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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 Update 2018 Conference Call. I'm Cheryl, the Chorus Call operator. [Operator Instructions] And the conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Gianni Vitale, Senior Investor Relations Officer. Please go ahead, sir.

Gianni Vitale
Senior Investor Relations Officer

Good morning, and good afternoon, and welcome to Zurich Insurance Group's third quarter Q&A call. On the call today is our Group CFO, George Quinn. [Operator Instructions]

Before we start with the Q&A, George will make some intro comments.

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Gianni, and good afternoon, good morning, everyone, and thank you for joining this Q3 2018 Q&A call.

Before I move to the Q&A, I'll make a few initial remarks to the first 9 months. We continue to make good progress towards the 2017-2019 targets over the first 9 months of the year, and we've also continued to execute on the key strategic priorities of strengthening the core business and increasing customer focus.

In P&C, pricing trends have been broadly stable over the most recent quarter, and we continue to achieve rate increases across all of the regions. As with the prior year, the third quarter also saw a number of natural catastrophe events. However, I'm happy to confirm that the overall nat cat losses for the first 9 months are only slightly above expected levels. And as you'll also have seen in the press release this morning, Hurricane Michael is expected to cause losses of around $175 million in the fourth quarter.

In both instances, we believe that our losses compare favorably to those reported by peers with similar exposures and they're a testament to both the improved underwriting and the effectiveness of our reinsurance program.

They also serve as a reminder of the need to achieve adequate rate, particularly in commercial insurance, and we've continued to focus on profitability over volume in the quarter.

Our life business continued to deliver on the strategy of focusing on capital-light and protection business, coupled with success in winning a large corporate protection tender in Chile, and this continues to draw in good margins while also ensuring that our life business remains cash generative.

Farmers continued to deliver a steady performance, with improvement in underlying customer metrics and the performance of the Farmers Exchanges, with it showing improved potential and growth in both new business and policy count over the quarter. Combined with a further improvement in underwriting performance and surplus of the exchanges, these trends should be supportive of future growth in the business.

The quarter has confirmed a very strong capital position with our Z-ECM ratio remaining stable at 134%, providing us with continued capital flexibility. We continue to review the capital levels of our business in light of growth opportunities and the macro outlook. However, near-term focus remains on delivering on our dividend policy and growing the dividend over the planned period.

Before we move to Q&A, I just want to mention the sale of our Venezuelan business. This will give rise to a $258 million noncash charge related to foreign exchange movements previously recognized within

shareholders' equity on the completion of the transaction. As a noncash item, I confirm that we will ignore it when we consider future dividends.
I'll now be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question is from Farooq Hanif, Crédit Suisse.

Farooq Hanif
Crédit Suisse AG, Research Division

Knowing what you know now, do you include the 95% to 96% combined ratio in saying that you're confidently achieving the targets for 2019? That's question one. And then question two is, you commented that in the past recently, the expense ratio in P&C has not gone down because of mix basically. But if that stabilizes now, would you now expect some sort of improvement in the expense ratio to come through in the next sort of 1, 1.5 years?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Farooq. So on the combined ratio, knowing what I know now, I wouldn't change the guidance that we gave at the half year. And just to remind everyone, what we said at the half year was that there's a number of things that we're in the process of completing, the most significant of which is obviously expense related. We do still expect to see some improvement in underwriting performance. And given where we are, we expect to be in that 95% to 96% range, albeit likely towards the upper end of that target range. So nothing in Q3 would change our view of what we expect to deliver there. I mean, one -- really, it's a bit pedantic. I mean, officially, the combined ratio is not one of our targets. But I mean, we all recognize that it's extremely important to the delivery of the overall goals that the group has. On the mix impact, so would we expect to see benefits in the expense ratio if mix remains stable? Yes, is the short answer. I mean, the way that we look at it today is, I mean, we try; we break it apart. We have the -- what we refer to as OUE, the I guess, the administrative or other underwriting expense ratio and then the commission ratio. You all saw what happened there at the half year. If mix is stable, you will see all of the benefit of the expense feed through with no change in commission. Having said that, and just to repeat something I said at the half year call, while I don't anticipate that we're going to see a change in the commission rate, to the extent that we saw in the first half of this year and in the near future, if we can improve the quality of the book by continuing to move from some of the more volatile individually large exposure to something that's maybe a bit more retail light, I mean, that would be something we'd be continuing to try to do. So I don't rule out the possibility that you still see some movement on the commission ratio. But certainly, if it remains stable, you absolutely would obviously see the benefit of the efficiency gains that we've achieved.

Operator

Next question is from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question on the loss environment. Could you just clarify what has been the man-made loss experience in the quarter? Obviously, you've talked about nat cat. I'm not sure if you're including large man-made within that. Obviously, there's been quite a lot of man-made events. Related to loss environment, what about trend, the broader attritional trend? Some of your peers have been talking about quite a lot of casualty-related claims inflation, certain classes, particularly professional lines. What are you seeing? Are you seeing anything unusual and is that of a concern? And the final question on the loss environment, I'm assuming any crop-related losses, which I think that may have been from Michael or included in the Michael number. My only other topic is a very simple one, on the ROI and reinvestment rate in P&C, it was tantalizingly close -- the reinvestment rate was tantalizingly close to the portfolio yield in Q2. Is it now above that in Q3?

George Quinn

Group CFO & Member of the Executive Committee

It was a very long-winded question, so -- Andrew. So man-made losses, so we haven't [booked] today -- we don't include man-made in nat cat numbers that we've referred to in the press release or in the various conversations today. And I guess, for the same reasons that I gave at the half year, we're trying to avoid that man-made becomes some mini version of nat cat that we try and encourage people to pay less attention to. When we think of attritional, we think of all the large, man-made or otherwise, included in the attritional. I mean, we still have further improvement to deliver to get to the goals that we have for next year. But as I said to Farooq on the answer to the other question, I mean, I don't see anything from a large perspective or even man-made perspective in the Q3 numbers that would change our view of what's possible next year. Broader attritional trends, maybe particularly in casualty, impact of professional lines. I mean, I think there are pockets where you can see maybe -- I mean, if that frequency picked up. So for example, I think we talked earlier in the year that workers' comp, while the overall outcome is actually much better than we expected, that trend hasn't changed. If you break it apart, what you see is a bit more frequency but quite a lot less severity around that line of business. On the professional lines part of it, I guess -- I mean, it's no secret between us that, I mean, if you look at the overall performance that we've had in the last couple of years within the overall improvements we've achieved, professional lines, particularly financial lines, has been a bit difficult. Less of a U.S. issue for us, much more of a European topic and certainly an Australian topic, for reasons, I guess, everyone's relatively well aware of. I don't see the same impact. I wouldn't say it's completely what we want it to be yet in the first 9 months of this year. But I mean within the overall performance, it's not causing significant stress. So we're seeing as much -- at least as much good news as bad news around things like financial lines. So I mean, overall, from the loss environment -- I mean, obviously, I did look, I did follow some of the public announcements. I mean, we've obviously had our own large loss challenges in the past. But I mean, our message to the firm internally is that large losses are just big investment losses. They need to be controlled as part of the underwriting process. And we're trying to make sure that both the risk acceptance policy that we have on the incoming side and the reinsurance cover that we have can protect us as much as we can reasonably expect. So I don't have a particular problem with large or man-made in the quarter. On crop, I mean, we do include any crop cat losses in the natural -- in the nat cat announcements. So there is some crop in the Michael number, but I mean it's going to be pretty small. I don't recall from memory precisely what it is. But I mean, obviously, there is a particular crop that's exposed. There's actually a relatively high-value crop in that particular area. But I think from what I've seen so far, it hasn't been particularly impacted by the event. On the ROI topic, I mean, we don't give an update today on the overall number. I guess, the best I could tell you is that maybe it's even more tantalizingly close than it was at the half year.

Operator

Next question comes from the line of Thomas Seidl from Bernstein.

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

First question on pricing. Some of your U.S. peers are starting to comment that they price in the -- and that's what obviously is to be expected -- the higher interest rates. You report stable rate increases. Does it mean you are still running your actual engines with last year's risk-free rates? Or how should we compare your rate increases to the rest of the market? That's the first question. And secondly, on this 3% price increase, can you remind us how much you think this is, in percentage point, ahead of claims inflation?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Thomas. So on the -- and just to remind people that the figures I've given are for pure rates today. So it's the headline rates and doesn't take into account impact of loss, cost inflation. It's not an economic margin expansion number, so it's purely rates. On interest rates, I mean, so we do update the systems from time to time as interest rates change. I mean, we try not to do that every single day of the week or every week of the month. I mean, there'll be some impact of that in there but I don't think it'd be particularly material. On the second question, which is really that economic margin expansion, I wouldn't give you a different answer to the one I gave at the half year. So the rate that we're achieving is ahead of loss cost inflation, but obviously again less than that number net. And maybe somewhere around half of that is a reasonable reflection of, I mean, what's happening on the margin side of things.

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

On the interest rate, in your plan for '19, do you expect more pricing headwinds from peers, pricing in higher interest rates? Or are you basically expecting a stable situation?

George Quinn
Group CFO & Member of the Executive Committee

So the -- I think again, one of the comments that I think we made back at the half year is that if you look at the trends on pricing, so I mean pricing in Q3, which I guess you can work out from the numbers, it's pretty much slap-bang in the same place as it was at Q2. I think the actual mix has moved around a bit, so property -- this is a U.S. commentary more than a European one -- so property is a bit lower, liability is a bit higher. I think we try to be -- we try to have a realistic perspective on what's going to happen. We would expect rate to moderate to some degree. I don't expect it to fall flat to the levels pre the 2017 hurricanes. But by now, our [just-in-time] market, more or less, has renewed loss-affected accounts. And it's something that makes those conversations with clients a bit more challenging. And that, in some way, I'm sure will feed through into pricing.

Operator

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

James Austin Shuck
Citigroup Inc, Research Division

First question is around the much higher-value [effect of] combined ratio for 2019. I mean, you did mention that's not a target as such. It's an ROE target that really matters and it's the interaction between the combined ratio and really the investment income that's important because it's driving different mix changes and economic profit. I guess, if we look back over the past 3 periods, it's the investment income that's being a source of positive surprise coming through. I'm just surprised to see that happening. And I'm just wondering if you could elaborate a bit on where it's coming from. Because the 95%, 96%, we've had the uptick in interest rates, but that feeds through in a very slow, phased fashion. So it doesn't really have much impact by 2019. So just keen to understand really what the driver is of the absolute increase in investment income? Next question, really just that you mentioned about on crop development, about natural catastrophes small impacts. Just keen to get an update really on what's happening relative to your accrual rate on the combined ratio, particularly in Q3 because I think a lot of the crop actually runs through in the third quarter. And then just one other quick one. Can you just -- in the NA commercial lines premium growth in the period, I think there was a -- Q3 seemed to moderate in terms of the reduction, so we were down 4 at H1 and then we're down 1 at 9 months. If you could just elaborate in terms of the portfolio repositioning in the quarter, please?

George Quinn
Group CFO & Member of the Executive Committee

Excellent. So James, don't take this personally, just a reminder for everyone that -- just because the way my brain works, I can't bear with 2 questions.

James Austin Shuck
Citigroup Inc, Research Division

It's 2 areas of conversation.

George Quinn
Group CFO & Member of the Executive Committee

Yes. So on the 2 questions, 95%, 96%. And again, you're absolutely right, so the -- I mean, I guess, the reason that we've been a bit relaxed by the fact that we've guided to the higher end of that range, i.e. 96% rather than 95% is because you've seen more investment income. And that means that we still expect to be in the same place overall, even if the components are slightly different. What drives this? I mean, a combination of different things. So going all the way back to the start of this process. We -- I mean, not very deliberately, but the investment income view that we had in the targets was one of the obvious areas of potential upside. I think that became obvious to everyone fairly quickly. So we struck the investment income element of the target at a relatively low point in '16. And again, it wasn't deliberate. It's just the way it was. But we certainly benefited from that in terms of helping make sure that we can achieve the goals that we'd established. I mean, what drives the more recent change, which again is still something that, I mean, is a trend that we think is going to continue a bit from the remainder of this year into next? I mean, really it's the group's overweight position in the U.S. market. I mean, if you look at the premium split, the tenor of the business, certainly the longer tail, actually a significant component of the business overall is North American. And that's where, I guess, you're seeing the most reaction. So we benefit a bit from that. I mean, back to Thomas' point earlier, I think there's probably a limited period during which you can really retain that because the market is competitive. But we're certainly in that phase where I think we retain some, if not all, of that benefit for our shareholders. On the crop side of things, so I mean, you're right, I think that -- not all crops, obviously, but certainly some of the key crops and especially the key crops -- well, I shouldn't say key crops -- but the main crops that we're covering. They have key dates, October. Maybe October more than September. I mean, I don't want really to start to give detailed information on crop today for obvious reasons. But I mean, we don't see any particular issues around crop currently. I don't expect it to produce the same incredibly strong performance as last year, but I did expect this, that we'd have a pretty good year for crop. Obviously, the year is not over, so we need to be a wee bit cautious. But the business has been performing well, as it has been for the last 2 to 3 years. Commercial lines, I mean, I wouldn't attach too much significance to it in terms of that movement you see. Again, we talked at the half year that I think the team are definitely doing all the right things. We're focused on a few areas of the book where we really believe we can continue to drive improvement. Jim Shea and the team have clearly communicated their priorities to the countries. The countries are working on executing. But I mean, you will see some, I mean, clearly movements quarter-to-quarter depending on the exact mix of what's renewing. But I mean, our overall stance on commercial lines is certainly it's the most competitive part of our portfolio overall. Still the most challenged from a profit perspective, and we continue to do what you, I think, would expect us to do in that environment, which is to shift capital towards some of the higher-performing parts of the portfolio.

James Austin Shuck
Citigroup Inc, Research Division

And would you -- so would you be expecting that portfolio to return to growth in 2019?

George Quinn
Group CFO & Member of the Executive Committee

No.

Operator

Next question is from Nick Holmes, Société Générale.

Nick Holmes
Societe Generale Cross Asset Research

Just coming back on the expense ratio. Just wanted to ask, is the lack of growth in P&C making you a bit concerned about the target I think you have for the other underwriting expense ratio, the OUE, which I think you did say was 13%. Is that looking a little bit more difficult?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Nick. I'm getting really concerned that I have a list of 55 different targets, which is probably more my fault than your fault. Again, I think if you look at the premium development in the quarter, I mean, premium is fairly flat. And the commentary we've given around expectations is not based on a growing scenario. I mean, we haven't anticipated that in the P&C business, either this year or last year. So that's not causing me any significant concern. I mean, obviously, if the market was very strong, pricing had improved, there was the ability to grow, I mean, we would take that opportunity. But I mean, unfortunately, the market's not really offering that currently.

Operator

Next question is from Vinit Malhotra, Mediobanca.

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

Just on the life side of things. The new business value is up fairly strongly in the third quarter, I would say. I mean, it was up 2% at 1H, 6% in 9 months. Please could you comment a bit about what's driving this? Is there some one-off? Or is it just that the mix effect is much lower than we imagined? That's the first question. And second question is more just looking at this U.S. auto, the commercial auto side. Is there any update there? Because the reason I asked is that we've come across this rule that in December, the U.S. government mandated truck drivers to have an electronic logging device, which was specifically designed to reduce or hope to reduce accidents. Are you hearing any about this from your teams? Or is there any -- or is it too early to think about claims effects for accident numbers from this kind of regulation?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Vinit. So on the new business value topic first, I mean, if you look at the key drivers, I mean -- we've got, I mean, various markets -- Italy has been doing well. Chile, because of the transaction that this tender that we've won in the period; the joint venture in Brazil; Spain has been going well; Switzerland's been going well, partly offset by some of the other countries. So I mean, mix and volumes, I mean, not having a major impact, but certainly, some of the businesses are showing some pretty strong performance on new business value. I mean, actually the major drivers of the change in the number that you see over the 9-month period, a combination of -- I mean, the usual suspects, operating variances, benefits from the economics side of things and some relatively minor changes on the model side of things. So I mean, we are pretty happy with where we stand. You clearly see that volumes are up more significantly than the new business value, and that's driven by, I mean, the same factors we've discussed on these calls before. I mean, we have a mix of businesses, some of which are higher margin than others. And those that contribute to the growth in the 9 months are typically some of the lower-margin product, particularly the business in Spain, which has been doing well actually for us. On the second question, so I think I read also something in the newspaper about this telematics proposal around commercial auto. I mean, way too early to talk about anything here. I mean, I guess, if you were optimistic, and I'm not sure if I'm an optimist, but I like to believe occasionally I am. I mean, I stare at the trends on loss cost on commercial auto and hope for the same trend we've seen on the retail side of things. It's still not there. Loss cost inflation still runs at a pretty healthy clip on commercial auto in a way that you just don't see on the retail side of things.

Operator

Next question comes from the line of Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just 2 questions exactly. The first one is how quickly does this new business value become earnings and cash flow? Just maybe you can remind us. And the second is, and I missed the beginning of the call, so apologies if it was already asked, the Z-ECM solvency, which is down. Can you maybe outline a few of the drivers? I had in mind QBE minus 1%, reduction in debt minus 1%. But I was a little bit surprised that the earnings weren't -- or the organic wasn't stronger.

George Quinn
Group CFO & Member of the Executive Committee

So on the new business value topic, so how quickly does it convert it into earnings. Obviously, heavily impacted by the particular line of business. So if you look at the areas that are stronger on the growth side, so I think I mentioned earlier Chile, the joint venture, Spain -- maybe I'll isolate those first. I mean, they are relatively short-duration businesses. So they earn income really pretty quickly. Switzerland and Italy, which are the other 2 bigger contributors to the upside on new business value in the quarter, more traditional in nature, tend to have maybe a longer, more traditional-type earning. And if you look at the areas where we've seen slightly weaker performance, so you've got the U.K., which is entirely driven by -- or almost entirely driven by the disposal of the corporate savings book a year ago, not especially relevant. New business values in Australia are slightly weaker. It's again a traditional product, so it earns in over a longer period. I mean, long story short, if I look at the drivers, probably the things that drive performance are slightly shorter in duration than maybe the average of the overall portfolio. But you wouldn't measure that in quarters, Michael, we're talking fewer years than maybe the average. On your second question, Z-ECM. So yes, I mean, a number of moving parts and probably the one thing that would be very hard for anyone externally to predict. We have a bit of model change in the quarter, so there's a regular process whereby we go through and update the model for what's taking place. And I think that's the part that we've probably explained why people may have anticipated that the thing would rise when it has fallen slightly. So that model change was very slightly negative. I mean, other than that, all the components that drive Z-ECM are as you would expect to see. So capital generation from earnings, as expected; dividends accrual, as expected, depending on what your expectations are; and other smaller items. But we have a small model change, which is slightly adverse since the half year.

Operator

Next question is from Johnny Vo, Goldman Sachs.

Johnny Vo
Goldman Sachs Group Inc., Research Division

Just a couple of questions. Just the first question in regards to your exposure to Italian BTPs. You've got about $10 billion on balance sheet. I'd assume most of it is in your Italian business. Has that had any effect on your ability to -- or potential ability to look at remittances going forward and what you can do there? That's the first question. The second question is just in relation to the life business as well. You've got 25% like-for-like growth. Are we expecting that to continue at trend? And also, why do you continue to grow in lines where the profitability is incredibly low?

George Quinn
Group CFO & Member of the Executive Committee

So I may have expressed that second question slightly differently from you, Johnny. So on the exposure, so you're quoting numbers from last detailed external reporting. But we'll obviously update when we come to February. I mean, you should expect that number to drop by the time you see the figure in February. I mean, it won't halve, but there'll be a meaningful reduction in the BTP exposure. On the impact on remittances, don't expect any. I mean, there could be small impacts -- well, I mean, we do have this counterintuitive -- well, counterintuitive to me at least, impact that of course, as we reduce some of our exposure to BTPs, that drops the discount rate from a statutory perspective and that typically requires actually a bit more capital locally. But overall, within the book, that causes no stress whatsoever. I mean, I think I said at the half year that given we were $3.7 billion in that cash remittance for last year, we will be more than $7 billion when we get to the end of this year. And there's no change to that guidance today. On this APE growth versus new business value topic, which, I guess, is along the same lines as the answer I gave Vinit earlier. So why would you do this? I mean, there is an ROE optimization in this. And from time to time, for example, this is clearly true in the Spanish market. So with a partner there, I mean, we do make a decision on whether we have a short-term opportunity, even a near-term one, to drive sales in a way that will actually benefit the group's overall ROE and use some of that capital, we think, reasonably efficiently. Now is there a trend at 25%? Unfortunately, no, there's not. As I mentioned earlier, there are a number of things in the APE growth, which is exceptionally high in the 9 month, which are more, I mean, not entirely one-off in nature, but obviously we have the impact of the SIS business in Chile, which is a 2-year process. So that tender won't come around again for 2 years. And whether you win it or not, will have a reasonably significant impact on APE. I mentioned that Spain was a driver. And I think as you've seen from us over the course of the last -- certainly, the last couple of years, I think we are quite sensitive to market conditions. And that business can grow faster or can grow slower, depending on our short-term views of the market opportunity. So we're very, very happy with life performance. But please, don't extrapolate 25% APE growth.

Operator

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

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Just one question for me, please. So the reinsurers have been talking about raising cap budgets for next year, and Hannover Re raised its budget today. What are you guys thinking? I appreciate your book isn't really growing like some of the reinsurers, but has the increased frequency of loss just between this year and last changed your view at all?

George Quinn
Group CFO & Member of the Executive Committee

Excellent question. So the -- I mean, we've just been through the process recently. We got to the approval point with our board in December, and we have been paying particular attention to cat. I mean, I don't expect we'll give guidance for a higher expected long-term assumption around cat next year. And if I -- I think if you look at the portfolio overall, we're still a touch bearish around property in the U.S. I mean, the cat market seems to attract tons of capital. I look at the pricing that we can achieve on the reinsurance side, which remains attractive as far as we're concerned. And therefore, I mean, for us -- I mean, having significant increases than the amount of cat exposure that we would take, I mean, it's not obvious from where we stand today.

Operator

Next question is from Ralph Hebgen, KBW.

Ralph Hebgen
Keefe, Bruyette & Woods Limited, Research Division

Ralph Hebgen from KBW. Just wondering perhaps on the nat cat claims again in the third quarter, and I realized you're not disclosing what they were. But perhaps any color on that would help. Perhaps you can disclose the overall entire nat cat claims which you had in 3Q, that might help us to project what it might be by year-end. And also, just as a bit of confirmation, the 95% to 96% combined ratio target range for 2019, presumably, you have to think about that as including a normalized 3 percentage points contribution from nat cat. And the second one is just perhaps some color on U.S. lines of business. What sort of momentum are you experiencing there in terms of rate increases? What are the lines which are still generating good rate increases? And are there any where you see the pace either decline or actual reduction in rates?

George Quinn
Group CFO & Member of the Executive Committee

Thanks, Ralph. So I appreciate you trying to help me on the color topic. But I mean, unfortunately, I'm going to refuse your help. All I can really say there is that I mean, we had a big debate about whether we even really talk about it at any great substance at all. So I mean the guidance that I indicated, it's a bit above 3%. But I mean, it's not particularly material as far as we're concerned. So I think even in a normal -- well, I guess, in a normal quarter, you would see the numbers; or a normal half. But I mean, there's nothing surprising in there as far as we're concerned given the events that the market has seen. In fact, for us, I think as I said in the introductory remarks, and of course this hopefully is confirmed when you see the actual figures in February, we take it as further evidence that the approach that we have to nat cat management, both from what we underwrite and from what we reinsure, works. So we're pretty happy with where we stand there. But I mean, we have -- we're slightly above 3%. And yes, let me confirm that we're not assuming that 95%, 96% is dependent on a 0 nat cat year. So we're assuming the normal nat cat load for next year. Momentum on rate. It's a really good question. So I think it was in response to Thomas' question earlier, the -- I think I said, I think we believe it will moderate. I don't have any evidence that it has moderated yet. So the numbers that you see today, again, if I focus in on the U.S., I think to the first decimal point, the overall rate change in Q3 is identical to Q2. But from an outlook perspective, I mean, even with the events that we've seen this year, I mean I just -- I don't expect that it continues at that level. So I mean, we would anticipate some moderation of rate increase. So momentum has been good. It has not yet slowed down, but we are anticipating that it may well slow down a bit as we move into 2019.

Operator

We have a follow-up question from James Shuck.

James Austin Shuck
Citigroup Inc, Research Division

So George, I just wanted -- you've affirmed the kind of targets over the periods of 2019, I just kind of wanted to ask about the unofficial target, the 14% op ROE target for the current year. Just wanted to see -- I know you put a slide up kind of going illustratively that's what can be achieved. But just keen to see whether you still think that, that is illustrative or whether it's actually achievable. Secondly, on Farmers, I think you talked about the discontinued business no longer acting as a drag and premium growth is up 4% year-to-date. I would think that, that is broadly tracking the market, given what retail rates are doing in the U.S. As you expand out or as Farmers expands out from West Coast to East Coast and various other initiatives, would you expect that top line to begin to accelerate from that 4%?

George Quinn
Group CFO & Member of the Executive Committee

Yes, good question. On the ROE topic, I mean, I'll do a fuller update when we get to the Investor Day. But just to repeat something that I said at the half year. Obviously, one of the things that we had in that illustration of what we believe is achievable for the group was an expectation that the Australian business that we're acquiring would be in for a full year. I mean, that will not happen given the delay that the seller has on the closing date. So I mean, that will have some impact. But if the question to me was, I mean, do you think that the underlying potential of the firm has changed? I don't at this point. But I will give you a more detailed update at the Investor Day. On the discontinued business, do I think that the growth could accelerate? I mean, it's a tricky question to answer. I mean, I think on the positive side of things, if I look at the growth rates that the exchange achieves in the expansion states, typically the Eastern states, I mean, that's well into double digits. And it -- I mean, it's not as if it's a very, very small book of premium either. I mean, they're growing at a pretty handy rate on what's now a pretty meaningful book of business. I mean, is that sufficient to deflect against other market factors in the group? I don't know yet. And certainly from an overall planning perspective, maybe if I reflect what we're thinking about for next year, we haven't anticipated yet a significant acceleration in growth. More steady as you go is our assumption currently.

Operator

The next question is a follow-up from Farooq Hanif.

Farooq Hanif
Crédit Suisse AG, Research Division

Going back to life, so when you sort of very simplistically plug in a strong increase in APE into just on a reported earnings model, it hits earnings. So do you think actually for 2018 there might be a slight depression of earnings? I mean, I know you talked about double-digit growth, and I'm just kind of wondering how you positioned that.

George Quinn
Group CFO & Member of the Executive Committee

So I'm not sure I've seen that, Farooq. I mean, I think again if I go back to the drivers of new business value on the growth side of things, they tend to be the short-duration products. And in fact, some of them, I think as we discussed here before, I mean, looked more like P&C in the way they act than say traditional life products. And if there's been any slowdown, certainly, it's been in some of the more traditional life markets. So I mean, I think guidance on growth, around operating profit, I mean, I wouldn't change what we said back at the half around this topic.

Operator

The last follow-up question is from Michael Huttner.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just on the deals that you've done in life, I just wondered if you can remind us of the timetable when they come into earnings?

George Quinn
Group CFO & Member of the Executive Committee

Yes. So the outstanding deals we have, QBE is essentially, as of today at least, all closed apart from one country, which is Colombia; should close, I mean, maybe the first of the year next year, fairly early in the new year latest. On the Australian transaction, of course, we are -- I mean, we're subject to what the ANZ has to do with, I mean, a fairly complex fee integration of 3 different components. I think the guidance they've given the market is end of Q1. So I mean, I would have -- I have no additional information beyond that. And Adira, I think we're expecting that to close early in the new year. Those are the key dates for the transactions.

Gianni Vitale
Senior Investor Relations Officer

Well, that was the last question. So thanks a lot for dialing in. If you have any further questions, please don't hesitate to call the IR team.

And with that, thank you very much and have a good -- goodbye. Have a good day.

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.