S&P Capital IQ

CONTENTS

Zurich Insurance Group AG SWX:ZURN

FY 2015 Earnings Call Transcripts

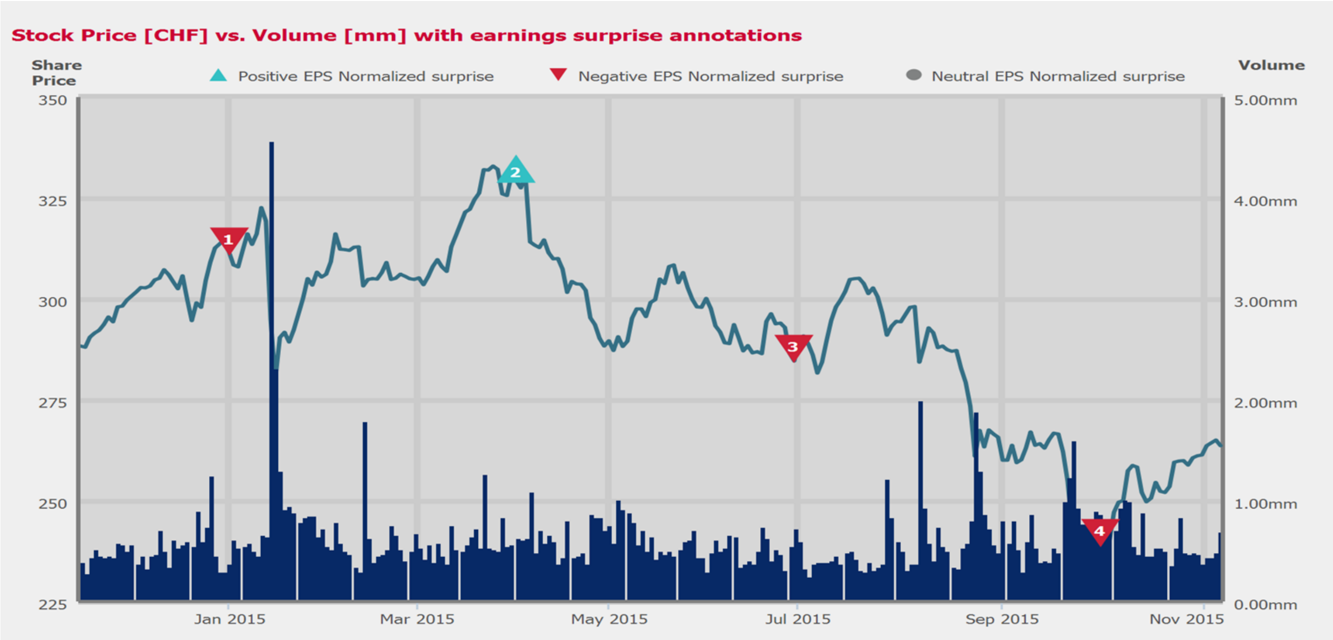
Thursday, February 11, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	2.76	(2.71)	NM	6.73	7.39	15.74
Revenue (mm)	13877.37	11533.19	(16.89 %)	-	-	51810.15

Currency: CHF

Consensus as of Feb-11-2016 8:40 AM GMT



Call Participants

EXECUTIVES

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

James Quin

Kristof Terryn
Group Chief Operating Officer

Mario Greco
Chief Executive Officer

Tom de Swaan
Chairman

ANALYSTS

Andrew Hughes
Macquarie Research

Andrew James Ritchie
Autonomous Research LLP

Dhruv Gahlaut
HSBC, Research Division

James Austin Shuck
UBS Investment Bank, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

Nick Holmes
Societe Generale Cross Asset Research

Paul De'Ath
RBC Capital Markets, LLC, Research Division

Peter Eliot
Kepler Cheuvreux, Research Division

Ralph Hebgen
Keefe, Bruyette & Woods Limited, Research Division

Sami Taipalus
Berenberg, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

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

Vinit Malhotra

Presentation

Operator

Ladies and gentlemen, good morning, or good afternoon. Welcome to the Zurich Insurance Group Annual Results 2015 Conference Call. I am Sarah, 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. James Quin, Head of Investor Relations and Performance Management. Please go ahead, sir.

James Quin

Good afternoon, and welcome to our 2015 results call. On the call are our Chairman and Interim CEO, Tom de Swaan; our Group CFO, George Quinn; and the CEO of our GI business, Kristof Terryn. Tom will give a brief overview, and then we'll take your questions.

Tom de Swaan
Chairman

Thank you, James, and good afternoon. Good morning. Our results for 2015 are disappointing. The issues are concentrated in our GI business, mainly in global corporate. GI had a full year combined ratio of above 103%, and it is principally due to a very high level of large individual losses, including claims arising from the Tianjin port explosions, a number of major fire claims, a large credit and surety loss, and other events. In total, large losses were around 4 points higher than our expectations. Due to GI performance, our earnings were well short of prior year levels and BOP after-tax return on equity of 6% is a long way short of our target range of 12% to 14%.

We have actions underway; some have already started to show some positive signs, as you will have seen in the pack distributed this morning. And I'm confident that the new team under the leadership of Kristof, who is present here as well, will deliver much improved results in 2016.

Good progress continues to be made in both Global Life and Farmers. Global Life is on track, having delivered good growth in both new business value and BOP in local currency. Growth in BOP was due to progress made in Bank Distribution and our in-force management initiatives, while growth in new business value was achieved mainly in our Bank Distribution and Corporate Life & Pension pillars.

Farmers continues on its trajectory, with a sixth consecutive quarter of top line growth. And this shows that the transformation that Jeff Dailey and his team started is bearing fruit.

At the time of quarter 3 results, we announced that the group would take a decision in February 2016 on how it would deploy excess capital and that this would be communicated with the full year results.

And in line with this timetable, the Board of Directors has carefully reevaluated capital deployment options. While the board is confident in the reserves, capital, cash generation and future earnings prospects for the group, it has concluded that it is important to maintain the group's capital spend and flexibility in the current circumstances and has therefore decided not to return additional capital to investors at this time.

This, I realize, is not the outcome that was expected at the Investor Day nor indeed later in the year, but it is the right course of action.

In summary, the right actions are being taken to address General Insurance challenges. Zurich has an excellent team in place that will be further strengthened with the addition of Mario Greco, who will lead preparation for a new strategic cycle in 2017.

As you know, we announced this morning that he will join on the 7th of March.

Further, the group remains in very strong position, in terms of balance sheet, cash generation and financial flexibility and looks forward to a rapid recovery and profitability in 2016.
We would now like to take your questions. Thank you very much.

Question and Answer

Operator

[Operator Instructions] The first question is from Dhruv Gahlaut, HSBC.

Dhruv Gahlaut
HSBC, Research Division

I have got a couple of questions. Firstly, could you update what happened to Z-ECM post the 9-month stage? And what is the level of deployable capital against the $3 billion, which you had at that point? Secondly, in 2015, you had both issues from the large losses side as well as on the weather events. Could you outline the changes which you made in terms of reinsurance, retention levels, et cetera? Also in terms of the exchanges, what is the cost that would go up in the P&L next year for reinsurance? Could you just outline those as well?

Kristof Terryn
Group Chief Operating Officer

I think you take the first one?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I will take the first one and then Kristof will take the second. On the capital side of things, we haven't prepared this whole run [ph]. We typically do that in March, as part of the cycle with 50% [ph], although we have done an update. So we would estimate that ECM capital adequacy would have improved over the position that we reported at the end of September. It is likely towards the upper -- towards the end of the upper half of our range. On the S&P side, which tends to be the more constraining of the capital measures at least currently. I mean, if you look at where we had projected it before, which was in the $3 billion range, if you allow for the -- what we said for the acquisitions, which is about $800 million, and you look at the shortfall that we suffered in CapEx in Q4, which is a loss of around $400 million. So I guess, let's say, a profit in the $700 million range and that gives you a relatively ready gauge to where we currently project we would be. So on the large losses, Kristof.

Kristof Terryn
Group Chief Operating Officer

We saw large losses, and particularly through the question of reinsurance, so [indiscernible] of additional reinsurance covers, the most important one is we put in place an aggregate stop loss which is frequency of [indiscernible] volatility on the large losses. We've also put in place or increased the number of quota shares that will give us some time to address the underwriting book. That is in our global core of our North American property portfolio [indiscernible]. Through the year, we'll continue to evolve where it does make sense to withdraw the insurance.

Dhruv Gahlaut
HSBC, Research Division

Sorry. And I think you were breaking up, but could you say what was the cost for these changes and then the cost of the increase in the insurance?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Dhruv, this is George. So we haven't broken out the cost of the UV insurance programs. It's included in the -- together the expectations will arrive an overall combined ratio for '16, that cost was fully reflected in those estimates.

Operator

The next question is from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I have a question also on the reinsurance. I know maybe this is a bit simplistic. But just to give us a sense, if horror of horror, 2015 was to happen again -- let's hope it doesn't -- what would the net benefit of reinsurance have been, just roughly? I appreciate you may have broken through some of the aggregates, but if there is any sort of sense as to what the benefit would have been, that would be helpful? And the second question. Can you just update us on reserves in terms of independent reviews? What has been done? Has anything additional special been done? And I know you talked about some of this in Q3, but a recap would be helpful. And I think, additionally, you did in Q4.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the first one -- Andrew, it's George. I mean, as you can imagine, given the experience we had last year, we'd have had a significant recovery under the contract on a pro forma basis. But then, again, the discussions we've had with reinsurance partners, if they weren't convinced that we had changed what we were doing, we wouldn't have coverage in the form that we've got? So I think if I give you a number, it would be potentially quite misleading. So I'm not sure it's helpful to do that. On the reserving side of things, we've just been through the normal year-end process, which includes obviously reviews by third parties. I mean, there is nothing new that comes out of that. If you look into what's happened in detail at the year-end, I mean we have a relatively modest posted PYD overall for the group. From a positive and negative perspective, we had a large positive on a commutation, but that was in the legacy book. And in fact, we took a charge also in the legacy book partly to offset that on the same risk, which is A&E-related. In the GI book, things are pretty stable. And in fact, the headline number we reported for PYD would have been higher, were it not for the fact that we've reestimated premiums in one of the books during the year; that had a positive impact on premiums, but we've also recorded, obviously, the claims associated with that, and that's recorded as PYD. So that artificially brings down the PYD number. So overall, from a review perspective, we've done all that we intend to do that was one-off. And in fact, it was all done prior to the Q3 results released in November. And now we're back to managing the reserve position as we always have done.

Andrew James Ritchie
Autonomous Research LLP

Could you just remind us, sorry, is it -- you wanted 80% of your reserves to be reviewed externally over rolling 3 years? Is that the rule?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So we have several rules within the reserving process. So we have a peer review, which is an internal peer review requirement. We have requirement that some of the longer liability exposures are reviewed externally. And typically, the frequency in the past has been every 2 years. And if you look at what's happened to us over the last probably 2.5 years to 3 years, because of the general interest that regulators have in reserving, I mean, broadly, for the industry, I mean, we've had several reviews, which are always targeted at the highest risk areas, around say like Workers Comp or other long-tail forms of liability. And I would guess -- I mean, if you looked at the higher risk parts, they have all been reviewed over the course of the last 2 years and sometimes more than once.

Andrew James Ritchie
Autonomous Research LLP

Okay. Sorry, just as a follow on. You answered the previous question saying the cost of reinsurance is included in your 2016 combined ratio expectations. Have you actually given the 2016 combined ratio expectation? I didn't see one.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So we thank you for pointing that out. So what we've done today, we've tried to avoid giving another short-term target for 2016, and we've given the things that we have to address during the course of this year. But at the same time, the ambition, the expectation, in fact, the plan we have, has not changed. I think the challenge that we perceive today -- I mean, given the weakness that we've still seen in Q4, I think -- we think it will take slightly longer in 2016 to get there, but we still expect to get there.

Andrew James Ritchie
Autonomous Research LLP

So is that being, what 97.5% or something?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I mean, if you go back to where we were before, we'd indicated -- say Q3, that we felt we were around 99.5%. I think, today, we'd probably revise that up slightly, and we still expect to see an improvement in the range that we previously discussed.

Operator

Our next question is from Peter Eliot from Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

If I could just follow-up on Andrew's question on the ECM ratio. I guess, I was positively surprised by what you said about the current position because if I take the sort of 114% and then just naturally from the earnings, dividend accrual and RCI impact [ph] position, I reckon that's about a 5-point headwind. And then you've had quite horrible markets recently. I appreciate some reinsurance actions will help a bit, but I'm surprised that you can get sort of back up into the higher end of your range. So I was wondering if you could just elaborate a little bit there on what I'm missing. And then second question was back to the General Insurance division. So you said that you'd put through rate increases of 5% to 10% in Global corporate's worst-performing tiers, given the sort of the high combined ratios you identified in some parts of the business in Q3, and just wondering if those rates are sufficient. And I guess, given you've had a bit of experience year-to-date and know your intention on the reinsurance cover, I'm wondering whether you can also give us any guidance about the sort of the outlook for your net premium development that you expect?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I'll take the first one, and Kristof will handle the second. So I think the key difference between us is that I haven't given you a figure as of today. So what I'm giving you it would be equivalent to the SST1 filing, which is a January 1 perspective for this year. So if you allow for some of the market volatility, it would certainly be lower. But I think the biggest difference in the positive that you've probably -- you probably included it but then knocked it back out because of what's happened since, is really the impact of markets in Q4, which were actually quite positive for us on Z-ECM.

Kristof Terryn
Group Chief Operating Officer

And maybe let me take the question on rate. So as we said earlier, I mean, we've been very disciplined in terms of how we push for rate, including the bottom tiers. The rate increases that we're looking for have to be much higher. At the same time, we see the retention drop -- retention in the bottom tier, so fourth tier, has dropped in certain lines of business to as low as 60%. So it's not just rate that will improve the combined ratio. You talk about lift, which is basically the impact of the different parts of the book growing or retaining them at different levels. So that in itself will have an impact on the combined ratio as well. So overall, Jan 1, we saw an overall corporate business positive rate on the overall book with a very strong differentiation between the different tiers. On your question on the NEP side, the actions that we've taken in terms of exits of books, I mean, that's about $400 million in premium. That's about 1% of the top line that we will lose. In addition, I expect most of the businesses to remain flat roughly, which is combination of growth in some areas and slight declines in others. Global corporate, as a whole, will likely see a slight decline in the top line. So if you combine that, together with the exits and a higher level of reinsurance, I mean, the net premium will see a slight decline as well at the overall level.

Operator

The next question is from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

The -- on the cash flow, so the $3.9 billion, we have about $0.5 billion from Farmers Re and $0.5 billion one-offs in Life, so that gives me an underlying run rate of $3 billion. So these are obviously coming out of '14 profits, which were quite good. Can you talk us through the variances, which would kind of help us gauge the cash flow for 2000 -- the coming cash flow? And I'm assuming you have a lot of visibility because you have all the results, and these are just dividends from the subsidiaries? And then my other question is on Global Life. I had in mind, but I get very confused that -- and it's me, I'm not saying anything anymore, but the -- previously, the expectation was that the life results would rise to above $350 million a quarter. And from my reading or my understanding of the release today, you seem to be happy with profits of about $300 million. And I'm just wondering if that's the new number which I should use going forward?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Michael, it's George. So I mean, for 2015, I think you've captured, I mean, almost all the key items, the significant one-offs and the '15 cash flow. So the $3.9 billion, we've reported today, approximately $0.5 billion from Farmers, which is installment #1 of what we expect to see from Farmers Re and the steps that we started to put in place about a year ago there. In Global Life, which is a combination of the annuity transaction in the U.K. and the sale of an investment manager that we had to take last year, which is about less than $0.5 billion, would leave us with around $3 billion as the -- as more or less the underlying element for last year. So we will have a negative impact next year, principally because of the impact of the GI earnings impacting the statutory outcomes and then for the statutory dividends that get declared. And at this stage, what we're telling the market is that we still expect to see total cash flows, total net remitted cash flows for the group next year that will leave us above the $10 billion mark. So I mean, from that, you can see we're learning for the possibility we'll see a fall from the normal or the targeted $3 billion level, but I mean not a significant fall, and not fall at this stage. But at least from a cash perspective, I would expect to leave the dividend uncovered.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I understand. Just before you go on, can you -- you're much better at this than I'd ever be -- what's the balancing figure to get to $10 billion? What's the difference? Because -- I'm just asking. It's mathematical. You've got the years in front of you, I don't. That's all.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Yes. So it's 3.7, 3.9, 2.4 would be the minimum required.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

2.4? Brilliant. That's very helpful.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Just before someone takes away that as a headline that's not the expected cash from the indices [ph] for 2016. We expect the number to be higher than that.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And that includes the -- another half -- if I understand your comment on Farmers Re, that would include another installment of about the same amount?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Approximately, slightly less.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Slightly less, okay.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On the Global Life?

Kristof Terryn
Group Chief Operating Officer

Let me take the Global Life question. So the run rate that we are guiding towards for 2016 of $350 million a quarter, I mean, we said back in '13. So in '14, there was already an impact of FX, but in spite of that, we stuck to the target of $350 million. If you look at the result for 2015, I mean, at '14 FX levels, that's a $1,478 BOP. So we actually achieved the $350 million a quarter in 2015.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Right. But that's looking backwards. What's the figure which I should be -- with all the changes that's happened in FX and stuff? What's the changes which -- what's the figure which is equivalent to the $1,478?

Kristof Terryn
Group Chief Operating Officer

I mean the figure has changed. I mean, the figure that we gave in '14 was that we were aiming for a quarterly run rate of $350 million plus in '16. That's at '14 FX levels.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And the FX, if I -- from your disclosure, the FX took about 15% off. Is that right? If I compare the $1,478 with the $1,300?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Yes, I think, more or less, Michael. More or less.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Yes, okay. More or less 15%. That's really helpful.

Operator

Next question is from Paul De'Ath from RBC.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

A couple of questions, please. And on the OOB line of figures, they're different than what we were expecting due to a number of one-off factors. And if you could give us any more feel of what those one-off were? And kind of what should we be thinking about for that line going forward? That would be great. And the second point was on the cost-saving targets. So targeting as of $300 million-plus for 2016 and -- if I am reading it right, it will cost around $420-something million to implement. And I mean, you're looking for $1 billion in total out '18. I mean, is that the sort of cost per pound of cost save that we should be thinking about for the rest of the $1 billion going forward? And/or any guidance around that will be great.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the first one, on the OOB, so we have a couple of relatively significant one-offs that's flattering the OOB number for, particularly Q4. So we have some sustainable items around the financing cost. We've had some benefits earlier in the year around FX, which, again, are one-off in nature. So it's actually quite hard to build anything from the Q4 number. I mean, I think the gains I'd give you at this stage is that we would expect to see OOB costs, I mean, depending on things like foreign exchange, but assuming that things are reasonably stable there, in the $800 million range for 2016. On the second question, so the -- I guess, the cost per dollar of cost saves, I mean, we are looking again about how we can accelerate some of the changes that we are making. Obviously, Kristof and his team have pushed ahead much quicker than we had originally anticipated in the fourth quarter. So that has significantly increased. Because of the nature, some of the things that -- and some of the areas that we tackled in Q4, I'm not convinced that the cost per dollar in the future would be quite as high. So I think it might be slightly lower. But we're going to exceed the Investor Day guidance that we gave back in May, which was for -- if you take the midpoint of what we said for something around $1.1 billion in total. And I think we may -- I mean, it would be more wise -- as we come up to Q1, I will give you a much clearer sense. But at this stage, I mean, we could easily see a run rate of say another $500 million for each of the next 2 years while we complete the program. But we'll give you more information in Q1.

Operator

The next question is from Nick Holmes from Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

I had 2 questions. First is on expenses. With the expense ratio in the GI business, I wonder could you give us a bit of color on how rapidly you expect improvement? And why I am asking is because I wonder do you think it could actually get worse before it gets better? And I am thinking of the cleaning that you are doing in the group, I mean, you are exiting business in the U.S. and the Middle East. And I just wondered whether the top line reduction is going to be a problem for the expense ratio for reducing expenses in line with the top line. And then, second, on the reserve. I wondered, I mean, you've given some additional disclosure on the NAC business. I just wondered what's the reassurance you can give us that the losses in commercial auto and property are not going to be repeated. I mean, what sort of comfort would you draw our attention to in the numbers that you've described?

Kristof Terryn
Group Chief Operating Officer

Okay, let me tackle the first question on the expenses. And maybe, first of all, we did have some one-offs in the Q4 expense ratio. So you should probably normalize that back. On your question on the expense progression into 2016 and the impact of the top line. I mean, overall, we are looking at an absolute expense reduction going in 2016. I mean, that is the target that we have set for the businesses as well.

We moved away from expense ratio target to make sure that what people focus on is on the profitability and the quality of the business as well as an absolute expense reduction. Now as I said in -- as an answer to a previous question, I mean, it is likely that we see some slight top line. The focus at this point is really on the quality of the portfolio. So that's really what we're targeting. You should see an absolute expense reduction going into '16.

Nick Holmes
Societe Generale Cross Asset Research

Sorry, if I may follow up. I just asked because in the past, the trade-off between the loss ratio and the expense ratio perhaps hadn't been managed as effectively as it could have been. And what sort of reassurance would you give us that, that's a key focus for you going forward?

Kristof Terryn
Group Chief Operating Officer

Look, I mean, the primary focus for this business is to improve the absolute combined ratio. So the key improvement that you should see next year is in the loss ratio. And we will not make any trade-offs between top line growth and loss ratio. I mean, we've been very clear as to where the priority is. It is on the underwriting quality of the book, and the rate and profitability that we need to see.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On the second part of your question that was asked, we have provided additional disclosure today on the reserve triangle so you can see it by the major GI segments. And we've also given some paytel [ph] information. I think -- I hope the information today is helpful. I think it's quite hard, unfortunately, to use this to actually drill in and look at an individual line and individual territory like commercial auto. What I would say on commercial auto, though, of course, is that -- I mean, our big challenge was in Q4. We'd had several goes at trying to get commercial auto in the right place starting already in Q4 last year. We did it again in Q2. And following the review that Kristof and I conducted with Q3, we moved it significantly as part of the preannouncement of the Q3 earnings. We made a conscious decision there to move ahead of the normal actuarial indications. So we moved away from a technique that we felt would lag experience and moved to one that gave far more weight to the far more recent, far more negative experience. And that's held up well in Q4. So I'm afraid I think the answer to this question is that it will take several more quarters of us demonstrating that we have no further adverse on the commercial auto, I think, for all of us to take more substantial comfort. But the first quarter after the reserve increase, which was Q4, it's performed well.

Paul De'Ath
RBC Capital Markets, LLC, Research Division

Just one follow-up. What sort of -- I mean, commercial auto, obviously part of more of an industry phenomenon, but with the property book, the construction book in the U.S., what -- can you tell us what sort of -- a little bit more what went wrong with that book? And why it went wrong? And what you're doing to prevent that recurring?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I mean, I think, on commercial auto in general, the -- I think it starts with the industry-wide issue around the pricing dynamics, the trends and the lowest cost. I think for us, as Kristof has mentioned several times, we were slow to the trend and should have acted faster. So I think there's a broader industry issue, but our failure here was to see it coming and to address it swiftly. I think on some of the other lines of business where we've had challenges. So you pointed to this subline of tractors' book we have in the U.S. I mean, that's a book that, for several years, was very, very profitable for us. I mean, what we've seen more recently is that we've had exposure to events that we had not anticipated, and we've taken steps to make sure that, that's reflected in the way the contracts are worded. It's a relatively long-tail line of business, and it typically carries large individual exposure. So we still carry some significant exposure going forward. But I think on commercial auto, we've certainly reacted. You've heard from Kristof on what we're doing on the GI review. On the other areas we need to make changes to lines of business that we believe to be profitable for us, we've made those changes.

Kristof Terryn
Group Chief Operating Officer

Let me just add one point in terms of lessons learned. So I mean, if there is a lesson learned, it's about the speed of reaction, and I think we took the right actions in Q3. I just want to make sure that people understand that when we talk about the GI review, I mean, both the commercial motor book and the subpart of the construction liability book, I mean, those are actually relatively-isolated reserve strengthening movements. I mean, by and large, what came out of review is a current accident year profitability issue, not a reserve issue. So the broader lessons around addressing the current accident year profitability, I mean, go much more back to underwriting discipline, growing in the right areas, taking the right actions.

Operator

The next question is from Sami Taipalus from Berenberg.

Sami Taipalus
Berenberg, Research Division

On the first one, I just wanted to go back to -- you gave a slide at 9 months where you showed the -- that 15% of the business was giving a combined ratio of 143 and that 85% was giving a combined ratio of 94 to show that the problem was quite isolated within your book. I was wondering if you could give an update on that slide. And whether you still feel that the problems are quite isolated? That's the first question. The second question I had was on the excess capital. You said that you've decided not to return it, but you haven't excluded M&A from the agenda. So I was wondering if that's still a possibility?

Tom de Swaan
Chairman

This is Tom. I'll take the M&A question. We have always said that we will use any excess capital for organic growth and organic growth or capital actions vis-à-vis the shareholders. That still stands. As I said in my introduction, the board has extensively discussed this. We believe that given the present circumstances, it is not warranted to return capital to the shareholders. Obviously, the arrival of the new CEO also plays a big role in this, and we will -- he will also, together with the other members of the management team and the board, look at this very carefully. And -- but the present posture we have that we'll use the excess capital for these 3 items remains valid.

Sami Taipalus
Berenberg, Research Division

Okay, so there is still excess capital available for M&A. Is that the right interpretation? Or did I misunderstand that?

Tom de Swaan
Chairman

Excuse me?

Sami Taipalus
Berenberg, Research Division

There is still excess capital available for M&A should you need it or did I misunderstand that?

Tom de Swaan
Chairman

Well, as George explained earlier in the call, he gave you an impression of the amount available, and that amount is available for the 3 purposes.

Kristof Terryn
Group Chief Operating Officer

And maybe back to your first question on the '15 portfolios that we highlighted at the third quarter. So to make a comparison with Q4, it's just very difficult because of the cats that we experienced in Q4 and then some of the isolated large losses, but maybe a couple of points, in terms of where we see the actions coming through. So some of the exits that I talked about, $400 million of GWP that we exited were nonrenewed as of Jan 1, I mean are clearly I think bottom '15 portfolios. We are also seeing that on Jan 1 renewals, you're getting slightly more rate in those '15 portfolios than in the rest of our book. But I would also like to reiterate that the actions we are taking are not just on the bottom '15 portfolios. What we did see in 2015 is that the attritional did not move, it stayed relatively flat year-over-year. So some of the actions we are taking are much broader than just in those bottom '15 portfolios.

Operator

The next question is from James Shuck from UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I had 3 quick questions, please. Firstly, I'd just like to understand a bit more about what the earnings risks are as we go into kind of Q1 and Q2. I appreciate some of the action that you're taking to get control of the volatility in the business and reduce the large losses might take some time. I'd just like to kind of hear what your thoughts are about the experience year-to-date and what the risk is of those large losses recurring in the first half of the year. That's my first question. Secondly, obviously, Solvency II doesn't directly impact your business. But the -- it will indirectly. And a lot of your life operating capital generation comes from countries where -- that are under Solvency II. I think the guidance you've given previously was for $500 million of capital generation and an inflection point trending upwards sharply from 2016. So could you just give us insight into whether that's still the case under Solvency II as other territories go live with that regime? And then thirdly, around the dividends. Tom, I've seen some comments that to maintain dividends shows belief in a sustainable dividend going forward. And could you just clarify those comments? Because obviously, the payout ratio, based on IFRS earnings and on capital generation, is quite high. It's easily affordable. A new CEO might take a different view in terms of that policy. So I'm just keen to understand your comments in that context, please.

Mario Greco
Chief Executive Officer

Well, okay. I think that what I said is something we have been expressing quite some time. Clearly, the dividend over 2015 has remotely [ph] very high payout ratio. But we also said that we believe that 2016 will see a progressive improvement in the result of 2016. As far as GI is concerned, we see continued good performance in Life and the Farmers business. So that was a major part of the discussions in the board about the dividend and whether we should maintain our traditional -- well, our position that we are there to pay a sustainable and attractive dividend. So I think that maintaining the dividend at 17 for 2015 combined with repeating our general policy, and this shows that the board has substantial trust in developing the company in 2016. That is clearly our opinion, and I'm pretty much convinced that the new CEO will look at it in the same way. Obviously, it depends on the performance of the company going forward, but it doesn't take away that we believe that we can continue to pay sustainable and effective dividend.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the other 2 topics you had. So one was around, I mean, earnings risks in general and then the Solvency II capital cash generation topic for Life company. So on earnings risk, I mean, without me giving an update on what we see for Q1, maybe just to explain, I mean, some of the caution that we have. So if you look at Q4, I mean, the main challenge we had on large loss is all about the second half of December. Our large loss experience roughly by month is just more than 100 for October, it's about 160-ish for November, and it's well over 350, excluding the U.K. storms, in December. The steps that the GI team are taking will clearly have an impact on that, but again, because we have contracts that were written before the changes took place, we still have some exposure to large individual events. The second thing is that while the reinsurance business will attach to all the risks in the 2016 accident year, there's a deductible. And again, because of the way that works, even if we have another high year for large losses, the benefits of that contract will be a bit back-end loaded. So you would experience it, I mean, later in the year rather than earlier. So that's why we're just a touch cautious around the very beginning of the year. On the cash capital generation topic. So we don't see any need to change the guidance, and what we expect from the Life businesses. And you're aware that -- I mean, the figures already anticipate having to address, I mean, some fairly substantial issues in Germany around ZZR. So I mean it's already, I think, a tough target for the life team. But I mean, given what we see, we see no reason to revise the guidance we've given previously.

Operator

The next question is from Thomas Seidl from Sanford Bernstein.

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

Three questions, please. First, again on reserves. I appreciate, of course, that audits confirm the reserve adequacy, but my question is more about the reserve buffer and what comfort you can provide there? We just observed that the development of the accident years is flattening, and we have a number of metrics which point and indicate using reserve buffers. So my question is can you give us any indication about the level of reserve buffer you have? And hence, how much you are able to compensate future reserve, using one of the other business area? Second question is on the top line. I must say I'm a bit surprised about the rather benign top line changes you are planning, it sounds like 2, 3, 4 percentage points. And let's look at the North American commercial business, commercial auto, commercial market, per [ph] workers comp, this is about 1/3 of the business there, runs at negative or very low margins, and that includes combined ratio and investment income. So I wonder, is this not -- are we not going to see much bigger changes in order to improve performance in the P&C space? And the last question goes to Tom on the CEO's election. As you pointed out in the release, you know Mario Greco very well. He ran your P&C business from 2010 to 2012. But then you look at the period, the performance was not that good in P&C, and one could argue that as the issues started already at that time. And at the end of 2013, it was P&C which mainly didn't deliver. So my question is why does the board feel comfortable that Mario Greco is the right choice to turnaround the P&C business of Zurich?

Mario Greco
Chief Executive Officer

I'll go ahead first.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Good. I will make a request to everyone that if we can try and keep ourselves to 2. I mean, I promise that when we get to the end, if everyone with 2 will come back and cover -- anyone with extra questions. On the reserve position, Thomas, I mean, again we have given some additional information today. I mean, I think it will take time for Bill to have a look at it and form conclusions and ask some new questions. I mean, as far as buffer goes, we don't disclose an absolute level of buffer within the reserves. We made it clear in the past that our reserving policy requires us to reserve in the right-hand side of the range. I mean that includes allowance for the nonmathematical issues that can emerge in the portfolio over time. Unfortunately, I mean, more than that, I don't want to repeat the answer I gave to the question earlier.

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

Maybe just a follow on. If that was the case, why does Zurich need to report a relatively-small reserve increase of $300 million on a reserve portfolio of some $55 billion? That doesn't really fit together, I think?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Again, I could repeat what I said at Q3. So at Q3, Kristof and I did a review of reserves, and we looked at vulnerabilities. So we didn't spend our time worrying about the areas when the company was in a strong position for reserving, but we focused on those areas we were concerned that we'd seen either deterioration or, in fact, in some cases, continued deterioration. And we felt it was important to address them and that's what you saw here in Q3. Top line, Christian -- Kristof, sorry?

Kristof Terryn
Group Chief Operating Officer

So on the top line, I mean, as I said before, I mean, the main objectives that the team has been given are around the underwriting profitability. That is where we're focusing, with a very strong focus on the tiering of the risks. I mean, we have some very good quality risks on the book that we will absolutely keep. We'll also be very differentiated in line of business. And as I said, you're likely to see some marked differences with global corporate book and some of the better-performing personal lines and Commercial Lines books. At the end of the day, we will hold the line on profitability, see what the markets will let us absorb. But again, I'm not that negative on the outlook. We have some very good parts of our book that continue to perform, but we will push for growth and we'll be very differentiated on where we pursue that growth.

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

Just as a follow-on. Basically with a premium change of just 3% to 5%, you're expecting still to improve the combined ratio underlying here, excluding one-offs by 2 percentage points?

Kristof Terryn
Group Chief Operating Officer

The thing that I said as well is that when you look at the differential retention rates that we are likely to see and that we are actually seeing at Jan 1. When we see retentions in some lines of business in our bottom tiers of only 60% and we keep more than 90% in the top tiers, I mean, just a lift would actually be a major contributor to that uplift in combined ratio.

Tom de Swaan
Chairman

Thomas, as far as the CEO's election is concerned, when we discussed the profile with the board about -- of the new CEO, we basically set 2 preconditions. We want somebody with a long and strong insurance background, and we want a seasoned CEO, who has led a large insurance company. And I think that Mario clearly lives up to both parts of the profile. So we're very pleased that he's coming over, and he's very enthusiastic to start working for Zurich.

Operator

The next question is from Stefan Schürmann from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Just 2 questions. The first one is basically on the asset management strategy. You do sort of increase the part of illiquid assets. Can you just maybe update here what has been done and what will be done, and I think that's infrastructure and real estate? But just how much in fact and what the impact is on the new money yield? And second question quite simply should we expect any further restructuring charges or is everything done now, so nothing to come in 2016?

George Quinn

Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

Thomas, it's George. So on the illiquids, we'll get you the exact numbers after the call. I mean, we've been through most of what the team have intended to do. I think there's more we can do potentially around the real estate side of things, but we've done most of what we -- it's a relatively small shift overall for the portfolio. And thinking about the answer to that question, I forgotten the second one already. Can you repeat?

Stefan Schürmann
Bank Vontobel AG, Research Division

I mean, just on the new money yields as well as the link for that strategy? Where do they stand in Life and non-Life?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

I can't break out the individual components for you. But I can give you a sense of the overall. So for the group overall, for -- I mean, for everything, for GI and GL, we have a gap of about 70 basis points between the intended [ph] yield and the reinvestment yield. If you focus on GI, which, of course, is the bigger driver for the shareholder side of it, it's much less than half of that. That's based on year-end figures.

Stefan Schürmann
Bank Vontobel AG, Research Division

Yes. Okay, got it. The other question was just on the restructuring charges. Is there any more to come in 2016?

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On the restructuring charges, so I apologize if you didn't hear what I said earlier. There is more to come. I mean, if you look at the things that we focused on last year, again, GI have made big steps on their program, but there's still more to do in GI and across the rest of the group. I mean, we incurred more than we expected last year. At the time of the Investor Day, the guidance I gave was to anticipate something in the $1 billion to $1.2 billion in total. I mean, we're not quite through -- we're about halfway through that. I suspect, in total, it will cost us more to get to the very end now. I said earlier that, I think, you could assume for the time being that, perhaps, another $0.5 million this year and next, i.e. a further $1 billion may be required. But I will provide a further and more detailed update when we do the Q1 release.

Operator

The next question is from Andy Hughes from Macquarie.

Andrew Hughes
Macquarie Research

A quick question on the top line again on GI. It sounds like you're quite positive about the tiering and how that's going to work in terms of the growth. Is there any data in terms of tiering, that you can share with us so far on the progress of that, that might help because obviously it's continued only growing certain parts of the book and achieving rates on others? Is there any way you can break down maybe the renewal price number into greater priority [ph] ? And then the second question was on the asset slide, Slide 65. I was just wondering -- you've got quite a little bit of financial exposure on that slide. Could you talk through what it is and is it mainly senior? And what kind of rates and cash we would be looking at?

Kristof Terryn
Group Chief Operating Officer

Let me answer the tiering question, and George break that information out. But just our communications. I mean, what we're actually seeing is as I said, on the overall book and particularly the 1 book that is important here is the Global Corporate European book. I mean that has a general renewal that is more than 40% of the book. But overall in general renewal, so we have positive rate. If I had to give an indication on the rate differentials between the different tiers, I mean, in the first and second tier, which are best risks, I mean, we see rough flat rate development. And again, these are very good risks that we want to keep on the book. In the bottom tier, we see rate between 5% and 10%. We also see huge differentials in retention of about 60% retention in some bottom tiers and in the lines that we are targeting for improvement, we see retention as high as 90% in the top tier. So improvement of the portfolio and the underlying loss ratio will come as much from the differential and retention by tier, as it will come from the differential and rate.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So on the split of assets by the industry concentrations, I mean, you pointed to the slide that contains it for corporate bonds. I mean, I guess, that would generally reflect the market. So I mean, I think it's probably close to equal weight. Something -- given where we were at the end of last year, we hadn't taken a position certainly from a strategic or even a tactical position at that stage as regards the broader market. I mean, our instruments here will be a combination of what you'd expect to find. It's a combination of senior and hybrid in the portfolio. I don't have a precise breakout of which is which, but we'll have a look, and we can certainly share that on request. Given the volatility of the last few days, obviously, the banking sector is a bit more in focus. It's a topic that we continue to monitor. But our general outlook, I mean, not -- probably not until the end of Q1 and obviously [ph] to Q2. I mean, it's -- we're still in a relatively benign economic environment. And so I guess, at this stage, we don't feel the immediate need to take dramatic action around the strategic cash allocation. But on the more detailed side of financial institutions, we will come back via IR, if that's okay with you.

Operator

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

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

Firstly, the decision to keep the dividend stable. I was wondering to what extent was the new CEO, Mario Greco, involved in that decision, given that he's joined very shortly? And secondly, you already talked a lot about the reserves. You've released some reserves in the fourth quarter, but still clearly well below the 1 to 2 percentage points target, which George has emphasized as sustainable sort of quarter-after-quarter in the past. Can you give us some concrete guidance on this target going forward?

Tom de Swaan
Chairman

This is Tom, Nadine. Mario was only released from Generali on Tuesday, which is less than 36 hours ago. So he was not involved in the decision, and he should not have been involved in the decision on the 2015 dividend.

Nadine Adrienne Marion van der Meulen
Morgan Stanley, Research Division

Right. Sorry to interrupt. You did mention that you're highly confident that the new CEO will look at things the same way? I think that's the comment you made earlier.

Tom de Swaan
Chairman

As I said, we have looked for a seasoned insurance executive and a seasoned CEO. So I assume that we have hired -- and I'm very confident actually, we've hired somebody who understand the insurance business, who understands the -- understands you and understands the market. So that's why I'm confident how he looks about these things. But it doesn't mean that we have consulted him on the dividend because we should not have to consult with him because he was still employed by Generali.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

On the second point, Nadine. This is George. So on -- on the reserve release, the guidance that we've given is still the same guidance today. So we still expect to see 1 to 2 -- I mean, I pointed to one of the things that slightly depresses the number in Q4, and that's what we would refer to as audit premium. So we have a premium catch-up. So we re-estimate the premiums in one of our businesses, that leads to more premium being recognized. And with that comes an expectation that there are some additional claims, and the claims fall into PYD. I'm not sure that economically you would think of it as PYD, but that's the way it's currently presented. But going forward, we expect to see 1% to 2% redundancy.

Operator

The next question is from Ralph Hebgen from KBW.

Ralph Hebgen
Keefe, Bruyette & Woods Limited, Research Division

I've got 2 things. One is going back to the Z-ECM ratio. And George, it would be helpful if you could give some additional color perhaps on the sensitivities there. I'm still surprised to see the ratio to be going up from the level you reported. I mean, equity markets haven't been good in the fourth quarter. Spreads have slightly increased. So that would be helpful. And also, perhaps, if you could do that in the context of Slide 123 disclosed at the Investor Day in May, where you put the retention of excess capital into the context of these ECM ratio. And then you basically say that any Z-ECM ratio below 115% would urge you to retain excess capital in the company, which, of course, you have just done? So the second part of the question is looking at the current market turmoil and the commensurate volatility of the Z-ECM ratio, are you planning to take any of the actions outlined on the slides, which are moderate de-risking and moderate hybrid issuance? And second is just a simple confirmation. You were breaking up earlier, I couldn't quite understand when you were outlining your estimates of the building blocks of how much excess capital might be available now. I'd appreciate it if you could just perhaps repeat that assessment.

George Quinn
Chief Financial Officer and Regional Chairman of Europe, Middle East & Africa

So you have to forgive me a bit. I'll try and do a slider -- Page 123 from the Investor Day from memory. It really wasn't intended to signal that 115% is the new threshold. What that slide was intended to do, if I remember it correctly, was give you a sense of how resilient we are to a particular move. So to what extent if there was a given market correction or a given nat cat or combination of events and how might the company respond to maintain its capital strength. It really wasn't intended to signal that 115% was the new 110% or the new 100%. I mean, [indiscernible] just to give you a bit more color on -- I mean, with the caveat that what we are talking about now is an estimate rather than the official number. I mean, from what we've seen, we see a relatively small increase on the available financial resources and we have a reduction on the required capital side. So, yes, the required capital I guess would be much more difficult for you guys to see clearly from an external perspective. And obviously, some of what Kristof has been discussing already is part of what contributes to that. So without me being particularly precise, we expect to see a Z-ECM ratio and we print the SST1 for 2016 that's higher than the last number of 114% -- again, upper half of the range -- it will be impacted by what happens in this year. So for example, the volatility in the markets that we've seen -- again, you have sensitivities on equities and spreads at the back of today's Investor presentation. So again, assuming that, that stays where it is/was, you'd see it come back then again. But I tried to give you a sense of where we were end of last year. As far as flexibility goes, I mean, the way to think of that is that S&P is still the constraining factor. We had indicated that we were projecting an excess. Given all the things that we have done and are planning to do of $3 billion -- we've obviously spent part of that on the 2 acquisitions that took place in the fourth quarter -- the largest, by far, being the acquisition of RCIS; in combination it's about $800 million. And on top of that, the capital generated by the group in Q4 was much less than expected, and that's a combination of the performance in GI and us accelerating some of the restructuring. And if you look at that, I mean, roughly, we produced a loss for shareholders of around $400 million versus, let's say, a broad expectation that it should have been around the $700 million mark. If you take both of those and compare it to the $3 billion, it gives you a very good sense as to where we currently predict the flexibility to be.

Operator

The last question is from Vinit Malhotra from Mediobanca.

Vinit Malhotra

The first question is just, I noticed the NAC has grown quite strongly in fourth quarter as well and also in 3Q. Is this what, Kristof, you meant by saying that while GC is going to not grow, but there are other areas just stronger? I'm just wondering how comfortable you are that we're not creating another problem a few years later? So just how the NAC grows [ph] ? And secondly -- sorry to come back for clarification on this comment that excess capital is not to be returned. In a situation that the turnaround happens to what you would like, is that opportunity -- is that going to become -- is that going to come back as a sort of a way to deal with that excess capital?

Tom de Swaan
Chairman

As far as the last question is concerned, I find it very difficult to predict these kinds of things for a long term ahead. But I would look at this year, clearly, this decision not to return capital stands. Where we move in the next couple of years, we'll see how the business develops and what that means as far as capital is concerned.

Kristof Terryn
Group Chief Operating Officer

Just very briefly on NAC. I know we're showing headline number of 7% growth for the full year '15. All of that growth was driven through captives, the top line number. The underlying number is closer to 3%, which is a number that I'm comfortable with.

Operator

I would now like to hand over to Mr. James Quin.

James Quin

Well, thank you very much to everybody for dialing in. Of course, if you do have any questions then do call Investor Relations. And no doubt we'll see some of you next week. Thank you.

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