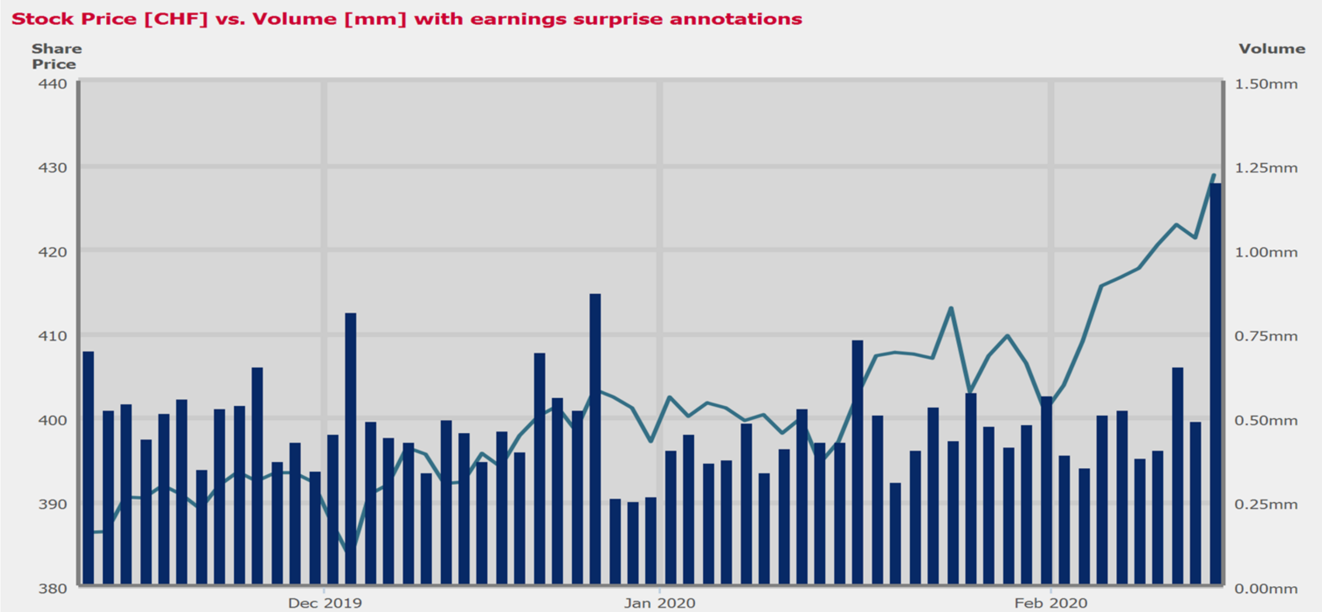
S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN
FY 2019 Earnings Call Transcripts
Thursday, February 13, 2020 12:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-	-FY 2019-			-FY 2020-
	CONSENSUS	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	4.51	7.58	26.65	27.51	▲3.23	29.56
Revenue (mm)	-	-	48078.32	49350.29	▲2.65	49753.01

Currency: CHF
Consensus as of Feb-13-2020 9:20 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2019	26.65	27.51	▲3.23 %

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James Austin Shuck
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Jonathan Michael Hocking
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Presentation

Operator

Ladies and gentlemen, welcome to the Q&A analyst conference call and on our results 2019. I am Shai, 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's my pleasure to hand over to Mr. Richard Burden, Head of Investor Relations and Rating Agencies. Please go ahead, sir.

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning, good afternoon, everybody. Welcome to Zurich Insurance Group's Full Year 2019 Q&A Call. On the call today is our group's CEO, Mario Greco; and our group's CFO, George Quinn. As usual, for the Q&A, we currently ask you to keep to a maximum of 2 questions. And if we have time, we'll come back to further questions later in the call. But before we start with the Q&A, Mario will make a few introductory remarks to the results. Mario, over to you.

Mario Greco
Group CEO & Member of the Executive Committee

Thank you, Richard. Good morning, good afternoon to all of you, and thank you for joining us.

Before we get into the questions, let me just give you a few remarks from my side. As you know, in 2016, we set ambitious targets, and we launched a bold new strategy. And we have executed fully on them. Pulp is up 16% in the past year, and the BOPAT's ROE of 14.2% is well above the target, as are the cost savings and the net cash remittances.

In addition to the financial delivery, Zurich is now a simpler, more efficient business with stronger operations worldwide, with more engaged employees and higher levels of customer satisfaction. The performance of our property and casualty business has been particularly pleasing with the business showing stronger growth in premiums as well as an improved underwriting performance and reduced volatility.

The improvement in the accident care combined ratio before natural catastrophes shows that the actions that we have taken to change the mix of the business and improve the quality of the portfolio were the right ones. These have also positioned us well relative to the industry in terms of the current inflationary pressures. This is especially the case in our commercial business, where discipline and focus has driven significant improvement in profitability in contrast to many of our peers.

Looking forward, we see the pricing continuing to improve and exceeding loss cost inflation, which will support both further growth in premiums as well as further improvement in underwriting performance.

Our life business continues to perform well with further underlying growth with headline results only held back by the strengthening of the U.S. dollar. Against the backdrop of ongoing low yields, we remain well positioned for further growth as a result of our decision to focus on protection and capital-efficient savings products already over a decade ago. Both the Zurich-owned Farmers businesses and the policyholder-owned Farmers Exchanges continue to grow successfully in the first half of the year. And in particularly, the exchanges continue to successfully execute against the objectives aimed at enhancing the business, as set out at the Investor Day in 2017.

Our balance sheet remains very strong, providing us with significant flexibility to further develop our business while allowing us to continue to reward shareholders through a further increase in the group dividend to CHF 20 a share. Over the past 3 years, we have laid strong foundations.
Together with our customer-focused strategy and a further strengthening of both our product and distribution capabilities, this gives me great confidence in our ability to meet the even more ambitious

targets for the next 3 years that we presented to you in November last year. Thank you very much for listening, and now George and I are ready to take your Q&A.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Jon Hocking, Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

I've got 2 questions, please. Firstly, on workers' comp in the U.S. It seems that the sort of market commentaries that line is seeing some softer pricing. Can you comment on what you're experiencing with that book and whether you're confident that the reserve release passing we've seen in recent years can continue that? That's the first question.

And then secondly, on the life business, looking at investment income, the reinvestment yield for the discrete second half looked pretty low with 3%. I just wondered whether there's something distorting those numbers or is that a new runway we should think about using going forward, and particularly given the different yields year-to-date.

George Quinn
Group CFO & Member of the Executive Committee

Jon, it's George. So on the workers' comp topic, so of all the lines of business, workers' comp in the U.S. is the only one that really exhibits any kind of weakness. I guess, we'll come on to the others at some point later in the call. I mean we still see it being 1% to 2% reduction with an inflation, both experience and outlook, that continues to be very benign. So I think I've said before on one of these calls that, I mean, actually, at this stage, we would anticipate inflation may be a slightly negative still around workers' comp. So in terms of the fundamental trends that we've talked about on prior calls, I guess, over the last 12 to 18 months, no change on the workers' comp topic.

On reserve releases, so, I mean, we've -- this has been another strong year for workers' comp. For us, it's one of the drivers, but not the sole driver of the group's overall positive reserve development. I mean, I could not promise you could extrapolate all of these positives into the future. I mean, clearly, the more recent years, because of the pricing trends are going to be a bit more competitive, and we need to see how the claims partners develop, but, I mean, we've had strong releases, both last year being '18 and '19. We've reinvested. We've cycled most of that to strengthen the sales elsewhere. And our perception of our current workers' comp position at the end of '19 is that the reserve position continues to be extremely strong.

On the investment income topic, what happened, I guess, Germany, just a thing happened in general. So it has distorted a bit because you did see a bit of a bounce back towards the end of the year. But given the -- I mean, the book has a bit of a European bias to it. I mean, those kind of income -- those kind of interest rate moves can have an effect. Although, I mean, they're typically really more to what happens in the policyholder side of things than they do for the shareholder.

Operator

Next question comes from the line of Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question, I think this is the same question I asked at the half year, when I look at these notes in the financial statements, I see a very, very low contribution on a pro forma basis from OnePath again, especially in the second half. Could you just clarify? Look, I appreciate there might be some restructuring in there or there's some reserve adjustments in there. And maybe just update us on the status of OnePath, actions you've taken and does -- what that means for future profitability.

The second question, on the commercial business, the clean combined ratio, ex cat, ex PYD, was running about 98.6%. So I think in the second half -- it still improved year-on-year from the second half '18, albeit about 80 bps. Was there anything in the second half commercial? Was it unusually high large losses? Or was there any -- did you take any opportunity to do maybe a bit more current year true-up on some of the more pressured lines by way of sort of additional conservatism?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Andrew. So on the first one, I think I'm going to give you a bearing of the answer I gave you when you asked me that question at the half year. So on OnePath, I mean, we took over control of it at the end of May. I mean, we're in the process of integrating. It will require more restructuring than I think we anticipated. Certainly, when we did the -- announced the transaction back in December of '17, I mean, at that point, we'd anticipated some deterioration in DI. But the market has seen more, so that requires more activity by the team locally to bring it back to the profitability levels that we anticipated. There is restructuring costs in it. There isn't any impact of reserve strengthening because the business is so new to the extent that we've seen any of that. That's in the opening balance sheet.

Now in terms of forward guidance, no change to what I told you before. So I mean, we still expect to bring the business back to the past that we've indicated at the time that we did the deal back in December of '17. Because it requires us to take certain actions, they will be a bit second half loaded again in 2020. As I mentioned last year, I mean, the overall expectation that we have for it is the same. The -- I mean, I think that -- you know that it's a more challenging environment than we anticipated. There are -- excuse me if we have a bit of noise in the room. There are some other environmental factors that, I think, are actually quite positive. So I mean, you'll be aware of what APRA has been doing and the pressure that exits around the whole DI topic. And I mean, in our view, anything that encourages the market to separate DI from lump sum and price each appropriately is a significant positive step. So we think that -- I mean, actually, the environment is conducive to the kind of changes that are required. But guidance on our expectation for OnePath for '20 remains unchanged.

On the commercial topic, so there is no real current year true-up. We didn't go back and do the kind of things that we used to do 3 or 4 years ago, which is to adjust the entire year and the last quarter of the year. I mean, the real -- I mean, the things that caused challenges in the second half are actually mainly property topics. So the commercial business in more than one market has been impacted by property events. And of course, I mean, that can happen. So, I mean, I think commercial continues to make progress. You commented on the fact that there is an improvement over the prior year. We expect that given the price and loss cost outlook that we have to continue to improve into 2020. I'm sure we're going to come back to that question very soon.

Andrew James Ritchie
Autonomous Research LLP

Sorry, George, would you say that the large loss -- I mean, I think you've always been cautious of talking about large losses now, which is the large losses above are sort of normalized level? Or you don't want to go that far?

George Quinn
Group CFO & Member of the Executive Committee

No, I'm not sure I'd go that far. I think the -- I definitely don't want to talk about large -- we just have losses. So the -- in the second half of the year, we see more property coming through than we had. But I think they're quite a bit more than we saw in the first half. And that's the real driver of -- I mean, what you've seen from commercial. And, I guess, the key point to reiterate is that we haven't done a current year true-up from the initial picks.

Mario Greco
Group CEO & Member of the Executive Committee

And on the other side, Andrew, this is what is sustaining at the further price increases in property. Property hasn't yet rebalanced. So that's why prices continue to grow and keep moving up.

Operator

Next question comes from the line of Peter Eliot, Kepler Cheuvreux.

Peter Eliot
Kepler Cheuvreux, Research Division

The first one is on the Z-ECM ratio. I mean, I guess, your framework still says that sort of adds up between 120% and 140%. I know you should consider increased risk-taking, but you seem to have done the opposite this quarter. So I was just wondering if you could sort of square that. And so how we should think of your risk appetite from here at this level?

Second one was on the crop business. I just think, when you think about 2019, should we just sort of put that down to bad luck and move on? Or are there any sort of pricing or other implications for that business going forward?

George Quinn
Group CFO & Member of the Executive Committee

Okay. Thanks, Peter. So you're absolutely right about what the Z-ECM framework says, but it doesn't say that you have to do that. So we have a choice. So, I mean, as you can imagine, in the environment that we've been in, I mean, if anything, we'd like to reduce some of the industry sensitivity that we have. I mean, that's why you see some of that reduced risk-taking that you referred to earlier. I mean, the capital level is clearly very strong. But again, the -- I mean, we -- obviously, we actively look at the portfolio that we have. We look at the risks that we currently run. We look at the trends and expectations that we have for the future. And I mean, we feel comfortable with where we are at the moment just given the external environment. I mean, it gives us the ability, I mean, in order to give additional assurance around dividends. But I mean, if opportunities arise, it also gives us that capital flexibility that can be a huge benefit. On the core business, I think having had 3 really, really good years, that would be maybe a bit cheaper, if I may say, it was bad luck last year. Because, I mean, at some point, we actually have to pay people claims on this business. So, I mean, we've had a combination of events last year. We had the prevented planting topic that we talked about at the first half. So it wasn't really in the first half results. That came in the second half. And then very late in the year, we had the freeze on the sugar beet. I mean, I think one of the really interesting things for me was the efforts that Farmers made a special on the sugar beet topic to try and mitigate losses. So I don't think we see it as bad luck. It doesn't change our view of the line of business. We like it. We think that we can manage it well. We're happy to have it as part of the portfolio.

Operator

Next question comes from the line of Jonny Urwin, UBS.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Just chiefly, so on PNC rate versus claims inflation basically, so rates are up 4% across the PNC about 9.6% in North America. Just wondering, can you give us an indication of where loss trend is running currently across the whole book and for North America?

And then secondly, what's your pricing versus loss trend expectation for 2020? I know you flagged positive margin draws, but I'm just trying to gauge the quantum.

George Quinn
Group CFO & Member of the Executive Committee

Thank you for the question. So I think on Europe, so -- I mean, Europe and the U.S. as being the 2 major components, I mean, no real change around where we see Europe. So, I mean, a relatively small margin expansion in Europe in the -- if you look at the full year, they're about 2.2%. It was stronger towards the end of the year. We're anticipating that it maintains that strength into 2020. So we were more at just over 3 level at the very end of the year. Loss cost inflation, probably running at something like about 2/3 of that level in Europe.

In the U.S., I mean, obviously, the U.S. is where all the interest lies currently. From a price perspective, I'll come back to loss cost topics in a second, I mean, generally, sequentially, each quarter has improved last year. So Q4 is the strongest you've seen in the slides already today that we're close to 10% overall in the U.S. book. On the 3 major lines of business, property, liability and motor, they're all in double digits.

I think when you then look at trends, as soon as we think about trend coming into 2020, I think from a price perspective, we don't see this slowing down. So -- which is a change toward the half year. So I think we were a bit more cautious. I think, today, we expect this to continue through 2020. Loss cost trends across those different lines of business, our focus on liability and motor because those are the 2 that are most heavily affected. So on liability, you really need to look at primary distinct from excess. Excess is where most of the action seems to be. I mean, we'll have loss cost trend picks. I mean, probably high single, just into double-digit level. So significant margin expansion, but obviously not as much as the -- you would expect given the pure price topic.

And on motor, which, again, is in double digits, we expect -- I mean, based on the studies that we've done, I mean, we expect to add about a point to the loss cost trend pick for 2020, taking us to somewhere between 5 and 6 overall. So on both of these, I mean, the margin expansion's attractive. And they come from slightly different places in terms of current profitability. I mean, they both offer an attractive opportunity. Having said that, I think we said at the Investor Day that we're not chasing share. Part of the reason for the loss cost trends, choices that we're making is, I guess, to contain appetite around these topics. I think we're quite happy to see the growth that we anticipate for 2020, driven by rate rather than exposure. But that's broadly how we see it. I hope that's helpful.

Operator

Next question comes from the line of James Shuck from Citi.

James Austin Shuck
Citigroup Inc, Research Division

Two questions from me. On the EPS growth target, so the Capital Markets Day is greater than 5%, 2019 to '22. You've delivered a strong set of results in these numbers, but there was a very high level of capital gains in those numbers, around $845 million. I'm presuming that those capital gains will trend down over the next couple of years or so closer to the $400 million level. So really my question is kind of, where is the rest of the growth coming from? You're fighting against lower investment income on the PNC side. I'm presuming it's all coming from the combined ratio improvement and a little bit on life, but that that's going to be low single digit. But perhaps you could just square that kind of implied underlying growth that now looks a little bit stronger, given the higher base delivered in 2019.

Second question, around capital position. So the changes for the model that you've made and reduction in the investment risk, could you just clarify? Is there more to come on that side of things? I can see that you haven't published updated Z-ECM sensitivities to credit, 100 basis points increase last quarter. It was negative 17 points, which is obviously a very big number. And I appreciate you don't benefit from any of the buffers on the long-term guarantee package, but do you have a target level for reducing that sensitivity for credit? And can we expect further developments on Z-ECM from management action?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Jim. So as you started that question, I was trying to anticipate where you were going because you took it to a different place from the one I was explaining. So on EPS growth, I'm going to answer the question. I wanted to answer -- I'm not going to answer you at the same time. So this was -- for everyone's benefit, the starting point, of course, is the as-published number. As you point out, there is quite a high level of gain. There is a -- I mean, there's also a reasonably high level of realized losses in there, which are mainly related to some of the disposals that we did last year. So either the transaction in Venezuela or the sale later in the year, which is -- gets complete, but we'll complete in the first half of the retail wealth platform than in the U.K.

In terms of where does the growth come from, so I think as we approach the Investor Day, we had a pretty clear sense of, I mean, what we anticipated in terms of the outcome around net income for the year. So that's already baked into the positions that you see there. I mean, if you look at that again, and I know you're familiar with it, the main driver's going to be the PNC business. We do expect life to contribute. I think your number is right over the period. Probably, life growth into 2020 will be slightly stronger than that low mid-single-digit type level. It will be a bit higher than that, I think, especially as the OnePath business comes on stream fully this year. But those are the 2 key drivers.

There are other things. I mean, Farmers will continue to grow. But of course, you're aware what growth rate we anticipate. There is -- we've got some expense, action that we'll undertake. I mean, all of these in combination. And roughly the same proportions that you saw at the Investor Day are anticipated to be the driver of growth. And it doesn't assume the same level of gains, just to be clear.

On the capital model, I mean, it's a really good question. I think the challenge with us -- I mean, that the -- I mean, Peter Giger and I are -- he's our Chief Risk Officer. I mean, we've had several conversations since the moves that we saw in Q3, Q4. I think on the one hand, there's just a pragmatic real-world perspective to this whole thing. But I mean, on the -- in the asset risk continuum, well, as you all know, we're not risk-free. We're equally not the riskiest either. And for us to do substantial derisking around fixed income, I mean, involves taking a pretty significant bait in the other direction. And I think we would rather be consistent around this area even if it still brings volatility to the reported number. I think the approach that Peter and I have agreed is that -- I mean, we will look through some of the temporary volatility. We will look at kind of what the market does elsewhere around UFR, but we want to maintain the model that we have because we think it gives a pretty clear picture of what's really going on. And if you want to take the view that the interest rate risk can be paid down over a long period as the UFR, thanks to the -- I mean, we can take an active decision to do that at that point in time. But reducing risk-taking around credit is not high in our list of priorities other than the comments we made earlier this year around capping credit exposure.

James Austin Shuck
Citigroup Inc, Research Division

And just on the point around other further benefits with the Z-ECM model that you would expect through 2020 from either changes to the risk allocation or indeed model changes.

George Quinn
Group CFO & Member of the Executive Committee

So at this point, I mean, there's nothing material planned. But I mean, I know that Peter certainly has an agenda to take a look at the whole thing and just make sure that it has all of the most modern thinking in it. I don't think that will cause material changes, either positive or negative. I mean, the model has been pretty stable over a longer period, so I think you could assume that will continue through this year.

Operator

Next question comes from the line of Michael Huttner, Berenberg (sic) [JPMorgan].

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

It's really 1 question. It's a bit complicated. And congratulations on achieving all your targets. So you're now a life company if I look at the capital allocation, 54%. And on that left slide at the beginning where you show the split versus premiums and life, most regions are overwhelmingly in your preferred segments except EMEA, which I guess, is due to Germany. And also in the risk report, you showed the figure for the interest rate sensitivity jumping from $2 billion for the Life segment to $3 billion from minus 100 bps negative. So these big numbers. And I just wondered what your thinking is here, whether you would be planning maybe to sell off your German life unit? Or what would the obstacles be to maybe running itself or transferring the portfolio?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Michael. I was going to say welcome back. The -- so I mean, I think you correctly analyze the challenge that we face. So the change in capital that you see, that's nothing to do with something that changed in the business. We didn't go out and suddenly become more risky. But of course, the financial markets moved quite a bit. And the asset-intensive elements of the portfolio, which are all in life, passively consume substantially more capital. I mean, I think we talked about it a bit before, right? I mean, how do we best manage this? I think if we saw ways that were in our interest and interest of all of our partners and our clients to improve it, I think -- I mean, you could assume that we would do that.

I mean, the German situation is a bit tricky, and being for reasons I think you understand and are aware of. I mean, we do look to ways in which we can improve the capital consumption, the returns on capital that we achieve. And in fact, I think I mentioned already, it may have been at the Investor Day. Maybe it was at the half year that if you look at the German business actually on a local capital basis, the funded basis, I mean, the returns are not so bad. It doesn't sound like a glowing recommendation. But I mean, the returns are not bad. The challenges, when we overlay that model, that James referred to a [second one]. I know that you understand. I mean, that's where the challenge comes from. So I mean, we continue to look at ways in which we can improve it. In Germany, currently, we actually have -- I've given a few things that are probably higher priority that are -- more of it where the business is headed and trying to make sure that we can take advantage of the market opportunities. That continues to be a theme, both for us and for the leaders in Germany, to try and find a way to address this, but I don't have a further update beyond that today.

Operator

Next question comes from the line of Farooq Hanif, Credit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Slightly simplistic question first. So if pricing is accelerating and going to double digits in some of the areas that you are growing in, and this is widening jaws or quite wide jaws on claims inflation, what is stopping your kind of underlying loss ratios plummeting down? Is that the mix change? You can talk about the dynamics around the mix change that you want to do and how much further to go?

And then secondly, on cash flow. I can see the explanation of why it's lower, primarily because of life, lack of capital release. But I'm just thinking, going forward, what you see as a growth rate in that life cash flow. So for example, can we look directly at the OnePath of earnings growth in life and directly assume that, that kind of will contribute to higher cash flow?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Farooq. So on the first thing, I mean, it'd be fabulous if the combined ratio would simply plummet. I think the thing to remember, like it's my fault rather than yours. In the comments that I made earlier, you need to subdivide the portfolio. So the -- I mean, if we're achieving, for example, and we take liability. If we've got a near 15% rate increase in liability in Q4, that's only on one particular part of the portfolio. If the loss cost trend around the excess component of that particular book is, say, 9%, 10%, again, it's in an even smaller part of the portfolio. So we are seeing the -- as you described, I guess, the jaws open. I'm trying to work if that's a good analogy here of that. But we are seeing that positive margin develop, but it's in particular parts of the portfolio. I think if you look at the U.S. last year, just the U.S. part of our business, and if you're prepared to put crop to one side, you do see a very significant move in the loss ratio. And of course, that's partly driven by this trend. So I think we are seeing it turn into improved performance. But I don't think it's going to plummet, I guess, is the point I'm trying to make.

Farooq Hanif
Crédit Suisse AG, Research Division

I guess, a comment on the question around that very quickly. So obviously, you're shifting mix as well. So not more of a question really. So I mean, if you -- I mean, how much further have you got to go on the sort of 52% in specialty and shorter tail lines?

George Quinn
Group CFO & Member of the Executive Committee

So the -- so I think if you think of how we manage mix from here. I mean, if you look at it on a run basis, I think the portfolio that we have -- I mean, ideally, we want to have a bit more specialty in the portfolio in the long run. But for reasons that we've talked about recently, doing that in the short run would be completely kind of productive. So from a short-term perspective, I don't expect major shifts in the portfolio from a written perspective. Now, obviously, it's earning through. The liability change has been earning through for the last couple of years. So from an end perspective, this will be the first year in which we see the full impact of that. So I think -- I mean, mix will have some effect on it, but I don't expect mix to have a significant negative offset to what you're seeing on rate and loss costs. I mean, the benefits that we talked about earlier, allowing for some normal randomness around the claim incidence we expect to see in 2020.

On the cash flow topic and growth rates, so, I mean, you referred to last year. So I won't rehash 2019. And obviously, there are a number of things that will drive it as we come into this year. An absence of some of the interest rate volatility will not be unhelpful to the life business as we begin 2020. You pointed out the OPL impact. And just a reminder for people who may have forgotten what we said in December of '17, we actually have a higher expectation for cash and earnings because, of course, there's quite a large in force component to the portfolio. So I mean, life will come up a bit from where it was last year. We talked -- I talked about in the past that we're expecting to see something north of $1 billion for life, and OPL will have an impact there. The remainder will be driven by earnings growth. We do expect, as you remember from the Investor Day and since I discussed earlier with James to see 5% compound annual growth. That will feed into what should be a higher base starting point for 2020.

Operator

Next question comes from the line of Nick Holmes, Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

A couple of questions. The first is there's been quite a wide range of experience with social inflation among U.S. peers. Now I wondered what your take on that is. It means, how should we read across to Zurich? And then secondly, Z-ECM sensitivity to interest rates is still high. I see. And I just wondered, are you doing anything to reduce that?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Nick. So on the social inflation topic, I mean, that's partly reflected in the comments I made earlier around this topic of the loss picks for next year. It's a bit hard for me to make any relative comment on Zurich versus the rest of the market. I mean, I think you guys know that we have done a number of things already. So the -- I mean, from a mitigation perspective, number one is the price change that we talked about earlier. We've obviously shifted the mix of business significantly. If you look at liability in our portfolio, I think we're down by something like 5 points, 6 points compared to where we were 4 years ago. If you look at -- I mean, something that the U.S. firms has to --- or U.S. firms has to ours, which is around excess, which is not the only place that has the issue, but it seems to have a bit more of it maybe than some other areas. If you compare what's under your limits to attachment points, and I'm looking at a graph as I speak, I can see the limits coming down year-on-year from 2015. And I can see the attachment points rising year-on-year from 2017. So -- I mean, obviously, as that gap closes, it can't close entirely. Otherwise, there's no business to be done. But, obviously, that combination means that you're a bit less exposed to that topic. And I think some of the things that we did earlier in the strategic cycle position us well for that. So I mean, we do see that social inflation issue, I think maybe not quite as much as some others for the combination of reasons I've just given you.

On the interest rate topic, so -- and I think I referred to it briefly earlier, I think, in response to James' question. So I mean, at the very long end, which is not entirely, but mainly a German topic, I mean, there are some issuers out who are now issuing some very long-dated bonds. We'll be discussing it earlier this week. I mean, ALM is the focus for us. But from a buying bonds that are going to mature in the year '21, '20, I think we need to be a wee bit careful about, I mean, just getting too carried away with the yield topic. So we are looking for ways to reduce interest rate sensitivity. Again, there'll be a limit to how far we can go just because our model has none of those features that soften the impact. But I think we would like to bring it down, but trying to do that, I mean, in a relatively pragmatic way.

Nick Holmes
Societe Generale Cross Asset Research

Great. That's very interesting. Can I just come back very briefly on social inflation? So without sounding too arrogant, you kind of think that you anticipated this trend perhaps earlier than some others. So you're pretty comfortable with the position.

George Quinn
Group CFO & Member of the Executive Committee

So I got my boss and he's shaking his head. So, I mean, I would love to tell you that we knew this was going to happen, and we did all of this with this particular scenario in mind, but that would be a lie. I mean, we were trying to fix issues that when you reface the positive slate effect of that, by doing that hard work at that time, it means that we're in a reasonable place today. But I can't claim that we had foreseen this particular eventuality.

Mario Greco
Group CEO & Member of the Executive Committee

Nick, we told you -- Nick, we told all of you in '16 because we will do this. And we ended up -- by following this strategical choice, we ended up in the right part of the market. But it's not because we saw it, it's just because we wanted to change the nature of our books. And the timing was lucky.

Operator

[Operator Instructions] The next question is from the line of Vinit Malhotra, Mediobanca.

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

So my question -- I have one question only, please, on the retail and other segment, where, obviously, crop has confused the picture a bit on the underlying combined ratios. And in some way in the notes or the comments, there is a statement that even excluding crop, the underlying would be better. Could you help us understand that a bit more? Could you provide some more color on how much or what's happening between mid-market or other retail segment or something to help us more?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Vinit. So, I mean, if you put it in context, I'll pick at retail, other. So we are 93.6% for the entire year, which is -- I would give it my highest accolade of not bad. Obviously, the second half is a bit weaker than the first. So we are 94.6% in the second half. Crop makes up a reasonably significant slug of the premium in the second half of the year. In retail, we've got about $1.5 billion of earned premium for the year for crop, and the bulk of that appears in the second half. I mean, crop has an adverse impact on the group overall of 0.6%. Retail's a bit more than half the books, but to keep it more simple, I'm going to assume it's half. So you can double it for retail, and you can double it again for the second half of the year.

So I think that's why you get this comment that if you adjust our 94.6% down for something like 4x the crop impact, you still see an improvement.

Operator

Next question comes from the line of Niccolo Dalla-Palma, Exane BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma
Exane BNP Paribas, Research Division

Just a couple of last questions for me. The -- on the central costs, you still guide to $750 million to $800 million. You did much better in 2019. What would explain the deterioration from there? I think you pointed out the lower headquarter costs.

And the second question is on the reinsurance protections that you have today. Nothing changed in the excess production. Is there any significant change we're flagging on the quota shares?

George Quinn
Group CFO & Member of the Executive Committee

Great. So thanks, Niccolo. So the first question, so you're absolutely right. I mean, we saw a very -- a further significant reduction in the central costs last year. We haven't yet been able to pass all of that on to the businesses for various reasons. It's my intention to do so in 2020, which is why we've guided you back up to that slightly higher level of $750 million or maybe slightly higher. So we'll pass on the benefits, but with a wee bit of a lag. That's why you see that combination of topics.

On the reinsurance protection, you're absolutely right. So we haven't changed the attachment points on the cat aggregate. Not really looking to make any significant changes across the programs. We've had a number of renewals on Jan 1. Some of the larger cap program actually renewed last year for -- it was a multiyear contract. So it won't come up for renewal this year. So you won't see, obviously, for that reason, any significant change there. So not much to add on reinsurance, actually.

Operator

The last question is a follow-up from James Shuck from Citi.

James Austin Shuck
Citigroup Inc, Research Division

A couple of follow-ups, please. So just on Farmers, so GWP growth is around 3%, but the policy in force keep declining. We're down 2%, continuing just since H1. The Net Promoter Scores keep going up, though, Mario. And I know that you've been a big proponent of the link between Net Promoter Scores and increased retention. It doesn't seem to be working at Farmers at least in terms of the policies in force, and also given the rollout to East Coast. So could you just comment a little bit about what not -- what isn't working at Farmers at least on the PNC side?

Secondly, on the expense base. So the other underwriting expenditure ratio improved to 13.5 points at full year. I think you've intimated that the goal is to get to better than 13 in time. I'm not really sure what you mean by in time, what kind of time frame you've got for that. And are you expecting the absolute level of expenses, $9.2 billion on the controllable cost base, are you expecting those to decline in absolute terms, please?

George Quinn
Group CFO & Member of the Executive Committee

So I'll do the first one, the second one first, and then we come back to Farmers. So on the expense base topic, I guess, it probably depends on what you ask me and the CEO or someone else. I mean, at the Investor Day, I mean, what we indicated is a bit of both is what we're looking for. So we still believe we have pockets of inefficiency in the group. And together, with the support of the chief operating officer, we're going after that currently. So you will see reduction there. We're also anticipating that because we expect to see continued growth in retail, and for the reasons I gave earlier around the commercial book, actually stronger growth in commercial this year, which would be rate-driven. We expect that also to contribute to expense efficiency.

Where will that leave us overall? I mean, I think you may see expenses at roughly the same level, maybe slightly reduced compared to prior periods. I mean, it won't be what you've seen in the course of the last 3 years. Maybe we're looking for something in the -- kind of the $400 million range rather than the $1.5 billion that you saw before. And timeline over the 3-year period, it's other things I'd say, the 3-year period don't matter, but we're not going to talk about them until we start doing them. So this expense commitment is for this 3-year period.

Mario Greco
Group CEO & Member of the Executive Committee

Yes. On Farmers, 2 things have been happening, and they were absolutely planned and, in a sense, expected. One is that we're restructuring the agency force. I think we have been showing the characteristic of the new agents that we are hiring, but we're also closing or merging a number of old agencies. And when you do that, there is, of course, an attrition. The reason we're doing this, it is by having bigger agency's more structured. We can much better use the power of the data and the capacity to sell products through the forces of these agencies. And then the second fact is that it's not only for the reason of the wildfires, but following the catastrophes, prices have been still growing. And when you grow prices, it's difficult to go and gain more individual customers. And that's allowed the market that not even retention or a Net Promoter Score growing can overcome the increase to prices. Then you will acquire a few new customers. So no new customers. And the game becomes the one of maintaining your existing customers. We think that, especially in the second half of the year, the numbers will turn into positive customer growth. And we're looking forward to see that happening.

George Quinn
Group CFO & Member of the Executive Committee

I think that concludes -- sorry, James, carry on. Okay. Well, thank you very much, everybody, for dialing in today. If you do obviously have further questions, then the IR team is available for your calls and questions. And with that, we'll close the call. Thank you, and goodbye.

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