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# Transcription

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**Speakers: Stephen Hester and Scott Egan**

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## Presentation

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### Operator

Hello and welcome to the RSA Q3 2017 Trading Update call. Throughout the call, all participants will be in a listen-only mode, and afterwards there'll be a question and answer session. Just to remind you, this conference call is being recorded. Today I am pleased to present Stephen Hester, Group Chief Executive; and Scott Egan, Group Chief Financial Officer. Please go ahead with your meeting.

### Stephen Hester

Yes, good morning everyone. Thank you very much for joining us for our Q3 trading update. I will make a few introductory remarks, then Scott will highlight some of the figures that we've put out this morning; albeit obviously, it's not full quarterly reporting, so they're relatively sparse, but should give you a decent picture. And then obviously, we'll be happy to take any Q&A that you may want to cover.

I think what I could say by way of introduction is that the RSA story in our view continues intact, a story of good progress. We're reporting again continued favourable movement from customers, albeit at the modest end, as we target and expect, and a further advance in profitability coming off our all-time records of last year.

And behind that picture, there are many things that are going on to improve the Group further, and we believe that will show through again in the year to come. And the results are bolstered by excellent results across the Group, with the exception of the UK, continuing the first-half trends with every single one of our units apart from the UK above last year, and above where we had thought they were most likely to be this year. And you can see, and Scott will cover, some of the detail behind that.

With respect to the areas of less good performance, the points were all mentioned six weeks ago when we had an interim trading update. The main issue is hurricanes. I feel embarrassed to even mention that when we look at the sort of Swiss Re-type results today and the results from all the other insurance companies. £50 million isn't very much in the bigger scheme of things, which is the provision we've made, and we can talk about actually what lies beneath that and the variability in the reinsurance. But in the big scheme of things, while we didn't really want to drop £50 million in the Caribbean, I think it's neither here nor there, and there's no particular reason to believe that's a recurring item.

Beneath the surface of that, as I mentioned there are good things throughout the Group, and there were some things that held us back in the first half and continue to hold us back in the second half in the UK, mainly around escape of water in household and some higher large loss experience, mainly in our international marine portfolios, which is better than the second quarter but still not as good as it should be. And again, we can talk about those. We're taking action in respect of all of those, we think we will make those better next year than they were this year, and we can go over that.

So, nothing in life is absolutely without setbacks, but I think that we have been fortunate to have most of our business performing very well, and can absorb comfortably those areas of setback that have occurred in the third quarter. So, Scott, do you want to carry on?

### Scott Egan

Yes, perfect. Thanks, Stephen. Good morning, everyone. As usual, I'll give a brief summary of the Q3 performance. Overall Q3 trends across the Group have been broadly consistent with those reported at half year, with the exception of the US and Caribbean hurricanes. Group profits are up versus a year ago, and our capital position remains strong, with Solvency II coverage above our target range.

Turning to the details, I'll start with the top line. Our Group net written premiums were up 8%, or 3% at constant exchange rates. The third quarter has seen a continuation of the positive top-line trends we reported at the half year. Volumes accounted for 1% growth, with rate increases adding a further 2%. Premiums in Scandinavia were flat at constant exchange, while Canada premiums are up 5%. Growth continues to be strong in Canada in the personal broker channel, and Johnson's has now delivered

its second consecutive quarter of organic growth and now reports overall year-to-date volume growth. UK premiums were up 4%, and included continued growth in our motor telematics proposition. Premiums in Ireland were down 7%, reflecting ongoing actions to restore the profitability, and these actions have included average rate increases across the business in the mid-teens. And finally, premiums in the Middle East were up 7%.

Turning to profitability, whilst we don't disclose specific numbers in Q3, we can say that overall year-to-date profits are ahead of the same period last year, and this is despite being held back by Q3 underwriting results. At an overall Group level, underwriting results are a little weaker than prior year, driven by adverse UK results, although the overall attritional loss ratio is slightly improved. All regions reported a stronger underwriting result than a year ago, with the exception of the UK. Here, the results have been impacted by the US and Caribbean hurricane events, as well as continuing adverse household and large loss experience. We are implementing strong pricing and other actions which will improve household performance as we go through 2018. The elevated UK large loss trends, which were improved from Q2 but still worse than long-term averages, have been particularly driven by our marine and international portfolios, as well as certain UK domestic broker schemes. We're taking underwriting action to address these areas.

Coming to weather losses, the Q3 discrete weather ratio was 4.7%, more than 1.5 percentage points above our long-term averages. Included in this is a £50 million provision against the US and Caribbean hurricanes, and due to the nature of these events, claims notifications have developed slowly, particularly in relation to Storm Maria in Puerto Rico, and we have around £40 million cumulative notified claims to date. Our expectation is that the £50 million provision may increase as the picture becomes clearer, but our aggregate reinsurance protection provides cover for Q4 event losses, i.e. losses over £10 million. In this regard, our current position against the retention on this contract limits further Q4 exposure to the hurricanes and/or large events to around £20 million.

Large loss experience was 10.9% in the discrete third quarter, slightly better than the second quarter although still worse than long-term averages. The elevated trend has been driven by the UK, as discussed earlier, with all other regions being broadly in line with planning assumptions overall.

Below the underwriting result, our investment performance was consistent with the most recent guidance of around £350 million for full year 2017, and as usual we will provide fully updated guidance for 2018 and 2019 income at the full-year results in February.

Non-operating items also continued to be in line with our expectations and existing guidance. However, at this time of year we are busy working through updates to our business plans, and part of this involves looking for opportunities for further cost takeout. Although it's too early to be definitive at this stage, if we can identify valuable short- to medium-term opportunities then we may book higher restructuring costs this year than our existing guidance of around £100 million, but with an accompanying increase to cost targets. We will update on both at the full year but, as a reminder, this year will be the last year of these below-the-line restructuring costs.

Turning to the balance sheet and capital, tangible net assets of £2.8 billion were broadly flat during the quarter, and the Group's Solvency II coverage ratio was 161% compared to 163% at the half year. The main Solvency II movements comprises underlying capital generation, restructuring costs, bond pull-to-par as per our previous guidance, and a notional dividend accrual consistent with previous quarters. Market movements in the aggregate were minimal. That concludes my review of the quarter. I'll pass back to Stephen and open up for questions.

## Stephen Hester

Terrific. Thank you very much, Scott. Operator, do you want to go over to the Q&A bit?

## Q&A

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### Operator

Thank you. Ladies and gentlemen, if you would like to register for the Q&A please press 01 on your telephone keypad now. Once again that's 01 on your telephone keypad to register for a question. We'll have a brief pause while questions are being registered.

And we have the first question from the line of Nadine Van Der Meulen from Morgan Stanley. Please go ahead, your line is now open.

### Nadine Van Der Meulen

Good morning, and thank you for taking my questions. On the £50 million provision in the UK, I would say firstly, could you remind us of your reinsurance protection and the loss protection you have left for potential large losses in the fourth quarter? And on the £50 million provision, you mentioned that we could expect an increase there; maybe you can comment on that?

And on UK household, you mentioned strong pricing expected and other actions in 2018. What other actions are you referring to, and how strong can the pricing be? Thank you.

### Stephen Hester

Terrific. Thank you, Nadine. I'll take the second, and ask Scott to cover the first. In terms of household: as we've mentioned – in a sense, there's no new news at all from the half year. You'll recall in the first half, L&G, I think, reported a ten-point step-out in household attritionals; Direct Line reported an eight-point step-out in attritionals; our experience is broadly in the same sort of bracket, and so we're taking two sorts of actions in relation to that. The first is pricing action and the second is claims action, where we think that we have some opportunities to tighten our claims processes and get some improved results. And so, those two things will benefit us. There's obviously a timing lag; a) there's a lag in terms of putting price into the market, and b) there's a lag in terms of that price earning through, which is why we think that improvement will be not be visible until 2018. But if I gave you the market index, for example – this is just aggregated, so it's not reflective of all the pricing – but the price of household insurance on the aggs was about 3% up at the half year, and is now about 9% up year on year for the market as a whole, so you can see the market as a whole reacting on price. We think it has to react by more than that, and our pricing is up by more than that, but we have a series of lags, particularly in our affinity partners where we have to do that by agreement, which, as I say, means that the improvements will come through in 2018. And indeed, probably in 2018 we won't earn it all completely back, and there'll be a tail into 2019, depending a little on how it goes.

So, I think we're comfortable that we know what action to take and we're taking the action, and it's a question of the time lag. Obviously, with the full-year results of everyone else, we'll see where other people are in that regard. But it looks, as far as we can tell, like an industry-wide issue. Do you want to, Scott, talk about the reinsurance?

### Scott Egan

Yes, thanks Stephen. Hi, Nadine. Look, in simple terms the facts are that we've had £40 million of notified claims to date, hence the £50 million provision that we've created at the end of September. Our view, particularly given Storm Maria, where we've had little or no real claims notifications to date, is that that will develop, and therefore that's what's behind our comment that we expect this to increase. However, our volatility cover at a Group level means that if £50 million became £70 million, then we would be in recovery territory for our Group volatility cover. So, I think those are the facts as we know them today, and I guess to try and speculate as to what it might be in absolute terms would be, to be some extent, guesswork. But as I say, our view would be that it would increase from £50 million, given what I've just said.

### Stephen Hester

And it's worth underlining that if we use up the headroom on the storms, on the hurricanes, that means that we have full protection against £10 million-plus events from any other source in the balance of the quarter, and it would be unusual to go through a winter quarter without at least one other source of that. So, it gives us some protection against bad things in the rest of the year.

### Nadine Van Der Meulen

Okay, thank you very much. Maybe one quick follow-up question on the UK with regard to the Ogden rate. If we, indeed, see revision upwards, what would the impact be? Can you comment on that?

### Stephen Hester

Well, I have to say I'm quite hesitant about Ogden, not because the government doesn't intend to improve it but, as we can see, the government's ability to get legislation through parliament on a timely basis is rather constrained by Brexit and all of the other things that are going on. So, I think it would be fair to say that we're not holding our breath. On the other hand, I think what's also fair to say is that settlements that are occurring in the market, ahead of any change of Ogden, are occurring at much more favourable rates than the official Ogden rate, as claimants realise that playing for time is not in their interest. And so, every quarter we're getting through some not insignificant benefits of actual settlements, relative to what the theoretical Ogden price would be. So, I think if it lands in the sort of 0–1% – I think, if you recall, we took £45 million of provisions at the beginning of the year, so might it be half of that back or something like that? It's sensitive to, obviously, exactly where you lie in that range.

### Nadine Van Der Meulen

Thank you very much, very clear.

### Operator

The next question comes from the line of Anna Hui from RBC. Please go ahead, your line is now open.

### Anna Hui

Good morning, two questions from me, please. First, could you comment on the progress on your cost-saving plan, the £400 million by 2018?

And secondly, you mentioned some potential restructuring costs in 2018, but it's too early to give any guidance. Can you add a bit more colour on what they relate to, and the geographies that you're looking at? Thank you.

### Stephen Hester

Sure. As Scott mentioned, we don't want to front-run our full-year results, but certainly our goal is to be able to increase our cost-saving targets at our full-year results. And if we were able to do that, then as Scott mentioned, we'd probably spend a bit more on restructuring this year in order to enable that, since we don't want to have restructuring charges in the P&L going forward. But we don't have any numbers that we can really talk about at this stage, because we're at the intense moment of every year when all of our businesses are in dialogue with us about what can be done next year and the two years that follow. But that's certainly our goal. Obviously, while I think we can take good underwriting activity in the areas of shortfall this year, I think it would be sensible for us to plan on higher large losses next year; not as high as this year, but higher than we might have done before, and we need to provide a cushion to offset that. And obviously, cost is the highest quality cushion that we can do. So, that's the shape of what we're trying to come up with; subject, obviously, to updating in February.

In terms of the locations of savings, basically – and we've given longer-term ambitions in terms of cost ratios – I think that there is not a single one of our businesses that can't make progress on costs, both in absolute terms and in cost ratio terms. And so, our objective would be to have improving cost ratios every year for the next several years, and the question is exactly by how much, and that's what we're wrestling with.

### Anna Hui

Okay, thank you.

### Operator

The next question comes from the line of Andrew Crean. Please go ahead, your line is now open.

### Andrew Crean

Good morning, all. One clarification and two questions, if I can. Clarification: when you said profits were ahead at the nine months, I assume that was underlying profit rather than pre-tax?

### Stephen Hester

Yes.

### Andrew Crean

And then two questions were: on the expenses, could you talk a bit about expense ratios after nine months?

And secondly, given the fact that your profits are impacted this year by hurricane or one-off activity, does that have any implications on the dividend payout?

### Stephen Hester

So, first, the profits would be up both on an underlying and on a headline basis.

### Andrew Crean

Thanks.

### Stephen Hester

On hurricanes, I don't think there's a direct feed through. We have a range of payout of the 40–50, and we haven't made a dividend decision, and obviously we need to look and see what we think about next year's profits and how the quarter ends and so on and so forth. But per se, if we thought we had something that we ought to say about dividends, I think we would have said something now in the statement, so the board certainly hasn't reached a determination or put any particular warning flags around that. Scott, is there anything you want to say about expense ratio for the nine months?

### Scott Egan

Look, our expense ratio, I think in absolute terms, Andrew, is running ahead of where we would be, and I think that's always an ambition is to keep outperforming it. I think the trends that you saw in terms of year-on-year at half year have continued into Q3 in terms of that level of outperformance year on year. And then linked to what Stephen said is we want to do it even better; they're still above our medium-term aspirations in terms of an expense ratio, and therefore that's why we're pushing the businesses hard to look at ways in which they can be more productive, take out cost and, in turn, use digital, etc. to both enhance the customer journey as well as make us more efficient.

### Andrew Crean

Thanks.

### Operator

The next question comes from the line of Greig Paterson. Please go ahead, your line is now open.

### Greig Paterson

Morning, everybody.

### Stephen Hester

Morning.

### Scott Egan

Morning, Greig.

### Greig Paterson

Can you hear me? All right, cool. Actually, four questions, and you might even consider them five, but they are short ones. So, one is, I saw there was an acceleration in rates in Canada in the fourth quarter; I wonder if you could just tell me where that was and why we've seen an acceleration?

Your marine and international –

## Stephen Hester

Greig, can you – you're very, very faint, at least to us. Can you try and talk more into the phone or something?

## Greig Paterson

Perfect, can you hear, is that better now?

## Stephen Hester

That's a bit better.

## Greig Paterson

Okay. Basically, Canada, there's been a rates acceleration in the fourth quarter, year-on-year rates acceleration. I was wondering where that was and why?

And in the marine and international, you're now pointing to concerning large loss claims trends and underwriting action; in the half year, you weren't. You're going to take underwriting action; I was wondering how much net written premium is at risk here, in terms of the top line?

If you could speak about the commission ratio?

And also in home, if you could just update on where we are with Nationwide?

And also, I appreciate you're putting rate through. I was just trying to – if you could give us an update on what sort of retention. Have you seen a dramatic reduction in retention because you're pushing through rates, or is everybody else pushing through rates as well, etc.?

## Stephen Hester

Sure. On Canada, the main area of rate is motor. The motor portfolios for the whole Canadian market have deteriorated in last two years, the motor loss ratios, and so the cycle of rate reduction that was regulatory-imposed has turned to now rate increases. So, for example, this time last year we had a 5% rate reduction in our Johnson business, which is our biggest motor portfolio. All of our motor portfolios are going to have rate increases during the second half of this year; some have happened, some are in the fourth quarter and some will be in the first quarter of next year. I think it's mainly swings in the motor cycle in Canada which, as you know, impacts everyone in the market is a sort of regulatory swung market.

In terms of your two other questions, the marine and international large loss experience in the UK – and again, just for those who may be less close to it, about 25% of the premiums that we report under our UK business segment are in fact non-UK business. I.e. it's a London market, we have some European branches, and we write London market business, which is all over the world, in certain specialities that we have. Marine is a speciality, renewable energy is a speciality, some elements of property and so on. So, that is why it's labelled UK, if you see what I mean. A better label would be 'London market business'. And specifically in the first – I say the first nine months of this year; in reality, we're talking about a period of May to September – we have had above-trend large losses in European property and in marine cargo. Now, because 60% of the UK's business is commercial lines, and it's broadly mid to large commercial lines, less SME, that is always going to be a more volatile large loss business line, which is obviously damped overall by the whole Group having a higher personalised weighting but not in the UK. And by way of reference, we budget for about £300 million of large losses in the UK alone every year. And so inevitably, you get random volatility.

Nevertheless, I think specifically in European property and marine cargo, which is the two places that have hurt us, there's an element of random volatility and there's an element of things that we can underwrite out. The good news about both of those is that you can take quite quick underwriting action. In the case of Europe, the vast majority of business renews on 1/1, and therefore we can take underwriting action effective at 1/1. And in marine, although it renews through the year, you can take that quite quickly. As I say, in this case it's marine cargo. We don't expect large premium impacts from that. A) I think there's more likely to be a harder market in some of those areas. The London market as a whole is not doing well in marine cargo, obviously things like the hurricanes don't help marine cargo. So, at the moment, our view would be that that wouldn't materially change the outlook for premiums for next year.

In respect of Nationwide, we have a current go-live date, which is the same as it's been for the last several months, in early December. Letters have just been sent out to customers notifying them of that, so subject to any last-minute computer glitches, that's when we're expecting to start both renewal and new business on the Nationwide portfolio, and that will obviously then earn-in over 2018 and 2019.

In terms of pricing in household, the impact of pricing actions on retention depends on what everyone else does. So, as an example, as I mentioned, the index of aggregator pricing is up 9% year on year, having been falling in previous years. So, if you were simple about it, you'd put your prices up 9%, you might expect no impact on retention because everyone else is doing the same. Obviously, the trends in different channels might be slightly different. I think that we want to be fairly aggressive on pricing action, but not stupidly aggressive in what is inherently a good book, so we might rate ahead of the market and we might take a small amount of retention reduction. But again, at this stage, we're not forecasting major changes on our 2018 outlook.

### Greig Paterson

And then sorry, just on the commission ratios.

### Stephen Hester

Yeah?

### Greig Paterson

Can you make any comment on where commission ratios are for the nine months versus the half year?

### Scott Egan

Yeah, they've been pretty much stable with what we said at half year, Greig. And you tend not to get quarterly swings that would be that dramatic, in that the mix of our business by channel tends not to move that dynamically, so very consistent with what we saw at half year.

### Greig Paterson

Excellent. Thank you very much.

### Operator

The next question comes from the line of Arjan van Veen from UBS. Please go ahead, your line is now open.

### Arjan van Veen

Thanks, gentlemen. Just a follow-up question on large losses. You commented in one of the expense questions earlier that you're looking to increase your budget for large losses, so I was just curious as to where you're seeing ongoing, and where you've may need to change assumptions? And you discussed that the UK operations just now, but previously you also had issues there in Canada, so could you maybe give a bit more colour in terms of whether you think it's normalising a bit more in other areas outside the UK?

And then the second question on UK growth, it's coming from the motor book in terms of telematics by the sound of your comments, so if you could give some colour as well around the experience, and your comfort in growing that segment aggressively.

### Stephen Hester

Obviously, telematics is in effect a limited-sized market, because it really doesn't go much beyond young drivers, so there's a limit to its ultimate growth. But nevertheless, we have been growing well, although I'm sure that growth will slow down. And as at the moment, the combined ratio continues to be on the favourable side of our plans, and so we're happy with that.

In terms of large loss planning: to be honest, because there's, if you like, a random element to large losses, our central planning tool is just to work on long-term averages unless there's a specific portfolio change. And therefore, if we'd had a bad year, the long-term average would get worse, and we would naturally just make a higher planning assumption for the next year. If we



pulled out of an entire business line, we might adjust that, but if we're just taking underwriting action, we will assume that the long-run average, which would be slightly higher, will go. So, I'm not really making a more precise comment, to be honest, than that. Our objective would be to cure the problem with underwriting action, but that's not how we will plan. I think away from that, also in the UK, as you would expect post-Brexit we have increased our inflation assumptions for a few years, which can impact some of the long-tail line assumptions like liability. And there's an element of assumption-driven provisioning, which in turn makes us want to increase commercial insurance rates in areas like liability in the UK as well. There's nothing weird about that; you'd expect that just looking at the headline inflation rates. But that would be the other thing that one would look at.

You mentioned Canada. We did have four large losses in property in the first quarter; those have not continued in quarter two or quarter three, in part because we're taking underwriting action. But again, my guess is in Canada we will have slightly higher budgets next year for large losses, simply as a function of the long-run averages.

### Arjan van Veen

Okay, thanks. That's very clear, thank you.

### Operator

The next question comes from the line of Thomas Seidl from Bernstein. Please go ahead, your line is now open.

### Thomas Seidl

Yeah, thank you. Good morning. The first question is on pricing in the UK. I think on page 1, you say you took a rate action of 1%, but then you're quite bullish on your price actions in home, so can you just comment on the price actions you have achieved in the other UK segments to get to an overall price increase of just 1%?

On home specifically, my second question, you say 9% up. At Q1, prices were down across the market 4%, so does this mean the market has just woken up in Q2, and is now pushing through very strong price increases? What is going on in home? The price signals do not quite fit together, in my opinion.

Thirdly, on reinsurance, Baden-Baden was last week. Can you comment on what you have seen in terms of your own reinsurance purchase? Are you expecting more to spend on the back of those nat cat losses for your book?

And the final question on reserves, you basically say you continue with releases in line with half-year trends. Does it mean the 2.8, which was above guidance, or more the underlying, which was between one and two as you commented at H1? Thanks.

### Stephen Hester

Okay, thank you. In respect to your first question on UK pricing trends overall and the household, obviously it's hard for us to know what the market as a whole is doing definitively, because in household you can see aggregator pricing but a lot of business is sold away from aggregators, including all of our business, through affinity channels and so on, so you can't be certain about the whole market. So, all I simply said was if you look at the aggregator price index, that is now up 9%. And you're absolutely right, it was not up in the first quarter. So, there has been some acceleration, a lot of it occurring in the third quarter. And as I mentioned, when you look at the Direct Line and Legal & General, eight- and ten-point step-out of attritional loss ratios that were reported for the first half, assuming that market participants are seeing that sort of thing, you'd expect pricing to be accelerating in response to it. And that's what appears to be happening, albeit there's imperfect data on the market as a whole. But because there tend to be lags on pricing – number one, there can be three months of lag between when you want to do it and when actually starts hitting books. And number two, there's obviously a significant lag between written premiums and earned premiums. It doesn't come into the business mix except with a significant lag, which is why I said we don't expect 2017's results to show an improvement; we expect the prices to show through in the earned premiums in 2018, and then through further into 2019.

On the reinsurance question, I think we said in our statement that we basically don't know. And that is to say that what's clear is that insurance pricing that is nat cat exposed, and particularly hurricane exposed, will get some significant increases, both primary pricing and reinsurance pricing. And obviously, you see across the market some very, very big losses from those nat cats, which as I said earlier on, make us a peanut in that regard. What is genuinely unclear is the extent to which that will move through into other wholesale lines, of a non-nat cat Caribbean nature. I think given that the vast majority of our business is

nothing to do with the Caribbean, I don't think at this stage we are expecting major changes in reinsurance rates, but I think it is fair to say there's fluidity. And we are slightly torn in what we want, because in a sense, if reinsurance rates do harden, it will also mean that we can harden commercial rates, which we would love to do, away from the specific Caribbean. And so, I think everyone is slightly staring at each other and wondering what is going to hold, and if you asked me purely to guess, I would say there will be some hardening in more wholesale international lines, but there probably won't be much hardening in pure domestic lines in different territories, where there hasn't been particularly elevated experience. But that is, at this stage, a guess.

### Scott Egan

Yeah, on PYD, Thomas, just to say that the levels have continued broadly at those that we saw at the half year during quarter three, but I think there is always an element of randomness to that, and there is no reason why it should continue at that into Q4. It could be higher, it could be lower, and I think the thing that I would say is our long-term planning assumption around PYD in itself doesn't change, but we would expect it in any one year to be higher or lower than that.

### Stephen Hester

But in effect, that is one of the things that has been cushioning some of the other areas of underperformance in the UK. It just simply wasn't enough to cushion the hurricanes as well.

### Thomas Seidl

And on home, if I may follow up on home, could you just simply tell us how your average premium per policy has developed?

### Stephen Hester

The average premium per policy can change because of risk mix change, and so on and so forth, so that's not very helpful. But our rating goal is 10%-plus. It varies a lot by portfolio, because there are some that need more than others, but it would be 10%-plus as we go into next year. But that will go through gradually into the first quarter of next year.

### Thomas Seidl

Okay. Those price changes are mainly coming next year, you are saying?

### Stephen Hester

Well, as I say, it filters in, partly due to the lags, so some of it is coming this year and some of it in the first quarter next year. Some of it's already in, and it is coming in over a period between the quarter that is just gone and the end of the first quarter next year. Over that nine-month period, it will be feathered in at a slightly different pace according to portfolios and what the affinity arrangements are and who we have to agree with, and so on.

### Thomas Seidl

All right. Thank you very much.

### Operator

The next question comes from the line of Fahad Changazi from Mediobanca. Please go ahead, your line is now open.

### Fahad Changazi

Good morning, just quick points for completeness. In terms of the international and marine portfolio, which you are looking to trim back, could you just give us some indication of the historic profitability of that portfolio, notwithstanding the elevated large losses we saw in H1 and Q3?

And just very quickly, could you also comment quickly on the UK motor pricing, given all these comments that we had about the Ogden rate being revised? Thanks.

### Stephen Hester

I don't have – I don't have to hand, anyway, the cargo – as I say, it's marine cargo specifically – and European profit. Both of them were profitable last year, but I don't actually have what the number is, unless Scott does?

### Scott Egan

No, I don't have it, but it was profitable.

### Stephen Hester

In UK motor, obviously there was specific motor price action around IPT going off and Ogden going up, and you would expect that price action to be largely in the market now. I think there is likely to be some ongoing price action from basic inflation, because post-Brexit you do have significant car parts inflation, as a lot of that is imported, and as cars have more electronic gizmos and so on and so forth in them, and so people will want to rate to keep up with that. But you'd expect that to be a more modest rate than the IPT and Ogden impacted rates.

### Fahad Changazi

Okay, fair enough. Thank you.

### Operator

The next question comes from the line of [Inaudible] from Exane BNP Paribas. Please go ahead, your line is now open.

### Speaker

Good morning, just two questions left from me. One is, just thinking about the beginning of Q4, Hurricane Ophelia: did that have any noteworthy effect on the Irish business at all?

And then a second question just on Scandinavian volumes, obviously down 2%. I was just wondering what the underlying drivers of those are, if any? Is this market, is this your share of market, is this retention, is this new business? If you could give any colour on that, that would be very helpful.

### Stephen Hester

Sure. Ophelia, we think, cost us something less than €5 million in Ireland. How much less is a little bit unclear, but anyway, it's a less than €5 million event as far as we can tell. And there's been nothing else that we haven't talked about in October, as we see October at the moment, and obviously we don't have the proper October results.

In terms of Scandinavian volumes, actually I think the picture in Scandinavia is better than the headline, if I can put it that way. Partly this is a relative game, and if you took an index of Tryg, If and Gjensidige, which are the other three of the big four, us being the fourth in Scandinavia, ex-acquisitions everyone is in a headline growth of 0–1%-type territory. But when you unpick ours, it's a very small business; we have decent growth year on year in Norway, but it's a sort of rounding error in terms of the numbers. Our most important business lines in Scandinavia are our personal lines, and in both Swedish and Danish personal lines we're now not just getting price growth but we're also nudging into positive volume growth. And so, the negative volume growth is concentrated in commercial lines, the biggest amount of which is the volatile bit of Danish commercial lines, which is what we call tech lines: renewable energy and things like that, where it's a volatile series because we write some quite big short-term construction contracts, and depending when those are signed it can go up and down a lot. That's the biggest number. But underlying that, because our commercial lines businesses are less profitable than our personal lines businesses, we're taking more action in them than we are doing in our personal lines business, which you'd expect to have slightly negative volume impact. So, I am actually reasonably content with Scandinavia in the broader context, but that's what's going on underneath the covers.

### Speaker

Very clear, thank you.

### Operator

As a reminder, if you would like to ask a question please press 01 on your telephone keypad now. And the next question comes from the line of Andy Hughes from Macquarie. Please go ahead, your line is now open.

### Andy Hughes

Hi guys, just three questions, if I could? The first one was about the large claims, I think you said up to September. Are you making a reference to it perhaps being a bit better in October, or are you just saying, 'That's the latest data we've got'?

On the large claims, I guess quite a lot has changed since the half year, because I guess at the half year we said these were unusual, not expected to recur. Now we're saying, 'Okay, we've got a problem in the London market business specifically.' Perhaps you could give some numbers about how big the London market business is, and how big the large loss ratio is on that? Just so that we can get an idea about what might be achievable and what might not be achievable in terms of price increases in the 1/1 January renewals to get this back to normal.

And does this change your view of what the UK best-in-class combined ratio is, given that you've got this business in the London market which, presumably, the best-in-class combined ratio for this is probably going to be a bit higher than the average for the rest of the business going forward? Thank you very much.

### Stephen Hester

Thank you, Andy, very good questions. In terms of our target on best-in-class combined ratio, that will not be changing. It might take us slightly longer to get there, but it's certainly not going to change.

In terms of the, if you like, large loss area: to the extent we're aware of October – obviously, as I say, the books aren't formally closed – we don't appear to have had excess large loss activity in October. As I say, so at the moment we had excess large loss activity May through September in those two areas. Only, frankly, the full passage of time will tell us exactly how much of that was completely random and goes away, and how much of that we need to take underwriting action. But our working assumption is, let's take underwriting action anyway. Now, a bunch of the underwriting action is nothing to do with price, it's just looking at those areas where we've had excess large losses and saying, do we even want to write some of those areas? So, some of it is just lapsing some business, albeit not a lot of premiums but some business that was costly. And I mentioned, at the half year, one of our UK broker schemes which has cost us £20 million this year that we will lapse into next year. So, I think that's broadly the way that we would look at it. Wholesale business is more volatile, that's its nature. You're writing larger losses with larger lines, and so you have to expect that. And so, we're taking the right action and, as I said, I expect things to improve materially next year. They may improve materially in the fourth quarter; October's certainly encouraging. But whether or not they do, we'll be taking action in any event.

### Andy Hughes

Can I ask – sorry, I have another question on the Ogden discount rate and the prior year as well that I forgot to ask. Which is, if you're settling the Ogden claims at a higher discount rate than you booked, as you said recently, shouldn't the prior-year releases have gone up as a result of people settling Ogden at a higher rate? Thanks.

### Stephen Hester

Sorry, I see what you mean. I would say, given that these are very long-tail lines, it just doesn't move the dial very much in any one period.

### Andy Hughes

Okay, thank you.

### Operator

As there appear to be no further questions, I'll hand back to the speakers.

### Stephen Hester

Excellent. Well, thank you very much for joining us. You know where to find us if you have any subsequent questions. And we look forward to engaging with you again at the full-year results. Much appreciated.

### Operator

This now concludes our conference call. Thank you all for attending, you may now disconnect your lines.