S&P Global
Market Intelligence

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FY Nine Months 2019 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Ladies and gentlemen, welcome to the Zurich Insurance Group Q3 Results 2019 Conference Call. I am Shai, 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. Richard Burden, Head of Investor Relations and Rating Agency Management.

Richard Burden
Head Investor Relations & Rating Agency Management

Good morning and good afternoon, everybody, and welcome to Zurich Insurance Group's Third Quarter 2019 Call. On the call today is our group CFO, George Quinn. Before we start with the Q&A, George will make a few introductory remarks. And when we come to the Q&A, can I as usual ask you to keep your questions to a maximum of two. If we have time, we'll come back to you after if you have follow-up questions.

George, let me pass over to you now.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Richard, and good morning and good afternoon to all of you, and thanks for joining this call on our Q3 results.

So before we move to the Q&A, just a few initial remarks on the third quarter. Just as a reminder, the focus of the third quarter release is, as you've now seen in the press, typically on revenue trends. We've got some qualitative commentary around the performance of the business, and we will of course provide the full detail at the full year. However, I can confirm that we remain fully on track to meet or exceed all of the targets for this year.

Over the first 9 months, we've continued to progress the strategy of focusing on customers and developing our distribution while at the same time simplifying operations. And I'm pleased to see that this has been rewarded by solid development across our business.

If you allow me, I'll turn briefly to P&C because I'm sure that many of the questions will relate to the current pricing and claims trends that both we and the industry in general are experiencing. P&C pricing trends have continued to accelerate, particularly in specialty and in North America, with rates comfortably ahead of loss cost trends.

Outside of North America, commercial lines rates also show signs of an improvement. And in addition to pure rate, we're also increasingly seeing improvements in terms and conditions. We're also increasingly optimistic that the current trends will sustain themselves through 2020 and continue to broaden out to other geographies.

The increases, as you've seen from today's press releases, are also increasingly being seen within our P&C top line. And that will be supportive to earnings over the coming year as both the growth and the rate turns into the P&L.

Turning to claims trends, which I know has received a lot of attention in recent weeks, we're obviously not immune from the general market trends and recognize many of the comments [from TPs] particularly in the U.S. But I would remind you that we took action beginning already 4 years ago. And those actions are focused to a large degree on the lines that have been in the headlines, namely commercial auto and general liability where we're taking clear action in terms of lost specs and on volumes. And as such, I feel that we are probably in a relatively better position to manage some of these trends than maybe the average in the industry.

Just turning to recent weather trends and following on from the relatively [light] weather and nat cat trends in the first half, trends have been more normal since the half year. Based on our current expectations around crop and the impact of cat that we've seen in Q3, we would expect the combined ratio to be slightly higher than the midpoint of the 95, 96 combined ratio range that we've talked about previously.

Our life business continues to deliver on a strategy of focusing on capital-light savings and protection business, with our Swiss and Irish businesses continuing to show particularly strong performance, particularly in corporate life and pension sales. And I mean we continue to believe that this strategy is the right one, especially in this low-yield environment, but it cannot insulate us completely. We'll work hard to compensate, but I expect that the life business will face some modest headwinds from interest rates. But against that, P&C will not only benefit from a positive trend that's continuing longer than we had initially anticipated but also one that's still accelerating, and one as I mentioned earlier that we expect to see broaden into the European markets.

Farmers continues to deliver a steady performance and continues to execute on its customer-focused strategy, and the surplus continues to build and is now an all-time high. I mean that business continues to perform very well.

Z-ECM ratio is 113%, in the upper half of our target range. And the reduction since the end of Q2 principally reflects the falling yields over the course of the quarter. I mean as you'd imagine, we continue to have substantial capital flexibility.

Mario, I and the entire team look forward to seeing many, if not all, of you at the Investor Day next week where we'll give you further insights into how we're thinking about the future. So if you don't mind, please focus your questions today on the quarter or the year-to-date.
We'll now be happy to start the Q&A.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Nick Holmes, Societe Generale.

Nick Holmes
Societe Generale Cross Asset Research

I have just 1 question, which is what are your thoughts about making changes to the bond yield sensitivity in the Z-ECM ratio calculation? Because it's just clearly too conservative, isn't it, compared to peers?

George Quinn
Group CFO & Member of the Executive Committee

Thank you, Nick. The -- I wondered how long I'd have to wait for that question. So maybe for the benefit of everyone who maybe doesn't understand it quite as well as you and some of your colleagues, so obviously we apply an internal model when we model the impact of interest rates. That model is entirely based on swap curves. There is no ultimate forward rate. And I think I mean that has the impact that, well I think most observers can readily easily recognize that in the real world, we probably have less sensitivity to interest rates than some of our European peers. Our published sensitivities are higher principally because of the absence of that ultimate forward rate.

I mean you've seen the impacts of interest rates in the quarter, and that's principally driven by Germany. So I mean it's a very strict market view of things. I mean despite that, the capitalization is still strong, but we are going to take a look at it.

And I can't tell you today what we'll do. And I think as you probably all saw [where EIOPA] is looking today at the Solvency II UFR construct. We did some rough back-of-the-envelope work. And we estimate that if we apply the Solvency II-type UFR to that model, it would increase the Z-ECM ratio by about 20 points.

And so we need to take a careful look at this because of course many of these things are very complex and may have unintended consequences. I mean probably what I can say today is I'll update you further when we come back at the full year. But it's a topic that we're looking at to try and find a way to be more consistent with the peer group.

Nick Holmes
Societe Generale Cross Asset Research

That's really interesting. So are you saying that the 113 would be 133 with a UFR?

George Quinn
Group CFO & Member of the Executive Committee

So we estimate roughly, so -- I mean we obviously have a very sophisticated internal model. We've done a far more simplistic calculation. I'm not sure I'd necessarily claim that it would be precisely 133, but we estimate that the difference of the current Solvency II UFR applied to Z-ECM is at the order of 20 points versus where we are today.

Operator

Next question comes from the line of Vinit Malhotra, Mediobanca.

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

So 1 question on the top line reported today, and George, you just said that you expect pricing [et cetera] to improve outside U.S. as well. Now in the EU segment, we can see very strong growth as well. So I think it was 5% 1H, 6% for 9 months like-for-like, so -- and in the past was linked to a Swiss business. And you mentioned Italy, I think, in the past. Could you just comment a bit about where this growth in the third quarter probably came in?

My second question is just on the Swiss solvency -- sorry, on the Z-ECM, the kind of volatility, if you like. I was advised that just as of now, the Z-ECM is probably closer to 120. Now if I just look at the euro swap [graph] simplistically, it's up around maybe 30 basis points. You show 10 points of sensitivity. So again from 113 to 120, is there something else that has happened in quarter to date? Or is it just the fact that we can't just simplistically look at euro swap and apply it to the sensitivity because of definition? Just any comment would be helpful.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Great. Thanks, Vinit. So on the growth topic, the -- I mean Europe, the Swiss business is the one that still stands out as driving growth. But I mean we see growth across -- mainly driven by commercial. So commercial is the one that actually sees most of the rate in Europe. But in fact if you look at retail in Europe where we see the impact of pricing on retail as being, I mean, quite a bit lower than the far more positive environment we see around commercial. But Swiss is the strongest, then the U.K., but for example both Italy and Spain also contribute over the course of the quarter.

On Z-ECM, I think the challenge with Z-ECM -- or not the challenge with Z-ECM. The challenge to us in modeling interest rates is the sensitivities tend to be parallel shift. And if everything was a parallel shift, there would be perfect [guides]. The challenge for us, and it goes back again a bit to the answer to Nick earlier, I mean, it's really the long end in some markets that's had an impact on us. And because we have no UFR in the model, I mean, we are exposed to that entire movement, whereas for example if the Germany curve flattened, if we have UFR, you probably wouldn't see the impacts of that. So my apologies, but it's hard to use those simple sensitivities, but it's very hard to give you a sense of, I mean, how the model responds to a steepening or a flattening or a twist. I mean it's obviously a very complicated topic.

But I mean just to go back to what you said, we haven't formally estimated it. But given the interest rate moves we've seen, given other changes that we anticipate, I mean today we would anticipate that we would be back likely very close to the top end of our target range.

Operator

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

Andrew James Ritchie
Autonomous Research LLP

George, it is inevitable that I'm going to touch on the U.S. casualty topic. You used the phrase at the beginning, "not immune." I just want to explore what you mean. I guess you mean you're seeing -- you're observing those trends for severity and a bit of frequency. It's not requiring you to further increase loss picks? Or is it and that's being offset by something else? Or is it causing you to think about the seasoning of loss picks and maybe holding on to reserves for a bit longer because of the uncertainty of the environment? So I'm just trying to reconcile the phraseology "not immune" versus it doesn't sound like it's causing you to kind of change guidance.

Then the other phrase I picked up at your opening comments was you talked about headwinds from low rates in life. Are you referring to the sort of economic effect of low rates or on IFRS earnings? And I'm curious to know what you were referring to. Is it just things like [it's such a hard rate] or something? Or what are you intending to mean by that?

George Quinn
Group CFO & Member of the Executive Committee

Thank you. So the -- let's start with liability. So the "not immune" comment, I -- so if we had a full quarter's worth of disclosure and we were talking about PYD, I'd be giving you a number for PYD that you would all instantly recognize. And then you'd would ask me to break it down. And within that, you would discover that there are several [gross large] positives. And maybe a bit further fourth on the list would be an adverse number, and that would be what we've done in general liability reserving in the quarter.

I think we obviously we look at the same market dynamics as everyone else. The -- I mean from as far as we can tell, excess G&L (sic) [GL] is still the main issue in the U.S. It certainly has broadened across a larger group of lines, but we see it mainly in excess GL. It seems to be more a severity issue than a frequency issue from our stats. But again I mean within the scope of our overall loss picks or overall reserving, I mean, we're happy that we can manage that.

And in fact maybe one comment that's slightly forward-looking, the thing that we had not yet done in Q3 was to complete our workers' comp reserve review. And I think as we've talked about before, I mean we benefited from the fact that we've seen pretty strong positive development on workers' comp. And that's certainly been a significant benefit for us in managing the market challenges that we see around GL.

One other comment on commercial auto because that was also a topic with some of the peers last week. I mean we haven't -- we've seen almost no movement in commercial auto. I think if you look at the '16 and '17 accident years, we have a very immaterial positive reserve development. I think if you look at the industry on [paid term codes] and compare them to us, we compare very favorably. And in fact I think if you isolate say, the top 4 carriers of which I would view us as one, again I think we compare favorably within that group.

So I think the comment was just to recognize that there's something taking place. We benefit from [on the pricing] dynamics, so I mean this line of business sees the most price action. And I mean if you look at the year-to-date rate on the GL side, it's probably entered double digit sometime end of Q1, beginning of Q2. But at the very end of Q3, it's almost doubled again. So I mean there's a market pressure that's driving that. But I think we're happy that we can manage the challenges that this line can [report in terms].

So on the life comment, so the life comment was intended to be, I mean, not a very scientific or mathematical comment, so maybe one that was a bit more economic in terms of outlook rather than immediate IFRS impact. I mean really just to reiterate, I mean we have a book that I mean is generally positioned well for a low interest rate environment. But positioned well doesn't mean that in every circumstance, it would produce significant earnings growth.

And as I look forward and if I compare it to the last 3 years where, I mean, life has been the I guess the positive surprise from an external perspective, well P&C had to work hard to deliver [mix] performance. I mean I suspect we'll see P&C pick up some of the significant benefits we talked about really from rate. But I expect life to slow down a bit, just given some of those economic headwinds.

Operator

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

James Austin Shuck
Citigroup Inc, Research Division

Two questions for me, please. On Farmers, you had some issues around kind of trying to sell life products through the Farmers networks. Q3 seems to have gotten a bit better versus H1. Just be interested to see whether you've actually seen any tangible improvement there.

And also on the P&C side, Farmers I think grew GWP at 1% at 9 months. That's the same as H1. I'm still waiting for that to accelerate a little bit. And I know you mentioned the eastern states improving, but the headline still isn't. And I would have expected the Uber deal to contribute towards that. And I guess kind of how's your claims experience going with Uber in the light of one of Farmers' competitors withdrawing from that segment? That's the first question.

Secondly, just around crop insurance, please. What was the crop insurance experience in Q3? And when you're guiding towards slightly above the midpoint of 95, 96 for full year, what are you assuming for crop within that, please?

George Quinn
Group CFO & Member of the Executive Committee

That's the longest series of 2 questions I've ever heard. On the -- first of all on Farmers, I think the short summary here would be that we -- there's a long way to go, I think, yet before we'd be happy with the progress that we see on the life side of Farmers. I mean I know that Jeff and the team at Farmers New World Life are working hard there. I mean there are some operational changes they've made to try and create focal points. But we really have the expertise to do this well both within Farmers New World Life and Farmers Exchanges. So we think the benefits are still yet to come, and we wouldn't necessarily yet start to celebrate what we've seen in Q3. There's room for very significant improvement.

On the growth topic for the Exchanges in this case, I think that Uber actually works against them because of course this is a GWP story. So we're talking about a comparison to a period that had I guess one of the first Uber contracts against one that doesn't. And while I hesitate to say if you take something out and the comparisons all looks fabulous, I mean if you do look at the ex-Uber picture, it's pretty consistent with what we've seen in the last couple of years. So they -- I mean the growth rate would be higher if I take out the growth in the prior period driven by Uber. This is probably a strange concept, but I think Uber works against them rather than actually helps them.

On the -- I mean it's almost impossible for me to comment on the motivation for the withdrawal or the exit of this relationship that otherwise exists between Uber and another insurance company. All I can say is only based on the feedback that I've heard from Jeff and the team. This relationship runs well. We don't see it deviate significantly from our expectations. And I know the team enjoyed working with Uber, and they're hoping to be able to support them further in the future.

On crop insurance, so what am I assuming? So again, I'm not sure if I've had the opportunity to speak to you guys as a group, so as to make sure that everyone's got the same information. I was asked about crop back at the BAML conference by the investors side. And basically what I said to them there is that preventive planting, as I guess you guys have heard already from some of the more important peers in the market, I mean, that is going to produce a cost to the business. So having had, I mean what really -- I mean 3 absolutely fabulous years in crop, we're going to pay a bit back this year. The estimate I gave around the end of September was that we would expect to see -- and just to keep it simple, combined ratios for crop probably edging into the 3-digit area. So I think then I was thinking maybe high double digits, low triple. But I think today I would be in the low triple-digit range. So we're talking, I mean, somewhere at 7, 8 points above our normal expectation.

That assumption is purely preventive planting. So there's nothing in there about the revenue outcomes. I mean we don't see any signs from the market that there's any cause for an expectation around the revenue outcomes to be different from the plan. But we wouldn't know for sure until we get to a period that would run up to somewhere early December, just given the late planting. For a number of farming clients, the season will [play] around a bit longer than it normally does. But it's preventive planting, and I'm assuming about 7 or 8 points on crop versus our normal expectation.

Operator

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

Farooq Hanif
Crédit Suisse AG, Research Division

Can you comment in year-to-date what's been happening in your shift towards the kind of mid-corp segment of U.S. commercial that you highlighted and kind of what progress you're making there? And then secondly, the strong Lat Am growth in P&C, to what extent is this inflationary versus say, real customer growth?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Farooq. So the story on the mids -- to the mid-market part of the commercial business in the U.S. and what progress have we made, we've got more expenses would be the main summary so far. So I mean Kathleen and her team are working hard to reshape our existing mid-market business, but I think more importantly to create a footprint that will serve our mid-market clients and the brokers in a way that, that mid-market segment expects to be served. But I mean to be honest, I don't expect that to be a significant generator of technical profit. And in fact not only this year but also next year, we're more likely to see additional costs in the U.S. as we build the necessary footprint. But I mean that's within the guidance we have given for the costs outcome for this year. And you'll need to come to next week's Investor Day to hear more about the cost picture that we assume for the next 3-year period.

Strong Lat Am, so the -- I think if you're looking at like-for-like, so that adjusts for the impact of transactions but also for foreign exchange. And of course as soon as you adjust foreign exchange, you will pick up some inflation impact. I mean we have a reasonably sizable business in Argentina that's mainly retail auto focused. That's a business that is almost entirely -- I mean it's important, so therefore it carries quite a bit of inflation risk, and -- but it has a -- the products are structured in a way that they typically reprice very quickly, deductibles typically float. And with the result that when you get back to a dollarized answer pretty quickly, but it will tend to overstate the growth on a like-for-like basis. So inflation in Argentina is probably slightly flattening the growth rate that we're achieving in Argentina.

Farooq Hanif
Crédit Suisse AG, Research Division

But just coming back on that, I mean, you're still quite happy that you're getting decent double-digit growth underlying?

George Quinn
Group CFO & Member of the Executive Committee

Oh, yes. So Matt (sic) [Farooq], I think the -- I mean again if I look to -- I mean a good indicator across the entire region, which is the joint venture, I mean, they're back well into double-digit growth again. I mean I think we're back in the 20s. So if I extract a reasonable number for the impact of inflation, some of the stronger inflation markets, I mean, the underlying is still strong positive growth.

Operator

The next question comes from the line of Jon Hocking, Morgan Stanley.

Jonathan Michael Hocking
Morgan Stanley, Research Division

Just got 2 questions, please. Just given what you're saying about your sort of relative reserving position in the U.S. and both rates and T&Cs moving in the right direction, are there any sort of lines of business where you had sort of reduced exposure that are just not attractive enough to sort of tilt back into those lines? That's the first question.

And just secondly on Farmers, given where the surplus sits now, is there an opportunity with Exchanges to accelerate into the expansion states versus capital really not what's holding that back?

George Quinn
Group CFO & Member of the Executive Committee

Thank you, Jon. So the -- on the reserving and the impact of things we've done in the past in terms of reduced exposure, could we reevaluate risk appetite? And so the answer is yes, but it probably goes in both directions though.

So on the positive side, I mean I think you guys are all aware that -- I mean we have a reasonable -- we have 2 very substantial quota shares in place in the U.S. One is around the casualty book, and one's around property. The casualty one is intended to be strategic and therefore longer term. And therefore you shouldn't expect to see any significant change there.

That's not true of the property position. That was always intended to be a bit more tactical. I mean we have been looking at that quite closely. Just given the trends that we're seeing in property, we may reduce the cession to the quota share as we come up to renewal at the beginning of next year. I don't think we'll eliminate it entirely. Well, we'll just see how the market [cycles]. But certainly that would provide some reasonably modest incremental growth to the U.S. book.

One additional comment to make on that though, we're not intending to carry more cat risk. So we will spend a bit more money, at the same time making sure that we hold the retentions at the level that you guys have seen in the prior presentation.

On the flip side though, the -- we're starting to limit the -- and this is a global comment rather than North America. We're looking to limit the business around credit and surety. I mean based on the feedback that we get, I mean, growth is almost limitless around that topic. Or the potential for growth is almost limitless. And we've told the business earlier this year that at least as step 1, we do not want to see capacity grow around that topic. And that's principally driven by the fact that I mean while we don't see broad themes in credit and surety, you do see in individual markets, idiosyncratic topics. And they range from things like Carillion in the U.K. a year ago to most recently Thomas Cook in Germany. And you guys have seen the impact of that on us where we'll have a combination of both a retention at a level that you're fairly familiar with and the additional costs that we'll incur in reinstating the reinsurance.

So I think probably the book will shift a bit into next year and the year after. More likely there's a bit more short tail, but with the additional caveat that I think we've currently reached the tipping point for our appetite around credit. And in fact that may even start to scale back as we move into the latter stages of the credit cycle.

And I've talked so long in answering your first point that I've forgotten your second point. What was the second question, Jon, sorry?

Jonathan Michael Hocking
Morgan Stanley, Research Division

Just on the Farmers surplus and whether that gives you the opportunity to expand faster.

George Quinn
Group CFO & Member of the Executive Committee

So short answer is yes. So the -- I mean I think the issue for Farmers, I don't think it's not a capital issue that holds the Exchanges back here. It's just I mean you need the right people with the right skills and the right capabilities to do this in the right way. And then of course I mean they don't grow in trees. So -- and that tends to be something that limits it quite more than many other factors.

Operator

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

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Just to focus on the casualty stuff a bit more, so I'm just trying to gauge, George, is that comment that you're not immune to these trends, is that incrementally more cautious versus 2Q?

Secondly, the -- I think you mentioned in the past that U.S. loss trend was running around 10 bps higher than Europe. Is that still the case? And are you seeing any deterioration on your GL book? Or is it just building a bit more prudence?

George Quinn
Group CFO & Member of the Executive Committee

So the -- I think I mean the real reason for the comment I made at the start was simply to reflect the fact that, I mean, we recognize within our portfolio the general trends that I think we hear from others, they haven't had the same financial impact on us for a number of reasons, which range from some of the steps that we took some time ago to reposition in some of these businesses. So that could be loss picks. It could be the size of the business. It could be the reinsurance program that we have in place around casualty in the U.S. But I mean there's no doubt, and in fact I think I mentioned it already last year when we had either Q3 or full year, that I mean we already saw adverse on the U.S. GL book, but we had the benefit that we had a very substantial positive reserve development around workers' comp.

That trend hasn't changed into this year. We've tried to make sure that we reflect our expectations for this year in the loss picks that we made earlier in the year. But there's certainly more inflation across the entire market than we would have anticipated a year ago. I don't expect though that that's going to cause us a significant challenge in our results for 2019. I mean we believe that we can manage that within the overall portfolio we have. So I guess maybe slightly more cautious, but I'm not trying to signal that we think we have a problem here. I mean quite the contrary, I think we've got the ability to manage this.

On loss cost trends, loss cost trends, so if you look at the U.S., I mean, the U.S. is probably up by maybe 20, 30 basis points over the figures I gave back in the Q2 call. I mean Europe tends to be a bit more stable around this topic. And so I would not expect the picture to change markedly, other than I mean net-net, we see a bit more loss cost inflation in the U.S.

Operator

Next question comes from the line of William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

First of all, George, is there any chance you could give us an update on where you think your SST ratio has moved to by the middle of the year or maybe the end of September? Some kind of update on that would be helpful.

And then secondly, I think you've alluded to this in passing, but just to be explicit, you made the comments about your combined ratio. Given that you said that you, at the first half, you expect your investment income to be stable for the full year versus prior year, are you sticking with that statement? Or would you like to be a little bit more cautious on the outlook for P&C investment income, given how yields have fallen? And I suppose if you can just think about next year as well in your answer, that would be helpful.

George Quinn
Group CFO & Member of the Executive Committee

Yes, good. Okay. So apologies on the SST topic. I cannot give you an update today on that. SST is a different methodology from Z-ECM. SST does permit a slightly -- a bit more conservative UFR methodology than the Solvency II. So I don't have a number for you, but directionally I mean if you apply that SST-permitted UFR, you would not expect to see the same size of movement that you've seen in Z-ECM.

On the investment income topic that with the caveat that I gave earlier that you need to adjust for the hedge fund topic in the investment income, so for the yield component, no change to our view that, I mean, we'll expect to see something broadly similar. But of course if interest rates remained where they are, where they were if that makes sense, where they are. I mean they're still lower than the -- than we were certainly in the first half of the year. I mean that would have an impact on investment income expectations for next year and potentially beyond. I think the only thing to bear in mind there is that, I mean, the duration of the liability and therefore the assets is around 5 years. So it's a reasonably slow burn. But I mean just given where we are, if interest rates remain where they are, more likely that's a bit of a headwind rather than a tailwind for us.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I know it's a really complicated equation in practice. But I mean are you guys comfortable that in general, you can pass on the strain of low yields to the customer by adjusting the combined ratio down even at this very low level for yields?

George Quinn
Group CFO & Member of the Executive Committee

So the -- I think that -- I think the -- whether it's because of interest rates, whether it's because of the GL topic, whether it's because of nat cat accumulations over the last few years, I mean, you've got a rate environment that is way ahead of loss cost trend. And in fact that gap has opened up again in Q3. So I think that there's a piece in there that I guess you could attribute to the impact of yields, but it's hard to do that very scientifically. So I think the overall rate environment is doing more than enough to help us with the yield issue currently.

Operator

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

Peter Eliot
Kepler Cheuvreux, Research Division

George, I just wanted to follow up quickly on your comments on Thomas Cook because I was just behind the curve here. But last time we spoke, I thought that the message was we shouldn't really expect anything material. And now you seem to be saying something a little bit different. So I'm just wondering if you could update me anyway on your thinking there? And any quantification you could give would be great.

And the second thing was just since we're on SST and modeling, I wanted to take the opportunity to ask you. Your interest rate sensitivity in your SST is relatively high, and that compares to peers who show very little sensitivity. And my understanding was that the new SST framework was very insensitive to interest rates. So I was just wondering if you could explain that to me why you have the large sensitivity.

George Quinn
Group CFO & Member of the Executive Committee

Yes. Thanks, Peter. So on Thomas Cook, I think last time we met, we talked about the loss. I gave a very broad indication where the loss would fall. But the thing that I left out of that conversation was the impact of reinstatement premium. I don't expect the combination of these 2 things to be particularly significant in the group's results for the year. But certainly if you look at our -- well, you can't, but I can. If you look at our Q3 results, I mean, there's a delta in there that's driven by crop and Thomas Cook. But I mean for example the -- I mean if you think about normal retentions, I mean today I would expect Thomas Cook, the net claim payment plus the reinstatement premium to be around twice normal retention levels.

On SST modeling, so the answer is relatively simple and straightforward. Currently, I mean our modeling of interest rates doesn't take full advantage of the UFR that SST permits. And that's why you see this much more sensitive picture [on] our SST than you might see elsewhere. I mean that's obviously a topic that as we look at the need to be a bit more consistent, that we're also going to consider as we approach the year-end.

Peter Eliot
Kepler Cheuvreux, Research Division

Yes, I mean if I can just follow up very quickly. I mean obviously the Z-ECM is used for your internal view and management view. And my interpretation was that the SST, really its only purpose is regulatory. So I guess I'm just wondering why there should be any need to divert from the regulatory framework [if it makes sense].

George Quinn
Group CFO & Member of the Executive Committee

So first to be clear, we don't deviate from the regulatory framework because that wouldn't be permitted.

Peter Eliot
Kepler Cheuvreux, Research Division

I'm sorry.

George Quinn
Group CFO & Member of the Executive Committee

We agree with them in the approach that we take. And because I mean one of the challenges with these complex models is that the overhead of I mean running these things is pretty substantial. So to the extent that we can have consistency between them, it makes life a bit easier. So we've taken a relatively pragmatic approach to some of these topics in the past in agreement with the regulator. But I guess that did not anticipate the size of the move that we saw back in Q3.

But I agree with you. I mean the SST serves an important purpose for the regulator. I mean we will have another look to see if there is something we should do. But I guess just recognizing that of course, I mean, we don't have freedom in SST. That is something that if we do wish to change things, FINMA, we'll expect to review and take their decision on whether they're comfortable with any change we may or may not propose in the future.

Richard Burden
Head Investor Relations & Rating Agency Management

Okay. As we have no more questions on the call, I'd just like to thank everybody for dialing in today. If you have any follow-ups, please feel free to contact the IR team. Otherwise, we look forward to seeing you all in London next week. Thank you.

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