind of term is stronger for longer. You are talking about the good news lasting for longer. What do you actually think about the good news in itself? Because as you said, we have seen the U.S. rates increases fading slightly. So is it your expectation that they continue to fade or remain at this level, but just we should take the clock out longer? Or are you actually optimistic that maybe rates could tick up again given the pressure that people are seeing? And then lastly, please, just to check, I think you may have just alluded to this, but I wanted to check. I've had a rule of thumb from you in my mind at the group level that we've got about 8% rate increases, about 5% claims inflation. So the net benefit to the attritional loss ratio per year is about 3 points. If that understanding has been correct, is that sort of still where we are? Or do you want to nuance the 8 minus 5 equals 3?

George Quinn
Group CFO & Member of the Executive Committee

Okay. Thanks, Will. So on the first one, I guess what I would say is that I'm a cautious person. I think I tend to have a more conservative outlook of what might happen with price than certainly recent experience would have taught us to expect. So I guess what makes sense of the answer to Andrew, we're getting more price than I expected we would when I commented back at the half year, which I guess connects to the second question about rating outlook. I mean, I expect it to moderate. But I mean, to be honest, I know I made a comment on the Q2 call that this environment seems to be lasting for longer than certainly I expected. I had an investor criticized me for potentially talking down the market. I'm not talking down in the market.

I don't want us to be optimistic about where pricing is headed. But the one thing that's absolutely crystal clear is that this thing has sustained itself for much longer than certainly I would have expected, and that additional benefit that it brings us will help us deal with that nat cat topic that we covered earlier. But I do expect it to moderate. So I mean, the comment I would make today, I mean, given from -- given where we are currently, I mean, I would expect it still to be positive on price versus loss cost range through most, if not all of the next year. So that would push the point at which we would hit the peak or -- peak or low, I'm not sure what the right characterization would be, but the strongest outcome for underwriting margin that we pushed that somewhere into 2023 at this point. On the -- on your rule of thumb, I mean, it's not bad. I think the only thing that I might recommend, I think 5 overall on the inflation side is quite higher than I would have had in my very simple real thumb, but it's not going to be very far away.

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, both on the non-Life side. Just coming back to the Ida catalog for $450 million, you said. I mean, it's -- I would have guessed it was -- would have been lower because many of the peer group, we can see were somewhat in line with the 3 hurricanes individually in 2017. And this $450 million feels a bit higher. Also, given that it might have some aggregate cover benefit. I'm not sure again. But if you could just comment a bit about, is this $450 million a bit higher or anything that you can add to that, please, would be helpful. Second thing is BI litigation is now sort of happily forgotten topic or at least favorably emerging topic compared to 6 or 8 or 9 months ago. But is there any room you think will [indiscernible] [the righty] movement given that we are seeing several favorable outcomes on litigation BI in the U.S. mainly? And could that be somewhat helpful also in this very busy cat quarter from a PYD perspective?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Vinit. So the -- I mean, it's slightly hard to get peer things to the peer group. I mean, we do a regular updates and the leadership here or around what we see in the peer group. I mean, certainly, year-to-date, what we've seen from the U.S. peers, we don't think we are out of line compared to others. We see ourselves as a bit of [mid lined] on the FX so far. I mean, it doesn't make a difference on how we manage the topic, but certainly compared to U.S. peers, we don't see ourselves as an outlier. On the BI litigation topic, I think in the U.S., I don't expect the U.S. outcomes to lead to changes. I mean, from the very early stage, we've established reserves for the claims that we knew we would have to cover. We've had pretty good success. The industry has generally on the motion to dismiss approach. And I don't really expect that to change, given how far we know are through the process.

If you look at the remainder of what's out there, I mean, the U.K. continues to bundle along. I mean, there's a couple of topics that are being tested in the U.K. currently -- I mean, you'll appreciate. I can't speak to any of them specifically. Other than to say that, I mean, we feel comfortable with how we're reserved around the U.K. topics. I mean the one place that has produced a particularly positive outcome is Australia. So we saw a ruling in the appeal court in Australia a few weeks back that was heavily favorable for the insurers. That's currently being appealed this month. I don't remember precisely when we'll hear the outcome. But if that stands up and appeal, I mean, that does offer a modest potential positive for us. I mean the reality is that on the BI litigation topic, actually, to the extent we're successful, most of the benefits will probably flow to reinsurers. But in the context of Australia, we would also keep some of that, but we'll wait for the appeal process to complete before we reach [indiscernible].

Operator

The next question comes from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

So a couple of questions. On Farmers, just looking at the growth in premium income posted at 9 months. And a like-for-like basis is up 7%, but the like-for-like basis on fee income is only up 1%. There seems to be a slowdown in management fees at certainly at the headline level. I think we're running at plus 17% at H1, and that declined to 13% at 9 months. So just any insight to what's happening there, please, would be helpful. Secondly, just more broadly, I mean, we have a lot of focus on U.S. commercial lines and the rate outlook. Just keen to get your thoughts on commercial lines, particularly in the EMEA region and that have been starting to see signs of hardening market beyond the U.S. and some of the factors affecting that, please.

George Quinn
Group CFO & Member of the Executive Committee

So thanks, James. So on the Farmers topic, I think there's 2 key topics that bridge there between the 2 issues. So what we've reported today is GWP. And of course, the driver eventually is the earned premium because that's the input into the fee calculation. It's also impacted by the fact we've got some costs running through on the restructuring side related to the Met P&C acquisition. Those costs will probably still run through most of next year. So as we get into the back end of next year, you'll start to see not only the 7% margin you expect to see on the, let's call it, the original Farmers business, but also a 7% margin on the acquired Metlife P&C business.

I think the reason why you then see this delta between first half and second half. In the first half of the year, some of the Farmers growth is driven by the absence of the rebates that were provided when the lockdown started, and that also distorts what we then end by way of the first half, second half. I mean, the good news on Farmers is that I mean we have growth in the underlying Farmers portfolio. The Metlife P&C acquisition goes very well. Our rollout of the approved Met products into the exclusive agent channel. And in fact, the rollout of that into the independent agent channel, where essentially exchanges now offer for the first time, a standard product, rather than nonstandard product. This had very high take up.

And I mean, albeit, we've only had a few months, the revenue trends that both we and the exchanges see have certainly exceeded the expectations that we had at the point that we stock the deal.

On commercial, and you're right. I mean, we do tend to focus more on the U.S. market just because there are so many external sources of perspective on price. But if you look at Europe, which means the U.K. essentially when it comes to commercial, again, it has been very strong. It's also started to moderate in Q3.

Again, we're not seeing a significant drop off. I think you'll see a gradual decline over the course of the end of this year and well into next year. If you look at commercial beyond the U.K., it's -- I mean, it never really saw the run-up in rates that you saw in the U.S. and U.K. markets.And one of the things that we've been trying to do internally is address the issue of U.S. liability right now of Continental Europe, which, of course, should attract the same pricing trends as we've seen for the risk written directly. That's been tougher in the market in Continental Europe, bit less support for it. The one last positive thing I'd probably draw, I mean France and Germany have been good more recently, but still U.K., U.S. are the dominant factors in price trends.

Operator

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Two questions. The first one would be on the dividend outlook. I appreciate it's still pretty early and the year is not over yet. But any comment, George, that you would like to make in light of the cat load environment and yes, the profitability of the group so far and the growth as well that you expect to report this year and next year in terms of premium gross? Yes, how should we factor all these elements in your thinking regarding the dividend?

Second question will be related to the inflation topic. And more specifically on wages pressure maybe in the U.S. I know that your workers' compensation book is excess layer and maybe you are a bit more insulated to any things happening on this side. But at what kind of level of wage increases, you will be less comfortable regarding the profitability of your workers' compensation book?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Thomas. I was joking with Mario before we started that before the Q&A was over, I would have covered my entire presentation for the investor update, which is now a real risk because I think you're rounding out the last pieces of it. I mean, I will do something that's a bit more detail next week around the dividend topic. I mean, I think today, I just want to reiterate the commitment that we've made to investors. We've got an earnings target, [showing] through the end of next year. As you've heard today, we fully expect to achieve that. It's important to us that investors benefit in the same way. So while I can't comment on the dividend decisions we're going to make for the end of this year and certainly not for the end of next year, I would expect dividends to track those commitments.

On the cat topic, I mean, I'll repeat what we said previously. I mean unless there's something about the cats that change our outlook -- and again, in my opinion, there is not. We will look through these events when it comes to making recommendations to the Board and to shareholders on dividends. And if you look at the history of the last few years, I mean, we've had periods when the effective payout has been above 75 in periods when it's been below. And that's kind of what you need to expect, given that we can't eliminate all the volatility, even if we want to try and make sure that it's pretty tightly controlled. So if you bear with me and you have time next week, I will comment a bit more specifically on this issue.

On the wage pressure topics, I think -- sorry, you mean growth? What was the question on growth, Thomas?

Thomas Fossard
HSBC, Research Division

Dividend.

George Quinn
Group CFO & Member of the Executive Committee

Growth in the dividend. Yes. So the...

Thomas Fossard
HSBC, Research Division

No, no, growth impacting the dividend.

George Quinn
Group CFO & Member of the Executive Committee

Okay. So you mean to say capital utilization impacting dividends?

Thomas Fossard
HSBC, Research Division

Yes, I think this was the question.

George Quinn
Group CFO & Member of the Executive Committee

All right. Not a concern for me. So the -- I mean we were looking recently at -- we're looking at the plan through 2023. We've been looking at how much organic capital we expect to generate. And we were looking at how much growth we expect to generate and therefore, use of that organic capital. And even if we have more significant growth rates in the plan than you might be accustomed to, given Zurich's history, we are still not using all of the organic capital that we generate. So the growth in business is not constrained by dividend and dividend will certainly not be constrained by what we do on growth.

On the wage pressure topic. So again, I've got to touch on inflation next week because it's obviously an important topic. I mean, the wage inflation because of how it plays into the cost of living adjustment and workers comp and because of the way that workers' comp benefits are structured, that all combined with the point that you made about the high deductible nature of what we do, I don't expect this to be a significant issue for us. I mean, in essence, we end up with a reasonably -- I mean, again, I'll quantify it more precisely next week, but a very significant part of our portfolio ends up being more of a catastrophic type cover for major injury and other types of very significant workers' comp claim rather than the run of the mill slip for injury staff that is mainly actually covered by our clients.

So the wage increase topic doesn't appear to be -- it certainly hasn't traditionally been a major issue for us. I mean, if you look at what we've got -- because of the nature of what we end up covering, medical cost inflation is ordinarily the much more important driver of our outcome. See you next week. Yes. And if you haven't already recognized it, the group CEO, Mario Greco, he is also in the room with us.

Operator

We have a follow-up question from Michael Huttner from Berenberg.

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

Fantastic. I was just asking for maybe in terms of the CEO will answer an update on deal appetite. And I think, George, at the -- at our sell-side kind of group virtual meeting, you kind of -- we spoke a little bit, and I think we asked about Australia. The -- and then the other question is really very geeky. The natural catastrophes, what impact do they have on cash remittances, either the timing or the amount? That's all.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So the man on my left is shaking his head. So he's going to decline the opportunity to answer your question.

Mario Greco
Group CEO & Member of the Executive Committee

Sorry, Michael.

George Quinn
Group CFO & Member of the Executive Committee

I mean, no change, Michael. I mean I think the -- I mean, obviously, we are focused on doing the things that were part of the priority -- priorities that we set out at the end of 2019. And I mean, you'll remember that none of those priorities were M&A. I mean, we have the luxury that we have a very strong balance sheet. The right thing comes along at the right time at the right price. Then we have the flexibility to take a look and decide whether it makes sense, but it's not a major thing for us. On the cash -- what was that?

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

You did mention -- or we did discuss, I don't know if you mentioned -- I probably mentioned, you probably didn't. There was a story, I don't know where it came from that Zurich was looking to sell its services to any operations.

George Quinn
Group CFO & Member of the Executive Committee

Yes. I think that was you rather than me.

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

Probably. But I think it was actually voices. I don't think I made it up completely.

George Quinn
Group CFO & Member of the Executive Committee

I'm sure you didn't. But as you can see, I'm not going to comment on that type of toping. [They can quote] -- the second issue, I think, was cat, the impact on cash remittance. I mean, we gave an update at the half year of what we expected. I mean, this will sound slightly odd, but it is what it is. I mean, given the flexibility that we have in the cash remittance plan, I don't expect to significantly deviate from that.

Now I know that some of you will be thinking that, well, what about the impact as we move into the early part of next year? does it have an impact on dividends that we declare then? I mean, we've just been through the detailed planning process. We think we have got a very good line of sight to what the cash flow should be up from the businesses next year, even allowing for the events that we've seen. And we are highly confident that we're going to deliver the cash remittance commitment that we've made.

Unknown Executive
Well, thank you, everyone, for dialing in. That's the end of the call. If you have any follow-up questions, and please get in touch with one of the IR team. Thank you.