Q4 2015 Earnings Call

Company Participants

- David Cole
- Guido Fürer
- Matthias Weber
- Michel M. Liès
- Philippe Brahin

Other Participants

- Andrew J. Ritchie
- Daniel Bischof
- Frank Kopfinger
- In-Yong Hwang
- James A. Shuck
- Kamran Hossain
- Olivia Brindle
- Stefan Schürmann
- Thomas Fossard
- Thomas Seidl
- Vikram Gandhi
- Vinit Malhotra
- William Hawkins
- Xin Mei Wang

MANAGEMENT DISCUSSION SECTION

Operator

Good morning or good afternoon. Welcome to Swiss Re's Full Year 2015 Results Conference Call. Please note that today's conference call is being recorded.

At this time, I would like to turn the conference over to Michel Liès, Group CEO of Swiss Re. Please go ahead.

Michel M. Liès

Thank you very much. Good morning or good afternoon, everybody, and welcome to our 2015 annual results conference call. I'm here with David Cole, our Group Chief Financial

Officer; Matt Weber, our Group Chief Underwriting Officer; Guido Fürer, our Group Chief Investment Officer; and Philippe Brahin, our, I should say, Group Head of Investor Relations.

As you have heard this morning, I will retire from my position as Group CEO after more than 35 years at Swiss Re and at the end of, I would say, a successful five-year target period. I'm delighted that Christian Mumenthaler will become new Group CEO as from July the 1. Christian has been a great contributor to the success of our group. He has a deep understanding of our business and a rich experience to implement the group's strategic framework we introduced last December.

To recap on 2015, let me give you an overview of the results we published this morning. As you have seen, 2015 was another successful year for Swiss Re. We reported a remarkable net income of $4.6 billion. All business units contributed positively to these results. There was also a strong contribution for investment with the return on investment of 3.5%. Our group capitalization remains very strong with an estimated group SST solvency ratio around 205%.

Property & Casualty Reinsurance maintained its underwriting discipline and delivered a very strong return on equity of 22.2%. Life & Health Reinsurance met its 2015 target and delivered a return on equity of 15.7%. Corporate Solutions focused on delivering on profitability with a return on equity of 14.8%, at the upper end of its target range. Finally, Admin Re reported strong gross cash generation and a return on equity of 7.5%, also at the upper end of its mid-term target.

On the basis of our performance and strong capital position, the board will propose a regular dividend of CHF 4.60, which represents an increase of 8.2%. The board will also seek authorization for a new share buyback programme of up to CHF 1 billion conditional upon available 2016 excess capital. These capital actions will enable our shareholders to continue to participate in our success. Today, we also reported on our January renewals, which represent more than half of our Property & Casualty treaty book, but less than a third of our diversified revenue streams.

The market conditions remain challenging. And we will continue to differentiate our offering through our financial strength, our expertise, and interactive client relationship model. We remain confident about the underlying quality and long-term performance of our books and confirm our group and business unit targets over the cycle.

With that, I'll hand over to Philippe Brahin, Head of Investor Relations, who will introduce the Q&A session.

Philippe Brahin {BIO 19081619 <GO>}

Many thanks, Michel. Good day also to all of you from my side. Just before we turn to the Q&A, I would like to remind you to please restrict yourselves to two questions each and register for follow-up questions, so everybody has a chance to ask a question. I would also invite David Cole, our Group CFO, to guide us in conducting this Q&A. So, with this, operator, could we please take the first question?

Q&A

Operator

The first question comes from Xin Mei Wang from Morgan Stanley. Please go ahead.

Q - Xin Mei Wang {BIO 20796577 <GO>}

Hi. Good afternoon. My first question is on the buyback. As of last year, it's dependent on the availability of excess capital in 2016. I'm wondering how you look at that excess capital because, I suppose, if I look at it, the 205% SST, that's comfortably above the 185% risk tolerance level. Is it different to deployable excess capital or should we think about it in relation to the previous message that a 200% ratio is equivalent to $3 billion to $5 billion above S&P AA?

And just to tag onto the end of that, you mentioned that the buyback will be launched if no major loss event has occurred. What do you consider a major loss event? And would it be something over and above the $1.5 billion nat cat budget? My second question is on the growth in U.S. casualty. Given the interest rate outlook, I'm interested in how you see the return on capital employed today compared to, say, one year ago or compared to your pre-2007 levels. Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you very much. Perhaps I'll take a stab at the first question and then ask Matt to come back to the second question. So, let me just first speak very generically. So, indeed, you see that our board will propose to the shareholders meeting in April this year the authorization of a new share buyback programme similar with last year's request, also for a one-year period up to a maximum of $1 billion. I think we've all have seen now during the course of 2015 leading up to when we actually launched our current share buyback programme, it's important how we communicate this to all of our stakeholders and investors. So, a key message that I'd like to leave with you is our intent regarding the newly to be authorized share buyback programme will operate very much in line with the programme that was authorized last year by the shareholders.

In terms of exactly what constitute a large loss, I think, we have to wait to see exactly what losses occurred, in which context they occur. I think it would be fair to say that if we had another year, remarkable year, in 2016 similar to what we've experienced both in 2015 as well as 2014 with a very low level of actual nat cat losses, that would be most likely the type of situation that could contribute to us coming to the conclusion that once again we find ourselves in an excess capital situation.

In terms of your questions around SST and S&P and excess capital levels, then I'll just reiterate the communication we've done earlier that, indeed, a S&P AA plus $3 billion to $5 billion is roughly in order of magnitude SST of 200%. These are two different systems.

So, they don't necessarily always operate in lockstep. But I think it would be fair to say, in conjunction with a SST around 205%, that we also again remain comfortably in excess of the S&P AA plus $3 billion to $5 billion. So, with that, let me turn it over to Matt for the second question.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. Good morning and good afternoon also from my side. First, if you think my voice sounds a little bit deeper than it usually does, I'm not trying to impersonate Barry White. I am suffering under a cough. And I hope that nevertheless you can understand me quite well. Sorry for that.

With respect to your question related to U.S. casualty business, we do not disclose return on equity numbers by line of business. However, comparing this year's renewal with what we have seen one year ago, I would like to note that, in U.S. casualty, we have seen related to general liability and umbrella a flat pricing environment. And related to motor liability, we have seen increases between 5% and 10%. This in reaction to the reserve strengthening that some players in the industry, including also Swiss Re, have been taking.

Q - Xin Mei Wang {BIO 20796577 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you. Can we go to the next question?

Operator

Next question comes from Daniel Bischof, Baader-Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Good afternoon. Two questions, please. The first one is on the renewals. So, you reported 16% growth in tailored transactions. Could you provide a bit more details? I mean what the drivers were behind the growth there? I'd be interested to know what the client's motivation was. Was it solvency related? Were there other reasons?

And then, secondly, on Corporate Solutions, my understanding is that the 101% combined ratio forecast is also a high level, given the buildup of the own network. However, even, let's say, at the lower level of excluding this, the ROE target of 10% to 15%, looks quite ambitious. So, could you talk about how you see the two targets and why they're consistent?

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, with respect to the renewal, the motivation for the tailored solutions and the large transactions we have been selling, the main motivations were capital-driven and volatility concerns that our clients needed to address. The 101% estimated combined ratio for 2016 is still in line with the return on equity target range of 10% to 15% overall. Please remember the 10% to 15%, that's a long-term average. We are now more in the softer piece of the market cycle, which means, with a 101% combined ratio, I would expect Corporate Solutions to end up more towards the lower end of this range, but still in the range.

Q - Daniel Bischof {BIO 17407166 <GO>}

All right. Thanks a lot.

Operator

Next question comes from Kamran Hossain, RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. I've got two questions. The first one is just on Admin Re. I know there's some comments earlier that you were suggesting that there might be more transactions to come for Admin Re in the UK. Can I just ask, following the acquisition of Guardian, how much more headroom do you have to take on credit risk, because I'd think that for kind of that type of transaction you'd need to take on more credit risk?

And the second question for Matt or Barry. Can you just talk us through how you get from the 97% underlying combined ratio that you set out at the beginning of 2015 to where it ended up at the end of this year and kind of what the differences were and then how we should think about adjusting that for 2016, so we get back to the 97%, plus the change? Thanks very much.

A - Michel M. Liès

Okay. Michel here. I start with the Admin Re question, which is a question to the point. It's absolutely fair that the proportion of annuities within the Guardian deal did not bring it over the limits, but that's definitely bringing us in matters of capacity to a certain amount of credit risk. And among the opportunities that we do see in the UK market, it's probably fair to summarize that if we could be effective on the unit-linked opportunity more than annuity one and they are unit-linked opportunities, it would definitely please us quite a lot. We are not full for the annuity, but we would like probably to balance a little bit with unit-linked at this stage.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. The first comment being invited to explain the difference between 99.8% and 97%, of course, feels like a negative thing to do because, at the end, we ended up a little bit higher on an adjusted basis compared to what we expected at the beginning of the year. However, therefore, please let me start with the following statement. The 86% combined ratio is still a fundamentally very good combined ratio. This is true in the context with others, but it's also true in the context of the market and what was possible by the market.

And, of course, if we adjust for prior year development and good luck on the nat cat side, we end up at 99.8%. However, please keep in mind that prior year development is not just a one-off to put aside. It's still underwriting profit. It's just underwriting profit from a different underwriting year, but still extremely valuable. So, how to get from the 99.8% to the 97%, which was the expectations we formulated one year ago approximately? We have three main reasons that explain the majority of this difference. All are about equal in size.

The first is, during the year on the Reinsurance side, we experienced an above-average amount of manmade large losses in the current accident year. This amounts to approximately 0.8% points. Secondly, as a result of the extremely high degree of good luck on the nat cat side, we are missing quite a good amount of reinstatement premium. And in addition to that, especially in Q4, we had to pay higher profit commissions as a result of this low nat cat activity.

This is a second order impact which applied to us already in the past. But this year is the first year where we experienced such a big discrepancy between our actual nat cat loss burden of below US$200 million and what we expected, which is equal to US$1.5 billion. So, as a result of this gap which is bigger than $1.3 billion, something like 0.7% combined ratio points in reinstatement premiums are missing.

And thirdly, I hinted already, this year, we made some adjustments to our reserves for U.S. motor from prior accident years. And these adjustments were more than offset by favorable development from other lines of business. However, when we made this adjustment, we also looked at the current accident year loss ratio and decided to increase the current accident year loss ratio in Q3 and in Q4.

This is not prior year development. But you could describe it as current year adverse development in response to what we have seen in the market. And this impacts the current accident year loss ratio and with this also the combined ratio by 0.6%. So, it's current accident year development, most of it driven by business that was written in underwriting year 2014.

Q - Kamran Hossain {BIO 17666412 <GO>}

That clears it up. Can I just follow-up? Matt, are you not – if you're backing out your reserve releases on one side, do you think it's fair to, I guess, take the hit on the current year adverse developments as well or are you kind of being overly harsh on yourself?

A - Matthias Weber {BIO 21493871 <GO>}

Yes, because prior year reserve development complements current year reserve development. That's the reason why I tried a little bit carefully to explain this difference. So, typically, when we speak of reserve development or prior year development, what we mean is prior accident year development. And here, we are dealing with current accident year development. That does not overlap with prior accident year development. It adds up.

Normally, it does not happen because when we do the pricing analysis, when we do the costing analysis, we feel good about it for at least a year, especially on the casualty side. However, given the recent development, given the recent loss ratio deterioration, we decided to increase our cost and our price loss ratios as quickly as in the current accident year.

A - David Cole {BIO 7251632 <GO>}

Thanks, Matt.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much. Cheers.

Operator

Next question comes from Olivia Brindle, Bank of America. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. Good afternoon. So, on my first question, I guess, just picking up where you left off now on the combined ratio guidance. How do we get to the 99% for P&C Re from where you are now, which, based on, Matt, what you just said, I guess, underlying is really more like 98.3%, if we back out what you might call one-off in the year? So, you're not really pricing in much of the deterioration on P&C Re. And then similarly, on cost, though, if we take 103.6%, some of that was higher manmade claims. So, you're probably already at about 101% or even slightly higher. So, again, how do we reconcile that 2016 guidance with where you are already to the one on adjusted-adjusted basis for 2015?

And then the second question just around the capital. You've disclosed some useful detail on the sensitivities and how that's affected by Guardian, in particular, on the credit risk side. Just wondering if that has any effect at all on how much capital you think you need in terms of the buffer or anything like that. Obviously, your volatility should be slightly higher now. So, wondering if that affects your thinking at all. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thanks, Olivia. So, why don't you let me take the second question first and give Matt a chance to take his breath a little bit? And then we'll wrap back around on the combined ratio guidance 2016. So, in short and it's going to be too short of an answer. Then I'll expand upon it a little bit. Now we've maintained a very strong capital position. We say as a target across the group, 185%, exactly for the purpose of being able to absorb hits to our capital that may come from a number of different sources, including but certainly not limited to volatility on the financial markets. We're operating under the Swiss Solvency Test regime under a system that actually is economical on both sides of our balance sheet.

Now, whenever we acquired Guardian, of course, we were quite cognizant of the fact it would be bringing on additional assets and certainly also additional credit risk. Now what we have now, let's say, seen, having concluded the transaction, is fully in line with our expectations, in fact, if anything, perhaps slightly better than our expectations in one or two specific areas. I'll come back to that, to be frank, at the time of our Q1 announcements because it's a 2016 event.

The figures that we've indicated in the presentation, we thought it was fair to go ahead and show the incremental impact, particularly on the credit side, coming from the acquisition of Guardian based on the volatility that we've all seen over the course of the last seven week or eight week since the year began. I think what I would like to say is that the type of impacts that we're seeing are right in line with the sensitivities that we've indicated to you, also I think so far still very much within a one standard deviation type of move, which in a portfolio of our nature and the portfolio that we hold, I think, is not surprising.

Perhaps the speed with which some of the market movements have come through over the course of the last several weeks has been a little bit surprising. But the absolute magnitude has not been. We continue to be well-capitalized. I think that also is reflected in the board's upcoming proposal for both a regular dividend as well as a continuation, if you will, of the possibility, should capital developments warrant during the course of 2016 the possibility to once again initiate a share buyback programme.

So, in summary, let me just say that you're absolutely right. The additional credit coming from the Guardian acquisition does increase our economic exposure to credit spreads widening. But the magnitude is absolutely within the ranges that we anticipated at the time that we announced the acquisition. And we remain comfortably capitalized. Let me turn it over to Matt.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, thanks for your question, Olivia. The first comment I would like to make, we do not call it guidance. We call it - it's our own estimate of what our combined ratio could be. And we are actually choosing the word estimate also in order to reflect the fact that there is some degree of uncertainty associated with it. If you look back, there have been years where we came in lower and there have been years where we came in a little bit higher. In the long-term, this averages itself out, but it's definitely not a precise forecast. And, therefore, we prefer the term estimate over guidance.

How do we get from the 97% to the 99%? 97% was the estimate we issued last year. Please remember the three reasons which I used to explain how we got from the 99.8% to the 97%. The first is an above average amount of large losses. We believe that's a one-off. In some years, you're above average. In other years, you're below average. So, we correct for that and take that out.

Secondly, the missing reinstatement premium as a result of an extremely low amount of nat cat loss activity, it takes that out as well because our estimate is based on an assumed mean nat cat loss burden. And in a year with a mean nat cat loss burden, there are no reinstatement premium missing. The third impact, the U.S. motor accident year addition to the reserve, that we take into account. So, let me explain how we make the walk from the 97% to the 99%.

We start at the 97%. First, we add 0.6% for the U.S. reserve. Secondly, we add another point for a change in business mix. If you look at this past renewal, you might observe that we shifted a little bit away from property to casualty. And casualty typically comes with a higher combined ratio. So, in total, that shift alone adds another 1% point to the estimated combined ratio.

Then continued pricing deterioration and higher interest rates, if it happens, we assume on a combined basis this adds another 1.5 points. And then the fourth correction we made is, with respect to expenses, we reduced our estimated expense ratio by 1.1% in order to reflect the fact that we expect our volume to slightly increase as a result of increased activity on the large transaction side and on the tailored solutions side.

And in addition to that, as a result of the strengthening U.S. dollar, the ratio between costs, which incur mostly in Europe, including Switzerland, and business, which incurs more in the U.S., actually is expected to decrease. And putting these four elements together explains the walk between the 97%, which was last year's estimate and the 99%, which is the combined ratio estimate for 2016.

A - David Cole {BIO 7251632 <GO>}

Thank you very much, Matt. May we go to the next question?

Operator

Next question comes from Thomas Seidl, Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. Two questions. First is on the investment income side after, to me, a relatively stable year, we noticed a quite strong and sharp drop in regular investment income, partly offset by relatively high levels in net gains and losses. So, my first question is, what is the outlook for 2016, 2017, if it's fair to assume 20%, 30% drop year-on-year and what is the outlook on realized gains for those next two years?

Question number two is, again, on the life run-off business. I think I remember you have appetite for at least one more larger transaction. So, I wonder if you can give us the update on the current market, run-off market, maybe not only the UK, but also in the rest of Europe and whether you would see an increased likelihood of you doing a transaction versus when we spoke last time.

A - David Cole {BIO 7251632 <GO>}

Okay, Thomas, thanks. Let's turn it to Guido for the first question and then perhaps Michel will take the second.

FINAL

Bloomberg Transcript

A - Guido Fürer

Okay. Thank you much. Coming back to your first question, if you look at the investment result in 2015, I think, it's - in respect of return on investments, it's a change of 0.2% compared to 2014. Again, most of that is related to have a different net investment income contribution from, let's say, equity accounted holdings, which we have.

On the gain realization - and probably you have seen it's exactly the same amount in 2014 compared to 2015. That means the change is coming from the - basically from the net investment income. And, again, if you look at the various contributions, I think, the drop which you see is on the equity accounted side. Again, that shows equity is a volatile asset class. Swiss Re has, I think, a relatively modest exposure to the equity market. Of course, you cannot expect that each quarter looks the same as the prior one.

We look to have a long-term asset allocation. And that's why also we try to smooth the result towards the underlying portfolio composition. I think the biggest change, as you have already commented before, was that we added more credit. But, overall, the equity exposure is pretty much the same. That's why to give guidance is a challenge, particular if it's the current financial market. You have seen and also David commented before, we had a very volatile start of the year. I do not expect that volatility will disappear based on the underlying factor.

Now, important is that you see the main driver of investment contribution. One is net investment income. Again, there, you should mainly look at the running yield, which is a good indicator. Basically, the gain realization, that's subject to, I think, what the market offers. Overall, we try to position the portfolio for a volatile environment. And that's why also you see an asset allocation which is basically in line with our outlook.

Q - Thomas Seidl {BIO 17755912 <GO>}

Maybe I wasn't clear. So, I was expecting you actually to talk about the running yield has dropped. It was stable in the past three years. And now it dropped 30 bps year-on-year. So, my question is, given current reinvestment rate, is this now continuing at this speed?

A - Guido Fürer

I think the drop in running yield, to a certain extent, yes, it's related to that we see still very low rates and actually, year to date, they are lower than the beginning of the year. You know all the reasons. I think I don't need to comment on. But the major driver of the drop of 0.3% last year actually was that we took some of the cash and put it into the short-term part of the government bond. And in the running yield, we exclude cash. That means we mainly looked at the fixed income beyond the year, which is the best guidance, in my view.

Of course, if you take - you see it was $6.2 billion of cash we put into the investment portfolio, approximately $1.5 billion additional credit, and then also we had a real estate investment of $0.7 billion, which should contribute to future net investment income. And the rest was basically just the shift from cash into the short-term government. And, again, if you invest into short government, just take 1.5-year Treasury bill, you'll vary of 0.6%. Of course, this reduces the respective running yield for the year, particularly if you compare to the former year. But, again, probably more than half of that drop of 0.3% was related to the reallocation of cash into the short-term pocket of government bonds.

A - David Cole {BIO 7251632 <GO>}

Thanks, Guido.

A - Michel M. Liès

Okay. On the life run-off market, I think, the work which has been done by Admin Re in the UK to be seen as one of the main consolidator is bringing its fruit in matters of pipeline. I don't want to go into the details of the pipeline, but they are definitely in the UK, several opportunities, among which some of them are not exposing us to annuities, as I said it before. I also did mention that we may see and start to consider opportunities outside of the UK. But there we need to be very prudent.

First, the fact that the company wants to sell a life run-off doesn't mean systematically that this life run-off is corresponding to our appetite. We don't have solution to problems which do not have solution. I'm not saying that all the life run-off deals in Continental Europe are that complicated. But they are definitively sometimes mismatched between the liability which are engaged and the asset portfolio on which we don't have too much solutions.

There is also, if you speak about the extension outside of the UK, the fact that it won't be normally done on a UK platform, meaning that the quality of the platform in any kind of first deal on Continental Europe will be also a very important element to judge for the conclusion of the deal. But, again, top, I think, in the UK, because of the deals which have been achieved in the last one year or two years to really attract the majority of the pipeline, it's very prudent on the continent about the opportunities, taking especially into account that we need also a platform and not only a portfolio.

Q - Thomas Seidl {BIO 17755912 <GO>}

As a result, are you more confident now that we'll see a transaction in 2016?

A - Michel M. Liès

Sorry. I didn't get that one.

Q - Thomas Seidl {BIO 17755912 <GO>}

As a result of these considerations, are you more confident of seeing another Admin Re transaction in 2016?

A - Michel M. Liès

I cannot commit totally to that. But there is definitively a certain chance of seeing that happening, definitively, knowing nevertheless also that some of the activities of our Admin Re team is in the integration of Guardian. They've concluded the HSBC integration successfully. But there is a lot of work to do in the integration of Guardian. It's not an easy task. It's going according to plan. But nothing prevent us, because of this integration, of addressing one or two of the pipelines that – of the deals that we have in the pipeline, but no commitment, of course.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thanks, Michel.

A - David Cole {BIO 7251632 <GO>}

Thank you, Michel. Next question?

Operator

Next question comes from In-Yong Hwang, Goldman Sachs. Please go ahead.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello. Two questions from me. Firstly, on the tax gain that you had this quarter. I understand it's to do with restructuring some of your subsidiaries. But when I look back at the last three years, there seems to be, I think, only three quarters where the tax rate is around the 23% to 25% that you normally guide to. So, I was wondering if there's anything that you can see in 2016 and 2017 that might cause you to have further tax benefits.

And the second question is around the Corporate Solutions. I think there was a question earlier about it. But I'm not sure if you got round to answering it. But when I look at the 2015 adjusted combined ratio, even if you factor in the higher manmade losses, I think, I get to the 102% for 2015. So, how are you so confident of kind of improving that to 101%? Is there still some growth that you're still factoring in the business or is that some expense – is there some expenses (36:48), for example? Thank you.

A - David Cole {BIO 7251632 <GO>}

Well, let me pick up the first question. And then I'll turn it over to Matt for the second. So, on the tax side, indeed, you saw in Q4 that we had a number of tax benefits that come through, some of which were related to restructuring of various legal entities. But I'd also like to just point out that we had audits that successfully were finalized in a number of different countries. And, collectively, that contributed, of course, to the tax benefit that came through in Q4.

You're right that, over the last couple of years, if you look at our effective tax rate, it's been below the statutory rate. There are a number of different factors that contributed to that. Of course, part of it is just the timing difference. If you look at our balance sheet, you can also see a fairly significant DTA sitting on the balance sheet. We continue to progress various discussions with tax authorities around the globe. We continue to be a very healthy taxpayer. Actually, our cash taxes paid in 2015 were up quite a bit from the level in previous years.

In terms of forward-looking comment, I think, the most appropriate thing to do - and it's what we also do internally - is we use the effective tax rate, which in our case is actually now just a little bit higher than the Swiss rate. So, something in the range of 23%, 24% is probably not a bad starting spot. Let me turn it over to Matt.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. Corporate Solutions, a walk between the normalized combined ratio 2015 and the estimate for 2016, starting point is 103.6%. This starting point includes an above average amount of large and medium-sized losses amounting to 2.7% points. If we take that out and add another 1% point for price softening and subtract a little bit for portfolio composition shifts, we expect to shift a little bit more away from long-tail business towards short-tail business. We end up at 101%.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Great. Thank you.

Operator

Next question comes from Vinit Malhotra, Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Hi. Good afternoon. So I'll not ask about the underlying for now, but I do want to understand this portfolio shift that we talk about. For example, slide 37 today of the renewals, obviously, shows a mix towards casualty. But then this same slide last year, the numbers are not that different. In fact, on casualty, in fact, if anything, the difference is more in the shorter-tail specialty lines probably. So I'm just trying to compare or just understand this business mix shift from a combined ratio perspective.

And that's one more question if I can put in please. On the nat cat slide in the P&C Re, the ratio of the nat cat expected loss in a given year versus nat cat premiums seems to be going up in 2016. I can understand why nat cat premiums are going down. But shouldn't one have expected lower nat cat losses as well in the budget for 2016? So that's the two questions, please, business mix and nat cat loading. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thanks.

A - Matthias Weber {BIO 21493871 <GO>}

So, with respect to the portfolio shift, what you see on page 37 is, to a large degree, influenced by large transactions. Sometimes, these large transactions include more casualty. And then that shifts portfolio weight away from property and specialty more towards casualty. And sometimes, the opposite is happening. What we experienced at the past renewal was exactly this. We wrote a few but large transactions, including a big amount of casualty business.

And that's the reason why we are seeing an increase of the casualty proportion from 43% to 46%. We did the math and tried to calculate what is the impact on our normalized combined ratio for the purpose of coming up with our estimate and concluded that the impact is of the order of 1%. With respect to your second question, could you please point me to the page you were referring to?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Well, these numbers I got more when I asked the Investor Relations team. The nat cat expected loss is $1.5 billion, both years 2015 and 2016.

A - Matthias Weber {BIO 21493871 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And the nat cat premiums are going down, $2.6 billion to $2.2350 billion. So, I can understand the second trend. But then I could have expected that if you're reducing your risk for nat cat, you probably would expect a lower nat cat budget as well. And that, obviously, is important also from this whole underlying debate. But this is just one angle I wanted to check before we move on.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. Okay. So, the reason why the premium is lower is pretty obvious.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes.

A - Matthias Weber {BIO 21493871 <GO>}

That's the price softening we have been seeing already, which will impact also the accident year 2016. Why is the nat cat loss the same? The reason is the following. What you see here is the net after reinsurance and retrocession. So, it's the net after hedging. And when we determine how much of the gross business we write, we want to keep net on our book. We take into account the capitalization we have in our group in order to determine what our appetite is to keep exposure.

We decided in 2016, given that we are still above all our technical thresholds from a capital perspective that we would like to write against our full risk appetite. And this means we decided to retain the same amount of nat cat exposure on our book net after retrocession as we did in 2015. That's the reason for this underlying stability of the $1.5 billion expected nat cat loss.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks, Matt.

A - Matthias Weber {BIO 21493871 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. May we go to the next question?

Operator

Next question comes from Andrew Ritchie, Autonomous. Please go ahead.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Hi there. First question just back to the issue of credit risk or asset risk, I thought I'd understood at the time of the Guardian deal that you anticipated probably taking down a bit of the pro forma credit risk exposure of the combined group. I guess, I think, from what you're saying, that's not the plan now. You're very happy with the pro forma credit exposure, even in light of slightly more volatile markets. Can you just confirm that? And is there any situation where, because this is at a prolonged integration phase, I mean you don't do the Part VII transfer, I think, until 2017. Does that restrict your ability to do things you want to do with the Guardian assets?

The second question, a simple one really. You grew the dividend 8% or 8.2%. I guess I'm just trying to understand why 8.2%? I mean, in simple terms, you've talked about a dividend policy where, I think, you've said you want to grow it in line with your long-term earnings growth and at a minimum keep it flat. So, is 8.2% what you feel the underlying earnings growth is? Should I adjust it for the lower share count, so it's actually really 11% or 12% or something? What is the philosophy behind the 8%? Thanks.

A - David Cole {BIO 7251632 <GO>}

All right. Thanks, Andrew. Let's let Guido address the first. And I'll come back to the dividend.

A - Guido Fürer

Thank you. Thank you for the question, Andrew. I think, on the credit side, you're absolutely right. There was - through Guardian, we inherited about 6% in respect of our asset allocation with regard to credit risk. Now, again, this is credit risk which we like. Of course, it was part of the costing and pricing of the transaction. As you can see in the slides, I think, the credit quality is still very high. And there's no compromising has occurred, nor will occur over the next few times.

Overall, we have 44% in credit, which I believe is a reasonable allocation. Particularly, if you look now at credit, again, U.S. investment grade trading above 200 basis points above government bond. That means there's a lot of bad news priced in. Again, we have the capital to ride through some of the volatility. We're a long-term investor. Our main, of course, focus is on any credit migration or default. And in that context, we're very comfortable with what we currently have on our book.

Although it's a high allocation, but, again, if you look at such type of transaction as Guardian, this is pretty much you acquire a closed book of business and you basically look which assets are the best fit for that type of business. It's not a total return view. It's the opposite. It's basically supporting a long-term positioning, both on the liability as well as on the asset side. That's why very comfortable what we acquired. 44% seems a reasonable allocation compared to, I guess, the outlook which we have.

Now, can we move the asset risk before Part VII? Yes. Swiss Re is at risk in this portfolio since 6 of January, since closing. And, of course, we look at each and every part of the portfolio. If we don't feel comfortable with any part, any specific name, of course, we'll move. That means we have the full flexibility which you would expect as an owner of such a portfolio.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

And, sorry, is 44% the limit you'd want to go to or is there room to go higher or you're kind of at limit? I'm not sure what you mean by when you say reasonable allocation because, obviously, it's higher than the last five years – where you've been the last five years.

A - Guido Fürer

Absolutely. In the meantime, I guess, also, the riskiness of certain government bond has shifted over the last few years. At the end, you are a big fixed income investor as an insurance company, particularly if you're active in life books or the closed book. That means you need to think which are the most attractive part within fixed income. And I think government bond probably need to be assessed nowadays differently than I guess five years ago. I consider a high quality credit portfolio absolutely fit for purpose.

Now, 44% is the current snapshot. Some of the percentage is driven by markets. Of course, if equity is going up and credit stays, you see different allocation. We work with ranges. But I believe the current allocation is, again, reasonable in the context of being a long-term investor, having an ALM principle at the outset and in also respect of the investment outlook which we have.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay.

A - David Cole {BIO 7251632 <GO>}

Thanks, Guido. Let me come back then, Andrew, to your question regarding the dividend. So, first, let me just reiterate indeed what you said regarding our capital management philosophies. And at the risk of repetition, it really is about maintaining as the first priority a very strong capital position, which, I think, we, again, confirm today at an estimated SST of around 205%. We continue to maintain a very strong capital position. The actual hierarchy is maintain the regular dividend. Where we can invest and invest wisely, of course, to grow profits in the future, that allows us to increase the regular dividend.

These things are obviously quite closely together. And then, of course, when we come to the conclusion for various reasons, we may be sitting on excess capital, i.e., capital we don't reasonably expect to be able to deploy within our businesses according to the strategy we've articulated at the financial hurdles that we've indicated. Then we look for ways to return it. So, that's just a generic statement of our capital management philosophies and approach. And I hope you've seen us actually operate on that basis over the course of the last several years.

As for the dividend now, the board will propose to the shareholders in April an 8.2% increase to the CHF 4.6 that Michel referred to. There are a number of different factors we look at when coming to this recommendation that the management made to the board. We look at the sustainability of the payout, i.e., maintain the regular dividend where we can. We look at how successful we've been in actually investing in the business over the recent period of time.

And just think about some of the activities that we've demonstrated to you on both sides of our balance sheet, where we've properly positioned our assets and, I think, continue to invest and I would say wisely and attractively in a number of different segments. The Life & Health continue to show good progress, Admin Re good progress, Corporate Solutions good progress. So, that gives us the confidence to look at an increase in the dividend now.

8.2%, you could say couldn't you have made it 8% or 9%, round number? We ended up at the CHF 4.6. It's not an exact science. But I think it's a good indication of the management as well as the board's confidence in not only the capital position of the firm, but also the continued earnings potential of the firm.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

When you think about the dividend, do you think about a dollar million amount or the per share amount in terms of when you talk about growth and/or maintaining flat on a previous year?

A - David Cole {BIO 7251632 <GO>}

I don't know how we would separate the two. So, we look at a number of different perspectives simultaneously, Andrew. I can't say that one is more relevant than the other. I don't know. I don't think we somehow carve one perception of reality out and forget about it for a while. So, we look at a number of different perceptions. But, most importantly, we look at the underlying earnings potential of the firm, the sustainability of the dividend. And we look also at what we see in terms of future capital generation, opportunities to invest. And we want to both continue to invest wisely in the business and continue to operate with good capital discipline.

Q - Andrew J. Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - David Cole {BIO 7251632 <GO>}

Thanks.

Operator

Next question come from Vikram Gandhi, Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 6133175 <GO>}

Hi. I've got two questions. The first is can you give us some color on the potential impact that Brexit, if it happens, would have on the group? And, secondly, how do you see the soft pricing in the U.S. commercial insurance impacting your portfolio over the course of the year? Thank you.

A - David Cole {BIO 7251632 <GO>}

Matt, you want to take the second while I get myself ready for the Brexit question?

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, the softening pricing environment in U.S. commercial insurance, we, of course, are observing this directly with the Corporate Solution business we are writing and indirectly also on the Reinsurance side. We are taking it into account in the assessment before we actually accept such a business. But you're right. It is softening in large parts. And we're observing it. And we are taking it into account.

A - David Cole {BIO 7251632 <GO>}

Okay. And let me come back to Brexit. And let me just preface my answer by saying, of course, Europe has been in a very exciting place for financial markets, not only in the recent period with discussions around Brexit, but going back now already several years, discussions around the periphery, discussions around the immigration, and a number of items impacting the overall, I would say, cohesion and the confidence in various aspects of Europe.

Let me come back to Brexit. So, it's obviously too early for us to make any sort of prediction, nor are we in the prediction business about what the British voters may ultimately decide in their upcoming referendum in June. And, ultimately, of course, the impact and the materiality of the impact will depend a lot on developments between now and the ultimate decision in June. You could imagine, however, as a large long-term investor that, obviously, the potential impact in terms of increased volatility on financial markets, changes in FX rates, all be quite important for us to follow.

Obviously, we don't know exactly how a potential Brexit would be implemented and the basis upon which those discussions, the actual mechanics of an exit would take place. You could imagine different scenarios. If we look at a worst-case type of scenario, you could imagine a breakdown in the ability to come to timely and appropriate agreements regarding matters like movement of capital or even movement of people and services.

So, we could have a very significant negative impact coming at us from a regulatory compliance point of view, but also just from an outright operations point of view.

Now, as I mentioned, I'm referring to a worst-case type of scenario. I don't think it would be appropriate for us to immediately assume that would be the case. Obviously, there's still quite a lot of debate to take place between now and June. I think I will summarize, however, in my answer by just letting you know that, as with a number of potential risk – emerging risk themes, our responsibility is to make sure we watch them carefully, where appropriate, take measures to position ourselves to be able to respond as needed and, of course, remain very diligent to the ongoing developments. Thank you.

Q - Vikram Gandhi {BIO 6133175 <GO>}

Okay. Thank you. That's really helpful.

Operator

Next question comes from William Hawkins, KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thanks very much. I'm sorry to put Matt's voice under pressure. First of all, could you give us a bit more clarity on the U.S. motor charge you referred to? It seems to be buried within the 5.1 points of positive development. So, could you maybe tell us the size of the charge you took in the U.S. and help us scale it in terms of what base reserves that was on? And then could you let us know how much you changed the initial loss ratio pick on this year of origin?

And then, secondly, David, you seemed – when talking about the caveats around the buyback for the rest of this year, you were – sorry, for the next buyback, you seemed a bit more cautious than I anticipated when you were talking about large losses. I thought the answer would simply be, so long as we're within our budget, everything's fine. But you seem to be allowing for more spaces than that. You said only if it's a good year like 2014 or 2015 was is everything okay. So, can you just clarify that? Should we be more cautious, even if you're on that $1.5 billion budget?

And then I'm sorry to stretch it to three questions, but very briefly. Matt, when you were answering Vinit's question about the nat cat budget, if I paraphrase what you said, it sounded like you were saying, because we've got more capital, we thought we could retain more risk for nat cat, which to me is not what I'd like to hear. I'd rather hear you say, whether or not the business is incrementally more or less attractive drives that decision. So, I might have misunderstood. But could you just sort of repeat your logic for effectively on a net basis retaining more exposure to nat cat?

A - David Cole {BIO 7251632 <GO>}

Okay. Will, before I turn over the mic to Matt, welcome back to our Q&A session. So, it's good to hear your voice in this. I appreciate not only your questions, but also suggesting the answers to us. So, we're ready to do our best to meet your expectations in terms of appropriate answers. Let me turn it over to Matt first. Then I'll come back on the question regarding the buyback.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So with respect to your first question, I would like to repeat that the current accident year development is not part of the prior accident year development. The two things complement each other. The quantum with respect to prior accident year development on the U.S. motor side amounts to US$90 million negative. So, that was an adverse development, part of the much bigger overall favorable development. The quantum with respect to the accident year 2015 current year adverse development impacted the overall combined ratio and the overall loss ratio by 0.6% points.

Q - William Hawkins {BIO 1822411 <GO>}

So let me just ask then. What was the base of reserves before the $90 million strengthening? And what actually was the loss pick move from two for U.S. motor?

A - Michel M. Liès

Just a second.

A - Matthias Weber {BIO 21493871 <GO>}

Let me in the meantime respond to your third question. The US$1.5 billion, on the nat cat side, this business, while it is not as attractive anymore as it used to be, this business still generates favorable margin for us and our shareholders. It's just this positive margin is not as big anymore as it used to be. And, therefore, it does make sense from our perspective to deploy the capital which we have and which we decided to have on our balance sheet after paying for the dividend and after using capital for other opportunities such as opportunities on the Admin Re side than not writing this business and not incurring the positive margin at all.

A - Michel M. Liès

Will, regarding your question on the motor business reserves, let us come back to you separately, also look at some of our reserves developments and come back to you, if you don't mind.

Q - William Hawkins {BIO 1822411 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Well, thanks. So I'll go into the buyback. Listen, we – of course, we announced and received shareholder approval in April 2015 for the current share buyback programme, which is progressing well and we anticipate to successfully conclude it by the beginning of March. I think we learned a little bit from our communication around that. And what we want to do now is make sure that there's absolutely no misunderstanding. The proposal that the board will make regarding the dividend reflects our capital position as of the end of 2015. And, also, I think, as going back to my earlier response to Andrew, it suggests a confidence in the ongoing earnings capacity of the firm and sustainable payout level leading to an increase in regular dividend of 8.2%.

The share buyback is – under Swiss rules, we need to get approval for an authorization for it upfront. But the actual decision to launch that buyback is going to be depending on the way that the market and our results and our capital position develops during the course of 2016. There are a number of things that can influence that, one being losses, large or otherwise, another being opportunities that we see throughout the course of the year to actually deploy the capital that we have available to us.

I think it's a little bit challenging to say under exactly what situation, exactly what timeframe we may or may not launch the programme. I think the key message is that it's a tool available to the company, subject to approval of the shareholders in April. Obviously, the decision to launch it is subject to the same regulatory approvals that we had related to the current programme that allows us in the event that our capital situation develops such that we do find ourselves with excess capital that we can accelerate a return of some of that capital through the buyback.

I don't think it's really appropriate now to start drawing out all sorts of scenarios under which situation we would or wouldn't. I do think it's appropriate to just remind everyone that, similar to in 2015, it's likely that we'll want to see a good part of the year develop, see how the results have developed, not specifically tied to North American wind, but certainly North America wind is important risk event for us. So, I think, we'll just try to make sure that people understand that the buyback programme is a tool available to us to allow us to accelerate return on capital as and when the capital developments during the course of the year would allow it to take place.

Q - William Hawkins {BIO 1822411 <GO>}

That's great, gentlemen. Thank you very much.

A - David Cole {BIO 7251632 <GO>}

Thanks.

Operator

Next question comes from James Shuck, UBS. Please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Hi. Thank you. Good afternoon. Two questions from my side, please. Firstly, I'm trying to get an understanding of your kind of sustainable level of profitability. 2015 was obviously a very good year, $4.6 billion of net income. But there was a very low level of natural catastrophes. There was a high level of gains in the year. And the tax level was also quite low. If I try and normalize that starting level, I would normalize the 86% combined ratio at about 99%. I would think that the level of gains that you realized in 2015 looks high. So, instead of $1.4 billion, I might be thinking about $1 billion as a normal level. And then you've already said that the tax rate should be about 23%, 24%.

That gives me about $2.2 billion or so of net income as a kind of starting point. And when I look at the dividend on the ordinary dividend in relation to that after you've increased it by 8% today, it's a 70% payout ratio. So, I guess my question is, are there other things I should be normalizing for as a starting point or kind of how shall I think about the sustainability of that dividend if that payout ratio does look quite high? That's my first question.

Secondly, congratulations on the inching forward of disclosure in the Life & Health Re business, which is welcome, at the back of the presentation. I suppose I'd like to kind of understand what your direction is with this because, last year, we were led to believe that you would significantly improve the disclosure. And we didn't really get much at the – well, nothing at all really at the Investor Day. And this is the first kind of step forward. It's now about half of your allocated capital in the business. And from an outsider's perspective, it's very difficult to understand what the risks are. So, I guess, I'd like some kind of firm commitment and understanding about where you're going with that disclosure, please.

A - David Cole {BIO 7251632 <GO>}

All right. Thanks, James. I'll take a stab at both and see whether or not anyone would like to join me. First, on the sustainability, listen, I appreciate the work you go through in coming to what you think to be an appropriate normalization. I don't intend to respond to any of the individual figures that you've cited. Of course, everyone has their own way of going about it. When we look at our underlying business, the diversity of our business, I think, the sustainability of the profit flows that we see, the incremental profit that we think will emerge from some of the investments that we've made recently, we feel comfortable that the dividend, as increased to CHF 4.6, is a level that's sustainable.

Of course, any individual year can lead to higher or lower actual losses than what we would have estimated on an average basis. In fact, in most years, we probably have a little bit of a better performance than what the average would be as we have some peak loss years vetted in that average as well. But I think the increase to CHF 4.6 is a reflection of the management's belief and the strong and sustainable profits that will come from the various business segments that we have. And we also continue to see good opportunities to continue to invest in profitable growth. So, we feel quite comfortable with that.

As to your second, I appreciate you've noticed that we've included a little incremental. I appreciate there's a different anticipation or hope that you've expressed in the past. We will continue, I think, to reflect upon the disclosure that we give regarding each of the business activities, not just on the Life & Health side. We appreciate that it's an important component of our overall business mix and overall balance sheet and important allocation of capital. We announced, of course, toward the end of 2015 around our Investor Day the formation of this Life Capital business unit, which is clearly more than just Admin Re, although Admin Re forms an important component.

I think it would be fair to expect us during the course of 2016 to, over the course of the year, come back with more information about both the Life Capital business, its aspirations, if you will, our expectations for that business, as well as some incremental information regarding our expectation regarding the profit emergence, cash flow profiles of the Life & Health Re business. So, we're thinking about it. We're looking at it. And we'll come back to you.

Q - James A. Shuck {BIO 3680082 <GO>}

Okay. Thank you very much.

Operator

Next question comes from Frank Kopfinger, Deutsche Bank. Please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions. My first question is on the Corporate Solutions estimate for the combined ratio of 101%. Does this higher figure, the 101%, have any impact on your 2020 targets and the volume growth that you are targeting for? And the second question is, again, on the tax effect. I think part of the explanation was also a foreign currency translation effect. Can you share there some sort of sensitivities whether a stronger U.S. dollar has a positive impact on your tax effect overall and then how we should think about it going forward?

A - David Cole {BIO 7251632 <GO>}

Okay. I'll pick up the second question and let Matt respond to the first.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So the 101% estimated combined ratio, which in the short-term does not impact our mid-term to long-term targets on the Corporate Solutions side.

A - David Cole {BIO 7251632 <GO>}

And short answer on the second is yes. There has been a positive benefit from a rising dollar related to translation differences between our stat accounts and our GAAP accounts. We obviously – we reflect that typically once a year in the fourth quarter. It's hard to predict, of course, what that will bring going forward. But it has been a factor in both 2014 as well as 2015.

Q - Frank Kopfinger {BIO 16342277 <GO>}

But can you break down this – split down this effect on the U.S. dollar?

A - David Cole {BIO 7251632 <GO>}

No. I won't break it down.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

The next question comes from Stefan Schürmann, Bank Vontobel. Please go ahead.

Q - Stefan Schürmann

Yes. Hi. Just two questions, the first one on the renewals again. Can you just update us on your share of non-proportional business now and proportional? I think, obviously, proportional increased, non-proportional decreased. And second question, on SST, the decrease here, can you maybe give us some hint how much the impact was from financial market and how much from regulatory adjustments?

A - David Cole {BIO 7251632 <GO>}

Matt, you want to take the first?

A - Matthias Weber {BIO 21493871 <GO>}

Hold on. I need a second.

A - David Cole {BIO 7251632 <GO>}

Okay. So, while Matt's preparing, let me come back to the question regarding SST. I'm not in a position to be able to give you a completed answer today, as I will be able to on the 29 of April. As you know, every year, at the beginning of April, we formally file our SST with FINMA. Actually, what we will do this year is in addition to updating you regarding the actual SST position, as you know, we estimate it currently to be around 205%, is we're going to provide to the market a walk, SST to Solvency II walk, for the Swiss Re group as a whole. So, I'll come back with I hope satisfactory insights to you at the end of April.

Q - Stefan Schürmann

Okay.

A - Matthias Weber {BIO 21493871 <GO>}

With respect to your question related to the split between proportional and non-proportional, in 2014, we had 58% proportional and the rest was non-proportional and fac. In 2015 factual, we had 62% proportional and the rest non-proportional and fac. And if we look at the January 1 renewals, which just did happened, we further increased the ratio between proportional and non-proportional, driven by a small number of large transactions, which happened to be proportional ones.

Q - Stefan Schürmann

Okay. Thank you.

Operator

Next question comes from Thomas Fossard, HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. I've got two questions directed to Matt. The first question would be on the large transaction, obviously, a large number beyond the proportional side. I think that, in the past, you indicated especially with Chinese quota share, motor quota share, that this was huge volumes, but low margin, relatively low margin and predictable margins. Could you talk about the net share of the large transaction on the proportional side you've written so far this year?

And the second question will be on your 1% or 2% risk adequacy index. What is the proportion of the book which is currently on the return below 100%, so below risk adjusted? And how much of this part of your book may have increased compared to last year? Thank you.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, large transactions, if they are proportional, they almost always are characterized by a lower ratio between margin and premium, but not necessarily a lower ratio between margin and required capital. Usually, quite the opposite is the case there. And the reason is, as you indicated, is the case for Chinese motor business. In many cases, the predictability of the outcome on the proportional side is significantly higher than on the non-proportional side.

With respect to your second question, I have to tell you we do not have exact numbers here in front of us. If I could take a guess, I would assume clearly less than 50% of the business we have been writing has a rate adequacy below 100% right now. However, it is also clearly more than 0%. A rate adequacy below 100% does not mean it does not generate economic profit. It just means it generates less economic profit than what we want to achieve on average across the cycle.

And with respect to your question 2B, given that the market has softened relative to last year or given that it has further softened relative to last year, the proportion of our book that is below 100% rate adequacy but still generating a positive economic profit is accordingly higher than what was the case last year.

A - David Cole {BIO 7251632 <GO>}

So the next question. I see Vinit.

Operator

We have a follow-up question from Mr. Vinit Malhotra. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Hi. Thanks. Just two things, guys. On these old manmade losses, we are seeing so many players in the industry, primary, reinsurers, everybody talking about a certain trend which is not ebbing – every quarter we see this. And I just wanted a generic comment if possible from Matt that is there something that we think needs to be done here? Is there a pattern or not a pattern, purely random? Just a comment here would be really appreciated. Thank you.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, I'm not talking to the manmade losses of other players in the market. I would like to just comment on the manmade losses in our own book. On average, on the reinsurance side, for instance, we are or we have been seeing during the last five years as an example a manmade large loss burden of US$320 million. In the respective current accident year, in 2015, we have an actual of US$441 million. In the two years before, we actually ended up below average. So, I do not see a trend here. And I am not worried about this. But with averages, you cannot always be below average, right. And the average is not correct. Sometimes, you are above average. And that's the case this year.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. But isn't there a demand in the market or there are so many primary players who talk about this as a problem as well? Is there something you're thinking around from an industry perspective, not just Swiss Re or reinsurance? Is there anything that you can add?

A - Matthias Weber {BIO 21493871 <GO>}

Again, on our own book, we are not concerned. With respect to losses incurred by others, may I suggest you speak to others about that?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sure. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thanks, Vinit. Thanks, Matt. Next question, please?

Operator

Next question is a follow-up question from Ms. Olivia Brindle. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. Thank you for taking the follow-up. Just one thing that struck me in your renewals disclosure was the share of business in EMEA has gone up quite a lot from 42% to 50%. I presume it's large transactions because that's what you've talked quite a lot about. But we've heard how European business is probably one of the most difficult areas to be in at the moment. So, I was just wondering if you could comment on why that pressure is so much better in big transactions that you've decided to do that much more in that space. That'd be helpful. Thank you.

A - Matthias Weber {BIO 21493871 <GO>}

Okay. So, your comments are actually all correct. It is driven by one big transaction, a large transaction. It's a proportional one. Your observation with respect to European renewals have been incredibly tough, relates especially to European nat cat business and, therefore, has nothing to do with the large transaction we wrote in EMEA.

A - Michel M. Liès

Okay.

A - David Cole {BIO 7251632 <GO>}

Thank you.

A - Michel M. Liès

Thank you. Yes, no, thank you, Matt. Thank you, David. Thank you very much, all of you, for joining. Now, just before we close the Q&A, I wanted to come back to your question, William from KBW, on the $90 million reserve strengthening U.S. motor liabilities. It represents less than 7% of our total U.S. motor reserves. So, I just wanted to give you the figure before closing on that. Again, if you have any follow-up questions, you know where to find us, how to reach us, Investor Relations at Swiss Re. Thank you, again, very much, all of you, for participating today.

Operator

Thank you for participation, ladies and gentlemen. You may now disconnect.