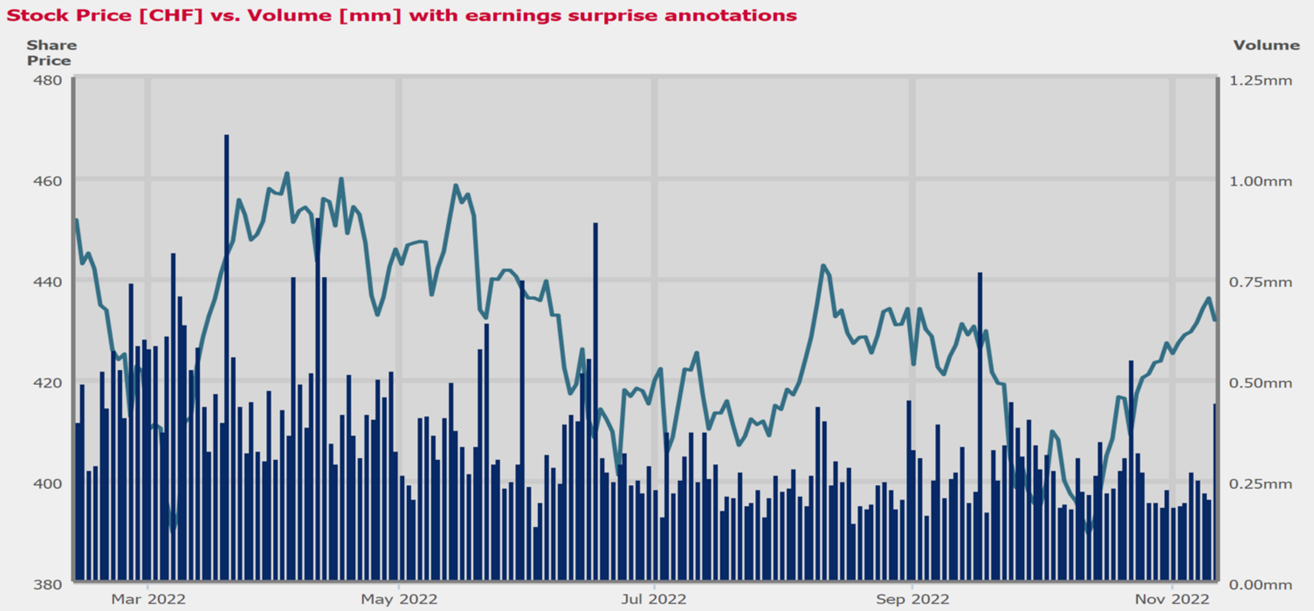
S&P Global
Market Intelligence

Zurich Insurance Group AG SWX:ZURN
FQ3 2022 Earnings Call Transcripts
Thursday, November 10, 2022 12:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	8.55	NA	NA	7.99	32.44	NA
Revenue (mm)	NA	NA	NA	NA	55580.08	NA

Currency: CHF
Consensus as of Nov-11-2022 7:11 AM GMT



- EPS NORMALIZED -

	CONSENSUS
FQ3 2021	6.35
FQ4 2021	6.35
FQ1 2022	8.55
FQ2 2022	8.55

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Call Participants

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Group CFO & Member of the Executive Committee

Jonathan Michael Hocking
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Presentation

Operator

Ladies and gentlemen, welcome to Zurich Insurance Group Q3 Results 2022 Conference Call. I'm Andre, the Chorus Call operator. [Operator Instructions] 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. Jon Hocking, Head of Investor Relations and Rating Agency Management. Please go ahead, sir.

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you. Good afternoon, everybody, and welcome to Zurich Insurance Group's 9 months 2022 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 for Q&A, if you could please keep to a maximum of 2 questions, that would be appreciated. George?

George Quinn
Group CFO & Member of the Executive Committee

Jon, thank you, and good morning and good afternoon to all of you. So before we start the Q&A, I just want to make a few opening remarks. As you've seen from this morning's press release, the group is on track to exceed its strategic and financial targets for the 2020-2022 cycle. In P&C, we've grown strongly with commercial rates in excess of loss cost trends, which is something that we expect to continue into next year.

North America, for example, grew by 14%, benefiting from increasing rates of 8%. In our retail business, we also observed a continuation of the trends seen in the first half, albeit the mirror image of commercial. On Hurricane Ian, the group estimates a net impact of $550 million pretax. This number is exposure based, and it sits a bit below our reinsurance attachment point. The life business continues to experience positive operating trends, and we expect original currency earnings to meet or exceed guidance. But this is likely to be offset by the combination of weaker financial markets and a strong U.S. dollar.

As you know, about half of the group's total operating profit is in U.S. dollars, and this gives us an FX translation effect of about $30 million to $40 million for every U.S. dollar -- every point to U.S. dollar appreciation. Farmers is demonstrating strong rate-driven growth, also supported by the integration of the acquired MetLife business, and we also expect this rate environment to continue into 2023.
SST ratio remains very strong. It includes the anticipated effects of the CHF 1.8 billion buyback and the cash tender that we made in October but does not yet include the positive effects of the Italian and German back book transactions. We're all looking forward to seeing many of you in Zurich next week as we raise the bar for our next 3-year cycle at the Investor Day. 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 from Bank of America.

Andrew Sinclair
BofA Securities, Research Division

The first question, I was just looking at first for a bit more color really on the P&C pricing backdrop. So it's like -- so the market is still hard, but perhaps not quite as hard as it has been. Just really wondering if you can give some more context, how much are we seeing pricing outstripping loss cost trends today and really how long do you think we'll be able to continue to say we are in a nice hard market? And second question was just on Farmers. Really just wondering if you can give us some color on the pricing that Farmers is achieving now and your latest thoughts on when Farmers will be able to return to a positive underwriting result?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Andy. So maybe first of all, on the pricing environment, our focus to comment first on commercial, then go to retail. I mean not much has changed if you compare it to the pattern that we've seen so far this year.

So I mean, at the margin, we're seeing things moderate, again, a bit in Q3. There's maybe a bit more differentiation by lines of business. So if you look at the overall picture for the 9 months, across the two main commercial markets, ZNA and Europe. Property continues to be really strong. I mean partly in response to that being one of the areas that's more impacted by inflation, as we see that hold up very well. Other property like clients like engineering, also doing well, marine too.

Towards the end of the quarter, financial lines shows a bit more weakness. So we're seeing a debt in rate increases, particularly on D&O on the financial line side. Liability still in double-digit territory. Worker's comp still pretty flat, which is where it's been, I think, for most of the last couple of years. I think the other thing, which I don't think is new, we've seen it already if you look at commercial and split it by geography.

European commercial is currently offering a stronger rate environment than North American commercial. So I think we're back on that moderating path that we were on earlier in the year that was somewhat flattened by the impact of inflation. On the retail side, again, not much new to say on retail. We haven't really had an opportunity to improve it, continues to be impacted by inflation. We weren't really expecting to see an improvement in the second half of this year, and it will take until we've got into the major renewals, particularly in Continental Europe.

So Switzerland and Germany, for example, where we've got a fairly significant bias to January 1 to really start to see the P&C retail business turnaround. So I think overall, I mean the picture is maybe slightly softer than it was at Q2, but the change is not particularly significant overall at least.

Andrew Sinclair
BofA Securities, Research Division

How long do you think we can continue that sort of momentum for?

George Quinn
Group CFO & Member of the Executive Committee

So I think if you look at loss cost trend, I mean, we don't see that picking up. So we still expect this to continue into next year. So there's still margin expansion that we had in the business. But at some point, I assume somewhere around the middle of next year where I think if the current trends continue, then these two things come into balance. I think if you look at the upside and downside risks, on the upside, i.e., a more positive and longer hard market. I mean it could be inflation that drives that. So that could keep a number of these lines higher for longer. Downside risk, I think, in general, the commercial market has been retaining the benefit of interest rates. I don't see any signs that, that's imminently about to change. But of course, if interest rates continue to rise, I would expect to see some competitive element develop at the margins around the treatment of interest rates. But I think given current patterns somewhere in the middle of next year.

Farmer's pricing. So I mean, if you look at the growth they've had, so we talked about the 11% number. You've seen the Farmers Exchanges reports for the 9 months. I mean that splits roughly half of that is coming from the full 9 months impact of the acquisition of MetLife P&C. And the other part of it is, I mean, roughly half of it is due to ride share business. The other half of it is due to rate, I mean rate is really quite strong through the 9 months for the Exchanges. They're in double digits. The only challenge is, of course, that inflation is still pretty high. So if you look at the frequency and severity trends, I mean frequency has come down from where we were certainly at the very beginning of the year but severity is still very significant.

So within the 9 months, there's not yet a significant improvement in the underwriting performance. However, if you're tracking the -- some of the market observers of loss costs versus premium trend, I think you can see from those observations that the industry overall looks as though it has just tipped into an improving underwriting outcome. I think that will continue, I think, through all of next year, and I've talked to some of you in the past about some of the things that I think the Exchanges are expecting to see as we enter 2023.

So I think there's quite a bit of momentum in their favor when it comes to rates, but it needs quite a bit to address the current severity issues that we see in the auto market in particular.

Operator

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

Andrew James Ritchie
Bernstein Autonomous LLP

Firstly, I wonder if you could just give us a sense of the underlying underwriting experience in the non-life business. You obviously mentioned the CAT experience. But I'm thinking of the underlying in terms of attritional, also any true-ups of the current year profitability in light of realized inflation being higher. So just some color on the underlying would be useful. The second question on CAT exposure. I mean you mentioned that you think CAT losses might be two points higher than the long-term average -- sorry, long-terms trends, that's the language you use, which I think is the same as 3.5%. The problem is, when I look at my model for almost any long-term trend period and it goes back 20 years, I can't find 3.5% now. It's more like 4.5% to 5%. So I'm just wondering, is there even more radical action needed on the breach property exposure in '23? And particularly in the light of you're going to not be able to buy the same amount of reinsurance and probably much higher attaching, so is there a relative significant leasing going on, on property exposure given the persistent overrun of any long-term trend?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Andrew. So on the first part, underlying -- I mean nothing really different from what you saw in the first half. So we talked about the fact that in Q2, we put some additional precautionary elements, particularly around primary liability. We put some elements around commercial auto, maybe not precautionary given the prevailing trends. I mean no real changes to that in the second half of the year so far. I mean we haven't -- there's no evidence from what we see at least that from a pure attritional perspective, there's any significant shift around loss cost trend. I think -- I mean probably shortly after the first half, we're looking at crop quite hard to see where we thought the weather patterns are going to drive crop.

Probably if you'd asked me at the end of September, I'd say we were slightly concerned that the [indiscernible] might drive slightly adverse outcomes. I think today, I think we're much more relaxed about that. So I mean, overall, certainly in commercial, there's no real change around the trend issues that we reported in the first half of the year. And of course, the rate commentary I've given in response to Andy's question already. On CAT exposure, so I mean we have to grow CAT exposure. So I mean, so there's two parts to your question, I think. So one is, I mean, what is this number? Where do you want it to be? And what are you going to do about it? And the second part is, I mean, aren't you at risk of being squeezed in the reinsurance renewal at the end of the year?

So let's start with item number one. I mean I think we were pretty open last year that, I mean, every time we open a model and close it at the moment, the number gets bigger. And for us to try and contain that increase, our aim was to reduce the incoming exposure, not with the overall aim of reducing it, but the aim of keeping it relatively consistent. And as you point out, given the frequency that we're seeing, that's kept it reasonably consistent, but at a higher level than the one that we're aiming for. So what are we going to do more or less than we're doing at the moment. So from an incoming perspective, we talked already last year about the fact we had a target to reduce the U.S. exposure by that 10%. I mean, that's almost done by now.

And in fact, has already had a benefit on what you're seeing reported in the Hurricane Ian estimate. And if I -- if you look at it as compared to market, I mean, we're lower than market share, taking the high end of the market estimates around loss. And even compared to peers, I think we're lower than some, in the pack with others. So there's nothing particularly unusual about Ian itself.

But having said that, I don't think it changes our view that the likely trend and all of this is up. So what more are we doing? We're expecting the U.S. to do more on the topic. So again, we expect to see them prune back some parts of the CAT portfolio where they're less relevant to us from a strategic perspective. And then we extended the discipline to the entire group earlier this year for the planning process, which is some of the businesses started to lead to activity in the second half of this year.

And for others, it will start in the beginning of next year. So you're going to see us, I think, constantly at work pruning the CAT portfolio to try and resist and mitigate some of the natural rise given frequency and severity. I mean there's a limit to how far we can go. So I think we're definitely going to push this harder. But I don't expect to do something particularly drastic from here. On the reinsurance topic, I mean, as I said, I see that as a positive, if I'm completely honest with you. I mean we're not particularly dependent on reinsurance capacity for what we do.

I think it helps the market overall if the reinsurers are providing capital at a slightly higher cost than they have been in the past. That might be one of the things that helps maintain discipline around some of the topics, particularly around property. So I mean we've got our own homework to do on the incoming side, I think we'll be doing it. We're going to continue to do it. And on the reinsurance side, I mean, while there's certainly a part of me that doesn't want to pay more, that my head realizes that it's probably a net positive rather than a negative.

Operator

The next question comes from the line of Hossain Kamran from JPMorgan.

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

It's Kamran Hossain from JPMorgan. Two questions. I was going to ask about the growth portfolio, but you partly answered that, George. The first one is on Farmers. You talked about lower surplus. Are there any obvious implications that we should consider, for example, kind of higher reinsurance provisions by yourself? The second question is on the retentions and the reinsurance. How do you look at it kind of going back to 2016, the U.S. retention and reinsurance has been pretty low? Well, not low, but it's been pretty stable for some time. Do you expect that you'll have some material increases in retention net share? Or do you expect you'll probably take on or just pay slightly higher prices? Just interested in kind of how you think about that dynamic.

George Quinn
Group CFO & Member of the Executive Committee

Thanks Kamran. So on the first one on Farmers, I mean the reinsurance market is certainly a bit harder than it's been for some time, but it still feels pretty orderly to me. I mean, we've made it clear in the past that it's a preference that the Exchange find the reinsuring needs in the capital -- in the normal reinsurance market. But however, if there is something that we need to do because something is dislocated in some way, then we would certainly consider it given the value of the relationship to us. At this point, I don't expect to be doing something particularly material. It's not inconceivable that we could support the Exchange with a bit more on the old line's quota share given where we currently stand. But again, I think from a strategic perspective, the most important comment I can make is that we're not a reinsurer. We don't intend to be in that market long term. But if there was a need to do something short term, that was in our interest, we would absolutely do that.

On the retention versus pricing topic, I mean I'm going to assume that we can't completely exclude the reinsurers from the audience on this call. So I don't really want to completely explain my tactics for the renewal. I think if you look at retention across our book, I mean, it has been pretty stable on the [CAT Tower], but we've never touched a [CAT Tower]. So I mean it's up there for a reason, and it keeps the risk, I think, fairly remote for reinsurers. So in terms of trade-off of retention versus price I don't know until I see the exact offer that people are going to make. I'm definitely expecting we're going to pay more for fairly obvious reasons. But on the trade-offs, I mean, in general, I would prefer to keep the structure as we have it even if it hasn't been a major part of what we've needed to protect the group over quite long period. The only exception to that is we have a CAT aggregate. I don't know what's the lately outcome on that, but I mean, given that that's already quite a long way out of money.

And given it's not a favored risk of reinsurers, it was already a marginal call for us last year. If it was more marginal than last year, we almost certainly wouldn't place it, but that's just not material for us in the scheme of things. So the reinsurance tariffs, my preference will be to keep them as is because it keeps things predictable. But let's see how the renewal turns out.

Operator

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

George, can you tell me what was the numerator and denominator of the SST ratio, the 252%? And can you give me a hint about the market impact on available required capital in the third quarter, please? And then secondly, I'm really sorry if I've missed this disclosed somewhere, but what's the Hurricane Ian loss for the Exchanges specifically? I had in the back of my mind that maybe CAT could have been enough to hurt the 35% ratio at the end of June, but evidently not. So I'm not sure if that's because Ian was negligible or if there's just been some other positives that have maintained solvency in Farmers?

George Quinn
Group CFO & Member of the Executive Committee

So well, I don't have the numerator and the denominator in my head. So maybe [indiscernible] after the call, and they can help you with it. On the market effects, repeat the question for me again, was is just what the market effect on AFR and required separately or together?

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Well, ideally, again, if you don't have the first numbers, you won't have the second, but I was just trying to get a feel for what the size of the market impact was. And in particular, how much of the market impact was coming from movements in available versus movements in required capital?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So I mean, obviously, I mean, the main impact from an SST perspective, I mean it tends to be an AFR because I think for obvious reasons, you've got all the assets being marked to market. I mean if you look at the different components, I mean, we've come down by about 10 points. Favorable market movements about 25% dominated by interest rates and some offset from some of the credit effects in the quarter. And all the offsets to that are a combination of what we've done on the debt side of things. Obviously, the announcement of the buyback, unwind of the hedges that we talked about before, I mean those are the largest drivers. So you've got -- I mean you've got a significant favorable market movement but that's tended to have been absorbed by a combination of what we've done in terms of buyback and in terms of what we've done on the investment portfolio on the hedging side. On Exchanges, I don't have the Exchanges number for Ian. Again, I'm sure we can reach out to the Exchange and get it for you after the call.

Operator

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

William Fraser Hardcastle
UBS Investment Bank, Research Division

Question one just on the Farmers. I guess, is the development here in terms of growth as you'd expected? I know it is on price, but in terms of delivery, I know there's been some pausing on that. But last time, we also spoke there's a challenge in the U.S. about getting rate through California. Has there been any shift in that dynamic? And the second one, I just wanted to clarify something you said. Did the reinsurance trigger or not trigger at all from the Hurricane Ian loss? I know not the CAT side, but just the retention. And then do you think that puts you in a better relative position at upcoming renewals versus some peers, albeit, of course, there'll be an uplift?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Will. So growth is more or less as expected. I mean, we've seen more or rather the Exchanges have seen more in some of the channels, particularly around exclusive agents. And I think we've talked already at prior calls about the fact that there have been some service issues around the independent agents, and there we've seen a bit less. But net-net, the growth picture is pretty much as we expected it to be.

Now I guess the challenge is that given that the loss cost trend environment for this year has been much tougher than we would have planned coming into the year. You actually needed more rate-driven growth to address the issues caused by claim trend. I think as the year has gone on, you've seen the Exchange start to achieve more. So I mean we're not, as I mentioned earlier, in double digits, or rather the Exchanges on double digits.

It is still the issue that they're not able to achieve rate in all states. And that's something that I know we're all hoping it can be addressed as we enter into 2023. But I mean, I referred earlier to the fact that I mean, there are some industry forums that track loss cost trend versus rate. You can now see for, I think, the entire U.S. auto market, but it's just in positive territory. That wouldn't be completely true for Farmers yet, given that geographic mix that it has. But I think we're pretty optimistic that you'll see that correct itself in 2023. And we will see very strong rate coming through in some of the key markets that are particularly important for Farmers.

On the reinsurance point, you're absolutely right. So the $550 million doesn't hit the $650 million retention limit that we have. Do I think that will help me in the renewal negotiation? I will do my best to make sure it does. I don't know how much help -- I mean, I think I mentioned in response to Andrew Ritchie's question that I don't recall the last time we triggered any of this. So I mean, if the reinsurers are having challenges, and I know they are. I don't think we're one of them.

Operator

The next question comes from the line of Vinit Malhotra from Mediobanca.

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

Just one question for me, please. You said that the outlook on the pricing or the loss cost is slightly moderating versus Q2, but not significant. And that's despite the U.S. some lines like D&O going down. Do you see like is this confidence that it's less affected is it because of EMEA commercial? And also why would EMEA commercial be still strong within the U.K.? Is it some of the markets where loss costs are high? Or can you just comment a bit about this kind of composite question?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Okay. So I think part of it, Vinit, is probably the interest rate thing I kind of hinted at earlier. I mean if you look at the rise in interest rates, I haven't tried to calculate how much the rise is benefiting the economics plan. But I mean, it's pretty clear that if you have a book of the duration that we've got, you could be rating at a higher combined ratios with the same economic outcome, but the market is not doing that. So the market is generally holding on to the interest rates in addition to the margin between pure price and loss cost strength. So I think actually, I mean, I think the market is still in very, very good shape given the combination of features, certainly from a commercial perspective, not quite so much for retail as we discussed earlier.

But I think next year, we'll see a different picture on retail. Now why would Europe show a different perspective from the U.S. on commercial? I mean probably a combination of factors. I mean Europe has tended to lag. I mean it is global market. So global capacity is relevant. Maybe the European market is a bit more fragmented. The -- so I think that's partly that lag issue. I think the second issue is if you look at the -- I mean, certainly, if I look at -- I mean some of our experience on European commercial, I mean the pure European business, I think, does pretty well. Where you've written U.S. risks out of Europe and all insurers do this, that's been challenging too. So I think the market's also woken up to the fact that if you're rating a U.S. risk out of Europe, you need to be seeing the same kind of rate increase that we've seen in the U.S. end of the business. And we put additional steps and requirements in place to push our business in that direction, but I think it's mainly the topic of lag is my opinion.

Operator

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

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

I'll have three questions, but it's not [indiscernible]. So when do we get the buyback, please? The second is LatAm inflation, we just heard from one of your peers that it's costing them 1% combined ratio. Can you talk a little bit because you have a sizable business there? And then the other one is -- I'm sorry, it's not about this call, so you might say, oh no. When you -- IFRS 17, so lower equity, more CSM, the total is a bit bigger. But if I try and bridge and you must say that, "Michael, you're crazy," probably yes. Would the fact that we had the CSM, which effectively is kind of profit going forward, is that a little bit of what your kind of recycling profit? I sound very direct. I didn't mean to do that.

George Quinn
Group CFO & Member of the Executive Committee

Okay. So I don't think I'm legally allowed to answer three questions, Michael. Maybe I...

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

You could think whatever you like, George.

George Quinn
Group CFO & Member of the Executive Committee

The -- so on the buyback, I think we said at Q2 that we would let some portion of the Hurricane season pass and then we would start. I'm not allowed to give you a date, but it's certainly something that I think I've indicated in the past that we needed to start within Q4 to make sure that we deal with the issue that the buyback is expected to address, but I think for a variety of reasons, I can't say much more than that, but we're obviously getting much closer to the point where we're going to launch it. The LatAm inflation topic.

So I think the only thing being part of this group is that, I mean, we talked to the Swiss business, we're seeing, I think loss cost trend that's probably 2%, maybe 3%, and it's something that's beyond the wildest nightmares. We've got Germany at 9%. It's something we've never ever seen before. And then we go to Argentina, where we're one of the market leaders, and they've got inflation trends that are, I don't know, pick a number, 50%, 60%, 70%. I mean the answer, I mean, it depends which markets you're in.

In Latin America, I think our business, if you take Argentina has been the most extreme example, I mean it couldn't be successful if we hadn't adapted to the -- to something that's not new down there. So when you look at what we do from an ALM perspective, they certainly don't assume that the underlying risks or exposures are local currency because everything is imported. So the ALM philosophy has to incorporate a view on the -- what the real inflation is and where the stuff comes from and also the products, I mean, tend to be shorter duration, tend to have more floating features to address some of these things.

So I mean, it's not that it has no impact because it's not instantaneous. I mean even if you write a short, say, a 6-month contract, you can still have a bit of a lag. But certainly, when we look at LatAm, the one thing we do -- I say that's different for the group overall from a combined ratio perspective or a technical profitability perspective, we look at the ALM outcomes as well because there's quite a bit of the economics that we generate in LatAm comes from sensible ALM usage and the use of hard dollar assets to book back these liabilities.

So I mean it's probably pushed up the combined ratio a bit, but it's not that significant for us overall. And the overall attractiveness of it hasn't changed. The -- I mean I'm not going to answer your third question. But I think your hypothesis is not far from the truth.

Operator

The next question comes from the line of Ashik Musaddi with Morgan Stanley.

Ashik Musaddi
Morgan Stanley, Research Division

Just a couple of questions I have. I mean -- so when we are speaking to most of the companies this time and when we ask about inflation and benefit of interest rate, i.e., your combined ratio has to grow higher because interest rates have gone higher. So to maintain the same ROE, ultimately, underwriting standards has to go down.

But so far, whenever I have asked this question, everyone has said, no, no, combined ratio is everything. We are not going to change that, et cetera, et cetera, I will keep both the benefits, combined ratio and interest rates. Whereas it looks like you are a bit more thinking on an economic basis where you're saying that, okay, interest rates have gone higher so underwriting standards has to come down. Is it fair to say that you could be one of the early movers with that concept? Or would you say probably you will still follow the market and take more and more pricing rather than think about taking a bit of extra volume because economics are still holding up really well? That's the first question.

Second thing is, I mean, between -- if let's say, you have to pay up a bit more to the reinsurance for like taking the same retention, et cetera, where will that be funded from? I mean will it be funded from your back book reserve? Will it be funded from increase in primary pricing? So how do we think about the extra cost of reinsurance funding?

George Quinn
Group CFO & Member of the Executive Committee

Yes. I think the only problem with the first question is that the synergies start with underwriting standards have to go down, everyone can deny it because it's not true. I think what you're talking about is the economic reality of underwriting. So when you think about how you base, you've got a view on loss cost, loss cost trend.

You've got a view on expenses, but you've also got a view on the duration of the liability you're going to carry and therefore, the risk-free yields element or risk-free interest rate is extremely important. I think the -- I mean, again, I certainly don't want to talk us into a world where we start to trade away a benefit. The fact that we're able to maintain discipline in pricing and retain the benefits of the interest rate move to help offset the impacts of inflation.

To me, it actually makes sense. I mean we talked about the fact loss cost trend has clearly been coming up. And for us to maintain the same level of profitability economically, we need to retain the interest rate component, which, of course, is at least a partial offset to that. I think if you look at things, again, just from overall cycle perspective, I mean, I think to manage the resources appropriately, you need to have a realistic view on where the cycle is headed. And while I don't expect anything to drop off a cliff, I mean we are seeing things moderate. In general, the performance across the sector is good, you would expect at the margins to see a bit more competition.

I think the interest rate, saying it's just a component of people do underwriting anyway. But of course, we don't want to give away benefits if we can avoid it, particularly when we're seeing loss cost trend impacted by the same factor that drives the interest rate in the first place. On the reinsurance topic, I'm a bit concerned that some of you guys are getting commission from reinsurance at the moment. I mean well, it will be fun to -- I mean, we have a plan. So we put a plan together which covers the next 3 years. You'll get a sight of that next week at the Investor Day. And within that, we've included our view of what we'll need to pay for reinsurance.

So if you ask me where it comes from, it comes from our overall underwriting result because it's part of what we're using to protect us from risk and it's partly a capital substitution at the margins for some of the capital that risk would require if we had it in our own balance sheet. So it's part of the underwriting margin in the end. That's what has to fund whoever we need to pay from a reinsurance perspective.

Operator

The next question comes from the line of Dom O'Mahony from BNP Paribas Exane.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

So first one, just on Farmers. I'm trying to understand how to read the surplus ratio. So the 32.7%, can you give us a sense of what sort of numbers would require the Exchanges to take mitigating action, whether that's using a bit more reinsurance or withdrawing capacity or whatever it might be? And then a second question, just on life. Clearly, currency has been a headwind given that most of those is non-dollar. And I guess linked products will be impacted by market movements. It feels like the guidance you gave us at the end of last year, sort of mid-single digits or probably growth might go hard to get to, but I just wanted to check in with you whether that's right or whether actually that we might set our expectations a little bit lower?

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Dom. So on the first one, so yes, Farmers has -- Farmers Exchanges have a surplus ratio of 34.7% as of the end Q3. I mean they would normally target something 36% and north. So they're already in the -- they're already in a world where they're looking for, I mean, other things they can do within the existing business to improve the surplus ratio what do they need to do from a pricing perspective, what they do from a capital perspective, what they need to do from a reinsurance perspective.

So I think these are all topics for the Exchanges already today. And they're looking to manage the surplus ratio back up. I mean I think -- I mean I don't know quite how long we'll take them to do that in an orderly fashion, but it would certainly be their aim to be operating above this and their targets would clearly imply that already.

Currency. Yes, currency has been a headwind this year. So it's -- I mean, I guess, on the positive side of things, I mean, half of what we do is denominated in dollar, unfortunately, the other half is not, and it's been a particularly challenging year. And that's particularly true for life because when you look at life, I mean we don't really have a U.S. life business of any particular scale outside of maybe the Farmers, which sits inside the Farmers segment.

So I think as I made the comment on the introduction to the call, I gave an overall sensitivity around earnings and FX translation. Obviously, life will have a disproportionate share of that. So I think when you look at the thing overall, I mean, from our perspective, I mean, we expect to see life.

When we look at the planning conventions that we use, which will be constant currency, we expect to see them at least achieve the goals that we've set for it, if not beat it. But when you then translate it back into dollar, that's a significant headwind for the year. And in fact, you see already in the revenue. So if you look at life overall and the headlines today from a revenue perspective, you've got 2%

growth. I mean, by the time you convert that into dollars, you've got about 6%, 7% reversal. And the bottom of the P&L won't be that different. So I think you have to have that sensitivity in mind as you think about the life business towards the end of the year.

Operator

The last question from today comes from the line of Thomas Fossard with HSBC.

Thomas Fossard
HSBC, Research Division

Two quick questions as well on my side. Just to clarify your thinking on guidelines you rated last time with the H1 numbers. So the first one would be on the -- any update on the reinvestment rates achieved on a 9 months basis and especially to -- in the context of your $50 million to $100 million additional benefits to your investment income in 2022.

And the second check as well will be on the guidance for the net earned premium growth, which was expected to be mid- to high single-digit range in local currency. How should we think about this guidance in light of the plus 13% achieved on a 9-month basis?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Thomas. So on the investment income side of things, no change to what we've given you on the reinvestment benefit. I mean it's a relatively short period. So it's hard to get the full benefit to come through, but we expect a similar number.

I know you all know this, but of course, next year, the accounting will take this benefit and remove it from the income statement. So you won't see quite the same reinvestment effects in future than you've seen in the past. From a local currency guidance perspective around P&C, I'm not sure I'm going to change that.

I think the end will be slightly lower in original currency. Watch out for -- I mean P&C doesn't have the same FX effects that you see in the life business. But of course, it will still have some, given that we still have quite a substantial business outside of North America. So no change to original currency guidance on P&C for volume.

Operator

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

Jonathan Michael Hocking
Head of Investor Relations & Rating Agency Management

Thank you very much, everyone, for dialing in. We look forward to seeing a lot of you in Zurich next week. If you've got any questions, then please just reach out to the IR team, will be available in a few minutes' time. 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.