S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN

Earnings Call

Thursday, November 9, 2023 12:00 PM GMT

Call Participants

EXECUTIVES

George Quinn
Group Chief Financial Officer

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Mario Greco
Group CEO

ANALYSTS

Andrew Sinclair
BofA Securities, Research Division

Andrew James Ritchie
Bernstein Autonomous LLP

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Ismael Dabo
Morgan Stanley, Research Division

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

Peter Eliot
Kepler Cheuvreux, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Results 2023 Conference Call. I am Shari, the Chorus Call operator. [Operator Instructions] And the conference is being recorded. The presentation will be followed by a Q&A session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Jon Hocking, Head of Investor Relations. Please go ahead.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you, and good afternoon, everybody, and welcome to Zurich Insurance Group's 9-month 2023 results Q&A call. On the call today is our group CFO, George Quinn. Before I hand over to George for some introductory remarks, just a reminder, when we get to the Q&A session, if you could keep to 2 questions each, that would be much appreciated. Thank you.

George Quinn
Group Chief Financial Officer

Thanks, Jon, and good afternoon, everyone. Thank you for joining us. Before we get to the questions, I just want to make a few initial remarks. The Farmers Exchanges continue to take the proactive steps that are necessary to improve underwriting outcomes and rebuild the surplus position of the exchanges. And we see early signs that the impact of underwriting actions and the achieved rate earning through are having the desired impact on the combined ratio. The Exchanges' ex cat combined ratio declined for the fourth consecutive quarter. And looking forward, the continued impact of underwriting action exposure management, additional rate filings and expense reductions should further accelerate progress.

We've also announced this morning the acquisition of 3 brokerage entities and the flood servicing program from the Exchanges. From a Zurich perspective, the transaction brings an additional capital-light earnings stream, which is expected to grow quickly as the Exchanges execute on plans to provide enhanced choice for their customers and increase revenue opportunities for their agents. The acquisition will also boost the Exchanges' surplus position by a bit more than 3 points. Next week at the investor update in London, there will be an opportunity to meet with the Farmers management team and discuss the plans in more detail. Zurich's capital strength and the financial flexibility that it affords us signatures of the group.

The 9-month SST ratio of 266% is broadly flat to last quarter. We remain more than 100 points above capital floor of 160%. Given the derisking that we've undertaken and the continued exceptional capital levels, we've announced today that we expect to supplement the year-end dividend with a buyback. On P&C, our long-standing focus on gross underwriting and volatility management continues to positively impact our results. In particular, the proactive steps we've been taking since 2021 to reduce cat exposure are having the desired effects.

Cat activity in Europe, in particular, has been elevated in the third quarter. And although the U.S. has not seen any significant individual events, we've seen a steady stream of smaller claims. Despite this, we are confident that the group is on track to end the year within the annual cat guidance of 2.5 points to 3 points of insurance revenue. In Commercial, we've seen another quarter of positive rate momentum with U.S. property, in particular, continuing to see high teens rate increases. In aggregate, rate increases are exceeding loss cost trends.

In Retail P&C, we remain focused on some of the European motor portfolios where, as we've commented before, we expect to put through further rate increases before target returns are reached. This is tracking very much as we expected. Life has had a very strong quarter with strong new business growth, up 23%, and a welcome rise in the new business value added in CSM.
With that, I'd be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Andrew Sinclair, Bank of America.

Andrew Sinclair
BofA Securities, Research Division

2 for me, please, both on Farmers. Hopefully, you want to say come back next week. So first was on the acquisitions that you've made. Just can you give us an idea of what the BOP and net income benefit will be from those transactions? That's the first question. And second, it's just on the Farmers surplus. So clearly, the acquisitions you made added 3 points to the surplus, but 1.9 points lost in Q3. So I guess the question is, is this enough? And, yes, maybe actions being taken on the underlying, but still a pretty tough time in the headline combined ratio for Farmers. And I guess that will take a bit of time to fix. So do you think more actions will be needed?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Andy. So I'm not going to ask you to wait until next week. So on the acquisition, I tried to be relatively clear with people today that -- I mean, the way that we think of it, we see 3 different components, these are not the 3 entities, but it's the 3 blocks of business that we see as part of the acquisition. We've got an existing business, which essentially places risks that are outside of Farmers Exchange risk appetite. They place that business with third-party insurers. They receive commissions for that. That business has been around for a long time. It grows quite rapidly. We're paying about 18x EBITDA for that business and the value that we'd attribute to that of the entire purchase price is about $450 million, $460 million.

There's a tax attribute that we pick up as part of the deal, that won't appear in BOP unlike the prior piece. So that will come through NIAS. It earns over next 10 years or so. So you'll see the benefit. It's relatively modest though. So we're talking about something that's around $50 million. Third part is new. So going back to the introductory comments, I mentioned that Farmers has been -- well, I didn't mention this, but it was implied in the comments. Farmers has been trialing the ways in which they can try and capture more of the benefit of people who come for a quote, but don't accept the Farmers offer.

So that business is something that has started this year. We expect that to be something that potentially will grow quite rapidly. The multiple on that is much higher, and I expect that to have a relatively immaterial impact on operating profit next year. But those are the 3 components that we're acquiring. On the surplus, is it enough? I mean, without me saying wait until next week, I mean Raul will cover this in more detail. I think we've said several times this year that the -- I mean some of the key driving factors for the Farmers Exchanges surplus ratio, I mean they're going to be the turnaround in underwriting. I mentioned in the introductory remarks that we've seen sequential improvement. To put it in context, the ex cat loss ratio towards the end of Q3, beginning of Q4 is about 10 points better than it was in the prior year. And in fact -- even though I don't want to overemphasize this, in October, they have a 2-digit combined ratio.

Although if we normalize for cats, it's probably just in 3 digits. So we think that all of that, plus the fact that the expense action that I think most of you are aware of is something that is -- was quite late in Q3 before it started. So it'll have a much bigger impact in Q4. And then other things such as the some of the exposure management topics, I mean they'll have a much bigger impact next year. Our view, you'll see this next week, it's shared by the Exchanges is that they'll be back in the target capital range next year with a combination of what we announced today and the turnaround that they are seeing on underwriting.

Operator

The next question comes from the line of Michael Huttner, Berenberg.

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

Fantastic. Can you just say what is the -- a, the benefit of the expense actions and numbers in BOP or however? And then the second -- the way I -- one of your wonderful colleagues explained this is to say you're strengthening the distribution of Farmers. And this last piece, which you say has an immaterial impact in 2024 on operating profit. Presumably, that will allow agents to get more income. Just wondered if you can give an idea of how much extra commissions they would have. The way I estimate it and maybe you can kind of complete these numbers, it's like a bit like Sudoku, I guess, is $3.5 billion is the current commission revenues of your roughly 11,000 agents or something? This deal, this kind of extra slice outside the Farmers Exchanges of premiums should produce around $100 million at a run rate, so it enhances their commissions by about 3%, which is nice. But I'm kind of thinking is there more to come? Anyway, there we are.

George Quinn
Group Chief Financial Officer

Thanks, Michael. So I -- having told Andy that I wouldn't say wait for next week, I'm going to do a wee bit on this one. The -- on the expense actions, Raul will cover it. They've executed on the expense reduction plan. It's material. He'll show you the figures next week, but you can expect it's very meaningful in the context of the overall ambitions of the Exchanges.

On the distribution topic, I don't do Sudoku, so you have made a disadvantage. The -- I mean, you highlighted something that is one of the key drivers for the Exchanges behind this. I mean we've talked already about the fact that one of the things that Exchanges did slightly earlier this year was to change commission structures to make them more in line with what the Exchanges perceived the market to be. This additional step that we talked about here is a way of trying to generate additional value, both for the agents, previously for the Exchanges and in future for us through the acquisition we've announced.

I haven't tried to do the math that you've done. I've been more focused on how much of the commission remains with us as we look to the valuation of it. So I can't give you a clear sense of what the benefit would be to an average agent. I mean, it will very much depend on, I mean, which markets they're in, how competitive Farmers is versus other peers, is there something else to come on this? I mean it's a new business line. So I'm sure that over time, the Exchanges team will tweak it. But today, we've got a fairly clear view that -- I mean this primarily should be a benefit to the agents.

Mario Greco
Group CEO

Michael, this is Mario. I'd like to add a point on the agents' commission. Now the benefit that we have at this moment is that we would be able to manage the commissions to the agents depending on how much business we want them to write or how many clients we want them to keep through the system. And this is quite important because, ultimately, we want to protect the margin fee at 7%. And so we want the business to be with the Exchanges, not with alternative underwriting agencies. But we will manage it. And so the commissions are not fixed, and this gives us a clear lever to run the commissions -- through the commissions to run the stream of business that we want to have here.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

First one, are you able to give us any update on the German deal? I mean, I note the impact that you've flagged in solvency from the actions in Q4, but just wondering if there's anything else that you can say on the time line, very helpful? And then the second one on the share buyback. I mean, the 100% payout ratio sort of suggests that this is a new policy. Are we -- I mean I'm just wondering how much we're supposed to read into it. Should we read into this as a one-off or have we [changed]? I appreciate that we're probably going to get a big update next week, but just really sort of wanting to understand where we are on the policy at the moment, what the policy is at the moment?

George Quinn
Group Chief Financial Officer

Yes. Thanks, Peter. So on the first one, no real update at this stage on the German deal. As you'd probably expect, BaFin is making sure that they thoroughly look at all the issues, particularly those that come from the Italian topic. We're working hard with the buyer to make sure that we can address any issues that have come up, but that process continues. My guess at this stage is that approval of this will slip into next year just given where we are in 2023.

On share buyback, so apologies, but we're not making a commitment to increase the payout ratio to 100%. So that's there simply to give people guidance as to how we are thinking about the scale of what we'll announce in February, but the capital management policy remains the same. So for us, 75% of net income -- underlying net income is the dividend. The remainder would go to support growth. And here, I mean largely because of what I described in the introductory remarks, because we still have exceptional capital levels, I mean we've invested quite a lot in growth just in the last 2 weeks with India last week, with the Farmers topic today. And that in combination with derisking that we've done, we just don't need this level of capital to operate. We're well -- we're well above any reasonable target operating range for capital. So not a change in policy. It was really designed to help people make a reasonable estimate of where we might end up in February.

Peter Eliot
Kepler Cheuvreux, Research Division

Yes. Thank you very much, George. Could I just quickly follow up on that? I mean, I guess the solvency ratio has been very healthy for a long period. So I guess the question is sort of why now? And I mean, you are highlighting that having a high solvency wasn't the same as having a lot of excess cash. So just wondering what's changed now?

George Quinn
Group Chief Financial Officer

I mean, probably the passage of time, plus, I mean if you look at some of the things that we might have had expectations for the use of capital through the course of this year, I mean we've seen assets trade at levels of return that we could not accept given our targets. So I think that's probably given us a clear message that some of the things we wanted to do are less likely in the short term. So I think it's a combination of those 2 things.

Operator

The next question comes from the line of Andrew Ritchie, Autonomous.

Andrew James Ritchie
Bernstein Autonomous LLP

Just wanted a sort of sense as to how to think about the sort of earn through of margin on commercial and retail. The message I think previously was we continue to see decent rate in commercial above loss cost and that will trend through into ongoing modest improvement in commercial margins, but also allowing us a bit of room to build some buffers. I'm assuming that message is unchanged or maybe you've got incrementally more constructive. And on retail, it would start to expect an improvement in the second half of this year. Is that pushed out slightly? Maybe just compare and contrast commercial retail margin trajectory would be useful. Second question is very short one. Just curious, was there a competitive auction by Farmers for the businesses they're selling to you?

George Quinn
Group Chief Financial Officer

So on the first 2, so where are we on commercial? So if you look at commercial trends in Q3, they're not identical to where we were at Q2, but they're very much in the same ballpark, same for loss cost trends. So the overall message that we've given on commercial previously is unchanged. So I think you'll see some of it come through margin and it allows us to be a bit more cautious around some of the loss picks in a few of the lines of business. So no real change there. Retail, so retail, if you look at the -- I mean, mainly a European topic for us, mainly a motor topic. If I look at the key markets, which for us are going to be Switzerland, Germany, to a lesser extent, U.K., lesser extent, Italy and Spain.

The major markets continue to improve. So we're seeing price and excessive loss cost trend. I'm still expecting to see sequential improvement. I mean, weather may have some impact in this in Europe. So if I look at the performance of the businesses in Europe in Q3, I mean I can see improvement in attritional, but the smaller weather events of which there are quite a few, I mean, they have a slight negative impact in Q3. I don't expect that to continue into Q4. So I don't think we're on a different path from the one that we thought we were on at the beginning of the year.

And of course, that means we still need to see significant rate movements come the start of next year. On the process for the sale, I mean that's really a question for the Exchanges. I mean, they decide it's their assets, so they decide how they approach this. They have their own advisers, but I can't tell you what process they've been through to determine how they approach this sale process with us or with anyone else.

Operator

The next question comes from the line of Will Hardcastle, UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

First one is, I guess just a follow on there on the direction to travel on P&C that you provided. Where would you most like to deploy the capital today between commercial or retail and maybe splitting out some geographies? It still sounded a bit like commercial from what you're saying. Second one, can you provide what recent average rate filings have been on for Farmers? It sounds like the only real moving part we need to consider from a Europe perspective here is the Farmers Exchanges premium growth now. Would you completely remove the risk here of further quota share expansion or potential fee percentage reduction?

George Quinn
Group Chief Financial Officer

Thanks, Will. So if you have a choice between commercial or retail at current returns, commercial all the time at the moment. I mean, there'll be a point in the future where that may not be true, but the gap in return on capital is still substantially in favor of commercial. You need to be careful by line of business, geography to some degree. U.S. market is still the more attractive. Property is the one that's showing the highest rate trends, but I mean even things like liability, maybe not so much excess, but liability where the price increases are not quite as high as we see in property, returns continue to be very attractive.

If you look at commercial overall, probably workers' comp still offers the highest returns on capital. On rate filings, I don't have an update I can give you immediately, so we'll come back to that or maybe we'll get Raul to answer that for you next week. I think from a Zurich perspective, of course, the key dynamic is premium. That's what drives fee income for us. As we enter into next year, and again, you'll hear more of this. I hope I haven't presented Raul's entire deck by the end of this presentation, but once he's been through what's happening around rate, what's happening around risk appetite, risk tolerance, particularly for cat exposure in the U.S., I mean you'll see that these 2 things we expect next year will largely offset each other, and that will give the Exchanges a much better foundation to build from.

On the quota share, I mean at this point, I don't expect to participate further in the quota share beyond the levels that we've currently reported. But I don't yet know precisely where Farmers is in that process. So I can't entirely rule out, but I don't think it's the likely outcome. Farmers, of course, have been taking -- Farmers Exchanges have been taking the reinsurers through their plans. So I think they have got good insight into what the Exchanges intend to do. And I think both the Exchanges and we would hope and expect that their reinsurers would reflect that in their appetite on the quota share, but that remains to be seen.

Operator

The next question comes from the line of William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

George, again, on the Farmers transaction that you've done today, just help me, I'm not sure if I'm thinking about it right, but how many agents have you actually acquired in this transaction? And what is that adding to what you consider to be the base of agents that Zurich itself currently has? I'm assuming this is kind of going from 0 to something. And then on the Farmers side, again, how many are you losing against what sits in Farmers? I'm trying to get a feel for the physical proportionality of how that distribution is shifting. I appreciate it's probably small, but I'd like to get a feel.

And then secondly, could you talk a little bit about crop profitability, please? We know we had a bad year last year. We were hoping for an improvement. I think we were optimistic about a good improvement at the first half. I'm not really up to date with where we are by the 9 months. So how are we feeling about crop, please?

George Quinn
Group Chief Financial Officer

Yes, great. Thanks, Will. So on the first question, the answer to both questions is relatively straightforward. Zero. So, essentially what the 2 businesses do is they act as brokerages for the existing exclusive agents. So it's not a new agent sales force. In the case of the first business that I described earlier, it's an existing flow that comes from the exclusive agents to the broker and then to a third-party insurer. And for the new piece, again, it will come from the exclusive agents to the broker and then to another third-party insurer. So no agent gain, no agent loss as part of this.

It creates a new potential commission stream for both the agents and for this business that we acquire. On crop profitability, I mean it looks as though it will be slightly weaker than we would have planned. Price and yield are both down. We would still expect to make an underwriting profit in this business. It should be improved over the prior year, but certainly it won't be as good as it was 2 years ago when we had an 82, but it's going to be a bit higher than the 94 that we would ordinarily assume.

Operator

The next question comes from the line of Dominic O'Mahony, BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

So just firstly, on the acquisition, I just wanted to get a sense from you folks whether the acquisition of the broker businesses is sort of opportunistic because it's something owned by the Farmers and Farmers needed to raise capital, and you looked at the assets and you thought they were attractive or whether actually, more broadly speaking, you like the brokerage or broadly distribution segment in the U.S. and in the U.S. retail space? Could we expect more acquisitions in this area, potentially even sort of plugging into Farmers to bring new business or is it just an opportunistic situation?

And then secondly, on India, very interesting acquisition. I suppose this is market entry. Should we expect more capital deployment into this business as it grows? I mean, clearly India is a big place with a potentially very large market and opportunity for you. You're going to be the majority owner, I think once you complete the second tranche. Or do you think that this is going to be basically well capitalized and you can leave it to get on with it and it won't require any more investment in the group?

George Quinn

Group Chief Financial Officer

Yes. Great. Thanks, Dom. So on the acquisition of the broker entities, is it opportunistic? I guess it's partly pragmatic. So I mean the Exchanges have an asset here that they've been able to monetize in this transaction with us, it was their decision to offer it up. But again, given our general affinity for fee-based businesses, it's something we like. In terms of, I mean, further transactions, I mean I think in terms of a general concept, if we could find ways to expand fee-based businesses, we would. I think it's slightly tricky here because, I mean, these entities tend to exist inside existing insurance companies.

So lately you'd have to then go buy it from another carrier in the U.S., which feels if we're going to buy something that looks a lot like this, it feels less likely to me, but the general theme of building up a fee base is a good one, I think. On India, we're actually 51% owner from the first step of the transaction. And the way we've scaled this, we've anticipated quite a bit of the expected capital requirements in the first few years of this. I mean honestly hopefully, before too long, the team will come back, can ask for more capital support from the group, but I don't foresee that in the near or medium term. The price is calibrated and the way the proceeds are allocated to the business reflects some of that expectation of growth.

Operator

The next question comes from the line of Ismael Dabo, Morgan Stanley.

Ismael Dabo
Morgan Stanley, Research Division

I have a really quick question. So I'm trying to figure out the components of the brokerage exchanges. So basically, there's some existing business that place risks outside of the Farmers' appetite. I'm trying to figure out what types of risks that may be just high level? And then additionally, there's the other component which you guys mentioned of like the [7 million] missed customer quotes. I'm curious why that is? So what drive -- what would have driven that, like the quotes that were not taken up? Is it more like a rate -- is it rate related or is it coverage related? Just hoping you could provide some more color there.

Additionally, next question would be, so as far as like the capital management, basically it seems like the philosophy hasn't changed, which is 75% payout ratio first in allocating capital to growth where you see it, and then it's the -- then it's the share buybacks. What I'm trying to figure out is if there's no areas for growth next year, what is the sustainability or the propensity to do more buybacks? I don't see many changes to that capital level over the next year or so. So just trying to figure that out just a little bit more.

George Quinn
Group Chief Financial Officer

Yes. Great. Thanks, [Is]. The -- so from a Farmers Exchanges perspective, so what drives the second part of the first part of your question. So I mean, there will be a number of different topics. I can't give you a breakdown, but it will be price, it will be coverage, it will be exclusions, it will be convenience. There'll be a whole bundle of things drive it. I mean in valuing this part of the transaction, I mean as you can imagine, we've assumed very modest penetration rates, but with such large numbers and having a process in place to try and capture it that we think there is a significant opportunity here. The first part of the first question, so what kinds of risks are these, the risks that are outside of Farmers Exchanges appetite.

I mean, a classic example would be coastal home. So as you can imagine, there's quite a bit of demand for that type of coverage. It's got a risk profile that would be inconsistent with the Farmers Exchanges ambitions for cat exposure, but there are obviously a number of specialist insurers who have got appetite for this and will pay previously the Farmers Exchanges and know the businesses that we've acquired for originating this for them. On capital management, so I mean overall, I guess what I'm trying to signal is I don't think we're doing something different today from what you've seen us do in the past.

The -- I mean, Peter asked a few questions about kind of why today, why not yesterday? I mean for us, I mean we have an exceptional level of capital. I mean we prefer to deploy the capital for growth because if we can grow earnings, we can grow dividend, and we think that's job number one for us. I don't want people to think this is a commitment to a new policy, that this will be a regular feature annually of what we do. I mean we make a very significant commitment on the regular capital return in the form of dividend, which leaves us some flexibility to support inorganic growth, but it's not a huge amount.

And over time, I would expect that what you've seen over the past few years is a pretty good guide to what the group will do in future. So preference for growth occasionally when that's not available, and we have very high capital levels, we will look at alternative methods of deploying the capital, like the one we've announced today.

Operator

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

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

Yes, George. So many of my questions have been addressed, but just 1 or 2 if I can come up with. One is Life. I mean, there's a big swing in the quarter in this new business, CSM. I think it was minus [10%] at 1H, plus [6%] at 9 months. So huge swing here. Is there anything to flag which looks one-off-ish or I mean, you did say in your intro, it was a good quarter? So that's Life. Second thing is just on Germany, and I'm trying to ask this in a as sensitive way as I can. Is there -- I mean, are there any risks to this transaction as such? Maybe the answer is very simply, we don't know or it's very low, and I'm happy with that. But just thought I'll ask anyway because it is something that is coming up when I talk to people.

George Quinn
Group Chief Financial Officer

Yes. Thanks, Vinit. So on the first one, if you look at the drivers and particularly for the CSM component in the second half, I mean partly LatAm, I mean most of the LatAm growth actually ends up being in PAA rather than CSM. So the joint venture business has a relatively modest positive impact on CSM, but is a big driver of the short term piece of the Life business. I mean actually more Asia. So if you look at what we're doing in Australia and Japan, both of those markets have been a strong contributor for different reasons. So Australia, the team have been doing good work on the group side. So they've been successful in some of the tenders that we've seen in the first half of the year that has benefits. So I'm not sure, I'd call it one-off, but it's lumpy. So it's important to be aware of that.

And then the second thing is in Japan, we've had a business for a long time that's been very focused on whole life cancer. We added whole life medical to that about a year ago. And I mean, that book has started to season. The distributors pick it up more and more. And that's a reasonably significant contributor to what you've seen in Q3. So mainly Asia, but partly also LatAm. On the approval process for the transaction in Germany, yes, there are risks. I think if you look at where we are today versus where we were when we started the process, there's obviously some things that have happened that would cause regulators to take a closer look. And as you would expect, BaFin is having a very thorough look at this.

I know equally that we and the buyer here are trying to be as responsive as we can be to BaFin's questions and comments. I still hope and expect that we'll get to the finishing line, but it's obviously going to take longer than I expected.

Operator

The last question is a follow-up from Michael Huttner, Berenberg.

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

So I had 2. So the first one is on your own reinsurance, and the second one is a very technical one, just the moving parts for solvency, which are kind of still yet to come, maybe you could just list them? On the renewal, so my guess is you had 6% nat cats in Q3, which is a bit higher than you would normally run rate. And my guess is the reinsurers are picking up part of this. So my question is, how much should we kind of pencil in for higher reinsurance costs going forward or lower reinsurance cover, however you look at it? And on the solvency going forward. I've got so many moving parts, I'm losing track. So I just wonder if you could just list them? So far, I count India, the Life back-book deal in Germany, which is a negative and becomes a positive or something, the potential buyback and of course, the transaction with the Exchanges, but anything else?

George Quinn
Group Chief Financial Officer

Thank you, Michael. So it's difficult to answer the first question. So if I look at reinsurance protection in particular on nat cat, and I think you've heard me say this before. On the cat however, which essentially is the only real form of cat protection we have in the book, reinsurance have never had to pay a claim on this piece. Given what we're doing on nat cat and risk reduction, I think they get further away from the risk rather than closer to it. So to be honest, I don't know what the outcome is going to be on renewal, but I don't expect to have to pay more on January 1. Now we'll see how the negotiations go through the end of the year and we can discuss it again in February.

But we think that the pricing that we are supporting on a risk-adjusted basis is actually quite attractive, and we would hope reinsurers would be willing to support that. But it's a market. We'll have to see where it lands. On solvency, I don't think you've missed anything. I think you've picked up all the key points. Of course, we'll have whatever the market experience is in Q4, but the key things that you've listed around buyback, the acquisitions that we previously announced, I mean these are the key drivers of solvency as we complete those transactions and execute on the buyback.

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

I was hoping you'd give us some numbers. Maybe that's a bit cheeky.

George Quinn
Group Chief Financial Officer

It's a bit cheeky. Sorry, Michael. I mean obviously, the fact that we're signaling the intention to do a buyback is a sign that we're very confident, we're going to remain well above the capital floor levels or anything close to it that we've previously announced. But of course, the combination of the transactions plus the buyback will take some of that excess down, but that's a deliberate decision.

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

I'll ask, I was still hoping for some numbers, just even on remind of India and the transaction, the brokerages and all that, just simple stuff. Sorry, sorry.

George Quinn
Group Chief Financial Officer

I misunderstood the question. I thought you were looking for -- you looked at the individual pieces.

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

Yes.

George Quinn
Group Chief Financial Officer

The IR team can give you that straight after the call. That's not a state secret.

Operator

Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Mr. Jon Hocking.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you all for the questions. If there's anything outstanding, then please just get in touch with me or the IR team. And we look forward to seeing many of you in London next week. Thank you.

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