Q3 2019 Earnings Call

Company Participants

- Jean-Jacques Henchoz, Chief Executive Officer
- Roland Helmut Vogel, Chief Financial Officer
- Sven Althoff, Member of the Executive Board

Other Participants

- Andreas Schafer, Analyst
- Emanuele Musio, Analyst
- Farooq Hanif, Analyst
- James Shuck, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Paris Hadjiantonis, Analyst
- Roland Pfander, Analyst
- Sami Taipalus, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and welcome you to today's Hannover Re International Conference Call on the Q3 2019 Results. For your information, this conference is being recorded.

At this time, I would like to hand the call over to your host today, Mr. Jean-Jacques Henchoz, Chief Executive Officer. Please go ahead, sir.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Good morning, ladies and gentlemen. Let me also welcome you to our conference call, presenting our results for the first nine months of this year. As usual, I will start with a short summary, before our CFO, Roland Vogel will go over the financials in detail. For the Q&A, I'm additionally joined by my Board colleagues, Klaus Miller and Sven Althoff.

In the first nine months of 2019, Group net income increased by 38% to EUR1 billion. This is particularly pleasing because it outperforms the top line growth and the increase of the shareholders' equity and hence contributes to the ROE. On the basis of the favorable underlying business development, this strong result is also supported by some non-recurring effects, resulting from valuation gains from two participations.

One of them, Viridium was reported already in Q2, and contributed to our net income with EUR100 million. The second gain results from the sale of a Nordic managing agent which we founded in 2010 together with partners. We sold our stake in Q3, producing a gain of EUR49 million. Gross premium increased by 13.3% adjusted for currency effects, reflecting a healthy demand for reinsurance and for Hannover Re as a business partner. Very strong investment income and the significantly improved earnings contribution from our life and health business group, led group net income to rise to EUR1 billion. The positive development in life and health reflected among other things, the actions taken in the previous year to improve profitability in the US mortality business.

Despite the strong increase in shareholders' equity, the return on equity of 13.7% remained clearly above our minimum target. Book value per share advanced to a new record level of EUR88.97. The solvency ratio continues to be well above our 200% threshold, standing at 245% at the end of the second quarter. This number should have decreased in the third quarter, in line with the outlook presented at our Investors Day two weeks ago.

Premiums in our P&C reinsurance business continued to grow strongly. The key impetus for growth derived from North America, Asia and Germany as well as from structured reinsurance. Despite the fact that with Hurricane Dorian, Typhoon Faxai and the Thomas Cook bankruptcy, we recorded sizable large losses in the third quarter. The overall large loss experience was still below the expected levels on a nine month basis.

Due to our conservative reserving policy, in particular, with regard to our large loss budget, this is largely not reflected in the underwriting results. On the other hand, our results do include around EUR100 million in loss creep from Typhoon Jebi. Against this backdrop, the underlying combined ratio is still more favorable than the reported 98.6%. In life and health reinsurance, we saw good opportunities for new business in Asia, resulting in gross premium growth of 5.8%, adjusted for currency effects.

The underwriting result improved, compared to the previous year, where we had reported higher recapture charges for our US mortality business in the third quarter. Apart from some negative developments in Australia and the UK, in the first half of the year, the underwriting profitability was actually favorable. Our financial solutions business, again contributed strongly to the results, and altogether EBIT for our life and health business unit increased significantly to EUR478 million. The performance of our investments was highly satisfactory. Assets under management grew to more than EUR47 billion, helped by the positive cash flow and valuation changes.

The return on investment from assets under managements were 3.5% on an annual basis and therefore, well above our target of 2.8%. On that note, I'd like to hand over to Roland who will explain these figures in more detail.

Roland Helmut Vogel {BIO 16342285 <GO>}

Thank you Jean-Jacques, and good morning to everybody. As usual, I will walk you through the financials in a bit more detail and try to keep my comments brief. We recorded strong premium growth in the first nine months of 2019. Adjusted for currency effects, gross premium written increased by 13.3%.

The strong contribution from our P&C business continued to be the major driver, but also the business production of our life and health business group contributed as expected. The difference between gross and net premium can be explained by the change in unearned premium in a growing environment.

This effect however has already decreased compared to the first and second quarter because we earned more of the premium over the course of the year. Other income, we expect in other income and expenses improved due to a further increase in the contribution from deposited accounted financial solutions contracts, but also from an additional one-off, as we had sold our holding in a Swedish agency, which we had consolidated before, as such, the mid double-digit profit is to be reflected here, rather than as part of our investment results.

Currency effects had a minor positive impact in the first nine months, and at 20% tax rate is below the expected level. This is driven by tax privileged investment gains. So, altogether, group net income decreased by an impressive 38% to more than EUR1 billion and with that to an all-time high in the first quarter -- in the third quarter.

On the next slide, the slide, the operating cash flow was very strong in the first nine months, already exceeding with a number of the full year 2018. The main driver here is the growth of our P&C business, and on top of this increasing valuation reserves and currency effects, supported the growth in assets by around EUR1.8 billion and EUR1.3 billion respectively. Overall, assets under our management are at another record high level of nearly EUR48 billion. By the way, as we have issued our new hybrid bond of EUR750 million on October 1, this will only be reflected as from Q4 onwards.

Looking at the capital position, we see nearly the same effects. The strong earnings comfortably exceed the dividend payment in Q2. And on top of this, the increase in OCI boosts shareholders' equity to another record high of EUR10.7 billion, mainly driven by the variation change due to decreased interest rates and lower credit spreads.

The composition of the total capital on the left hand side is unchanged, as just mentioned also here the new bond is not yet included in the numbers and we'll at least temporarily increase the hybrid capital by EUR750 million at year-end. However, there is a EUR500 million bond with the first call date in mid-2020 and in this regard, we have the opportunity to potentially refinance this early. It was a very attractive coupon of 1.125% comparing quite favorably to 5.75% for the old one.

On page -- or on slide number 8, P&C gross premium increased by a remarkable 17.5% on a currency-adjusted basis. This is driven by both our structured reinsurance and by diversified growth in the traditional book across regions and lines of business across the world. After a very benign first half quarter, major loss activity increased significantly in the third quarter, however it was 5.9% of net premium income, major losses were still around EUR120 million below budget. On a nine months basis, as in previous years, we stuck to our reserving practice and reflected the large loss expectation as part of our IBNR reserves.

The run-off result for the first nine months was overall positive, as expected, but still includes the negative development of Typhoon Jebi for which we had increased our loss estimates by around EUR100 million, compared to the year-end 2018 number. We will see in a minute that two of our Q3 large losses have their impact nearly gross for net, and especially for the EUR112 million credit loss, it is quite challenging to go forward, the large loss budget.

Overall, we should have reserved more conservatively than last year, and today we assume that the confidence level, at least, should not have deteriorated. Taking into consideration, the positive results in life and health and from the investment side, the loss development over the fourth quarter will determine what confidence level we are able to achieve by year-end.

Altogether, we have to acknowledge that we missed our 97% combined ratio target in Q3. Still, the result in P&C is satisfactory or even very satisfactory. Net investment income increased slightly, driven by the favorable increase in ordinary investment income, other income and expenses include the already mentioned EUR49 million gain from the disposal of our participation. Apart from this, there are no other material one-offs included in this line.

The tax ratio is slightly lower than normal. This is due to the just management disposal gains and some realized gains from real estate in the third quarter, and both of these effects enjoy a privileged tax treatment. On a 9 month basis, major losses were still below the expected level, entirely driven by the very benign first half year. This means that, we started the fourth quarter with around -- with the budget of around EUR330 million including the roughly EUR120 million of unused budget carried forward.

I say it started because with Typhoon Jebi, we already observed another significant cat event in October. It is still too early to come up with a loss number for our account. However, based on the estimates from [ph] ARR for instance, the insured market loss might reach a similar level as Typhoon Jebi which was a EUR230 million net loss for Hannover Re. This means that the unused budget from the first half year is most likely no longer available anymore as of today, but the overall budget available after three months' should be more than sufficient to cover this loss. Looking at the large loss list in detail here, you can see that the three events were the main driver for the exceptional high loss burden in Q3.

Hurricane Dorian, Typhoon Faxai and the Thomas Cook insolvency, particularly the EUR186 million net loss from Hurricane Dorian might be surprisingly high and you might also wonder why the difference between gross and net is so small.

Firstly, we already had a higher market share in the Caribbean as for instance, compared to Florida plus we took opportunities of improved market conditions after Hurricane Maria in 2017, especially also writing proportional business. And secondly, the Caribbean hurricane is not one of our defined peak net cat exposures, and therefore not covered by our cat quota share.

The same is true for credit and surety business, where we are one of the market leaders and hence we also take the Thomas Cook event gross for net. By the way, Jebi developed slightly favorably in Q3. So, the runoff is still around the already mentioned EUR100 million year-to-date, but at least the direction of development has turned.

Those three large loss events are also visible in the technical profitability, by line of business leading to combined ratios above target in North America, in credit and surety and then the Cat XL line. Cat XL, additionally includes the negative runoff of Jebi as already mentioned.

The combined ratio for UK, Ireland and the London market also exceeds the target affected by rather weak technical profitability of the Lloyd's business that we support.

On the other hand, aviation, marine are significantly below target benefiting from a favorable loss experience as well as some positive reserve runoffs. And also, then Germany and Latin America contributed well to the technical results.

In life and health on the next slide, gross written premium increased by 5.8% on an adjusted -- FX adjusted basis, new business production was particularly favorable in Asia, and here again with a focus in China. The results for our US mortality business improved significantly because we had booked EUR218 million of recapture charges in Q3 2018. Moreover, the underlying mortality in the first nine months was better than expected, and that particularly in the third quarter. As already reported with our half-year results, we had some negative effects from disability business in Australia and we had added some reserves for our UK business in both cases, we have not seen a material further negative development in the third quarter.

Already, the ordinary investment income increased compared to the previous years, but also the fair value changes through P&L were beneficial in the first nine months of 2018 as part of the realized gains. We accounted for the one-off of EUR100 million and that altogether boosted the net investment income to EUR414 million. Other income expense -- other income and expenses are mainly driven by an even increased contribution from financial solutions business, particularly in the US, for which a large portion is recognized, according to the deposit accounting method.

Altogether, based on the EBITDA, EUR478 million, we are very well on track to maybe even outperform the guidance of EUR400 million, excluding the EUR100 million one-off here, again worth to mention at 15%, the tax ratio is below the normal level, driven again by the tax privileged valuation gains. We and especially I were very satisfied with the development of our investments in the first nine-months, return on investment of 3.5% is remarkably above our initial expectation for the full year with increased ordinary investment income to the already good figures in the previous years. If we adjust the 3.5% for the Viridium effect, that would still be 3.2% or more than 3.2%.

Realized gains were largely driven by the disposal of another real estate object in the third quarter that contributed another EUR50 million, after EUR20 million in the first quarter, the change in fair value -- our financial instruments was positive on top. The ModCo derivative contributed EUR6 million. Unrealized gains, increased significantly to a record high again, mainly driven by our fixed income portfolio due to the decreasing yields in the major currencies as well as lower credit spreads, so that unrealized valuation stood at EUR2.8 billion has gained a lot of liquidity here.

On the next slide, you can see that we did not change our asset allocation during the year, at least not on an asset class level, as just recently explained at our Investors Day, we are improving our geographical diversification of our fixed income portfolio, mainly by increasing the investments, also in emerging markets, where yields are still a bit more attractive. The overall diversified contribution to ordinary income is again supported by the good results from real estate and private equity, but not to any extraordinary extent.

I think this concludes my remarks, and I'll leave the target matrix and the outlook to you, Jean-Jacques.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you very much Roland. On slide 17, the target matrix reflects the overall good performance of our business in the nine months of this year. Roland explained the reasons for the small miss on two of the profitability targets in P&C, but I have to consider like him, the overall profitability of our P&C portfolio as healthy.

On slide 19, this brings us to the updated outlook for the year 2019, reflecting the favorable business development in the first nine months. We have raised our targets for premium growth and investment returns. For the group net income, we are now targeting to achieve more than EUR1.25 billion, but the message regarding the dividends remains unchanged. If our capitalization remains at a comfortable level as planned, we will again pay a special dividend for the year 2019.

Overall, the previous year's total dividend of EUR5.25 per share should serve as a minimum benchmark for this year's dividend. Looking at the expectation for our P&C business, you can see many arrows pointing upwards confirming the favorable demand for reinsurance. The overall financial year profitability is also satisfactory enabling us to earn our cost of capital, so somewhat weaker profitability in Cat XL, which is obviously affected by large losses as well as UK, Ireland and the London market will be offset by positive developments in other areas. In life and health reinsurance, the expected growth is somewhat more modest compared to P&C, and we will see good opportunities for further growth in morbidity business, mainly in Asia while demand for financial solutions also remains strong.

With regards to the financial solutions business, the arrow is not reflecting this development, because a significant part of the business is booked according to the deposit accounting method, and hence not visible in the premium.

Looking at the profitability, all the individual lines are expected to earn the cost of capital or more. Profitability is particularly strong in financial solutions, where our US business is the main driver. Longevity is also enjoying a healthy performance and altogether the result is expected to increase steadily, driven by the improved results from our US mortality business due to the in-force management actions and the associated one-off IFRS charges taken in 2018.

Finally, we come to the group outlook for the year 2020. Based on a continued competitive, but improving market environment in property and casualty reinsurance and our good market position in life and health reinsurance, we expect to grow our premium by around 5% adjusted for currency effects.

At the occasion of our Investors Day, Roland gave an update on our investment portfolio and the impact from the continued very low yields and hence it should not come as a surprise that our ROI targets is 10 basis points below the initial target for 2019 at around 2.7%.

Altogether, we anticipate group net income of roughly EUR1.2 billion compared to the guidance for 2019, this is an underlying increase of around EUR100 million. We're also raising our net major loss budget for the 2020 financial year to EUR975 million. The increase in the budget is motivated primarily by the continued expansion of our underlying business, the risk appetite on the underwriting side has not changed materially. Finally, our approach to capital management is unchanged and I'd expect us to be in a position to again pay a special dividend in order to pave the way for attractive ROE in the future.

As you can see, from the guidance and from our messages today and at our recent Investors Day, we are optimistic about the outlook for the industry and for Hannover Re, in particular. We do see an increasing demand for reinsurance with -- at the same time, improving pricing trend worldwide. We're well positioned to benefit from this market momentum and therefore expect to deliver attractive returns in the future.

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

Questions And Answers

Operator

Ladies and gentlemen we will now begin our question-and-answer session. (Operator Instructions) First question is from Kamran Hossain, RBC. Your line is now open, please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

All right. Good morning, thanks for taking my questions. First one is just on the major loss budget. Thanks for the color that you've given around increasing that to EUR975 million from EUR875 million. Could you maybe explain in a little bit more detail, where kind of you expect your additional exposures come from? I guess you're aiming for top line growth of 5% major loss budget going up 11% and it already feels like you're relatively cautious in assessing that number. So, any color on kind of where you see the additional major loss and cat exposure coming from?

And the second question is on Life Re. I think the underlying, even if you back out some of the real estate gains, feels like it's running above your kind of EUR450 million-ish target. I mean, could you give us an idea of what you think the underlying is for the quarter and then maybe what you think or how we should think about this going forward into future years. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Well, good morning. This is Sven Althoff. I will take the major loss budget question. As Roland has explained, when he talked about the growth in 2019, we do expect a similar picture in 2020 i.e. diversified growth from a peril point of view. So, we expect the increase in the major loss budget being driven more or less proportionately in line with that premium growth, in all of the peak peril scenarios, given that our growth is also covering many of the peak peril scenario. So the Asia, North America and Australia will all feature the growth pattern, so there is not a particular area where the increase in major loss budget will come from, but more organic proportional growth.

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

If I may add to that, this is Roland. You have to bear in mind that we set our large loss budget early in the year based on the plan, we had more than expected growth in 2019. So, in that respect the increase which we now have in 2020 also includes a little bit of the out performance of 2019 and does not reflect an increased risk appetite as we mentioned before, but it reflects the overall growth we see.

Q - Kamran Hossain {BIO 17666412 <GO>}

Makes sense. Thanks very much.

A - Sven Althoff {BIO 19104724 <GO>}

Maybe on the (inaudible) on the life side. Of course, this year is quite pleasing, especially with the additional real estate of participation profit. The run rate, we would expect should be under normal circumstances, well above the EUR400 million. So this means for 2019, well above the EUR500 million more probably EUR450 million in the long run.

The only issue is that we had very positive variation in 2019 on the mortality claims side and we are still not certain whether this is the trend or will be seen in the future as well. This is why we are still guiding a little bit carefully here.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks.

Operator

The next question is from James Shuck, Citi. Your line is now open. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hello, good morning. First question is around the growth rate in P&C Re. So, the GWP growth at nine months was 18% constant currency. I think the renewal July year-to-date was plus 15% at the renewal time, you didn't mention structured products as a source of that growth, but for the GWP growth today, you mentioned structured products along with Asia and along with North America.

Could you just help identify what the contribution is from structured products, both on renewals and on the GWP at the 9 months, please. Second question was around US casualty reserving. It's difficult to get insight into what your size of US reserves are on casualty. In particular, the split between proportional and excess of loss; if you're able to give any insight into the mix of your reserves, particularly from US casualty in those two areas and just comment around some of the trends you've seen year-to-date in 2019.

I'm particularly interested in some of the well telegraphs kind of social inflation trends that we've seen, and how that's filtering through into the US excess of loss book, please.

And finally, just a quick one, I didn't see a combined ratio target or guidance for 2020. I think you do normally give one for the year ahead, you expect that to be flat on the 97% or maybe a bit better? Thank you.

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

So, maybe I can take the first one, James, because it will be in line with the previous guidance 97% -- better than 97% combined ratio.

Q - James Shuck {BIO 3680082 <GO>}

Yeah.

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

I think with regard to casualty -- US casualty, we don't have the numbers or the detailed numbers of excess of loss to proportional and where it comes from. I think in general, I think when we have received the question before about our exposures here, especially when it comes to the opioid crisis or other components, I think we had a look at our reserves in US casualty, especially we are well reserved. This is where we have the most part of our redundancies. So, we also looked at these trends and have not seen any reason to assume that this comfortable position, we are in today is changing.

A - Sven Althoff {BIO 19104724 <GO>}

And on the advanced solutions business, we -- this business practice is contributing between EUR350 million of growth for this year, and the reason why we have not reported this during our call on the 1-1 renewals is twofold. First, we never talk about advanced solutions, we knew that's a focus area and that will -- and secondly managed solutions contracts are only concluded after January 1 so, later in the year because they are not so 1/1 sensitive. It's quite alright, given the structure of those contracts to continue negotiating a month or so into the New Year and then have the effective stage -- at 1/1 or at a later stage, so that's why it didn't feature that prominently when we talked about 1/1 renewals.

Q - James Shuck {BIO 3680082 <GO>}

I was looking at the July year-to-date renewals actually, which was plus 15%. I'm wondering how much of that comes from structured and tailored transactions?

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

I think, we mentioned at the half year results that we had it approximately 50-50. The growth -- after the nine months was a little bit more prominent -- or the contribution was a little bit more prominent from the traditional reinsurance side, and a little bit less, so from advanced solutions because that was very strong in the first half year.

Q - James Shuck {BIO 3680082 <GO>}

Okay, that was great, thank you very much.

Operator

The next question is from Vinit Malhotra, Mediobanca. Your line is now open, please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much. Just one numbers question and one probably volume question. On the numbers, the AUM is interesting nearly EUR3 billion growth from EUR45 billion to EUR48 billion in this three months window, so we're in 3Q standalone. I mean, the operating cash flow is around EUR940 million on the slide, the fixed income growth is around -- I mean, the unrealized gains are around EUR0.5 billion.

Is there a significant mark-up to in private equity or somewhere else, which explains almost a EUR1.5 billion delta between these two items and the AUM growth please and sorry if you would like to take it offline, but I just thought I'd ask this question.

And second thing was more on the guidance on volume, the 5% -- I mean last -- I think two years, the guidance has been beaten on volume. And also -- just to clarify, I mean the 5% you mentioned is a composite of pretty strong growth in P&C and modest in life. And is there anything other than that, if it's that you think structured is slowing down or is there something else or if that's really it and sorry last, if I may, the 2019 guidance and comments around fourth quarter have no mention obviously around California wildfire which is still very early, I presume but would that change some of this guidance for 2019? Just a comment would help. Thank you.

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

So, if I start with the AUM Vinit, I think if you -- for instance, at the presentation there is some guidance in the components, but I think you have already referred to the EUR1.8 million development of unrealized gains and that is really the fixed income portfolio. I think these are really as I -- this is why I also mentioned, the increased liquidity by the beginning of the year.

The remaining valuation reserves were really in that more illiquid asset classes like private equity and real estate and what came on top of that was driven by the regular fixed income book, and here of course by the decreasing interest rates and the decreasing credit spreads as mentioned. So, there was no extraordinary development from the more illiquid asset classes.

Maybe on the year, the guidance question. The guidance is of course driven by the fact that we see some momentum in the P&C market, but at the same time, we expect the market to be very competitive and therefore we felt we should not be too aggressive on top line growth, quality is the name of the game and that led to the 5%, slightly more on the P&C side than life and health. But, there is no link with California wildfire in particular, you mentioned, this is not related to the plan.

On California wildfires when -- a bit more but, of course too early to say, but we would not expect a repeat of what happened at the previous years. This is expected to be much lower in comparison in terms of exposure for Hannover Re.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you.

A - Sven Althoff {BIO 19104724 <GO>}

To confirm that, of course we are very closely observing the various fires, we are talking more than half a dozen of fires right now. When we look at the structures that have been destroyed so far, they are at a relatively low level compared to the wildfire events in 2017 and 2018. So, none of those fires at this stage, give us particularly concern that they will develop into a major loss for us. But it's early days. I mean, given the very, very dry weather conditions and soil conditions in California right now, it can change overnight with the change in wind speeds and wind direction. So, it's too early to give a final assessment on the ongoing fire.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. And can I assume that even if -- I mean at the moment, you're EUR1.25 billion greater than EUR1.25 billion for 2019, assuming California fires are as they are and you have some loss for that in the..

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

We don't have any losses related to California wildfire at this stage. The number does not include any specific item for that potential loss.

A - Sven Althoff {BIO 19104724 <GO>}

Vinit, if I may add, I was trying to give some indications. We started into the fourth quarter with the remaining budget of EUR330 million. If we assume that some of that is digested by (inaudible) that will at least leave us with some buffers there. So, there is room for a wildfire in the size of the last year. If of course, large losses accumulate in Q4, and it's only the beginning of November today, then I think we would take to our usual guidance that, if we exceed the large loss budget remarkably that could have an impact on the year-end result. But today, we see that there is still room for more losses in the large loss budget.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much for the clarification. Thank you.

Operator

The next question is from Farooq Hanif, Credit Suisse. Your line is now open, please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi everybody. Thank you very much. I just wanted to return to US casualty. What's your kind of explanation for the sort of double message that we're gathering. So, the US primary carriers really seem to be extremely worried about, medical malpractice and whole variety of latent claims. But, a lot of the re-insurers, and to yourselves, it seems to be very well active, is that because you feel like you've been taking very conservative loss picks already, and you've anticipated. Do you think there is an element of delay in reporting. I mean, what more can you say on that?

Second question is on the large loss budget and the increase of it. You seem to be talking about proportional increase with volume growth that you've had, yet to take. But I would have thought that with the pricing that we're seeing, you'd be more than compensated for that. So, I just wondered to what extent you are just being kind of conservative there. That's it for me. Thank you very much.

A - Sven Althoff {BIO 19104724 <GO>}

Okay. I will take the US casualty question. I wouldn't say that we are relaxed would be the right expression. I would say we feel that we are prudently reserved, given our ultimate loss ratio picks, of course, there is a number of complex -- the US casualty situations, which we are currently observing. So, Roland mentioned the opioids, that there was concussion claims, there is the lifting of the time barring on old sexual molestation loss situation, so we are observing that all very closely, and for some of those situations we have also decided to book additional reserves over and above our initial loss ratio peaks.

So, from that perspective, there is a lot of development, but at this stage, we are comfortable with our overall and aggregated loss reserving on the US casualty.

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

And to come back on the large loss budget one more time. Yes, we are expecting better prices, still I think we also have been commenting on that more than once that overall, we see that various -- various areas are still not in an area where we would increase our writings drastically. In that regard, if there are really opportunities arising we will be able to take them on. But we are not expecting our risk appetite on the Cat XL increasing, so remarkably that this would justify an even higher increase of the large loss budget here.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Thank you.

Operator

The next question is from Sami Taipalus of Goldman Sachs. Your line is now open. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

You mentioned, underlying profit increase of about EUR100 million from the EUR1.1 billion to the initial guidance to the EUR1.2 billion guidance, but if I look at the sort of top line development in P&C, which is maybe 20% year-on-year and the strong development in the life and health reinsurance profit over the year. It seems like that's quite low. I'm struggling to reconcile the moving parts a little bit. Is there something else there that I should bear in mind when you're thinking about rolling this guidance forward to 2020?

Then my second question just comes back to your view on the market a little bit, if I look at Cat XL and the London market business and you're basically stating a reasonably negative view in your communication there. Is that just related to the loss experience you're currently seeing or is that a comment on what you see the rate efficacy being in the market at the moment? Thank you.

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

Well, I think to come back to the latter question, this is really a reflection of the current result, this is not a reflection of the market. So, these arrows on the slide is a reflection of the current result and not of our market. With regards to the guidance, I can also add that of course, the assumption on the investment side is nearly entirely based on ordinary investment income. So, the -- and this is why we go down to 2.7% up to now, we have had a little bit of a positive impact every year, but again in our plan, extraordinary gains are not included to a material extent so that really is based on ordinary investment income and the decrease from 3.5% to 2.7% in ROI that would not be easily compensated by additional volumes.

So, there is at least in our plan the investment income goes down and you have mentioned the positive components of our plan and in this regard, you might consider that as being conservative, but again it is late 2019, and we'd rather outperform the guidance than underperform.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry, just to interject, did the initial EUR1.1 billion guidance for 2019 include an investment return of 3.5% or assume an investment return of 3.5%?

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

I think, you're right, but it was higher and it did include more extraordinary investment gains than -- and the 2020 plan.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, okay, cool. Great, thank you.

Operator

The next question is from Andreas Schafer, Bankhaus Lampe. Your line is now open. Please go ahead.

Q - Andreas Schafer {BIO 21186558 <GO>}

Thank you. Just one question regarding your guidance for 2019 with a combined ratio of still 97% after having reached 98.6% after Q3, so that implies let's say a combined ratio of 92% to 93% for Q4. Do you expect any, let's say reserve releases above the normal level to reach the sort of combined ratio, even if you have, let's say, larger claims like the Typhoon and Californian wildfires that seems to be still very, let's say, optimistic in my view.

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

Yes, thank you for the question. And, I will try to explain that and we've mentioned that the Q3 reserving exercise that there was really no reason to be very aggressive. Overall, we mentioned that reserving was more conservative than it was last year. And, in that regard there could be -- there is a little buffer for Q4 included today and even more so and as we mentioned before, if we really get higher than expected, we would also use the flexibility we have, but this is not anticipated as of yet.

And of course the large loss budget is included in the numbers year-to-date, which partly explains why the numbers will normalize to some extent by the end of the year.

Q - Andreas Schafer {BIO 21186558 <GO>}

Okay, thanks a lot.

Operator

The next question is from Thomas Fossard, HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning everyone. Just two question on my side related to the life and health reinsurance. The first one will be related to the US financial solutions. So, year-to-date, we've got a 46% increase to EUR211 million. Could you help us to better understand how the growth in the US financial solution, EBIT contribution is going to trend into 2020. It's been a significant growth and gradual cut quarterly improvement, but how should we expect this 46% to go into 2020. And the second question would be related as well to the life and health, just a clarification. So, is your EUR1.2 billion net income for 2020 based on a EUR450 million EBIT profit for the life business? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Thomas, let's start with the financial solutions. We have to admit that the 40% margin here is not a good measure, because we have to summarize all the business we have on financing, to financial solutions to solvency deal, under its reporting category. In absolute terms, we expect the profitability to continue and even grow in 2020. Whether this is a 40% margin or not depends on how many treaties have to be booked according to FAS 113, that means the purchase accounting. So, please don't try to interpret increases of these EBIT margins here. But, the profitability will continue and we expect that there will be a significant growth also in the mid term over the next couple of years.

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

With regards for the 2020 plan Thomas, you are right that plan includes a little bit more than the EUR400 million, but not much more. Does that answer your question?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah, thanks, Roland. Thanks.

Operator

The next question is from Vikram Gandhi, Societe Generale. Your line is now open. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello, thank you for taking my questions. I apologize at the onset, in case I'm are asking something that you've already mentioned in your opening remarks, because I joined the call late. So, my first question is based on the movement in the reported combined ratios for the first half 2019 and nine months 2019, it appears there was very little help from the runoff results. Is that a fair conclusion? Can you offer some insights on what's happening with the runoff result this year. I mean, at least till the 9 months and since even net of the loss creep on Typhoon Jebi, I guess the runoff results seem to be slowing down year-on-year and that's question one.

Secondly, what are your assumptions on the industry-wide losses from Dorian and Typhoon Faxai. And thirdly, on the 2020 guidance, you've got a 5% premium growth overall and you said, a bit more on the P&C side, 97% or less combined; you've got confidence on your US financial solutions; US mortality book should behave better, and yet you say the EBIT assumption or -- and what you pencil in for FY 2020 is a bit more than EUR400 million, but not significantly more than EUR400 million and that's a bit of a surprise and then overall, EUR1.1 billion to EUR1.2 billion net income increase also seems to be a bit conservative. So, any thoughts there would be really helpful. Thank you.

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

So Vikram, if I start with the run off; I did mention it in my presentation that we had a regular run off result which does include Jebi. So, it was a little bit lower than the regular, but other than that, we did not have any extraordinary effect. I would also not subscribe to your proposal that the run-off result goes down year-by-year, if I look at the numbers, we have been publishing and I always mention that you have to take them with a grain of salt, because there could be one-offs into them.

So, in that regard, we do not see that the run-off result is slowing down, and as long as the redundancies on a comparable level that should not be the case. I think that was -- that was my question, if I -- the loss assumptions Sven, you will?

A - Sven Althoff {BIO 19104724 <GO>}

Yes, happy to take those. On both Dorian and Faxai, we have done bottom up estimates, rather than taking a market loss as a starting point to better reflect the individual exposure of our individual clients. But, if you want to translate that into a market loss, it's on both -- somewhere between $5 billion and $7 billion. On Faxai, obviously completely -- the Typhoon in Japan driven on Dorian, the bulk of the $5 billion to $7 billion is from the Bahamas, this is a very limited contribution from the US part of that loss.

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

Yes. So on the guidance, just back to our previous remarks, clearly you have one-offs this year which make the growth in our net results for next year I would say realistic, it's not that easy to beat. And we took account of the fact that there is growth momentum, there is some potential for price adjustment in P&C. But, we are also well aware of the very competitive market condition, if prices do improve materially that there will be also more capital entering the system. And for that reason, we didn't want to be too aggressive on particularly on our top line guidance.

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

If I may add to that, that you should be aware that with our initial reservings, additional premium in P&C does not immediately lead to a higher profitability in the first year, because we very often book initial loss ratios higher than 100. So, it takes a little bit to while until that growth really comes down to the bottom line and on top of that, if you call us conservative, we don't take that as an offense.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, that's great Roland. If I could just come back to the first point. And maybe, we can take this discussion offline, if you want. The first-half 2019 combined ratio reported one is 96.7% and the 9 month is 98.6%. So, nearly 2 percentage point increase just because of the addition of one quarter and you still haven't exceeded your budget i.e., there is no impact from excess large losses over your budget. So I'm struggling to understand what can drive 2 percentage point increase in the combined ratio from first half of nine month. If the reserve leases haven't or the run-off result hasn't been a lot lesser than what it used to be. I think the attritional has weakened a bit maybe, I don't know.

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

I think there was also the underlying loss ratio was a little bit higher than compared to last year. I also mentioned in my opening remarks that especially the credit loss -- for the credit loss, it is challenging especially in a fourth quarter or by the end of the third quarter when you have started your year-end proceedings to roll forward, the large loss budget in one loss which only affects a single line, implying that we did not fully release the large loss budget against that one credit loss, but again it's challenging to really see that in the ultimate loss ratio picks, across the whole portfolio and moreover, we also indicated that we had been a bit more conservative than last year.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thanks very much.

Operator

The next question is from Roland Pfander, Oddo BHF. Your line is now open. Please go ahead.

Q - Roland Pfander

Yes, good morning two questions if I may on life reinsurance; firstly on longevity. If I compare your profitability outlook compared to last year, it looks like you are a little bit more optimistic now shooting for earning above cost of capital. Is there any specific reason to this maybe you could explain on this point a little bit more in detail.

Secondly, mortality, could you give us a normalized EBIT margin for the new business you are writing currently, also in the context of recent very favorable underwriting results here in this business line. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Yes, let's start with the longevity, you might have seen that mortality got a little bit worse, especially in the UK in the last couple of year, some of the direct writers have even changed their assumption. We didn't do that, but of course we expect higher profits from that -- on the longevity business, the longevity side.

Still, most of our longevity business is from the UK. We are writing a lot around the world but still, most of that comes from the UK. So, we are a little bit more optimistic on that site that you will see the profits coming through, slowly but constantly in the next couple of years.

Then mortality EBIT varies a lot around the globe. We have different EBIT expectations for different markets. If you look at the US, we are pricing for something, which is more like 10% EBIT margin. If we finally make 8%, we will be happy. We don't drive much UK business because EBIT margins would be insufficient from our point of view and in other markets, it varies really by markets around the world. But everything is priced according to the same return on equity, as we have on the P&C side that we have with all our business.

Q - Roland Pfander

But did it improve lately, mortality margins on the new business, it looks like at least?

A - Sven Althoff {BIO 19104724 <GO>}

Definitely, you see the results from the management actions in the US, but we don't see mortality rates improving in general worldwide.

Q - Roland Pfander

Okay, thank you.

A - Sven Althoff {BIO 19104724 <GO>}

It is strong as ever.

Operator

Next question is from Michael Haid, Commerzbank. Your line is now open. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning to everyone. Two questions, first on the K session, the K session does not apparently apply to the Bahamas. Still the Bahamas is North Atlantic hurricane risk. Is there any reason why you treat the US differently than the Bahamas, or is it just a constructional mistake that you intend to rectify in the future, first question.

Second question pricing in Asia, property net cat, it appears to me that, given this high losses from last year already, that the pricing in the April renewals was by far not sufficient. Do you share this view and should we expect an acceleration of price increases in Asia for the 2020 renewals?

A - Sven Althoff {BIO 19104724 <GO>}

Yes, thank you very much for those questions. Starting with the K question, why it's Bahamas not included in K. As Roland already explained, when he talked about Dorian, the bulk of our exposure in the Bahamas and the Caribbean Islands in general that's coming from proportional business and K only takes non-proportionate business. So, the impact by including it into the K session at the time was a commercial decision whether this would improve our expected return from the K transaction or not and that's the time we came to the conclusion that it wouldn't. So, it was a conscious decision, it was not an oversight. When it comes to the Japanese renewals and what do we expect on the next renewals, following the run-off from Jebi and the two new Typhoon events. You are certainly correct that as we -- had we known the full impact of Jebi i.e., the including the development of the loss, which the entire market not only Hannover Re has observed in 2019 then in all likelihood the price increases at this year's April 1 renewals would have been more significant compared to what we could actually achieve.

Now, was that run-off plus the two new losses? Of course, we continue or we do expect significant rate increases again whether they will be accelerated is a different question because it's unfortunately not as simple as saying, you have to pay so much more for the Jebi deterioration and then you have to pay more, because we have Faxai and our EBIT one plus one does not necessarily make two, in that respect, when it comes to rate increases and of course the client always has the option to discontinue buying low layer structures, if they feel that the risk transfer they can achieve after additional rate increase is sufficient.

So yes, you can expect significant rate increases. But we also have to be mindful that the percentage increase on the absolute premium that we will be able to generate that will be impacted by those risk transfer consideration by the Japanese client.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Fantastic.

Operator

The next question is from Emanuele Musio, Morgan Stanley, your line is now open. Please go ahead.

Q - Emanuele Musio {BIO 19781440 <GO>}

I have one question, given the strong pricing improvement in retro, and given pricing improvements in reinsurance are lagging; I'm wondering whether this might have an impact on your retrocession appetite and-or whether this might have an impact on your cat budget, looking ahead? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Well, no intention to place similar retro structures compared to what we placed the last couple of years. Of course, we have the financial flexibility that in case the retro market charge increases, which is not in line with our view on the exposure of those particular contracts, which we are buying to place less retrocession and we also have the flexibility to increase over and above what we currently have in our plan for natural catastrophe business, when it comes (inaudible) into us because we have certainly not exhausted our potential risk appetite for natural catastrophe business.

I think we have taken a prudent view on what we can expect on further rate increases and our plan is driven on that prudent view, if we should have been too pessimistic, we would be able to take full advantage of the development and write more business.

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

Maybe one element to consider is, of course that the exposed markets have usually renewals on April 1 and July 1 for North America, and that gives us ample time to prepare for the renewals and have an appropriate strategy to link the price of the retro market, with the pricing we will apply for the renewals. So, we remain confident from that perspective as well.

Q - Emanuele Musio {BIO 19781440 <GO>}

Okay, thank you.

Operator

And we have another question from Thomas Fossard, HSBC. Your line is now open. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah, sorry, just a question on the surety loss on Thomas Cook. If we understand that's not part of the K session, but still an individual loss on the credit and surety portfolio of above EUR100 million is still a significant loss. And I'm pretty surprised that in fact there is no specific retro protection in place to cap this single loss exposure. So, maybe could you share a bit more how you're protecting your book in this business line? Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Yes. Very happy to do that. Of course, loss of more than EUR100 million is a very significant loss, you're absolutely right in that. But, it's fully in line with our risk appetite for our specialty classes where we are expecting that from time to time. We will experience three digit losses. We have looked into retrocessional solutions for credit and bond business in the past, there are some products available, but it's -- we always came to the same conclusion, the limits that are available are not really moving the meter for us. And secondly, they come at very loaded pricing because it's such a tight market. So, therefore, on the credit and bond side unlike marine and aviation where we buy substantially, we always came to the conclusion that it would be much more beneficial for us to write less gross exposure rather than the net position by what we felt is yeah too expensively priced small retro solutions.

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay, thank you.

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

But to be very clear. I mean, a loss coming from that business practice of EUR110 million is what we can fully expect from time to time.

Operator

And the next question is from Jonny Urwin, UBS. Your line is now open. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hello, thanks. Just a quick one, please. Just to clarify, so what drove this additional reserving conservatism during the quarter? Was there any specific lines, i.e., have you increased loss picks on casualty like some of the US primaries are doing, or is it just replenishing the buffers of some erosion in recent years. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Hi, it's, I would say -- it's a mixture of things you have to bear in mind that when we closed the books, for Q3, we saw Hagibis already come in. So, in that respect and if you then -- with the uncertainty around another big Japanese Typhoon plus a very positive contribution from life and health and from the investment side, it did not really make sense to be overly aggressive on the P&C reserving.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, thank you. I guess, the bearish read of that is the buffers have come down in the last three years like potentially, i.e., are you not happy to see them fall further or is it just a bit more opportunistic. It sounds like it's been more opportunistic than that, you've had a good result in life, so you're going to take some of the benefits P&C reserves.

A - Sven Althoff {BIO 19104724 <GO>}

Again, not knowing how what Hagibis and the rest of the fourth quarter will bring to us. Of course, with the very positive contribution from the other side, this could have been an opportunity to fill the buffers again and increase those and we wanted to be prepared to do that. And on the other hand, again with now the fourth quarter being open and seeing how Hagibis is coming, we just wanted to make sure that we do not see a Jebi development again.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, thank you. And you have increased loss picks on casualty?

A - Sven Althoff {BIO 19104724 <GO>}

Not that I'm aware of. We had, again I mentioned that before we had a close look, also driven a little bit by more than one of the question from your community, our reserving actuary is looked at it one more time. We see that the casualty reserves also rolling forward a little bit from the older years, so there was no reason to take action based on the information we have today.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

Operator

And we have a follow-up question from James Shuck, Citi. Your line is now open. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Sorry, I was on mute. Obviously, just very quickly. Sorry for the follow-up; the 98.6% combined ratio, nine months. Now, the bank is in normal run rate for large losses. You've intimated that the PYD for the nine months was broadly in line with previous years, subject to the Jebi addition of about EUR100 million.

So, if I normalize for that kind of Jebi situation, then maybe you're running about EUR98 million. And really just a simple question is why is that EUR98 million rather than the low EUR97 million because I think your answers around the casualty loss picks has not been that the loss picks have been getting higher.

So, if you just help me understand why that's not running below EUR97 million on a kind of look through basis that would be helpful. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

I think, I can only reiterate, I think what I said at the last one it was -- it was the -- to let the credit loss kind of run-off against a budget was not easy to determine in the middle of a late third quarter. We took a little bit -- a conservative position, especially on the cat losses.

So, although the losses are in between the budget, it always depends on how much of the old budget you use to cover the new losses and moreover, we did not really increase loss picks, based on the concrete casualty situations. But overall, again, we took a little bit a more conservative approach. And as I also mentioned before the underlying non-cat or non-large loss experience was also a little bit worse than in the previous years.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay, that's helpful. Thank you.

Operator

And the next question is from Vikram Gandhi, Societe Generale. Your line is now open. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, thank you for the opportunity. Just a really small one. Can you remind us, if there is any retro protection on your casualty portfolio?

A - Sven Althoff {BIO 19104724 <GO>}

No, there isn't.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay, thanks so much.

Operator

And the next question is from Vinit Malhotra, Mediobanca. Your line is now open. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Just to quickly check the nat cat -- the large loss budget increase, is there -- can I assume that the proportion between man-made and nat cat is similar or is there a change in that? So, I remember it used to be EUR660 million nat cat and the remaining was man-made, can you confirm that as well, please?

A - Sven Althoff {BIO 19104724 <GO>}

Yes. The current split on the EUR875 million is EUR700 million nat cat and EUR175 million from the man-made side for the addition of EUR100 million this split is..

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

I think, it's nearly similar. It might have moved a little bit to the man-made, because experience of last year was that we were sufficient on the cat side and a little bit deficient more than once on the man-made side, but I don't have the split with me, but it should not be too far away from each other. But moving slightly to the man-made side.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thanks very much.

Operator

And the next question is from Paris Hadjiantonis, Exane BNP Paribas. Your line is now open. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi, good morning from my side as well. The first question would be on life and health. In Q2, you were highlighting that there was an effect from a number of cases that were in arbitration and we didn't really hear an update on whether or not there has been any kind of recapture in Q3. I assume from your results, there has not been one, but if you could give us some update on what's going on with the cases and arbitration would be helpful. And the other one is just on return on investment for next year. The 2.7% that you are giving, obviously as you say is mainly based on ordinary investment income. But, the reality is that you have more than EUR1 billion of unrealized gains, which are not related to fixed income. So, I'm wondering whether or not there is any plan for some benefit from realizations coming up. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Just ask again about your question about recapture in the US, what exactly was the question here?

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

So, in Q2, you were highlighting that you are in arbitration with a number of clients -- for a number of contracts, so an update on what have been the developments would be good.

A - Sven Althoff {BIO 19104724 <GO>}

Yes. The arbitrations have basically started everywhere with the selection of the umpire; it will probably take, at least a full-year 2020 to come to a conclusion. Until then, we have to book the results each quarter as they come in according to the old treaty terms, that means we will see losses in the next year from these treaties, which they will then (inaudible) if at some point in time, we expect that we win the arbitrations.

The business is either recaptured or the rate increases accepted in both cases, we would either get back the losses or we get the additional premium increases. But, this will be well into 2020, if not even 2021.

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

It's good to come back to the yield assumptions for 2020. Europe, as I mentioned before, it is more or less entirely based on ordinary investment income. You mentioned that there is -- there are more value -- valuation reserves. So, we are working right now on potentially the sale of one or two more real estate [ph] objects and that could lead or would -- if it really happens, it would lead to some additional extraordinary gains, but we haven't factored them in yet.

Moreover, if you digest any extraordinary gain or any valuation reserve, this is a drag on the ordinary yield in the future, even if we look at private equity or other areas. So, we would rather concentrate in kind of harvesting ordinary yields also in the future, rather than plan for contributions from sale of investments. So, in this regard, is there a potential? Yes. Are there plans? No. At least, not to a remarkable extent.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

That's clear. Thank you.

A - Sven Althoff {BIO 19104724 <GO>}

Maybe one additional comment on the recaptures. We still expect some recaptures in the fourth quarter 2019. This is what we originally expected in the third quarter, this drags on a little bit. This would be about EUR30 million plus from one of the companies, which might go to arbitration. They will definitely go to arbitration if it does not happen in Q4.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thanks for highlighting that.

Operator

There are no further questions at this time, so I hand back to the speakers.

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

Well, thank you very much for the Q&A session, for listening in. I think, we've covered the ground very well, the P&C profitability has been a topic, we remain of the view that we have a very healthy portfolio. And indeed, there is conservative reserving implied in the numbers, life and health is marked by a very strong in-force management actions, and over time I think it will allow the profitability to emerge and to increase, and the outlook is positive but obviously we're well aware of the competitive market conditions, and that explains the guidance for 2020.

But, I think we've covered all the key points for today, thank you very much for your attention and see you next time.

Operator

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