Q2 2019 Earnings Call

Company Participants

- Jean-Jacques Henchoz, CEO & Chairman of the Executive Board
- Klaus Wilhelm Miller, Member of the Executive Board
- Roland Helmut Vogel, CFO & Member of the Executive Board
- Sven Althoff, Member of the Executive Board

Other Participants

- Andreas SchÃ¤fer, Analyst
- Andrew James Ritchie, Partner, Insurance
- Emanuele Musio, Equity Analyst
- Farooq Hanif, Head of Insurance Research in Europe
- Frank Kopfinger, Research Analyst
- Kamran Hossain, Analyst
- Sami Taipalus, Research Analyst
- Thomas Fossard, Co
- Vinit Malhotra, Banca di credito finanziario S.p.A., Research Division

Presentation

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you very much. Good morning, ladies and gentlemen. I'd like to welcome you to our conference call presenting our results for the first half of the year. This is the first results call in my role as CEO of Hanover Re. And I'm pleased to be able to present a good set of numbers.

As usual, our CFO, Roland Vogel, will go over the financials in detail and additionally, I'm joined by my board colleagues, Klaus Miller and Sven Althoff for the Q&A.

Our business developed favorably. In the first half of 2019, we recorded double-digit top and bottom line growth, which is particularly pleasing because the previous year's result was already on a good level. Gross premium increased by 14.5% adjusted for currency effects, reflecting an increased demand for reinsurance. Strong investment income and good underwriting profitability in P&C, combined with a significantly improved earnings contribution from our life and health business group caused group net income to rise to EUR 663 million.

The very strong result in life and health is, in large part driven by a positive one-off effect resulting from the restructuring of our shareholding in Viridium. Although it should be noted that last year's in-force management actions for our legacy U.S. mortality business also had the expected positive impact on the results.

Despite the dividend payout in the Second Quarter, shareholders' equity rose by more than EUR 1 billion. It is therefore even more gratifying that the return on equity of 14.3% improved on the previous year and is clearly above our minimum target. The solvency ratio remains significantly above our 200% threshold, standing at 249% at the end of the First Quarter. And it should be stable or slightly lower in the Second Quarter based on preliminary calculations.

Premiums in our P&C reinsurance business continued to grow strongly. Even though the market environment remained competitive, we have seen positive dynamics in both primary and reinsurance markets. The large losses in the first half year were well below the expected levels, however, due to our unchanged conservative reserving policy, this is largely not reflected in the underwriting results to date.

On the other hand, the underwriting result does include around EUR 100 million in loss creep from Typhoon Jebi. Against this backdrop, it is encouraging to see that the 96.7% combined ratio still remained below our 97% target.

In life and health reinsurance, we saw good opportunities for new business in Asia, fueling the gross premium growth of 7.4%, adjusted for currency effects. The underwriting result is weaker compared to a good result in the previous year. And here the main reasons were some negative effects from our Australian and the U.K. business. The combined negative effect of the 2 together is in the mid-double-digit million range. The result of the ING portfolio that we acquired in 2009 was in line with our latest assumptions. And our financial solutions business again contributed strongly to the result. Overall EBIT increased by 30.3% to EUR 286 million driven by the already mentioned one-off effect. The performance of our investments continue to exceed our target for the year of more than 2.8%. Excluding the one-off gain from Viridium, the return on investment from assets under management was 3.1% on an annualized basis.

On that note, I'd like to hand over to Roland, our CFO, who will explain these figures in more detail.

Roland Helmut Vogel {BIO 16342285 <GO>}

Good morning. Thank you, Jean-Jacques. Maybe one short remark before I start. For those interested in analyzing our reserve situation in more detail, we have published the P&C loss reserve triangles as of December 2018 on our website today.

We continue to see very attractive top line growth in the first half year of 2019. Adjusted for currency effects, gross written premium increased by 14.5%. This was driven by favorable business production in both business groups, albeit again with another major contribution from the P&C side. Net premium growth is slightly less dynamic due to the change in unearned premium and a slightly lower retention in life and health. However, this difference between gross and net premium will most likely shrink by year-end because the change in unearned premium naturally decreases as we earn the premium over the course of the year.

Other income expenses improved mainly due to a further increase in the contribution from deposit accounted financial solutions treaties, while currency effects had a minor impact in the first half year. At 22.9%, the tax rate is below the expected level. This is mainly the result of the tax reduced gains from the revaluation of our share in Viridium. Altogether, group net income, as already mentioned, increased by an impressive 19.3% to EUR 663 million.

Operating cash flow was again very strong in the first six months, increasing by around 50% as compared to the previous year. The main driver here is the growth of our P&C reinsurance business. On top of this, increasing valuation reserves and currency effects supported the growth in assets by around EUR 1.3 billion and EUR 250 million, respectively. This, by far, more than overcompensated for the dividend payment in the Second Quarter. Overall, assets under own management are at a record higher level, close to EUR 45 billion.

Looking at the capital position, we see the comparable or the same effects. The dividend payment in Q2 is fully covered by the profits of the first half year. On top of this, the increase in OCI boosts the growth in shareholders' equity by 11%, almost entirely driven by the variation change due to the decreased interest rates and lower credit spreads.

The composition of the total capital on the left-hand side of this slide is unchanged, with a high degree of flexibility around the hybrid bucket. You will see gross premium on the next slide increase by a remarkable 18.4%, off an -- on an FX-adjusted basis. This is driven by both our structured reinsurance business and a well-diversified growth in the traditional book worldwide and nearly across all lines of business. However, the growth rates in structured reinsurance, in particular, should come slightly down over the course of the year. And also the gap between gross and net premium growth should narrow, I mentioned this already, due to the pattern of the premium recognition for some larger contracts.

At 2.4% of net premium income, major losses were very benign and came in EUR 230 million below budget. As in the previous years, we stuck to our reserving practice and reflected the large loss expectation as part of our IBNR reserves.

When it comes to runoff results, we have seen negative developments, in particular from Typhoon Jebi, for which we increased our loss estimates by EUR 106 million in the full half year based on an exceptional rise in the assumed market loss. Here it's important to say that going forward, any potential further developments in relation to Jebi will have very limited implications for our net account because the current loss level was just sufficient to stretch at the lower limit of our whole account protection. Overall, the runoff profit was still positive, as expected, with the aforementioned negative reserve development naturally running a little bit contrary to the normal positive reserve runoff in the first half year. So other than that, nothing extraordinary.

Given that we are talking about reserving the recent developments involving the Ogden rates might be another topic of interest here. The decision to set the new rate at minus 25 basis points, which is lower than most expected, means that we also had to adjust our best estimate midpoint and lose around mid-double-digit million amount in reserve redundancies. But most importantly, of course, we did not have to strengthen the reserves in light of the revised decision because we have kept our reserving base at the initial minus 75 discretion. Altogether, the approach that we do not offset negative developments from prior year large losses with a benign experience from the current year leads to a slight increase in the combined ratio in the first six months and particularly in the Second Quarter. Therefore, the 96.7% combined ratio for the first half year demonstrates, from my point of view, a healthy underlying profitability of our P&C portfolio.

Net investment income decreased slightly. The favorable increase in the ordinary investment income was offset by a lower level of realized gains. Other income and expenses did not include any material one-offs. The tax rate is slightly higher than normal mainly due to the weaker earnings contribution from our Bermudian subsidiary, which was naturally affected by the Jebi runoff.

Group net income stable at EUR 434 million compared to the already very good first year -- first half of the previous year.

Next slide. The major losses were significantly below the expected level, adding up to EUR 141 million. This leaves us with a comfortable cushion of EUR 734 million to absorb large losses in the remainder of the year, including, of course, the unused EUR 230 million carried forward from the first half year. The large loss list is still rather short. After the first half year of 2019, the net cat experience, in particular, was very benign. Man-made losses were more in line with the expectations, mainly driven by the refinery loss in Philadelphia.

Looking at the Ethiopian Airlines loss, you can see that it has doubled on a net basis compared to the number we reported in the First Quarter. This is because we had previously allocated the loss from Boeing's grounding policy to the Lion Air loss in 2018 and now have moved this to the Ethiopian Airlines loss due to a different legal interpretation of the policy wording. Our view on the overall loss has not changed in the Second Quarter. The significant difference between the gross and net in this case highlights the strong (retro) protection we buy for our aviation portfolio.

On the next slide, you can see that most lines of business are rather close to the target and contributed to the good underwriting result. Exceptions here are the U.K., Ireland and the London market as well as our cat business. The former was affected by rather weak technical profitability of the Lloyd's business that we support apart from Argenta. And the combined ratio for our cat XL business is mainly driven by the described development of the Jebi loss, which is more or less fully captured within this business line.

As mentioned before, the benign net cat experience that we have seen so far in 2019 is not reflected in this number due to our reserving policy. On the other hand, aviation and marine are significantly below the target, benefiting from a favorable loss experience and some positive reserve developments.

In L&H, the gross written premium increased by 7.4%, adjusted for currency effects. New business production was particularly favorable in Asia and here with a focus in China. The results for our U.S. mortality business are in line with our expectations as are the positive effects from our (in-forced) management actions in 2018. However, this is less visible in the difference compared to the previous years because the underlying mortality was particularly good in the first half of 2018. The main reason for the decrease in the underwriting result is an underperformance of our disability business in Australia. Additionally, we have added some reserves for our U.K. business based on mortality assumption changes. Both effects taken together are, as already mentioned, in the mid-double-digit million range.

The ordinary investment income increased compared to the previous year. And the fair value changes through P&L were also beneficial in the first half. As part of the realized gains, we accounted for the one-off effect of around EUR 100 million from the revaluation of our shareholding in Viridium, boosting net investment income to EUR 295 million. Other income and expenses mainly driven by the further improvements and the contribution from financial solutions business, particularly from the U.S., which, as you might remember, is recognized in this line according to the deposit accounting method. As already mentioned, the Viridium gain is nearly tax-free in Germany, pushing down the overall tax rate to just 9%. Altogether, net income is up by 75% to EUR 258 million.

On the next slide, we are very satisfied with the development of our investments in the first half. Excluding the Viridium effect, the return on investment would have been 3.1%, which is remarkably above the expectation with increased ordinary investment compared to the already-good figure in the previous years. Realized gains, apart from the Viridium gain, were on a very low level. The change in fair value of financial instruments was positive. The ModCo derivative, for those who are interested, contributed nearly EUR 9 million to that result.

Unrealized valuation gains increased by more than EUR 1 billion to EUR 2.2 billion mainly driven by our fixed income portfolio due to the decreasing yield in our major currencies as well as lower credit spreads. So overall, the flexibility to harvest valuation reserves has increased remarkably. Still this would, of course, be associated with a higher dilution of ordinary income in the future. And we haven't done that.

On the next slide, you can see that we did not change our asset allocation in the first half year. The overall diversified contribution to ordinary investment income is again supported by the results from real estate and private equity. But not to any extraordinary extent.

I think this should conclude my remarks. And I'll leave the target metrics and the outlook to you Jean-Jacques.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Roland. Next slide, the target matrix reflects the good performance of our business in the first half of the year with all targets being reached. There's really not too much to add at this stage and we can move on directly to the outlook.

The June-July treaty renewals went quite well for us, even though the reinsurance markets continue to be shaped by intense competition and surplus capacities. We saw some positive dynamics as a consequence of the considerable natural catastrophe losses in 2017 and 2018 and also the development of those losses. In the U.S., primary market conditions and rates firmed, in particular for property business, although casualty markets also saw some slight improvements. Against this backdrop, we were in a position to significantly increase our premium in North America. The same is also true of our U.S. and Florida cat business, where rate increases were most substantial. But still did not prompt a shift in our risk appetite for Florida cat business.

Outside of the U.S. too, we continue to see healthy demand from our clients. And were able to grow our business on a diversified basis. Overall, premium increased by 20.3% driven by both new business and price increases as well as higher shares and volumes on existing business.

This leads me straight on to the expectation for our total property and casualty business. On the outlook by reporting line, you can see many arrows pointing upwards, confirming the favorable demand for reinsurance and more specifically for Hannover RE as a preferred business partner.

The profitability of our book is also satisfactory, enabling us to earn a margin at or above the cost of capital in all areas. Overall, I believe that we're well positioned to continuously outperform the market due to our strong competitive positioning.

In life and health reinsurance, the expected growth is somewhat more modest, compared to P&C. We see good opportunities for further growth in morbidity -- in the morbidity business, mainly in Asia, while demand for financial solutions also remains strong. However, I'd like to point out again that significant parts of our financial solutions portfolio are deposit accounted. And hence, no premium is booked. Therefore, this arrow is not a perfect indicator of the business development in this case.

Looking at the profitability across the lines of business. All lines are expected to earn the cost of capital or more. Profitability is particularly strong in financial solutions, where our U.S. business is the main driver.

Altogether, the improved result expected for the 2019 financial year should be a better reflection of the underlying profitability. This is because the profitability of our mortality business will improve significantly due to the enforced management actions and the associated one-off IFRS charges taken in 2018.

Finally, we come to the group outlook for the year 2019. We have decided not to review our guidance given that the main part of the hurricane season is right ahead of us. However, this also means that, as before, the Viridium effect is not included in the roughly EUR 1.1 billion group net income figure and should instead be seen as an addition. We will review and update our earnings guidance with the publication of our Q3 results and have therefore left the other parts of the guidance untouched as well at this stage.

Still I'd like to point out that in keeping with our unchanged approach to capital management, the expected business development should allow us to again pay a special dividend on top of the ordinary dividends, resulting in a total dividend at least on a par with last year's level of EUR 5.25 per share.

On that note, ladies and gentlemen, we come to the end of our presentation. And I look forward to your questions.

Questions And Answers

Operator

(Operator Instructions) First question is from Emanuele Musio, Morgan Stanley.

Q - Emanuele Musio {BIO 19781440 <GO>}

I have 2 questions. One is on P&C. So you had lost script from Jebi, you didn't use the buffer. And this is consistent with your policy. So could you maybe remind me under which circumstances you might decide to use a bit of that buffer? And also, this EUR 58 million that you took in Q2 for Jebi, does it include some cushion that could potentially add to your current buffer? And also on U.S. mortality, was there anything there that we should see? So any detail on this will be helpful.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

So maybe I take the P&C. As you mentioned -- rightly mentioned, the EUR 106 million from Jebi do not run against any budget. So they come on top of our reserving policies. I also did mention that the current Jebi level on the gross basis has been touching the whole account protection. So there is no development on top to be expected in that regard. We feel comfortable for the second half year. Would we use the buffer for something like this? Not at this time of the year. So we would revisit that issue by year-end, see what the exhaustion of the large loss budget would be at that point in time and then decide. Still again, we are fully transparent with our redundancy development anyway. Maybe this is for me the chance to add to that, which -- and I didn't do that before. We do expect the large -- the redundancy levels being on the same. So no changes to be expected as compared to the beginning of the year.

The second aspect was, is there any potential that the current reserving level would increase the buffer? I would say, no, again, as we are -- we have the gross pull-in. We are protected for another net development. So this should really be sufficient. We feel comfortable. But this would not add a lot to potential net reserve buffers. Well we feel conservatively. If it goes down from this stage, okay. But otherwise, I think this should be flattish. Then mortality?

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

Yes. Klaus Miller from the Life side. The U.S. mortality is currently moving in line with our expectations. That is for the Brock or the acquired ING business. The organic business right now it's (with us) since 2009, is doing much better than expected. We have not factored that into our expectations for the second half of 2020. So we see that as a result which could easily happen any time. But from the YRT rate increases, if you are referring to that, we have started arbitrations with a handful of companies, we might be able to resolve 1 or 2 of them pretty soon. The rest will drag into 2020. And what you will see is -- or you might remember, we have told you that when we win these arbitrations, what we expect, the IFRS negative reserve, which will hit us, will gradually disappear over the next 18 months. This is because we have to account for these treaties the same way as we did in the past as if we would lose the arbitrations, what we don't anticipate. We expect to win them 100%. But we will show losses under these treaties and the recapture charge as you have seen last year will certainly -- or probably not happen in 2020, this will come through as normal losses. And as soon as we win the arbitrations, we expect that the client decides to recapture. And this will probably be a wash between IFRS losses from negative reserves and losses we have to be reimbursed at that point in time when we have won the arbitration. I hope that was the background of your question.

Q - Emanuele Musio {BIO 19781440 <GO>}

Yes.

Operator

The next question is from Kamran Hossain, RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

Two questions for me. The first one is just on the charge that you took in Life Re, you talked about U.K. mortality being an issue. Is there any offset from longevity? I know in the past, you've said you're not really willing to recognize this for potentially even kind of decades. But is there any offset there? So kind of color around that would be helpful.

And the second question, again, on Life Re. Could you help us perhaps normalize this quarter for, I guess, the different moving parts on EBIT? I know we've got the negative drag, which you said was double-digit millions. You've got the Viridium number. But just kind of any idea on how we should get to an underlying number there, it'd be really helpful.

A - Roland Helmut Vogel {BIO 16342285 <GO>}

I think you mentioned. And we said that before, Kamran, that we did not adjust any assumptions on the annuity base -- on the annuity book. So there's no compensation for that. That book is running as expected. So there should be a little bit of a reserve in it. So we did not do anything in that regard. When it comes to the EBIT numbers. And what

Klaus explained here, I think, was overall the message that, yes, in the first half year, we had a little bit of drag on -- from U.K. and from Australia. We went into the year with an EBIT number of EUR 400 million. That was before Viridium. And in that regard, we should expect that people feel these expectations for the next year. We unfortunately will have no other Viridium. But also here, the EBIT forecast should not be affected at any significant number based on what we know today.

Q - Kamran Hossain {BIO 17666412 <GO>}

So just to summarize. And secondly, basically, you are -- if you take this course, you would net back the -- I guess the charges, you're roughly on track for the 100 in this quarter, the 100 as in the 400 divided by 4.

A - Roland Helmut Vogel {BIO 16342285 <GO>}

Yes.

Operator

The next question is from Farooq Hanif, CrÃ©dit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

I was wondering, firstly, if you could talk a little bit more about the dynamics that are driving the really strong growth in U.S. financial solutions? So perhaps what's driving demand or what's driving margin in that area and what we can look forward to in terms of growth? And secondly, when you look at your cat XL business, obviously, it's been impacted by Jebi when you show that profitability versus target. Would you move back into the target range without Jebi? And what more kind of improvement do you expect given the pricing conditions that you're seeing in the cat XL line?

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

Maybe I'll start -- so maybe I'll start with the U.S. and the increasing demand for financial solutions. Whenever you have changes in regulation. And you've seen (80 48) coming into play in the U.S., you have opportunities to optimize the capital structure of your company. The financial solutions business has developed significantly over the last decade, I would say. Of course, with equity, you can do everything or with 100% quota share, you also get everything. But there are regulations first from rating agencies. They are probably different between A.M. Best, Standard & Poor's and Moody's. There are cash flow considerations. There is a need to invest in new business, digitization. So all these companies try to become much more efficient on the capital side. And this is basically driving the demand in these large developed markets. We have seen similar things in China recently. We see similar things in Europe under Solvency II. And so we always have the opportunity to improve our clients' balance sheets and get it to a more economic balance sheet. Even Solvency II is not a real economic balance sheet. So this is basically what is behind the U.S. business decline.

Q - Farooq Hanif {BIO 4780978 <GO>}

Can I just -- may I just ask on that? So do you think the growth rate that you're seeing is not exceptional. So we could see maybe in the next 1 or two years, similar levels of growth given what you just said?

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

Definitely. I'm very convinced that our volume target here, what Jean-Jacques just commented on in the outlook, is probably not correct in the sense of bottom line. But it's correct in the sense of premium. He mentioned that a lot of this is not accounted for as premium. But there is a demand. And we see this as one of the main drivers for the life business in the future.

A - Sven Althoff {BIO 19104724 <GO>}

I'm Sven Althoff. On your questions regarding the cat, starting with the profit expectations. You will have seen that we are guiding on the profitability side that we expect to make our cost of capital. And this is coming from a mix of some very strong underlying profitability when it comes to the current year 2019, where you have seen from the major loss side that it has been a very benign cat year so far. And in combination with the price increases that we have achieved at the 1/1, 1/4 and 1/7 renewals, we are convinced that we are at the pricing level now across our entire portfolio where we can earn our cost of capital. And when it comes to the expectation on renewals, this is, of course, a little difficult to answer, given that the full hurricane season is still ahead of us. It would be our expectation that even in a benign cat year in 2019 that we should not expect any deterioration in cat pricing at the 1/1 renewals, more specifically, on the Japan renewals at the next 1/4 renewal. And the reinsurance market only priced in Jebi as a loss as of the end of 2018. So the full development, we and others are showing on Jebi has not been priced in at the 1st of April, 2019 renewal. So we are expecting another significant increase in Japanese wind pricing come next April.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

And maybe I can add to your straightforward question, would we be in the profitable range without Jebi? Yes, definitely. We would be significantly below the maximum target of combined ratio.

Operator

The next question is from Sami Taipalus of Goldman Sachs.

Q - Sami Taipalus {BIO 17452234 <GO>}

Yes. So my first question is just on the solvency ratio. Is it possible to just provide a little bit of a walk maybe from the year-end. I guess, in particular, I'm a little bit surprised that there's not been any pressure from the significant growth that you've had in the business, particularly as some of this appears to have been in some quite capital-intensive lines. So that's number one.

Number two, could you just talk a little bit about the low interest rate environment, if there's any action you're thinking about taking there on investment mix? I think last year, you talked about reducing the risk in your credit book. Do you think that's something that you could potentially revisit given the drop in interest rates since then?

A - Roland Helmut Vogel {BIO 16342285 <GO>}

I think that is for me. Again, I think we had the discussion before. We don't have the solvency details here with us. But the one thing I can tell you that, of course, driven by the growth and the increase in exposures, the SCR has been increasing. On the other hand, also based on the -- of course, profitability and other effects, especially also the discounting and others, the owned funds have been growing in line with that exposure growth. And overall, the solvency ratio has been stable in that regard. Also the Q2 number, as we mentioned, should be fully in line with that. So nearly no volatility whatsoever.

The low interest rates, yes, of course, we have seen what has been happening to the valuation reserves. And I would expect, also the interest rates being rather low for quite some time. Did that -- it hasn't changed the composition. Of course, we also look at the entry levels of the listed equities portfolio. We are not there yet. But if we see more significant reductions, we would revisit that. We have changed our barbell strategy, I think we mentioned that before, to also invest across the board. So in that regard, I do not foresee any drastic changes of the portfolio. We have to reflect these developments in our reinsurance pricing. And up to now, as we see contribution from portfolios like private equity or real estate have been good. So we have on the agenda to increase that. But as we mentioned, also 1percentage point up means that I have to invest another EUR 0.5 billion. And we will make sure that we have the same quality as before. So of course, yes, we look at it. But no drastic changes anticipated.

Operator

The next question is from Andrew Ritchie, Autonomous.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Just a couple of points of clarification. Ogden, we actually now have an Ogden rate set. So I'm confused why you wouldn't release that buffer. How can you justify holding the buffer? I appreciate you said that the buffer went down a bit versus what it could have been. But surely there are grounds for actually releasing it now that there is a statutory rate. Secondly, I'm sorry, a bit confused on the life business. I think the implication from all the conversation is that we should assume no further drag from Australia. And also, whereas you would have expected EUR 50 million of recaptures in 2019, that's no longer the case. I think that's what you were saying. Maybe just clarify both those points. And finally, I think you said that low cat pricing went up at midyear. It didn't really go up enough for you to increase your risk exposure to the U.S. cat. In other words, the risk-adjusted pricing increase wasn't quite enough. It's -- maybe just clarify.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Yes. So maybe, I'd take Ogden and then leave. Andrew, we -- you might remember that when this surprising decision was taken to go down to the minus 74, there was a drag of some EUR 300 million. And we mentioned, we take that out of the reserve redundancies because this is why we have them, especially in such a long tail line. We have always been mentioning that if that goes away. And we anticipate it a little bit more to go away, we will most likely kind of give that back. So it is a switch in our reserves from, let's say, case reserves to an overall IBNR of a very long tail line. So in that regard, to hurry up now with the decision taken to do something, to release the case reserves and revisit the overall ultimate loss ratios for that segment, I think we just save that for year-end. I think the important message still is the contribution from that to the reserve redundancies is a little bit less than expected because we anticipated something in the plus range. On the other hand, there is no additional reserving necessary. I think that is in line with what we said before.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

But sorry, that would fully imply the redundancy overall has gone up since year-end '18. I appreciate it's gone up by maybe less than your hopes. But it is now a redundancy, whereas before it was case reserves?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

In that regard, we should bear in mind that some of the minus 74 basis points had, especially in the Willis Towers Watson analysis by year-end already been anticipated or regarded as redundancies in their calculations.

A - Roland Helmut Vogel {BIO 16342285 <GO>}

Maybe on the U.S. side. I guess, in one of the former call, we mentioned that we'd expect recapture charge of about EUR 45 million for 2019. This is part of our forecast. And this is partly one company recapturing and an awful lot of others, which have already recaptured. But did that on the anniversary day of the policies. So this is creeping in over couple of months till a full year is over and then all these policies are recaptured. But this was part of the 2019 forecast anyhow. So this is completely in there. Then there is the...

Q - Andrew James Ritchie {BIO 18731996 <GO>}

So none of this happened to date, for the half year?

A - Roland Helmut Vogel {BIO 16342285 <GO>}

The creep in the recaptures on the anniversary date happen month-by-month. And we are finalizing currently the recapture with one of the clients, which leaves probably 4 which go into arbitration. And the point I made was that we have to account for these 4 companies the way as if we would not have increased the rates. So we will account for losses in the rest of this year for these 4 companies and next year. And the recapture charges we would have are basically at the same order of magnitude by the end of next year when I hope that the arbitrations come to an end.

And if we win the arbitrations as expected, then we will get reimbursed for all the losses we will have shown in 2019 and '20 under these treaties, which will basically balance the recapture charges we have in our old accounting system. So instead of waiting for -- okay, if these companies recapture this business at some point in time, later if they lose the arbitration and then you have to show these losses, my point was we will show these losses continuously over the next 18 months and then it will be a wash, just because we have do the accounting this way.

A - Sven Althoff {BIO 19104724 <GO>}

Andrew, on the U.S. net cat side, when Jean-Jacques mentioned that we have not changed our risk appetite, he did not want to imply that we have not written any additional limits after the rate increases. So as to Florida, we have seen increases in the low double-digit range and we have written a little bit more limit. But we are talking low double-digit million levels. So we have not fundamentally changed (our outlook) for Florida. And we continue to be underweight in Florida.

Where we have written a little more but still only in the double-digit million range of limit is in California, where, due to the wildfires, we had much more significant rate increases. And in our view, this was not only reflecting the fact that we had losses two years in a row. But it's also to be explained by the uncertainty whether the models looking at the California wildfire are still fit for purpose given this -- the increase in frequency. So that's why the increases were more significant there and we wrote a little more. But again only a couple of tens of millions.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

Great. So there was a question on Australia and whether it's truly one-off.

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

We have one-off in Australia, which is basically driven by the Royal Commission and the impact this investigation had on the total market. You probably have seen similar negative results with our competitors, plus a small correction of an accounting error from 2017.

Operator

The next question is from Vinit Malhotra with Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just more -- a few clarifications, if you don't mind. So a few questions, please. Just with Jebi, I seem to remember the conversation in 1Q, where the suggestion was that the close to EUR 48 million or EUR 50 million taken was also sort of discretionary or that was the suggestion. And now we have another EUR 50 million. Is this also in a similar vein would you say, that you didn't really need to but you did it because of conservative approach? So that's first question on Jebi.

Then just a clarification on reserves base. You mentioned, Roland, that the reserve redundancy is unchanged despite EUR 230 million of 1H unused cat budget? Is that to assume that there is some change in how you view risk on these kind of net cat losses? Or is it just the way you account things? Then I have a question quickly on the life, very -- it's not technical question, just an accounting thing. The funds withheld investment income at EUR 23 million for the quarter, one of the lowest prints probably in the recent year history. Is there something that has been given up? Or is there something to note there? And yes, actually that's my last question.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Yes. Vinit, Thank you. Obviously, we have to clarify a few things this time. You mentioned Jebi, I'm not fully sure if I understood everything. You mentioned that the EUR 58 million in the Q3 was a little bit surprising. It was for us. I think it was really the development of this market loss, which was just not foreseeable, something extraordinary. We are not alone in the world.

As I mentioned before, this has now fully exhausted the limits we have outstanding. We are touching and scratching the hold account protection. So it was a little bit more, of course, as we had expected by the year -- by the end of the First Quarter, otherwise, we would have reflected that beforehand. But the only thing, again, I can mention is this is now on a net basis. This is it. On the reserves, this is really in line with the strategy we have been -- or the policy we have been applying for years. Unused large loss budget does not increase the reserve buffers in any way.

We assume that these losses have already been occurred, other -- it's just that we don't know about them or they will be occurring until year-end. So this would not increase our buffers and has never before. So this is really part of the policy. We would not look at it. With regards to the funds withheld, I think we've mentioned all the time that this is really a reflection of the conditions of larger contracts. So in that regard, we have nothing special that we don't do anymore. So obviously, some of the contracts where we had these conditions have been running off. And for others, we have other conditions.

We look at the profitability of these contracts anyhow together with the interest on funds held, together with the technical results. So there is, from our point of view, not any significant change in the business mix. It's just that, obviously, some of the larger contracts with that arrangements are no longer in existence.

A - Klaus Wilhelm Miller {BIO 16886879 <GO>}

One thing has changed, I would have to check that. But my strong guess is that this is still related to project cadence last year because we have restructured a lot of the U.S. business, not only between Ireland and Bermuda but also with some of our clients who's ceded business straight to Ambernath America and Bermuda instead of Ireland. So this is the most likely explanation for this change. But economics haven't changed.

Operator

The next question is from Andreas SchÃ¤fer, Bankhaus Lampe.

Q - Andreas SchÃ¤fer

Just 2 questions, one is also on the investment side. Could you give us some sort of rough indication, what kind of reinvestment yields you can achieve if rates are not going up from these sort of levels? And the second question is on your guidance or your outlook for 2019. I mean you have not changed your premium growth guidance. It's still single digit. Is there any specific reason why you have not changed it now? I mean it looks like -- I mean it should be well in the double-digit range.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Yes. Thank you for the question. I think from the reinvestment yield, I will give you, as always, the details as part of my presentation of the Investors Day in October. If I just look at the fixed income portfolio, we should assume that as compared to last year. And of course, also there, we have been moving parts. This is -- so we've lost 30 to 40 basis points in our reinvestment yield. Yes. We will have again significant impact from those, asset classes not so much affected but I think this is what we have to expect. So when we had been at 220 basis points for the theoretical reinvestments, you know how I usually present that, we might have lost around 40 basis points and be at 1.8, 1.7 in that case again. But this will, of course, then dilute into the ROI, as we have presented before. And there will be no desperate decisions to make up for them. We just have to live with that to some extent.

If I may also end briefly on the guidance. I think the decision made was we do not revisit the guidance at the beginning of the year entirely. Yes. There are indications that we should be in the double-digit range. And if we look at the projections for year-end, we mentioned before that especially from the proportional business from the beginning of the year, this might go down slightly. There was one accounting effect from a structured reinsurance contract. So in that regard, yes, our estimates for year-end are still in the double-digit range. But it was a decision not to touch the guidance from the beginning of the year at all.

Operator

The next question is from Frank Kopfinger, Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

I have 2 questions. My first question is on your renewals outcome on the 20% premium increase. As most of your competitors also break down the price component in this, could you also give some sort of guidance at least on where you see yourself in terms of pricing outcome for this combined July renewals portfolio?

Then secondly on your ordinary investment income, you saw a significant increase in Q2 also on a half year basis. In your comments, you pointed to rise in ordinary income from -- also coming from real estate and private equity investments. So if I look into the contributions last year and also for the full year, then both real estate and private equity had been a similar contribution level. So the question is on whether you can break down a little bit more or shed some light into the ordinary investment income, where it came from and what was sort of one-off and what is really ordinary here?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

If I start with the latter and leave the rest to you. But again I was mentioning the real estate and the private equity, not to say that there was anything extraordinary but there was, again, this over-proportional contribution from that side. There was nothing extraordinary in there. And there was also nothing, I think, last year. The increase in ordinary, I think, it really reflects the additional volumes. So it is from our fixed income from the diversified fixed income book. It is the -- I think we -- and I mentioned before that, yes, we do still see dilution of the ROI based on the lower reinvestment yields. But this should be compensated by increased volumes and exactly that had been happening. So it's really nothing extraordinary, no changes. It's just driven by the volumes and the absolute numbers go up even if the ROI goes slightly down still, which was not, to such an extent, the case. Then I would leave the renewal impact to you.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Just on this. So which otherwise would suggest that we could take ordinary investment income for the first half also as a run rate for the full year?

A - Roland Helmut Vogel {BIO 16342285 <GO>}

Yes.

A - Sven Althoff {BIO 19104724 <GO>}

As regard to the movement on pricing, we are not doing the same full exercise we do for the 1/1 renewals during the reporting period, only roughly 15%, 1-5, of our business, this is up for renewal. So from a statistical base point of view, it's not as significant as our 1/1 renewals.

Nonetheless, we, of course, follow the various price movements. So what we can see for the reporting period that for the entire portfolio, we have seen stronger momentum on pricing compared to what we reported at 1/1, which was at 0.9% at the time. And overall, it's around the 2%, slightly above 2% range. We could observe at the renewals we are reporting on today with slightly better movement on the nonproportional side compared to the proportional side. But both sides are up. So the 2% would be ballpark-ish, the figure that we can report.

Operator

The next question is from Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Two questions from my side. The first one will be on the operating cash flow Q2. So the 821 it seems to be a big number, Q2 standalone. So just wanted to better understand what was driving this? And what was the full year expectations? And maybe to connect this question with the previous one from Frank, the figure on the ordinary investment income that we should foresee.

Second question would be, I would say, more a -- I mean, to better understand this dynamic -- pricing dynamic in the market currently. It seems to be that commercial lines across the world are, I would say, increasing, price increases much stronger than in the reinsurance segment at the time being. I mean we've seen some numbers yesterday showing plus 6% price increase in commercial lines on a global basis. So how should we interpret this? I mean is that normal that commercial lines are going up much more significantly than reinsurance? Or is this just a question of lag effect in times and we should expect reinsurance to catch up more or less with kind of -- with the price momentum we are seeing currently in commercial lines? Any sense of why this is the case? And why we should not expect, I would say, further momentum in the coming quarters?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

So if I start with the operating cash flow, Thomas, I have to admit I was a bit positively surprised as well. If you look at statistics, which we usually see here on -- also on the slide, the cash flow numbers per quarter have been volatile in the past as well. This might also be the case because sometimes you get accounts before the quarter. And these are largest -- this might have an impact on -- so in that regard, I would really look by the end of the year to one more time, see as to whether there have been movements between the quarters in-between.

I'm not saying that I don't believe the numbers but we should be a bit careful here.

On the other hand, of course, this is -- if you grow in P&C by -- it's percentage points, then of course that is associated with premium within and reserves up for that premium. And that then also is reflected by the increase in cash flow and the increase in assets under own management.

Q - Thomas Fossard {BIO 1941215 <GO>}

If I remember, well, actually, this cash flow is more driven by excess outflows business and proportional business. So would that imply that actually your growth on pure XL business has been stronger in Q2?

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

No. I don't think so. You're right. I think the effect -- the cash flow effect from the nonproportional business because you get your minimum and deposit premium at the beginning. And in a lot of the larger, also, financial reinsurance contracts, you get a half year account and that deducts then losses and commissions already from the premiums. No. I think this is not the case. It is really the strong growth in P&C.

And again as I mentioned, we will have to look at year-end. It will be an increase. And we positively look at that. And it's good to see it now because you might remember that my presentation at the last Investors Day was exactly around that, how the positive cash flow then impacts the ordinary investment income. So we see that now. I would not totally then double that number as an expectation for year-end. But again, the growth in P&C makes itself felt. That then already is the impact on ordinary at -- in our forecast today, we really see the dilution compensated by volumes and not an additional effect on it.

A - Sven Althoff {BIO 19104724 <GO>}

When it comes to the rate movements, you mentioned the figure of 6% for commercial insurance, which, to my knowledge, is a U.S. figure published by one of the major broking houses yesterday. It's in line with what we are observing. We are very much benefiting from that through our proportional book of business and also through our facultative business, where we are seeing similar or even higher rate increases. What you have to remember when I mention 2% as an overall rate increase, this is always a risk-adjusted figure. What's the 6%, I would have to look into the details. But I would assume it's not necessarily a risk-adjusted figure.

So the 2% I mentioned for the entire portfolio is a combination of higher original rates, lower ceding commissions we are paying to our ceding companies. But also our different view on loss expectancy, which, given the losses over the last two years, from a general point of view, is going up and it's eating against some of those positive developments.

The fact that the insurance rates are, from that point of view, going up maybe a little quicker than the reinsurance rates right now is a normal development. This always very much depends on how the major losses are distributed between insurers and reinsurers given retention levels from excessive loss programs. So also the insurers or the primary insurers are reacting to the results in their portfolios from those losses. So this is giving us a good underlying message. Whether this turns into us sending a more bullish message for the 1/1 renewals, that is, as I said earlier, much too early to tell. A lot will depend on how the major losses will behave in the third and Fourth Quarter.

Operator

There are currently no further questions. (Operator Instructions) We've received a follow-up question from Vinit Malhotra, Mediobanca.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Just one quick follow-up. The U.K. life mortality assumption changed, as you mentioned. Please could you just comment a bit because I'm not -- so apologies, I'm not a U.K. life fan. But it seems that some of the U.K. life companies have been taking benefit from mortality improvements in recent few reporting periods, maybe a couple of years. Are you saying that trend is changing in your view? Or just any color would help.

A - Roland Helmut Vogel {BIO 16342285 <GO>}

No. The change, what we have done here, the reserve strengthening was for one outgoing retro deal. We had a major overhaul of our assumptions in 2017. And we changed all our modeling from some older simplified modeling to a more sophisticated comprehensive model. And we have done that for all the incoming business at that point in time. And now we have done it for our retro deals as well and very old retro deals.

Currently, we don't cede any business. I guess we stopped retro completely in 2014. And we just updated the assumptions on the outgoing business and that was the reason for the reserve strength. And it has nothing to do with the changes in the mortality assumptions in general for the underlying business.

Operator

We haven't received any further questions. So I hand back to the speakers.

A - Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well thank you very much. So I'd just like to conclude. Thank you for the questions. Generally, as Roland mentioned, here we decided not to change the guidance. Obviously, for me personally, it was a little bit early, just after a few months, to review all the indicators. We'll look at that ahead of Q3.

But generally, what I'd like to say is that I see a lot of prudence in all estimates. I see also that the P&C numbers are including full budget for large losses. But we have a market which goes in the right direction. We have momentum on pricing. I'm pleased to see that the life and health in-force is on track in the U.S. We see some growth in financial solutions, life. But also non-life. And generally, the reserving is extremely strong. So from my personal perspective, we are really very much on track to meet or exceed the targets.

So my confidence level has increased significantly based on my initial months in the new role. And I'm optimistic for Q3. So on that note, I'll close. I don't know if Roland has anything to say. So I think I can close the call. Thank you very much for the questions and the participation.

Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect.