Q1 2019 Earnings Call

Company Participants

- John Dacey, Group Chief Financial Officer
- Philippe Brahin, Head of Investor Relations

Other Participants

- Andrew Ritchie
- Edward Morris
- Farooq Hanif
- Frank Kopfinger
- Ivan Bokhmat
- Jonny Urwin
- Kamran Hossain
- Michael Haid
- Sami Taipalus
- Thomas Fossard
- Vinit Malhotra
- William Hawkins

Presentation

Operator

Good morning or good afternoon, welcome to Swiss Re's First Quarter 2019 Key Financial Data 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 Dacey {BIO 4437051 <GO>}

Thank you very much. And again, good morning, or afternoon, everybody from me. I'm here with Philippe Brahin, the Head of Investor Relations. Before we go to Q&A, I'd like to start with a brief overview of the key figures we published this morning. Swiss Re reported a net income of USD429 million for the first quarter of 2019. The results are clearly a mixed -- a mix of excellent performance in Life & Health Reinsurance, very strong investment results, partly offset by large losses in the P&C businesses. The net premiums earned for the group were USD8.8 billion, an increase of 5.5% year-on-year or 9.4% in constant exchange rates, reflecting attractive growth in all of our business units.

The P&C Re net income was USD13 million. It was affected by significant large losses, mainly from the floods in Northern Queensland and the Ethiopian Airlines crash and related aircraft grounding for the Boeing Fleet of 737 MAX jets as well as prior year events. And the vast majority of the prior year was related to the development of our loss estimate for Typhoon Jebi in Japan. The increase that we booked was in line with the material surge of total insured loss observed in the marketplace.

Importantly, even though the reported combined ratio for P&C Re is high for this quarter, we remain comfortable with our estimate for 98% combined ratio with a normalized basis for 2019. Life & Health Re as I mentioned before, delivered an excellent result, and reported net income of $328 million, driven by portfolio management, a return to expected mortality developments, and a very strong investment result.

Corporate Solutions on the other hand reported a net loss, reflecting the impact of large and medium size man-made losses particularly from prior year events. Even though pricing is improving in commercial insurance, we continue the act of pruning of the portfolio and we are conducting a comprehensive review of all business lines, and the reserve positions in Corporate Solutions. We've announced that we'll provide you with a more detailed update with our first half results the beginning of August.

Life Capital has delivered gross cash generation of USD300 million, supported by the additional 10% stake in ReAssure that MS&AD invested in. On the closed book side, we continue the preparation for a potential IPO of ReAssure. The open book business supply of life capital continues to grow dynamically. On the April renewals, which we reported today we're pleased with the outcomes received. P&C Re achieved a strong outcome with volumes up 18% and a price quality improvement of 1%.

In Japan, in particular, the premium volumes increased by 10% and price improved by 7%. With pricing in loss-affected lines improving by 15% to 20%. Finally, we continue to have an industry-leading capital position, providing us with a high financial flexibility. On Monday we will start to return additional excess capital to our shareholders through the first tranche of our share buyback program, a clear commitment to the capital management priorities.

With that, I hand over to Philippe to manage the Q&A section.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, John. And good day, to all of you also from my side. (Operator Instructions) With that, operator, could can we please have the first question?

Questions And Answers

Operator

(Question And Answer)

The first question is from Kamran Hossain from RBC Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, afternoon, everyone. I have two questions. First one on price increases, and the renewals. In terms of how Japan develops, looks like it worked out really well for you I guess, kind of, in terms of the 7% price increase. Can you comment on whether that was kind of in line with your expectations built into the underlying 98% combined ratio, whether that was kind of better or worse? And the second question just on Corporate Solutions, judging by the, I guess the text in your press release, it sounds like the review is a little bit wider than previously expected. At the same time, you've grown net earned premium fairly strongly in the quarter. Can you just maybe kind of reconcile the 2? What reach may be but also pretty strong premium growth in the quarter? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Sure. I'll try to take those in order. On the renewals, I think the price increases in Japan were largely coherent with where we expected them to be. It's one of the reasons why we've maintained our 98% combined ratio for the full year on a normalized basis. We think the overall writings were very positive and our clients continue to turn to us for covers on both property, but also wider set of coverages. So the positive results that we had after the earthquake in 2011, with the rate increases that we saw related to the earthquake losses, I think you see playing out again here in 2019, after the typhoons and other flooding and storms of 2018.

With respect to -- from the CorSo review, I don't know that it is particularly wider, broader than we meant to indicate. We've got Andreas who has come on board as of the 1st of March. We'll systematically go through the results. I think the important thing that's reflected by the growth opportunities here is

Corporate Solutions has some very good businesses. And when we see the price increase is overall 5%, supporting some of these lines which we've been able to maintain our profitability in such as the credit and surety lines and more recently property, if it's not been affected by the hurricanes of '17 and '18, we're very comfortable continuing to expand those lines.

And so, there's a dynamic management of the portfolio going on where we're shrinking certain lines primarily, but not only the US liability, while we're able to write what we believe will be possible new business and other lines. And that's reflective in the overall increase in premiums and again supported by a 5% price increase across the board on average.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Kamran for your questions. Can we have the next question please.

Operator

The next question is from Edward Morris from JP Morgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everyone. Thanks for taking my questions. First on just coming back to the course our review. I mean the mention of the reserve review. Can you just explain why specifically you've mentioned reserves? Is it purely because of the recent losses that you talk about coming through? Or is there something else that gives you cause to believe that you need to do something on the reserves in CorSo? And similarly, if you do something, should we expect that to be in Q2? And the second question is on Typhoon Jebi. Can you just explain why you think the initial loss estimates at an industry level turned out to be so low? Is it due to demand surge, for example? And does that change your view of exposures generally? Is it more likely that other events could similarly see a surge in the way that we've seen here? Thanks.

A - John Dacey {BIO 4437051 <GO>}

Sure. So, with respect to Corporate Solutions, yes, we're looking reserves. I think part of the reality is as CorSo has been operating in some segments which have been challenging to the market more broadly and again not to harp on the US liability, but I mentioned that is the most dramatic portfolio, we want to be sure that as we work through this review, the company is set up to be profitable on a going forward basis. And the sorts of case reserve increases, that we did in the first quarter of this year are systematically looked at across every single position we have, as well as the overall IBNR So I think, this is not necessarily an extraordinary event, but it's been a focus of ours, given the recent performance of these lines of business for the industry and our books specifically.

With respect to Jebi and why this has migrated to an event which we now peg for the industry at something very close to USD13 billion. I think there are a couple specific events. One, I don't have to remind you that our Japanese clients closed their financial years as of March 31, and as they do that take a hard look for the full-year positions in our first quarter rather than simultaneously to us in the year-end. Secondly, I think in this specific case, we have the Typhoon Trami that came in on an overlapping area to Jebi. And trying to disentangle where the scope of the losses was complicated by the second set of storms.

On top of that, it was complicated by an earlier 2018 event which was probably not well seen in the market, but a modest earthquake around the Osaka region which then resulted in a series of buildings already being adjusted or repaired. And so what you found is a set of events which combined made it very difficult to estimate what the scale of loss was and the cost of repairing and this in an environment, where there's a whole lot of commercial construction going on across Japan in anticipation of the 2020 Olympics. And so getting the surveyors out to both correctly identify the damage and then the repair work begun especially on commercial buildings has been much more complicated than previous times.

And this is why as we work with our primary companies, they're struggling to come to a final number, but we are convinced at this point in time that the amounts we've added here in the first quarter, should again with the information that we've been presented with, leave us in a fairly comfortable position going forward.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Ed, for your questions. Can we have the next please.

Operator

The next question is from Andrew Ritchie from Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, guys. Just getting back, sorry, to Corporate Solutions, I mean I think John, at the time of full year, either yourself or Christian already sort of suggested the overall top line which shrink in 2019. I think the message is changing therefore. I'm guessing would is because market conditions are better than you expected and you flag an acceleration that you expect an average rate across CorSo for the rest of the year. Maybe just give a bit of color on why you're so confident in that acceleration and is it therefore the case that you are actually changing the message from shrinkage to growing, because of the bit of a better rate environment.

Second question. On the -- you said you'd give us at Q1, what the large loss budget is for Reinsurance for this year, you said it would increase. Could you give us that number? I'm assuming that's included in obviously the 98% normalized tax. Thanks.

A - John Dacey {BIO 4437051 <GO>}

Sure, it was the second one first because it's really very simple. For P&C Re are not large loss, but our nat cat budget is $1.25 billion for the year. That's up slightly year-over-year reflecting a little bit the increase of our writings on Q1, and what we have been able to do on April 1. But I think that's the number you're looking for. With respect to CorSo, I don't know that whether there's a dramatic shift in messaging from full year. I think what we said there is we will be looking hard at individual portfolios, and we mentioned for the full-year, for example a reduction, I think of 38% of our US Liability portfolio and we said we'll continue cutting portfolios where we don't see the opportunity to return to profitability. That has been going on.

I think what we saw in the first quarter and again it's just one quarter, is some opportunities to write what we think is attractively priced business here in other lines, and whether it's some property exposures in Europe or as I said the credit and surety book. We'll continue to look at those portfolios. You're right, we did say that on average prices are up 5% in the first quarter. We are encouraged by major competitors in this space talking about not only the achievement of price increases but of the need for further price increases and are looking for the market to continue to provide some discipline to get to the required rates on all lines, not just the ones which we currently see it at. But yeah. I think, if we see the opportunities to grow, certain portfolios within CorSo, we will do so. This is not a business we're trying to shrink to greatness, but we are trying to fix in a major way and that will require some parts of it to shrink materially.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Andrew for your questions. Can we have the next question please.

Operator

The next question is from Farooq Hanif from Credits Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody, good afternoon. Farooq from Credit Suisse. Just on the reserve review that you've announced, to what extent can you really do a comprehensive review given, my understanding that it's a recent excellent year, and very long-tailed business that is causing reserving issues. So what extent as it -- what is your the aim of this review? Is it really that you think you can put some of those persistent case reserve into bed? Just if you could talk about that. And secondly going back to the question of growth. So I mean, you've talked a lot about Primary Lead and growth in areas, and reduction in US liability. It seems to me that just to clarify the matters that you're giving. It seems to me that you could continue to see growth of this level going forward for the rest of the year. And I just wondered what comment you make about that. Thank you.

A - John Dacey {BIO 4437051 <GO>}

So on the second one, I'm not predicting how much growth we'll see the rest of the year. I do think the relatively strong growth in Q1 was not necessarily a surprised, but probably the upper end of what we might have expected. And again, there were some fairly significant transactions with large clients, which assisted that number. But, I wouldn't make that a prediction for the rest of the year. We'll be looking very carefully to be sure that we simultaneously and sophisticatedly adjust our portfolios. And I can't guarantee that we'll always find growth to offset some of the pruning that we'll continue to do.

With respect to the reserves, I mean you're right, some of the lines of business that we operate in are very difficult to judge ultimate cost. I think what we want to be sure is what we have on our books, which is very comfortably reserved with the same rigor and prudence that we've been able to demonstrate in previous years and might have missed some negative orientation of ultimate losses here in recent years on a couple of the books of business. We want to get back to center so that this range of 60% to 80% of expected is where the reserve stays. They've been there over the entire period we're looking at. But this most recent set of adjustments, I think in the first quarter gives us some comfort. As we said we're not done reviewing it. What we booked was what we thought was appropriate as of March 31. And we hope to be able to finish having this part of the conversation in the end of the second quarter, when we give out first half results.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Farooq for your questions. Can we have the next question please.

Operator

The next question is from William Hawkins from KBW Please go ahead. Is there Hawkins your line is open your maybe on a mute.

Q - William Hawkins {BIO 1822411 <GO>}

Hey, thank you for pointing that out. Hey, John. The P&C recombined ratio please. You've emphasized the word normalized when you're talking about 98%, and so I just want to be clear about what I should do about Jebi, because Jebi I think is booked as prior year reserve developments. That seems to be about 12 points in the first quarter, which will be about 3 points on an annualized basis. And I think your normal assumption is the reserve development should be either side of zero. So if you're emphasizing that 98% is on a normalized basis, are you actually telling me that at this stage you're at a 101%, once we've allowed for this Jebi figure or not? Can I just clarify how you're treating Jebi in that 98%?

And then secondly, just a bit of housekeeping. It's pretty clear this quarter there have been some very poor P&C underwriting results. There've been some very strong investment return figures. Is there anything else given that this is a cut down set of results, is there anything else particularly material that's kind of distorting the figures that we can't see? Or can we just assume that everything else is about normal? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Let me talk about Jebi first, as I think about if there's anything else that you need to be informed about. I don't think so, is the answer, but I'll use the next 60 seconds to confirm that. With respect to Jebi, that loss is not in the 98% combined ratio expectation for the full year. So, if in fact there is no positive runoff in the next three quarters, the balances, the Jebi losses in Q1, then yes, what we would report would be above that 98% for the full year. But instead the Queensland floods, the loss on Ethiopian Air and Boeing were losses which we would consider a normal course of business and within the ranges that we would expect in a normal Q1. So those would be included in that 98% expectation.

You referred to the investment result. It was unusually strong at 4.5%. The running yield 2.9% remains very stable and comfortable for us. I don't think, that investment result also flattered the results of Life & Health Re, the 19.6% return on equity there is not something that we we're projecting out for the rest of the year that we expect that to come back down to are more normal ranges. And our view is that there's no reason for the P&C Reinsurance to bounce back into a strong profitability for the next three quarters. Never knowing exactly what's going to happen with respect to Nat Cats and other large losses. So, yeah, I think you've got a reasonably clear picture.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks William for your questions. Can we have the next question please.

Operator

The next question is from Ivan Bokhmat from Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good afternoon. I got two question please. The first one would be on capital generation. I think three months ago, you suggested that the conditionality of the second tranche of buyback is not based on the ReAssure IPO but rather the broader development of this excess capital. So I'm just wondering how you think about the organic capital generation, and the run rate after first quarter? And the second question, was actually also on Life Capital, could you please talk about the drivers of the gross cash generation in the quarter? Because I think if you adjust for the proceeds from the 10% stake sale, it appears that it may have been negative. Thank you.

A - John Dacey {BIO 4437051 <GO>}

Sure. So on the first one on capital generation, you're right, we did not make the second tranche conditional on the IPO of ReAssure, but rather said it would depend on a broader set of impacts on our capital obviously, where we able to take ReAssure to market, we would expect that to be a material net-positive to our overall capital position. And so we'll see how that plays out during the course of 2019.

I'd say, these are the other developments of two probably countervailing one's -- the first, the organic growth that we've been able to demonstrate, especially in P&C Re but not only have been you utilizing capital but in a way that we're very-very comfortable with as this is our core business. At the same time, the development of the financial markets in the first quarter both in terms of credit spreads, but overall market movements, you can expect to have broadly positive impacts on our SST ratios. So we will be providing you with the mid-year SST number, the July 1 number later in the year. And probably in August, we can give you an indication of how that's developing.

With respect to the gross cash generation your instinct is right. The MS&AD investment actually more than explains the $300 million of gross cash generation that we've reported during the first quarter. Two things of utilize cash for us, in the first case, market movements declining interest rates in the ReAssure business, actually require more capital to be held there, and then reduce the amount of free cash that's available for this. And secondly, the continued growth of our open book businesses in Life Capital are also utilizing some cash. So, those two together would deliver some negative or some reduction to the gross cash, that was delivered by MS

&AD in their investment.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Ivan for your questions. Can we have the next question, please.

Operator

The next question is from Sami Taipalus from Goldman Sachs. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. Thanks to take my questions. So the first one is on the P&C Reinsurance rate environment. Just if I look at the split there it looks like you've got pretty big rate in Japan but -- and it takes like month been a little bit weak outside this. Could you just comment about the on the detail of what you saw in the other areas and if there were any areas that were particularly weak?

Then the second question is on Corporate Solutions. Just there -- have you changed anything about the way you write the business on a I guess -- I mean, I appreciate you're working in slightly different areas to before. But have you changed the way you write at all into it and I guess in particular in terms of line sizes and the use of Reinsurance? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Sure. So, on P&C Re, I mean again to confirm. We think the increases that we were able to see in Japan were strong as you gathered by subtraction. Rates and other parts of the renewal did not go up particularly. But I think what we found is in most -- well, not most, in fact in all cases where we wrote the business, we found the rates to be adequate for us. Again, we'll see important renewals in the US during the summer in June and July and there the continuing impact of the California wildfires in particular. We expect to support reinsurance rates on a going forward basis.

The other thing I might mention because, I've said it before, Hurricane Michael may not have been a big dollar loss compared to the three hurricanes the previous year. But in terms of the nature of the hurricane, you probably saw that it was recently upgraded to a level 5 storm. The industry got lucky by where Michael hit in the Southeast on the Panhandle, Florida. And I think, anybody that's operating in the US property market appreciates, that the violence of that storm is not to be forgotten. So we remain somewhat optimistic about renewal rates in the summer in the US.

With respect to CorSo, I think one of the benefits that Andreas Burger brings to the business is his deep experience in primary markets, the relationships with brokers, a set of insights, which will continue to help us in the way that we do write the CorSo business. So, I don't think there's been a dramatic change other than as I said before a pruning of -- an aggressive pruning of certain portfolios and willingness to grow others. But I think that the overall potential coordination of our efforts across geographies with some of the larger brokers and making sure that CorSo is treated well by the intermediaries as well as by our clients. It is one of the developments, which we look forward to.

A - Philippe Brahin {BIO 19081619 <GO>}

And the use of Reinsurance, we will update you, Sami, with the Q2 results, as John mentioned earlier with the business update we'll provide to the market.

A - John Dacey {BIO 4437051 <GO>}

Thanks, Philippe.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Sami for your questions. Can we have the next question please.

Operator

The next question is from Frank Kopfinger from Deutsche Bank, please go ahead.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good afternoon, everybody. My first question is also on CorSo. Given that you had a loss in 2018 of more than $400 million, you have now loss in Q1 of more than $50 million. And you just injected at the end of 2017, $1 billion into the segment. So given the losses, which added up so far, do you see a risk that you need to read and check also the capital again into Corporate Solutions? And then secondly also on the renewals, on the 7% price increase for the Japanese business. I'm still struggling to reconcile whether this was really adequate, given the magnitude of the Jebi or Trami loss. If you add them up It would come up to between $1.2 billion, $1.4 billion. And my question would be simply on how should we think about the payback period for these losses given the 7% price increase that you achieved.

A - John Dacey {BIO 4437051 <GO>}

Yes. Fair questions. Frank, thank you for both of them. With respect -- for Corporate Solutions, yes, you're right. We had a loss in 2018. We had a loss here in the first quarter. Besides the valuation and confirmation of the reserve positioning and view of the portfolio of the businesses. We are looking hard at both reinsurance programs and capital to be sure that the capital of Corporate Solutions is right sized to the risks that we leave in it. So obviously, if we take some of that risk out with a more comprehensive reinsurance program, the capital maybe enhanced without an injection or we may decide that more capital is appropriate, given the opportunities that we see on a going forward basis in the price environment that's presented to us. So, we'll clarify all that in the end of the second quarter.

With respect to your question on pricing in Japan, 7% overall price increase on the April renewals is hides the fact of -- on the loss affected portfolio with increases of 15% to 20%. We write a lot of business in Japan, most of its related to the cats and property but not at all. We continue to look for opportunities to work with our Japanese clients, actually they're literally around the world as they've expanded their portfolios and whether it's Tokio Marine, Houston Casualty, MS&AD and their P&C businesses in other parts of the world. And so, we're frankly convinced that these long-term partnerships will find ways to even the score, if you will between Reinsurance and the primary companies.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Frank for your questions. Can we have the next question, please?

Operator

The next question comes from Jonny Urwin from UBS Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks for taking my questions. Just two for me, please. Firstly, could you please give us a bit more color on what the latest is on loss-cost inflation trends, particularly on US Liability? Obviously, we're seeing rates improve clearly on the commercial, but, I'm just wondering if that's working through to margin or is loss cost offsetting it? Secondly, given you're putting CorSo reserves under more scrutiny. Is there any read across the P&C Re, particularly on those recent accident years versus liability? Thank you.

A - John Dacey {BIO 4437051 <GO>}

So, maybe the second question first. We run our group underwriting reserving at a group level. And so any clear trends that we pick up by the analysis at Corporate Solutions both broadly speaking on development of frequency, severity of claims, but specifically with respect to the claims inflation it would be picked up and applied across the board. I'd say, what we saw in Q1 from my understanding doesn't lead us to any particular insight or belief that we've got a secondary impact in our Reinsurance business. But the team will continue to evaluate that. I do think this is in the context of a general sense that Casualty business in the US has been underpriced and some anecdotal evidence that large jury awards may be coming back as an important part of the insurance environment. At the moment, I'd say that it's anecdotal and not necessarily a clear trend. But we are watching it closely to see if it develops into something more than that. In the meantime, our reserves continue to dynamically be set on the latest information we have.

With respect to loss cost inflation, I don't have a specific view here, based on what we've seen in the first quarter. I think what we saw in 2018 was a price increase in the commercial lines in particular which was trying to keep up with inflation. I think there's no reason that I've seen to believe that inflation has accelerated and to the degree that price increases have come through stronger already. In 2019, we might be getting ahead of it a little bit. Now, that's starting from a underlying position which is probably insufficient pricing. And so we're playing catch-up in 2019. Best guess is, we are in fact able to start catching up to where the prices should be and see the rate increases exceed by some amount. But I can't quantify it for you, what claims inflation might be.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Jonny for your questions. Can we have the next question, please?

Operator

(Operator Instructions) The next question is from the Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, everybody. So John, thanks for the clarification that on CorSo. There's one doubt in my mind, still please. You mentioned that the US General liability piece of reserves is particularly -- or is amongst an examples of the areas in -- being reviewed. Of the $12 billion of CorSo reserves, how much is being reviewed? Are you able to say, how much is this liability portion for example? Or just an idea for us? So that's the first question. Second question is just on the life side of things. So you did indicate that you will -- the 10% to 12% is still your best guidance from a full year perspective despite the 19% in 1Q. I Just want to clarify this is the correct message. In other words, would you expect 7 points were kind of one off-ish factor ROE in life in 1Q? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Yes. So with respect to CorSo reserves, we actually don't provide or haven't provided that level of detail of how the reserves break down by lines of business they support. I'll note your question as we prepare the half year results as it provides additional or clarity. We might decide to give you some sense of relative size. With respect to the Life & Health Re, yes. What I am -- as we said there were some good technical reasons why Life & Health Re performed very strongly in the first quarter. Again, concerns that some of you had about the mortality experience in 2018 has come back to our expectations here in the first quarter.

And so we're confident that was not a trend that need to be materially changed in all our models. I think the investment result was part of the outperformance of Life & Health Re in the first quarter. And you probably have a better guess than I do of what financial markets would look like in the next three quarters. But I think we're comfortable to say that 10% to 12% is what we would expect on a going forward basis. And we just have a big bump here in Q1.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Vinit for your questions. Can we have the next question please.

Operator

The next question is from Michael Haid from Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. One question on the investment result. The return on investment 4.5%. How much of this comes from the fair value changes of equity investments? And if you strip that out then would you still consider this a strong investment result and why?

A - John Dacey {BIO 4437051 <GO>}

So yes. I think we're fairly transparent to say the underlying running yield of 2.9% has remained very stable over the last quarters. We're comfortable that our fixed income portfolio which is the largest part of what we have here have -- has delivered and continues to deliver a core return. Around that we've had some volatility especially from the new US capital that came into effect last year, which was negative for 2018, the fourth quarter in particular and unambiguously positive here in the first quarter.

And so, I think it's probably, in our minds, not fair to say, our investment result wasn't so good, because when you take out the positives you're left with the average. We invest in equities, because we think over time they're going to deliver an adequate return for us and that's where we continue to be. We have not changed our strategic asset allocation to adapt to the new accounting rules. And we're comfortable with the level of risk that we take in the asset portfolio and we'll continue to do so. So, I think you can take a ballpark view of what that return should have been. I think at year-end we had $2.7 billion of listed equities.

The performance on average was up, I think 12% for the quarter. We also have the specific items and group items which include, but not limited to New China Life, a strong performance also in the first quarter. So net-net, I think this is a estimatable number for you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Michael for your question. Can we have the next question, please?

Operator

The next question is from Thomas Fossard from HSBC Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

One follow-up on the return investment. Could you please indicate what was the average investment rate you achieved in Q1? And why the 2.9% running yield for the book remains the right guidance for the full year, bearing in mind that the -- probably the environment for reinvesting your new money has changed quite significantly over the past 6 months? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Yeah. We don't normally provide the reinvestment rate, I mean certainly not here in the first half of the year, we will evaluate whether it makes sense to do that with the more -- the broader disclosure that you'll see, in the first half. I think, again what you've seen is the asset management teams ability to manage across the currencies and across instruments to simultaneously maintain a high quality fixed income portfolio and keep this return between 2.8% and 3% over the last 8 quarters. So, there's no expectation that we'll be taking on. Material additional risk to maintain the 2.9%. We've not given that as a guidance but I think we're comfortable that this has been our history. And absent -- major interest rate moves in major economies. We will fight to keep it around there.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Thomas for your question. Can we have the next question, please?

Operator

The next question is a follow-up from Andrew Ritchie. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Just a very quick clarification. John, I guess, I was a bit surprised, when you gave me the new Nat Cat budget for the year. That it's this barely moved, on 2017. Despite the fact that you have because you've seen better pricing quite materially increased you Nat Cat writings, I think you've deployed as nearly 40% more capital to non-prop Nat Cat, January 1. So I guess, I mean that's only one measure of your kind of cash exposure. But how can it be? Or how does it work in terms of the mathematics that your large loss budget hardly moves? What are the offsetting things I'm not thinking about?

A - John Dacey {BIO 4437051 <GO>}

Andrew, happy to give this a shot. We were also, I can say a little surprised that it didn't move more but as we went back to our teams to work through this. Two things: one is the prices on the risks that we were writing were in many cases strongly up and so as a result even though the premium volumes have increased, the amounts of risks haven't necessarily gone up by a similar amount, so, that's one reason. And the second, the growth of mainly affected the top risk scenarios. So there's a difference between the shortfall calculation versus the annual expected loss and as the annual expected loss which is reflected in this Nat Cat budget. So to the degree that we're writing more in extreme and unlikely events that would not move this needle as much as if we'd just done a bunch of more proportional property contracts.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andrew for your follow-up questions. Can we have the next question please.

Operator

The next question is a follow-up from Edward Morris. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Thank you. Just very quick follow-up. I just wonder if you could update us on the potential timing of the ReAssure IPO that you're exploring. I think in the past you suggested that the uncertainty relating to Brexit was one reason, why maybe it would get pushed later in the year in 2019. Given that, that potentially may now be, say 1st of October, can you just give us an idea of whether you'd look to wait until then or whether it could be done beforehand? And secondary, I think you've talked about not yet knowing the level at which you would get the SST uplift or what level of the stake we need to be to get the SST uplift. So I wonder if you have the answer to that yet? Thank you.

A - John Dacey {BIO 4437051 <GO>}

On the second one, I'm sorry to say no. FINMA doesn't like responding to hypothetical questions about where our ownership would be. But again our current expectation is if we were to reduce our stake down to 49%, but not much below that we would have to continue to operate the capital calculation as a look through on that 49% of the assets and liability. And so it's going to be materially below that before we get this treated as a simple equity investment. How far below? We just don't know yet.

With respect to the timing, the political uncertainty has been kicked down the road here in terms of Brexit. I'd say we continue to move with our preparations. The extraction of this business out of Swiss Re group is not trivial. And you've seen that we've got the CEO, the Board -- the Chairman of the Board, the Board in place. As soon as we can speak more definitively about timing, we will. But at this point of time I'm afraid, I can't give you much in a way of guidance of when to expect this other than we've not changed our view that we should be able to get this done in 2019.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Ed for your follow-up questions. Can we have the next question, please?

Operator

The next question is a follow-up from Vinit Malhotra. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you for the opportunity. Just on the Life Capital growth cash generation. John, you mentioned two points which were, sort of one off-ish. One was the declining interest rate, and the other one was the open book growth. How -- I mean, open book growth will continue, isn't it? That's the plan.

A - John Dacey {BIO 4437051 <GO>}

Yes.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So, how should we interpret what -- I mean interest rates it might come and go, but how should we interpret what was the effect or what should be the going rate?

A - John Dacey {BIO 4437051 <GO>}

When I presented the relative importance of those two in order, so you can imagine that the interest rates were more important in reducing the amounts than the cost of running the open books. I think you can further triangulate by realizing that the 10% investment by MS&AD was in that GBP315million. And we reported $300 million positive. And so the difference is represented by those two of which the change in interest rates is more important.

So, yeah, the answer is when you grow a New Life business both our iptiQ activities as well as elipsLife, there is a cash call, but we remain very confident about the value creation that's going on there, and we look forward to continue strong growth which may require cash on an ongoing basis. But we'll find the funds as long as we're convinced we're making -- building real value.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks Vinit for your follow-up questions. So we've come to the end of our Q&A If you have any follow-up questions, please do not hesitate to reach out to any member of the IR team. Before we close I also wanted to remind you that we will host a series of Q&A sessions with our senior management on the 23rd of May in London. We will cover the topics of Asia growth, Casualty, iptiQ, our B2B2C platform. So we look forward to see many of you in London. If you have not registered, you should -- don't hesitate to get in contact with any member of the IR team.

Thank you, again for joining today. And operator back to you.

Operator

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