Q3 2020 Earnings Call

Company Participants

- John Robert Dacey, Group Chief Financial Officer
- Thomas Bohun, Head of Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Darius Satkauskas, Analyst
- Edward Morris, Analyst
- Iain Pearce, Analyst
- Ivan Bokhmat, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's Nine Months 2020 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 John Dacey, Group CFO. Please go ahead.

John Robert Dacey {BIO 4437051 <GO>}

Thank you very much and good morning or good afternoon to everyone from me as well. I am here with, Thomas Bohun our new Head of Investor Relations to talk you through the nine-months 2020 Results.

Before we go to the Q&A, I'd just like to make a few quick remarks about the release we put out this morning. You've all seen that the Group reported a net loss of CHF691 million for the first nine months of 2020, which reflects a strong performance in the third quarter, a net income of CHF444 million.

In addition to the COVID-19 reserves -- sorry, the additions to the COVID-19 reserves, amounted to CHF428 million in the third quarter, bringing the total to nearly CHF3 billion for the nine months period.

I'd just reiterate that 67% of these reserves remain IBNRs. Excluding the impact of COVID-19 the Group net income increased to $1.6 billion for the nine months, up from $1.3 billion for the prior year.

P&C's ROE excluding COVID-19 was 15.5%, the business remains on track for 97% combined ratio in 2020. We're positive about the improving market conditions. Life and Health Re's -- ROE excluding the COVID-19 losses was 9.7%, with a strong premium growth of 6% supported by large transactions. I know, the course [ph] turnaround continues to progress with an ex-COVID combined ratio for the year of 96%, and a normalized combined ratio that's significantly better than the 105% estimate for 2020, that we provided at the beginning of the year.

In Life Capital, we successfully closed the ReAssure sale in July and Life Capital is paid up to the Group dividend of $1.5 billion. We continue to build out the open book business with year-to-date premium growth of almost 20%. We continue to navigate the financial market volatility with an ROI of 3.4%, an ongoing active portfolio management to maintain the quality of the credit portfolio in particular.

The impairments for the third quarter were zero on that credit portfolio, the impairments year-to-date, were only 27 million on the portfolio -- that's in excess of $30 billion. Swiss Re maintains its strong capital position with the SST ratio of 223% as of the 1st of July. We noted that the ratio remained above the Group target level of 220% throughout the third quarter, and I'd simply reiterate the 220% is a target, it's not a limit for us.

And with that, I'll hand it over to Thomas to manage the Q&A.

Thomas Bohun

Thank you, John and hello from to you from my side as well. Before we start the Q&A, I would like to remind you to please restrict yourselves to two questions each and then register again, should you have follow-up questions.

With that, operator, could we please take the first question.

Questions And Answers

Operator

The first question comes from the line of Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi there. Two questions please. The first one, John, I'm just interested in, if you could give us a framework for thinking about second-wave type impacts from COVID from a loss point of view. Now, I appreciate things like event cancellation is more a prolongation of the first wave. But may be just a framework is to how you're thinking about second wave potential losses.

I'm wondering, for example, does it matter, that it could be defined as a second event. And obviously, I suppose you've got some exclusions in place that went in place before. So, just some sense for that would be useful.

The second question on Life. I just wanted to get a sense is the -- you've obviously been booking mortality charges as the notifications have come through, are there any concerns about the outlook for morbidity arising from COVID and what it could mean for in long-term health effects and whether that would have an effect on your results. Thanks.

A - John Robert Dacey {BIO 4437051 <GO>}

Thank you, Andrew. One, I start on the life and health and provide a little bit of color there and try to address your specific question. What we've seen is a -- well, to start with -- our major exposure for mortality in our Life and Health portfolio is in the US, with a secondary exposure in the UK. The increases in cases and potential increases in deaths and Europe will be unfortunate, but probably won't have a lot of effect on our overall COVID charges.

Back in the US, what we see is that in the second quarter when we booked approximately $500 million of reserves, we expected a higher incidence of insured losses in the last month of the quarter, in June than we actually what we experienced. And so found ourselves with a little bit of a pause coming into the third quarter in retrospect. The third quarter itself, we've booked the losses that we saw come through in July and August largely according to plan, and have an IBNR effectively up for the month of September.

So, overall, is -- mortality rates are close to what we expected. We've got a new Parameterization maybe that would help you and other analysts would suggest it, at least in the US with a -- for 100,000 excess deaths, we would expect about $200 million of pre-tax losses.

And that seems to be a more precise estimate, given the evidence, we've seen through the third quarter. On morbidity, we are concerned about long-term impacts of COVID-19, and Health, and the long holders already provided some indication that -- there maybe subsequent health problems, where people who have been affected, infected, I think at this point in time, it's just premature to be able to make any serious modeling of what that might mean for our portfolio, but it's an issue, which we are looking to track closely and we've continued to access experts around the world to see what information, -- new information might be available for us to ascertain what additional challenges are going to be on the morbidity dimension, as well as effects of long-term mortality.

Your first question was related to the second wave. I think, the framework you might one comes a little bit from what we were able to -- what we did book in the third quarter, where you see migration away from the property losses, related to the business interruption into some combination of the event cancellation and potential credit and surety.

So the events will proceed or actually not proceed as a result of the pandemic and those losses will continue through the fourth quarter with probably some carryover into 2021. I would guess at this point.

On credit and surety, we've booked in the third quarter between the P&C Re -- and CorSo another nearly $50 million of losses. I think, as you see more long-term economic damage and related to defaults [ph] you will see more losses here, i.e., the wildcard continues to be the interplay between national programs, especially in Europe, which is supporting trade credit specifically and the assisting companies that are -- may be otherwise near defaults. So we'll see how that plays-out. Mortality, I think I've mentioned in terms of the play and then your -- I think fundamental question is to what degree, we think a second wave will trigger additional losses in the profit [ph] -- the business interruption. And there, I simply will observe the level of IBNRs that are currently up on our property books, P&C Re overall with all of the positions are have a IBNRs of over 80%, 87% -- I think is what we've disclosed and it's unclear how these claims are coming in. We believe this is our exposure, but in many cases, we're still waiting for the presentation of the claims, the agreement of what the occurrence might have been to trigger it and the accumulation that's appropriate for it.

So, absent a massive long-term lockdown across western economies. I don't think, you'll see a repeat of the kinds of numbers that we've put out in the second quarter. We anticipate some modest movements, what you saw in the third quarter for business interruption across P&C Re and CorSo was an additional, close to $50 million and that's the kind of the unfortunate muddling along, we would expect absent something more dramatic occurring.

A - Thomas Bohun

Thank you, Andrew. Could we have the next question please.

Operator

The next question comes from the line of Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Two questions, the first one is on CorSo. I guess, underlying you talked about some 96% combined big improvement. I guess, first of the half year and definitely, well below your target for the year. And do you think this is just tailwinds from best of frequency or should we -- put the 96% in our numbers back, say then at pricing so that's kind of question one.

And then the second question in P&C Re. I guess at the half year you had 1.5 billion of COVID claims only 1.6 billion at the nine month stage. Was there a positive development --

or did you just kind of change your assumptions based on kind of how things or how claims are coming in. Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

Thanks Kamran. On CorSo, I'd say, yes. We do seem to have some tailwinds, it's actually somewhat challenging for us just understand the nature of the relatively low level of man-made losses in particular in the quarter and something we saw to a lesser degree in the second quarter of this year.

May be that these claims are late in being reported. It may be that the lower levels of economic activity, in the spring and early summer simply have meant that there are fewer losses. But I would strongly encourage you not to take a 96%, as a starting point, we don't think that's a new normal. We've set ourselves, you take COVID out and you get to 96% but you make some adjustments for what has been a -- modestly positive prior year development and a more normal level of man-made losses and -- you're still well below the 105% guidance we gave you. But you're materially above the 96%.

So -- it's the starting point on there. With respect to the COVID losses for P&C Re. What, I can say is, Q3 was largely coherent with what we thought -- at mid-year would be a play-out of COVID losses. I think, you're right, the P&C Re numbers are a bit light. But we didn't necessarily expect a lot to be coming there in the quarter, where we have continued exposure, I believe, is on subsequent credit and surety losses, potentially something in some other lines, but the business interruption again, we believe strongly that the triggering event, where the governmental lockdowns has occurred in the second quarter of last -- of this year.

And we reserved aggressively related to that triggering events. And so, if that's the occurrence, and we're comfortable in the third quarter. There really wasn't much other mechanism-virus [ph] also exposed.

A - Thomas Bohun

Thank you, Kamran. Could we have the next question please.

Operator

The next question comes from the line of Paris Hadjiantonis from BNP Paribas. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi, John. Hi. Thomas from my side as well. Hope you're doing well. Firstly, on capital and capital returns. Obviously, if you are going to, well, most likely, you're going to have a net loss for the full year, depending on how the last quarter develops.

At the same time, your SST is slightly above your targets. Can you basically explain to also [ph] -- explain the thinking behind dividend (inaudible) into this year. What -- can you essentially tell us about -- you still consider the dividend you're paying to shareholders being one of the good -- (inaudible) told the equity story, we seen Swiss Re despite all the losses that we're seeing due to COVID this year.

And then secondly, I mean, on COVID, from a SST perspective, I know, there's an assumption in there -- regarding additional losses, can you give us an idea where those additional losses are coming from high -- my initial assumption is likely, but I don't know, whether you have an assumption about P&C and CorSo in there as well. Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

Sure. So let me start with the second question, if you will. On the SST calculation, you're correct, we have a expectation of future losses coming from COVID baked into there. As I mentioned our third quarter totaled 428% was coherent with what we expected it in mid-year with what [ph] the third quarter loss, could look like.

And so we've gone ahead and projected out for the full year, and in some cases, into 2021. I think, the nature of those losses expected in the first case, -- as you say, some increased continuing mortality related to the fact of the pandemic is ongoing, people unfortunately are still dying of the virus. It involved other losses in P&C Re and Corporate Solutions is clearly the event cancellations. We've got the mapped out, quarter-by-quarter about -- and how we think that they are likely to play out. We're not particularly optimistic on that front.

And clearly, the credit and surety losses -- I think on property, as I mentioned in the quarter, we didn't see much in the way of triggers for new property losses for business interruption. We've got some model. But I think, they're mostly what we would expect is that the IBNRs that we've currently put up will migrate in the case reserves, when we get clear indications of legitimate claims that we're responsible for.

So that's the position. I think you should think about for future COVID claims with respect to the modeling we've done ourselves. On capital returns, I'd observe, we've got a fairly clear order of Capital management. The first is make sure that the Group remains adequately solvent and capable of running its business. I think, -- I can't imagine that we can check that box any harder, than having worked through this year, the way we have and end up on July 1 with the SST of 223% again above the target.

I think, the second is to maintain and where appropriate increase the ordinary dividend that -- I think remains an important part of our capital management and then simply reiterate that we've already accrued 50% of next year's dividend in the SST calculation as of 1 of July. The second part would be accrued during the second half of 2020.

I think, we believe there are important growth opportunities for us, we've been pleasantly surprised on CorSo that the volumes have not contracted, as much as you would have expected when you're pruning a third of the portfolio. Thanks to the price increases and there has been places where we've seen some opportunities to actually grow lines of business, which we're comfortable with.

But premiums overall remain down year-on-year. Instead [ph] on P&C Re were up. Net premiums earned 9% in the first nine months. We think the pressures in the market for continued price increases into the January 1 renewals are strong, and we will look to see how we can grow that business. But growing our business in an orderly manner does not conflict at all with our ability to paying dividend.

A - Thomas Bohun

Thank you, Paris. Could we have the next question please.

Operator

The next question comes from the line of Ivan Bokhmat from Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi. Good afternoon. Thank you very much. I've got two smaller questions. The first one, could you please talk about the reserve developments over the third quarter, maybe the underlying reserve strength. I understand that there has been some additions, maybe you could talk separately about lines like specialty and separately about the US casualty, which we've spend some time in the past.

And the second question, it's on the investment result. Let me, see [ph]-- already some volatility in the fourth quarter, just wondering if you could maybe outline what's kind of hedging strategy you've had in place. Should we expect the same successful navigating of that volatility -- as we saw in the first half of the year. Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

Sure. So on the reserve development, what you saw in or what we've experienced in the third quarter was a -- I'd say a modest negative prior year development for P&C Re, which was dominated by our decision actually after the close in the first part of October to adjust an existing reserve that we set up for a major aviation loss, where there is new information came to the market to ourselves as well.

We thought, we been conservative, but the major increase in the expected loss that was communicated to us -- had us push another fairly significant amount into that reserve. That reserve dominated the negative for P&C Re. And if you take it out, I'll leave it with what I would call a red-zero. In Corporate Solutions we had a black-zero on prior year development, a modest release.

Overall for the group, if you take out the aviation increase, we were still at a black-zero. So give you a sense that there is just not been a lot of movements, other than this one, very specific issue, which I think you can probably piece together. With respect to the investment result, during the course of the second quarter into the third quarter, we've removed a fair amount of the hedges that we had up or put up starting in February of this year. We still have part of the equity portfolio hedged. I think, we've come down a little more on the credit side, having watched what the Fed's actions have met for investment grade credit pricing. I think, most important there is the adjustments we made to the credit exposures and trading out actually is started in 2019, but continuing in the first quarter -- and early second quarter of 2020 to remove ourselves from the most vulnerable sectors and we've remain very comfortable with that.

So I think, I already mentioned on behalf of Guido Furer and his team, the great result in the quarter of zero impairments on the credit book for the quarter. I think, we are continuing to feel fairly comfortable about our positioning. There's obviously volatility in the market that I would expect will continue through next week. Let's hope, it settles down. But if it doesn't settle down, we're still, -- I think reasonably cautious in the positioning that we've got for our investment portfolio.

A - Thomas Bohun

Thank you, Ivan. Could we have the next question please.

Operator

Your next question comes from the line of Iain Pearce from Credit Suisse. Please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for taking my questions. Two from me. Just trying to understand on the assumptions around second lockdowns that you've made in the SST. And if there is an expectation of second lockdowns that you've baked into SST number, you've reported. And then on that [ph] as well, just in terms of geographical exposures between sort of France, Germany, UK where you see the biggest risks to your book around second lockdowns.

And then second one, on Covid losses, I noticed that the credit and surety loss and the other loss in Q3 actually decreased in P&C Re. So I'm just want to understand what's happened there please.

A - John Robert Dacey {BIO 4437051 <GO>}

On the second one, the decreases that you referenced, I think, were fairly trivial amounts maybe, less than $10 million and the positions. There is nothing really to say there other than just maybe some true ups of some modeling. But I wouldn't read much into it other than -- we were very close and there are some people [ph] continue to like precision and might make an adjustment of $8 million along the way.

On the second lock-down. It's been modeled. We did not assume the kinds of lockdowns that we saw in March and April, and to recur. What we expected was some partial lockdowns in certain regions of which would affect economic activity, but not wholesale reduce it. I think, the geographic exposures, we see what we've -- what we're seeing to-date is that in the United States, our exposures are limited in part by the relatively high attachment points for the excess of loss treaties that we've got in place. And by the fact that the legal system seems to be maintaining a fairly, a literal interpretation of wording on the primary insurers contracts.

And so there -- the exposure seems to be contained. I think, what we saw in the UK courts -- the FCA rulings was a -- as I mentioned a bit of a mixed bag that we anticipated. I don't think, we've -- we're surprised, even though it was maybe marginally more in favor of the insureds than the insurers, other than we might have modeled. But we remain fairly comfortable. We didn't expect this to be clean in the following quarters. And so, our mid-term estimates suggest that there will be some additional losses along the way, but not a wholesale lock-down.

So if that's the case, we're going to have to go back and evaluate what those exposures are. A second lock-down of the same duration, same scale, same scope is likely to have a less costly charge to us in part because of business that has renewed in April, and June and July.

Obviously, the January 1 renewals are coming forward and again there -- the contractual wording, you should expect to be even tighter than what might have been existing with respect to exposure [ph] to pandemics.

A - Thomas Bohun

Thank you, Iain. Could we have the next question please.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon John. Just two sort of follow-ups, please. First one is on the US mortality. So I mean, trying to understand how worse it has become in the last few weeks even on the excess mortality side, CDC data, I can check ran up to only 17th, October.

I mean, how are you thinking about this risk for your numbers, because at least up to 17th, October, it didn't look like excess mortality was very high. It might have gotten worse. I mean, are you -- how do you reserved for the -- and you just wait for your -- begins to come back to you? Or do you make some estimates? And are you able to share whether this question was raised when you are booking the 3Q numbers. And I understand it's not booked. But if you could just help us understand that because if questions -- keeps coming up.

A - John Robert Dacey {BIO 4437051 <GO>}

Sure.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And second topic is just on Corporate Solutions. In the past, there have been some claims about PG&E. And you may not want to comment one case with the other. But was that, it's just a curiosity, is that instrumental in some of the reserve movements that could have happened in Corporate Solutions, please. Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

Sure. So on US mortality, Vinit you're exactly right. We're doing our reserving based on all-cause mortality, actual versus expected. So we're not depending upon the classification of death -- as being a COVID death or non. I think that was especially important in the spring, where systems were being overwhelmed and people were simply been, the people -- didn't have the time to clarify the exact cause of death.

What we done through the third quarter is to estimate the number of deaths that we expect actually occurred as of September 30. And so subsequent to that what's gone on, in October and you're exactly right. There is a lag on the CDC Data and obviously there is a lag on the information we receive from our primary companies, although, to be fair, they have been on this particular topic, fairly responsive and forwarding information, they have especially on the large dollar insured lives that might be relevant for us.

I think, we just need to continue to monitor it -- it's a tragedy that in the US, we're back up to 1,000 deaths per day for the last three days, and if this continues in October, in November and December -- the rough calculation that I told you, another 200 million, per 100,000 deaths. So -- it would be a relevant calculation for the quarter.

We'll see how it plays out. Well, our hope is that some of the actions taken in individual states will improve. It's clear that the mortality at those moment is very different than it was in the spring wave protocols, procedures for treating patients is obviously materially improved. At the moment health systems are not being overwhelmed with the wave that either New York or Northern Italian hospitals might have been back in April. On the other hand, you see stories about some of the rural hospitals in the US, some of hospitals in urban areas in France and Spain being close to full capacity.

So we'll see how this plays out. But we're bit optimistic that actual mortality will be contained. And we just hope on multiple dimensions that the pandemic itself comes back under control in these jurisdictions. On the corporate Solutions the PG&E, we don't normally specify the source. But I think, the California settlements probably was not particularly relevant for our CorSo business, in terms of the positives were coming through, I think what we're seeing is a series -- smaller positions, which have been trued up for prior years.

A - Thomas Bohun

Thank you. Vinit. Could we have the next question please.

Operator

Your next question comes from the line of Michael Haid from Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon to everyone. Two questions, first, also on the solvency test. The 223%, slightly below my expectations, can you give us some moving parts there. In particular, I'm also interested in -- did you assume higher growth in 2021 higher price increases? I think, you already commented on increased COVID-19 loss expectations in your SST ratio?

The second question more a philosophical one actually, COVID-19 and the problem of insuring burning houses in the new business, if the COVID-19 crisis develops well into the 2021 year, than you might find yourself in the situation of insuring burning houses, maybe in facultative insurance you already encountered this problem that for instance business interruption or event cancellation, but the likelihood of cancellation is extremely high. So how do you deal with this? Do you have a long-term relationships in place? On the other hand, you probably insured already, you insure losses, which have already which you expect to come actually, how do you handle this problem?

A - John Robert Dacey {BIO 4437051 <GO>}

So with respect to the first question on the SST, I recognize that the consensus might have been a few points higher. I think, there were some modest adjustments to our own modeling, some foreign exchange movements, and maybe the most from a financial market hedges, which might have not been transparent to people and what's come through. I think overall four percentage point difference between where we landed in consensus, should not be a big fixation for the market. What I think -- should be reminded is just the overall level of the capital strength, whether it's 227% or 223% or 220% frankly.

It remains one of the most robust capital positions in the industry. And in addition to that, I'd say, just reiterate that we faced no red-line at 220%, that's [ph] a target. We expect to be around that over a longer period of time. But dipping below that is not a particular cause for concern, as long as we expect to continue to move plus or minus to that number. So that's the one -- your first question, I think.

On the second one, a couple of thoughts. One is on the event cancellation, I think, the industry broadly, and I can say Swiss Re specifically, probably missed the -- what in hindsight is obvious accumulation effect of a pandemic on the potential set of losses coming through on a worldwide basis for these events that are insured.

I think, it's linked to the fact that while the pandemic itself is not a black swan event, the simultaneous lock-down of economies for 6 weeks to 12 weeks around the world was not something that anybody had modeled. And as a result the subsequent play-out of this probably makes event cancellation insurance, a harder cover to obtain other than previously. We've been very clear that we decided in the restructuring of corporate solutions in 2019 to exit this line of business. And so the losses you see coming through, especially through CorSo are effectively the existing book running-off and to the degree of the people write new event insurance for 2021. My guess is there will be cautious about exactly what gets covered, there'll be rethinking the required pricing. And in some cases, my guess is, it's simply won't be picked up by the holders of those events, which is unfortunate because it may create some bigger challenges to actually hosting events, but

-- be [ph] that is it may -- I think we're not -- we don't expect to be particularly exposed there.

I think more broadly on the business interruption, source of losses. Yes. The changes in contract wording between reinsurers and primary companies, between primary companies and their insurers, I think we'll be much clear about exclusions for pandemic-related losses. And again, it may not be what people want, but if they want covers for these kinds of events, the pricing is going to be dramatically different on a going forward basis.

And the last bucket, I'd say is on the credit and surety lines of business. This is a line which tends to re-price aggressively. People adjust exposures and this is not the first recession that underwriters have -- had to work through and it won't be the last. So that line of business, I think, we will continue to function. But we're probably not done with losses there, related to COVID.

A - Thomas Bohun

Thank you, Michael. Could we have the next question please.

Operator

(Operator Instructions) The next question comes from the line of Thomas Fossard with HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Two questions. The first one would be on the 1/1 renewals was, up coming 1/1 renewals was. It's fairly a views [ph] that actually, the cyclical upturn is not led by any massive disruption Capacity, and it's more driven by underwriting discipline. So in these kind of environment, clearly the commercial strategy of the big players like Swiss Re and Munich in the market at the start of next year is going to be probably, very important.

So maybe John, if you could tell us simply how you're thinking about playing the 1/1 renewals? I mean, are you looking for to benefit from business opportunities and capacity there or is going to be a mixture or maybe just a feel if I would say Munich and Swiss Re are going to be the one leading the market next year. And the second question would be relation to the US elections, I'm not saying -- I'm not asking you which is going to be the winner or your preference -- but any what could be the implications for Swiss Re, if we had a Democrats coming to power or I mean, any thoughts on that? Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

As I'm looking around, I think I'm the only American in the room. I might be one of the few Americans on the phone. With respect to your second question, I will retain a certain discretion on my personal vote, although I was able to vote in the state, where I grew up, which is, Ohio. So I'd like to think, my vote matters for this election. What I would say -- the only thing, I guess I'd say that one Thomas is the -- anything that we -- reduces the overall level of uncertainty in the world broadly and financial market, specifically is probably going to be a good thing. And so what I aspire is a clarity of result next week and if that clarity exists. I think, there is a reason for us to be able to move on from the mess of getting ready for the election to what happens next.

So, and beyond that I -- we've got a global portfolio. There is a whole lot of issues that we think about on geopolitical issues, but sometimes it's good to be a Swiss company. And I think that our opportunities balance out, what some of the risks might be there. With respect to your first question. Yeah, I do expect, I'm not just Munich and Swiss. But actually all the major reinsurers to be disciplined as we move forward. I think, there are two things which provide, I think the -- or maybe more, if I counted out and gets to four [ph] very quickly. Reasons for optimism for the pricing, the first is -- and maybe the most important is the pricing in the primary market is improving.

And you see that on commercial insurance, which is by far the largest component of the reinsurance market. And the -- whether it's major US players like Chevo [ph] or the European players. They are getting rate increases for the risk they write, which allows them appropriately to be able to afford, frankly higher prices for the reinsurance as part of that equation.

The second thing is, what we've seen related to COVID losses and again, we remain one of the more reserved COVID players, but we expect there is going to be more losses that get booked in Q4 and maybe even into 2021. The primary companies have shown a interest in reducing other risks as then, and whether it's buying lower down on retentions and or expanding the programs that they have reinsurance, the demand continues to be very strong.

The third is that the alternative capital market which we access ourselves, I think, has taken a pause, having seen another source of loss on the P&C side coming out of COVID related property losses, which they did not anticipate and well alternative capital doesn't shrink necessarily. It also doesn't grow. And yes, there has been some new capital coming into the system by some start-ups. But on a relative basis, it's pretty modest. And in many cases it's simply, I'd argue replacing capital which is otherwise been burned up by the COVID losses. So supply remains somewhat constrained, the demand is strong. And overall the need for covering risks given the inevitable lower investment income makes us optimistic.

A - Thomas Bohun

Thank you, Thomas. Could we have the next question please.

Operator

The next question comes from the line of Edward Morris with JP Morgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everyone. Few questions from me. First, can you just talk about how you're feeling about the level of sort of pricing that you're seeing relative to loss trends. And obviously on the NATCAT side and I think increasingly the loss experience has been higher than expected over the last few years. And obviously there's other sources, the claims inflation is pretty high.

And similarly the combination of low interest rates, means that you really need to keep adding more and more on the underwriting side, just to [ph] steady margins. So I just wonder, if you could talk about what you think the overall outlook is on margins both on a pure underwriting sense and then an aggregate level?

And then secondly, I don't know, if this is something you've given before, maybe you can just remind me, but I know your SST ratio has an assumption of ultimate COVID claims within it. And I was just wondering, if you could remind us what the differences between what you've assumed the ultimate level and what we've seen so far going through the P&L?

And then lastly if I'm allowed third question, can't (inaudible) myself to two. And the third question, if possible. Just could you talk a little bit around the demand outlook for some of these classes of business that has been very affected by COVID? So I would imagine as you've talked about the terms and conditions are going to tighten a lot. I would imagine it's very difficult to buy or possible to buy covers for COVID going forward. But presumably people can buy cover for -- of a hypothetical pandemic events. What do you think overall? Do you think people are going to be buying more insurance in these products? So do you think it's actually, it is areas -- it will transpire or not really insurable and just overall, how does that play out from a demand sense? Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

All right. So I'll take three questions because one will be a very quick answer on the SST component of COVID, we've not disclosed the difference between our ultimate and what we booked through again. I think, it's -- there should be some utility in the recognition that our third quarter was coherent with what we expected, when we started this calculation through the ultimate in our processes.

With respect to pricing, I think I got the part of it. On the previous question, but just to reiterate, yes, the -- we see a need for continued price increases in part to cover, what will be a decrease in contribution from asset returns but also with respect to specific portfolio. So what we said, which remains absolutely valid at six months for our reinsurance business, as we saw 6% notional increases, 2 percentage points of that were sucked up by our revisions to loss models, which says, we need in more rate for that.

And 4 percentage points were covering a decrease and expected investment income for new business. So, I think that's keeping our head above water. But it's not necessarily making this a brilliant price increase and that's why we expect on January 1, will see continued improvement in those price levels. On the specific covers and demand outlook, I think, there is -- in some cases, there is going to be some frustration in the market at the primary level, where whether it's SMEs that are just -- frustrated. Their business interruption was not paying, due to the pandemic or other areas that potentially could involve some interesting product innovation.

But we go back to the fundamental point that you've heard Christian talk about, which says a true pandemic loss related to these lockdowns and the economic damages associated with it, is not something the insurance industry can manage.

And our Swiss Re institute - has the number out there for total economic loss of $12 trillion more than $6 trillion already in this year and this is not a set of losses the insurance industry can manage with the capital base we have. So I think, you're going to see some adjustments to products, but I think at the end of the day, there are certain risks, which are not insurable by this industry.

A - Thomas Bohun

Thank you, Ed. Could we have the next question please.

Operator

Your next question comes from Darius Satkauskas from KBW. Please go ahead.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi, just one question please. You said the primary rates are going up. So the communist can afford to pay more for Reinsurance, what are you actually seeing in terms of commissions, particularly on the proportional side? Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

So I mean, when I say the primary industry is going up, our corporate solutions price increase, which again is the portfolio they renewed not what they pruned 15%. You saw some other major players in the US market talk about 15%. I think, it might be a little lighter than that in some European spaces. But what we see is across all geographies, across all commercial lines at least, some major increases were -- of rates [ph] for certain retail, personal lines businesses, the effects that we saw of lock-down for frequencies on motor in particular, it made pricing in those lines a little more complex.

But again, even the motor insurance, there is a component that's sensitive to investment income and we'll have to adjust accordingly. The -- when we talk about the prices for our reinsurance, it's less about specific commissions and more about just overall notional increases that we receive and or the price adequacy. Again, the 6%, we saw through the July renewals was directionally correct but not sufficient. And we believe we're going to have to see more to justify a broader expansion of our portfolio.

But we're -- as I mentioned for the reasons before, I think three [ph] questions ago, we're optimistic with those opportunities for justified price increases are there.

A - Thomas Bohun

Thank you, Darius. Could we have the next question please.

Operator

Your next question comes from James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi good afternoon everybody. Two quick questions from me please. John, you talked about the focus of the COVID losses is mainly on the property side of things. Just keen to get your perspective on the liability lines outlook. Obviously there's going to be lots of things that can end up in court and there has been quite long tail to this particularly to go into 2021. How should we think about COVID losses online, such as D&O and workers' compensation for example.

And then secondly, just on the investment yield. So I think, the run rate was 2.4% at nine months. How confident are you will be able to sustain that level, or can you give us any guidance as you reinvest excess cash, what's the kind of headwind in terms of basis points on that investment yield. Thank you.

A - John Robert Dacey {BIO 4437051 <GO>}

Sure. James. Thanks for the question. With respect to your first question, I guess, I won't be surprised to find some disputes and potential litigation actually on the property book as well, in terms of disagreements so far what didn't [ph] in the currencies disagreement of how accumulation works for the treaties under which losses might be claims, but we'll see how that plays itself out.

On the specific set of liability lines, I think, the one place which has been reasonably well behaved, at least till now, is the US workers comp, it's not an area that we've got a big exposure. But there has been some major decreases in premiums, there have been captured by the insurance industry, due to the fact that, workers had been furloughed or positions closed to the degree of the economic recovery is recruiting [ph] some of that -- it seems to be functioning, okay.

I think the D&O side, yes there is likely to be -- some losses coming through, again not a big exposure necessarily for us. But even that's probably been mitigated by the relative rebound of share prices in particular -- and the some of the losses will come from people that bailed out in April and then stick around for some of the rebounds, but we'll see how that plays out. We ourselves have a material reserves set up for liability lines related to COVID on the P&C Re side in particular, we've not seen much at all in terms of reported losses and so that remains largely in IBNR position. We'll see how it sorts itself out.

With respect to the investment yield, -- yeah, the 2.4% is down. Our current reinvestment yield is looking to be about 1.4% the duration of the portfolio at approaching six years means that it's going to take time to migrate down to that number and between now. And then things can change, obviously, but at the moment I think, consistent with the earlier question. We're not going to risk on to try to maintain it. We're going to be cautious, at least until some of the uncertainty that we're facing in the economies, and -- in the political situation in multiple countries, not just the US. Resolves itself a bit, and we'll see how it works.

A - Thomas Bohun

Well, thank you very much. With that, we've come to the end of the session, if you have any questions please reach out to members of the Investor Relations team. Thank you for joining today and we wish you all a nice weekend and stay safe and healthy. Thank you very much.

A - John Robert Dacey {BIO 4437051 <GO>}

Thanks everyone.

Operator

Thank you for your participations. Ladies and gentlemen, you may now disconnect.