Q3 2016 Earnings Call

Company Participants

- David Cole, Group Chief Financial Officer
- Guido Fürer, Group Chief Investment Officer
- Matthias Weber, Group Chief Underwriting Officer
- Philippe Brahin, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- In-Yong Hwang, Analyst
- James A. Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Olivia Brindle, Analyst
- Stefan Schürmann, Analyst
- Thomas Seidl, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xin Mei Wang, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning or good afternoon. Welcome to Swiss Re's Third Quarter 2016 Results Conference Call. Please note that today's conference call is being recorded.

At this time, I would like to turn the conference over to David Cole, Group CFO. Please go ahead.

David Cole {BIO 7251632 <GO>}

Good morning or good afternoon, everyone, and welcome to our Q3 2016 results conference call. I'm here today with Matt Weber, our Group Chief Underwriting Officer; and Guido Fürer, our Group Chief Investment Officer; along with Philippe Brahin, our Head of Investor Relations.

Let me just start with a brief overview of the results that we published this morning. As you're seeing, Q3 was a strong quarter for Swiss Re with positive contributions from all of our business units. Group net income was $1.2 billion for the quarter, bringing us to a total net income for the first nine months of $3 billion. Both the Q3 ROE, as well as the ROE for the first nine months demonstrate that we maintain the quality of our underwriting and investment portfolios in a challenging market.

During Q3, reinsurance delivered $896 million of net income, underpinned by the solid underwriting performance of our P&C and Life & Health businesses. Corporate Solutions reported an ROE of 16.5% for the quarter and Life Capital delivered strong gross cash generation of $248 million. The Group ROI for the quarter was a strong 3.5%.

We also announced this morning that we'll launch the share buyback program as authorized by the 2016 shareholders meeting. We'll launch it tomorrow the 4th of November, as we've already received all the necessary approvals to allow us to do so.

Finally, we underlined in our presentation the continued external recognition of our engagement in sustainability. The Swiss Re was again named Industry Leader in the Dow Jones Sustainability Indices as well as other indices.

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

Philippe Brahin {BIO 19081619 <GO>}

Many thanks, David, and good day to all of you also from my side. So as usual, before we start the Q&A, I would like to remind you to please restrict yourself to two questions and register again for follow-up questions.

So with that, operator, could we please have the first question?

Q&A

Operator

The first question comes from Thomas Seidl, Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. First question is actually on your targets. David, you just mentioned the ROE target is 700 bps above risk free, roughly 8.5% and 10% economic network growth. Now at nine months, you have 11.6%. If you normalize just the P&C Re segment, so you overrun to the tune of $800 million and then realize gains, the highest in 2011, a few hundred million of over-earnings there, I would say so.

On an underlying basis, would you say you're pretty close to the 8.5% ROE level, right now? And if so, what makes you confident that with the continued price pressure, you can meet this target over the next one, two years? That's my first question.

And the second then, regarding the two P&C segments. In both segments, the underlying loss ratio increased significantly. I think in the – P&C Re is up 5 percentage points, 6 percentage points, and in the CorSo segment, 8 percentage point, roughly speaking. So, what were the drivers? And again, what makes you confident that you come back to the previous levels here?

A - David Cole {BIO 7251632 <GO>}

All right. Thank you, Thomas. I'll pick up the first question, and I'll ask Matt to respond to your second. So indeed, you've seen our numbers through the first nine months. Our ROE target is U.S. clearly risk free for (4:00) 700 basis points. Of course, those targets are through-the-cycle targets. They're not targets that we expect to meet every business segment, every quarter. But they're through-the-cycle targets. So I think that it's, anyway, fair to that starting off from 2016, we're certainly on track. You do various types of normalizations, which I can understand that each of you have your own way to do it. But actually one of the benefits of having these through-the-cycle targets, because a lot of that up and down adjusting, I think, falls away once you look over a little bit of a longer period of time, which we believe is absolutely the best way to do it.

In terms of your question about are we confident about the next one or two years. I would say that we are confident in the context of we're well positioned. I think we still see good opportunities to provide meaningful value to our clients and, therefore, also extract meaningful value for our shareholders.

It's a tough market. These are challenging targets, some would say, from time-to-time, ambitious given market circumstances. I do think we benefit from a very strong market position, we benefit from a diversified business mix. And so, yes, they remain our targets, and I hope to be reporting to you on that, of course, over the next several quarters and the next several years. And we'll see how we get along.

So with that, let me turn over to Matt for questions regarding the P&C businesses.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. Good afternoon. I wished I could give a very short answer. Unfortunately, it's a little bit longer than just one bullet point. So, generally, across both business units we have seen, of course, market softening relative to the year before. And as a result of this markets softening, the loss ratios have increased a little bit in all lines of businesses.

In addition to that, we reduced peak nat cat, given that under EVM the economic profitability for a portion of our book was just not given anymore, had we renewed as it was up for renewal. So, we had to reduce or we decided to reduce some peak nat cat exposure, which on average across our book further increased our loss ratios.

Then on the reinsurance side, we encountered this year an unusually high amount of agricultural losses, most of it coming from France, a little bit also coming from China. And I would say, these three reasons are the key reasons why our underlying loss ratio corrected for prior-year development or adjusted for prior-year development and adjusted for nat cat were higher than the year before.

Please note that when we adjust for nat cat, we do not consider agricultural losses as nat cat losses. So, an increase or a decrease from that angle (7:23) comes after the adjustment.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. Can we go to the next questioner, please?

Operator

The next question is from Xin Mei Wang, Morgan Stanley. Please go ahead.

Q - Xin Mei Wang {BIO 16662657 <GO>}

Hi. Good afternoon. So, my first question is just from follow-up on the previous one. Could you talk about how you think about the full-year guidance for both the segments, please? I think you still kept the 99% for P&C Re. So, that implies a sub-100% underlying in 4Q. If you could explain the reasoning behind that? And also similarly for CorSo as well, I think you're saying that that's not going to be match anymore. So, what kind of number should we be thinking about there?

And then, my second question is on the reserve leases. I understand they've been pretty positive across the board, also some charges in Asia. What is the driver of these releases, given your best estimate reserving? Is it again a factor of low inflation relative to expectations or is it something else? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you. Matt, right over to you.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. Good. So, the first question related to the expected loss ratios or the expected combined ratio, it's not guided, it's an expectation. We mentioned at the beginning of the year and that's every year, the year before, we made the decision to not update this expectation as we go through the quarters.

On the reinsurance side on year-to-date basis, we stand at the combined ratio of 100.4%, so slightly above the 100%. Little bit, a tad higher than we thought it would be. Looking at everything, we think there is a decent chance that at year-end, we end up with a combined ratio below 100%. Of course, there is no certainty that this is going to happen, but a decent chance.

On the Corporate Solutions side, we stand on a year-to-date basis at 103.7%. The reasons are the following. Our expense ratio is higher given the fact that we didn't increase our premium writings as much as we planned to do. This in response to an accelerated market softening a little bit higher than what we thought it would happen.

Secondly, also on the Corporate Solutions side, we reduced property business that is nat cat exposed, again, given the fact that it did not meet our economic hurdles under EVM. We also reduced a little bit on the surety side and on the trade credit side. And this combined with we are experiencing a tad, not a huge amount, but a tad more market softening than we thought what would happen, make us believe that it will be highly unlikely for us to meet the 101%, which we expected at the beginning of the year.

With respect to the reserve releases, on a global basis, given that we do not have a single large bucket where we experience a huge amount of reserve releases, it spreads pretty much all over the world, most of it in the Americas and in Europe, in Asia.

Some of the releases we have seen were offset by an increase of the New Zealand earthquake losses from 2010 and 2011. But given the fact that we are seeing these releases pretty much across the whole globe and across all main line of business. And even if we trail down in most segments, we conclude that this is just result of the inflation which continues to be very low.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. Can we go to the next question, please?

Operator

The next is from Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Afternoon, everyone. I've got two questions. The first one is just about, there were some reports in the press about potentially yourselves and a large U.S.-based reinsurer taking on some legacy deals. Can you talk a little bit about if you are thinking about deals like this? And kind of what the rationale of taking them on would be? So, that's question one.

The second question is just about inflation. And I guess, in the UK, it's something that we're worrying a little bit about here. It'd be really helpful if Matt can give some comments just about how well you are positioned, especially given your UK exposure to any kind of sudden spike in the inflation, that'd be really helpful. So that is my take (12:58). Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you very much. Well, let me first just respond to the rumors that you were referring to. As you know, we can't allow ourselves to get into a position to respond to various things that may be reported from time to time regarding various matters. So, we'll stick to that policy on this one as well, and we won't be responding to market rumors. So, I hope you'll appreciate that, Kamran. I'll turn it over to Matt for the second.

A - Matthias Weber {BIO 16674983 <GO>}

Look, on the inflation side, sometimes people ask me what keeps you up at night. And to be perfectly honest, I sleep very well. But if I didn't sleep very well, it probably would be because I was thinking about inflation and the possibility that the ever decreasing inflation of the past actually could turn around.

So, we are observing this very, very carefully. And of course, we are not just observing it, we are taking it into account in the pricing and in the costing and in the reserving as well. On the costing side, we are taking it account via the loss severity, trend factors, and we actually entertain a significant amount of R&D, trying to forecast the loss severities, which then our underwriters are using before a piece of business is bound.

Q - Kamran Hossain {BIO 17666412 <GO>}

So, what you're saying, Matt, if I was the UK motor (14:33) insurer, I might be looking at paying a little bit more for my reinsurance next year? Would that be a sensible assumption or not?

A - Matthias Weber {BIO 16674983 <GO>}

Look, that would be a forward-looking statement, which I will be hesitant to make at this point. But trying to taking to account, inflation is a core element of underwriting and costing, which is a core competency of every reinsurance and insurance company, but especially also of Swiss Re. So, we are taking this very carefully.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much. I appreciate your answers.

A - David Cole {BIO 7251632 <GO>}

Next question, please.

Operator

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

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

Hello. Hi there. I was intrigued the comment you made that part of the reason the underlying combined ratio was higher in the quarter was you looked at your motor books in the U.S. and the UK. Maybe if you could just give us a bit more color on what is it you've identified there?

Is this the kind of severity issues we're seeing, particularly in the U.S. personal lines, primary writers, or what is it? And presumably, the implication from the comment in the slide is this is a catch-up on your calendar year or your current year loss picks on auto books. So, just clarify in detail, that would be useful.

Second question. On the Life business, we've seen some primary Life writers in Australia do some catch-up on visibility income and lump-sum payments reserving. How do you feel currently about your reserve situation in Australian Life market given that it looks like the claims environment in still pretty tough? Thanks.

A - David Cole {BIO 7251632 <GO>}

Thank you, Andrew. I think, I'll give it to Matt. Yeah.

A - Matthias Weber {BIO 16674983 <GO>}

Great. So, motor UK and U.S., mostly U.S. actually, that is a segment where today we know that nine months ago when we wrote this business, we were a little bit too optimistic in our assumptions. Please know that whenever we try to look forward and make a pitch (16:50) with respect to loss trends, it's an estimate. And sometimes, you are too pessimistic, sometimes you're too optimistic. So here, we were too optimistic with respect to both the severity and the frequency.

In our case, it might not true for everybody else, but in our case, it is driven by commercial motor. And within commercial motor, it's driven by trucking business. In our opinion, the two most important reasons are; the first reason, after the financial crisis, a number of drivers were let go. And few years later, when the economy picked slightly up, drivers were rehired by companies, including also the construction sector, but not the drivers that initially were let go were rehired. Younger, more inexperienced drivers were rehired. And that has led to an increase in loss frequency, which in addition to that is intensified by an increasing amount of distracted driving. 4G is fantastic, but it does not help with the accident frequency. In addition to that, over time, we are seeing a trend towards heavier trucks with heavier loads, which also means if something happens, the impact, the severity is likely higher.

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

And it was a catch-up for your – the whole year's loss picks (18:51), was it, that we saw in the quarter?

A - Matthias Weber {BIO 16674983 <GO>}

You see, what we did is an adjustment to the high priority loss ratio, which matters for the development to come.

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

Okay. And is this quota share that you're doing in U.S. commercial auto or is it an excess loss or...?

A - Matthias Weber {BIO 16674983 <GO>}

We write both proportional business and non-proportional business. And if you get the inflation wrong, the impact is bigger on the non-proportional side, because the excess inflation is bigger than the underlying inflation.

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks, Matt. Thanks, Andrew. The second question regarding Australia, I guess I'll take. I guess, a number of you will remember several years ago, I think it was 2013, we experienced some issues with parts of our Australian business, which led us to really do a deep-dive review and make sure that we had the right structures in place and measures in place, communication with clients and whatnot, to allow us to really stay on top of that business. And in the meantime, we've seen that that business has responded in a good way, positive way and we feel like very comfortable with it.

The issues that you were just referring to, I'm not aware of, either not the issues that have – it does in a way that it would be brought to my attention, Andrew. So, a little bit of an answer. I'm not aware of anything that would allow me to give you an answer that indicate that we've picked up those types of trends that you're referring to.

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

Okay. Thanks.

A - David Cole {BIO 7251632 <GO>}

Yes.

Operator

The next question is from Vinit Malhotra from Mediobanca. Please go ahead,

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. So, one question is on this whole concept of the tailor-made, which has been driving growth for several probably years now. And thanks to the sigma team at Swiss Re, we got a chance to see a bit more about what are the tailor-made transactions.

Could you comment a little bit about where exactly in the three or four types of transactions of mixed risks or capital or strategy, could you comment where this growth typically comes from? Is it all spread out or – and I would also say that definition is quite broad based. Has it always been like this? So, just a bit of comment on where the tailor-made comes from.

And second question is, there is this speaker note comment around an upcoming FINMA model change that is likely to boost solvency. Could you give us a sense of magnitude here please and how it would – or how it could potentially influence any future capital measures? Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you. I'll take a stab at both and then maybe ask, Matt, if he wants to add anything to the question regarding the tailor-made or bespoked transactions. So first, thanks for the feedback on sigma. We'll pass it back to our team. The whole intent was (22:10), I think, to help the market, including our clients understand some of the opportunities available to them.

You're absolutely correct, we started talking about tailor-made large structured, bespoke transactions already going back, I think, to perhaps as early as 2011, 2012 on a consistent basis. That's because we recognized that there was a possibility for us to, in essence, provide more value to our clients by bringing together our research-based knowledge, our global reach and tying that in with our very intense client relationships at various levels with our client.

Now, you said something along the lines, and it's a little bit of a vague description tailor-made. That's correct. Tailor, large, bespoke, they basically reflect transactions that, on the one hand, have a certain size and substance; and number two, are something different, if you will, in terms of the business mix, the nature of the relationship that we established with the client. It goes a little bit beyond the typical syndicated type of risk that you may see coming through the panels or what we refer to them as flow business.

It's actually around the globe. There's not a individual region. It's also various lines of business. It's both Life & Health as well as P&C. These things are not coming from one individual client or one individual region.

We have, as you know, very extensive contact with a very well-diversified group of clients around the world. And we're in constant engagement with them, looking to help them not only solve issues they may have around volatility, their P&L or capital issues that they'd like to address, but also helping them grow their business. And these transactions are excellent tool that we apply to actually demonstrate our ability to differentiate. It's not just capacity that we're providing typically, It's a lot of additional value-add products.

Let me leave it at that. I want to pick up the second, and then I'll give it off to Matt, so he can actually supplement (24:15) if he wants to. So, the FINMA model, yeah, we wanted to flag that. It was out in the marketplace. FINMA has indicated they're contemplating some adjustments to the way in which the SST ratio is calculated. In essence, is a mechanical adjustment, but the adjustment will make the ratio outcomes a little bit more comparable with the way that Solvency II is calculated. What we've said is that, we do look at this as somewhat of a mechanical type of an adjustment.

The likelihood – but the rules are not finalized, but the likelihood based upon what we understand their intent is, is that will optically increase the ratio. But what we want to make sure everyone understands is that, in and of itself, that doesn't change the nature of our excess capital versus the 100% requirement.

We may come back to that at our Investor Day in December, a little bit depending on how FINMA gets along in terms of finalizing the rules and that we understand they really are going to take place. But I think the key message that we want to bring right now is that this change may well take place. We see it as somewhat more of a mechanical change than anything else. The likelihood is the reported ratio will go up.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And if I can just follow-up quickly, the target range could also change presumably?

A - David Cole {BIO 7251632 <GO>}

Well, let's wait and see what FINMA actually finalizes. And once we understand that, then we'll talk about that. We'll update you all on our capital position, our SST ratio in the first part of next year, as we always do. And I would certainly anticipate that by that time, the rule will be finalized and we'll be able to talk about our risk tolerance range. Matt, anything you want to add on the tailored transactions, bespoked.

A - Matthias Weber {BIO 16674983 <GO>}

Yeah. First, actually, I must say, I was pleased to see that I'm not the only one who gives long answers sometimes (25:59) question. You said pretty much everything I would have said. Let me just add two additional thoughts. Typically, bespoke transactions are more a thing of mature markets than high growth markets. So, at least, historically, this has been the case. And secondly, it's very hard – given that they are bespoke and tailored, it's very hard to classify them, because the needs they try to address can be very diverse ranging from capital relief to smoothing out earnings, to accelerate earnings. So really different needs.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Can I just quickly take if – between complexity of risk and capital support if you had to distinguish, would you say most of the growth is the capital support side or most of the growth is complexity side, or both could be an answer? That's it for me (27:08).

A - Matthias Weber {BIO 16674983 <GO>}

Look, it changes over time. It's just – if we wrote – and you know we did this in the past. If we wrote a big motor quota share somewhere in Asia, that would not be at yield that requires a lot of capital. It actually would require very little capital under EVM. But as soon as you make signal, a little bit nat cat, the capital consumption increases very quickly. So, there is no uniformity and therefore it's very hard to give you a short answer.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you.

A - David Cole {BIO 7251632 <GO>}

I just politely request people to restrict themselves to two questions. You can get back in the line if you want to, but we want to make sure we give everyone a chance to ask their questions. So, thank you for that, Vinit. May we go to the next question please?

Operator

The next question is from Olivia Brindle, Merrill Lynch. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Hi there. So, first two questions. On the credit transactions, there was a comment you made, I think, in some of the headlines from the media conference, which said that those tailored transactions would likely have an upward impact on your combined ratio. Just wondering if you could elaborate a little bit on that. I mean, given that is a mix of different lines of business, presumably it will push it up to the extent that it's large casualty deals, but also where you do shorter tail and lower combined ratio tailored transactions as well. So just wondering how do we understand that comment, whether you're saying that overall those deals will have a higher combined ratio? And so just some color around that would be helpful.

The second question around capital. So, I think historically you've been very clear that you will return excess capital, but maybe not as clear on exactly how you determine the level. So, firstly, just wondering why you've decided to go with $1 billion today and how you come to that being the right number? And also, second part of the question, how are you thinking about the right level going forward? I mean, if I look at some of your comments on the outlook for the market, they seem reasonably cautious. How is that leading you to think about capital in terms of whether you might want to hold more or less? Thank you.

A - David Cole {BIO 7251632 <GO>}

All right. Excellent. Of course, I made the comment this morning you're referring to, but first I'll give Matt a chance to explain my comment, and then maybe I'll add to it. And I'll come back, Olivia, to your second questions around capital.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. Look, four years ago, when we looked at the pipeline of large and tailored transactions, many of them included nat cat exposure. This portion of the pipeline right now we pretty much cannot write any more because under EVM, it's just not profitable anymore. So, as a result of this, our large transactions and tailored solutions on the P&C side are more weighted towards long tail lines and that automatically increases the combined ratio.

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks. And then, the second question about the capital level and why $1 billion. On the one hand, I'll give a short answer, but then I'll give a little bit more context. The billion was actually what we asked authorization for from the shareholders earlier this year. And under the Swiss rules, we actually need to have that authorization in order to give us the flexibility to launch such a program during the course of the year.

And we've talked in the past about how we look at our capital management philosophy, prioritizations and that really hasn't changed. So we start from the premise of maintaining superior financial positions at all times. We certainly would like to maintain the regular dividend and we would like to grow it where we've been successful in investing in the business.

And we still will invest in the business, if it meets two criteria online with our strategy, one that we've communicated and it meets our financial hurdles. And for large allocations of capital, of course, we make sure that the hurdles that we apply are sufficient to compensate for the allocation of capital and the risk associated with the transactions. And then when we find ourselves with excess capital, then we look for ways to give it back. And we said for a number of different reasons having previously done the special dividend, the repatriation from tax-advantaged account, that we would look for the repurchase program as one that gives flexibility; and also based on feedback from our shareholders, one that most shareholders have indicated they have a preference for.

Now, in terms of the amount of capital that we hold, it starts with this premise of maintaining the superior financial condition. And we've expressed that simplistically in the form of an SST ratio of 185%. We think that gives us a very strong position, the ability to absorb large losses and continue to be meaningful and active and engaged with our clients, even after large losses would occur.

Now, we hold some buffer. The buffer is intended to provide a little bit of protection for the inherent volatility of our P&L. So, we hold a dividend reserve. And we hold a buffer for what we think to be potential – they're not earmarked, potential investments that we may wish to make over the course of a 12- to 24-month period. And when we hold capital that is above that level, then we think about returning it to shareholders.

Now, this year we asked for authorization for $1 billion. You made a comment about what may happen going forward and the market outlook. Certainly, we'll come back to that in February when we bring you our full-year results and we speak to you a little bit about what we want to do on the dividend side. So, let me just hold off a little bit with any comments about what we may say in February, but we'll come back to it. We won't forget. Thank you.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay. Thank you.

Operator

The next question is from Guilhem Horvath from Exane BNP Paribas. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Thanks for taking my question. The first one is on the pipeline, which you mentioned. So, can you give us a little bit of color on how optimistic you are on this pipeline on tailor-made? And maybe also the gross number for P&C Re excluding the tailor-made deals?

And the second is coming back to run-off profit, both in P&C Re and CorSo, and if you can tell us what we should expect as a normal rate as a percentage of the common ratio for the coming quarters? Thanks.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you. Matt, over to you.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. So, the answer to the second question will be very short. But let me take the first question first. So, the pipeline looks good and we are happy with it. However, we have to be aware that the hit – the pipeline has to look good, because the hit probability is far away from 100%.

With respect to the open market reinsurance business, so the business that is shown to almost everybody often by a broker, in that segment, since the beginning of this year, we have shrunk by approximately 4% relative to what was up for renewal. The answer to the second question is, we reserve to the best of our knowledge. So my only advice can be please assume no reserve development going forward.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

All right. Thank you very much. Next question, please.

Operator

The next question is from William Hawkins, KBW. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. The P&C running investment income was $210 million in the third quarter, which is a pretty low number. I know that the yield's coming down in the rest of it. But I'm just wondering, is there anything funny going on that makes that unusually low number or should we be taking that as a guide for the future? And then secondly, for the two Life divisions, the increase in unrealized gains this year is dragging your return on equity by at least 2 percentage points. I know that this year's results are being flattered by realized gains, but you also seem pretty confident in maintaining your rate guidance that you gave about a year ago in spite of that unrealized gain drag. So, what should we infer from that? I mean is there something – anything you can point to specific that's going better in Life & Health or Life Capital, or are you now expecting to be at the bottom end the range rather than the top end of the range, or is there everything else that explains how you're maintaining that guidance in spite of quite the drag from the unrealized gains? Thank you.

A - David Cole {BIO 7251632 <GO>}

Excellent. Thank you, William. I'll ask Guido to respond to the first and I'll pick up the second question.

A - Guido Fürer

Thanks. This fact of running yield and gain realization, you have to put it in a broader context. If you look a bit at gain realization, this is part of the nature, particularly in a portfolio, which has some portfolio activity similar, as Matt has described on the insurance and reinsurance side. Of course, we look where we see some more value for the same capital and potential than shift. Based on that, you should always see some gain realization. Again, if you look at now, I could get you picture (36:59) – coming back to your question on the P&C side, I could get you picture (37:02) around 25% this gain realization, if I basically compared the total investment income on the group level.

Now, if you look through that, you see it's a good competition. And just to give you one figure out of this $267 million overall gain realization, $90 million comes from government bonds, the rest basically two-thirds is either corporate, equity alternatives or in the principal investment area. That's why it's a good composition.

Now, if you take that as an input, particularly if you look at equity or maybe corporate credit, we came to a conclusion – we saw rich market, in particular, also on the corporate credit side spread-wise. If we look at beginning of the year, kind of the investment grade in the U.S. were around 165 basis points in respect of spread above government. And now, we're around 130 basis points. And we believe these are good levels to take some of the profit and this exactly happened in P&C.

Similar point also on the equity side again, we reduced equity a bit in Q3. And again, this has led us to the conclusion that there is a better deployment of the capital. And this you should expect clearly in the P&C portfolio, but you should also expect it, to a certain extent, in Corporate Solutions, although that's much smaller.

Now, in Life & Health, in the Life Capital area, that's much more kind of a buy and hold portfolio. Now, also there you see some moves. Again, we have Guardian. Guardian is a major acquisition in the Life Capital piece, of course taking on new assets and having, at the same time, some Solvency II introductions. But in respect of matching requirements again has suggested to take some of the profit on government bond and basically locking in attractive corporate credit spreads.

That's why at some gain realization, you should take as a natural kind of capture of economic opportunity. And even government bonds, even there, I think you should there's expect some true economic driver behind it. And Life Capital was a good example. When we acquired Guardian, we were long in respect of our economic position. That's why we took clearly the lowering of UK yield as another reason to basically make – bring closer to economically match position. That's why gain realization, per se, is clearly driven by economic views and economic positioning which we do.

Now, looking at the running yields on the P&C side. Again, you see it's around 2% at the moment. And this fluctuates a bit between 2.1%, 2.2%. If you go back, yes, it was slightly higher, 2.3% last year. Of course, if you have an active portfolio approach, it's very natural that you have a quicker integration of the lower yield environment compared to buy and hold.

On the other hand, these are also the portfolio which allows to take economic position, I think more of opportunistically than in your Life & Health, in your Life Capital context. But kind of the bottom line message is running yield, it's one indication where one important contributor is in respect of future investment income, by far it's not the only one. And that's why we clearly add additional economic values through active positioning of portfolio, which will lead hopefully to some gain realization.

A - David Cole {BIO 7251632 <GO>}

Thank you, Guido. Actually, part of your answer to the first question already segues into William's second question on the Life Capital side. We did have, of course, an extraordinary level some gains in the first half as we were positioning the portfolio we had acquired to Swiss Re's governance and Swiss Re's approach to capital regimes.

But William, your comment is spot on, obviously, with very low levels of interest rates that has inflated the equity element of this ratio, it becomes increasingly challenging for us to hit that 10% to 12% range. Still, we remain committed to it. It's not easy. It's intended to be ambitious in fact. Since we announced that several years ago, I think we've been successful notwithstanding inherent volatility that comes. It's not going to be possible for us going forward to hit that range every single time.

But if you look at this business for what it is, it's a long duration business. We think we have a very strong portfolio. We took a number of measures several years ago to address it. We continue to write what we believe to be very attractive business.

I think that we're in a good position to be able to deliver a good steady stream of income. The actual position in the range maybe on the upper side, maybe on the lower side from time to time, depending on what happens with the equity component. But we remain convinced that the business that we have on our books is a good solid business, and that we continue to have opportunities to write good new business.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. So, there is nothing sort of specific top-down you'd referred to? So, a normalized result, but you could say, inflation's being great, that helps our combined ratio. When I'm looking at the Life businesses, I can say higher unrealized gains hurts your ROE, but your outlook still stay confident. There is no sort of a single big picture issue that you'd point to that's helping your returns level?

A - David Cole {BIO 7251632 <GO>}

I think it's diversified book. The fact that we have taken measures to make sure that we respond to portfolios that were underperforming. When we set the range, of course, we already had factored in – I won't say we were exactly right on interest rates, but we factored in that it could move up or down depending on what would happen.

As Guido just indicated, I mean, at this point in the economic world and financial markets, you almost can touch the portfolio for even normal stuff without realizing some sort of gain here and there. But we're not accelerating gains for financial reporting purposes. We have a high quality portfolio, both from the liability side as well as on the asset side.

And while we accept that there may be some volatility in that range, we've been outside of that range. We've had several quarters where we were actually well above the 12%. We think if you look at this business over a longer period of time, then we're going to be in a good position to achieve that. It won't be easy, but that's what we will strive to do. Thank you.

Q - William Hawkins {BIO 1822411 <GO>}

All right. Thank you.

A - David Cole {BIO 7251632 <GO>}

Yeah. Next question, please.

Operator

The next question is from James Shuck, UBS. Please go ahead.

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

Hi. Good afternoon. Two questions from me please. Just wanted to return to the capital position and your view of it. David, listening to you, you keep using the word kind of flexibility. I'm intrigued why you need so much flexibility, if you like, because the $1 billion buyback itself, as you already alluded to, gives you flexibility to cease that if you do get a large loss. And your capital position, both on S&P and on SST, gives you buffers on top of buffers.

So, I'm struggling to see why you need to introduce an element of uncertainty over this buyback that you're announcing now. I think historically, you've kind of said we want to see how hard it can cease and work through, but I think the reality is that your peak apparels are much more evenly spread throughout the world. So, if you could just shed a bit a light on that.

I suppose a linked question might be, I mean if Hurricane Matthew had made landfall at a $20 billion loss, would that have actually scupper the buyback at this stage? That's my first question.

Secondly, a more general kind of conceptual point. I mean, over the past, I suppose, one to two years, you've been growing in casualty more than others, and it seems like a kind of countercyclical approach, if you like. If we look at the results coming through in casualty, those results don't look great. The combined ratio is consistently above 100%. And in Q3, it was at 102.6%. What you make of that strategy to have grown in casualty? Was it the right decision in hindsight and what's the outlook in that segment, please?

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks. I'll pick up the first question, then I'll ask Matt to respond to the second. So, flexibility, we believe that it's incredibly important to maintain flexibility. While we want to always have the superior capital position, we also need to be agile and able to respond to opportunities that come our way. And these opportunities are not always easy to predict.

Indeed you correctly referred to last couple of years, only last year did we actually started with the buyback program, now this year the second one. We said we want to wait a little bit into the year to see both how our capital develops, how our income develops as well as what opportunities we see to invest. Things can change very quickly.

I won't respond exactly to what would have happened had Matthew hit and had it been a certain level of loss, but this is exactly that type of thing that we would like to be able to respond to it. And if we get into a situation or we find ourselves in a situation where the market opportunities to deploy the capital are attractive, we want to be able to do that.

So, our shareholders I think understand it. We have discussions with them about that. The idea of the share repurchase program is it gives us an opportunity if we come to conclusion during the course of the year that the capital buffer that we've built up is really excessive of what we think we should hold. We can go ahead and start returning capital to shareholders in advance of the full-year result announcements and the full-year dividend discussion.

So, I think the flexibility is one that we think is absolutely appropriate and it may even be essential in order to allow us to respond to these opportunities that can come our way, and they can come from different sources, by the way. So, we're looking for opportunities across all of our business units.

It needs to make sense. We want to deploy capital, as I mentioned earlier, both strategic sense as well as financial sense. If we come to the conclusion that we hold more capital than we recently expect to be able to deploy, then we look to give it back. And with that, I'll ask Matt to respond to the second question.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. So, with respect to casualty, given the highly combined ratio and high - actually, it's not that high. It is above 100%. But given the fact that the combined ratio is above 100%, was it right decision? I would like to give the following answer.

Not this quarter, but in the past, we had some quarters where the combined ratio was high given adverse development coming from asbestos. We would have had these adverse development with and without new business being written.

Secondly, a good portion of the casualty growth - not all, but a good portion of the casualty growth came along with growth from large transactions. And we just recently reviewed our total large transaction book and concluded we are very happy with how it has performed over the last five to six years.

So, boiling your question down to the so-called flow business, which is not a fantastic expression, I would describe it as follows. On the liability side, it was the right decision. We are happy with what we are seeing. Of course, not every individual deal behaves the way we anticipated. Some behave better actually, some a little bit less, but overall we are happy. On the motor side, I admit the underestimated severity and frequency of losses. We're looking at our book there. We are not entirely happy.

On the work comp side, where our strategy is and has been for a very long time to not write the high access (49:28) business, but focus only on some proportional - on some very few proportional treaties and operating in the primary side in the first $2 (49:42) million, we're actually very happy with this decision.

A - David Cole {BIO 7251632 <GO>}

Thank you. Next question, please.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions. My first question is also on the P&C reinvestment income and it's going into the same direction then William's question on the $210 million in investment income. I was also surprised to see that this low level, despite the fact that you had some quite a significant volume growth in the past, which would also have had to compensate the decline investment yield. However, we have noticed this lower level of the $210 million and I would like to rephrase it again. Is the $210 million the right level that we should look going forward? And then my second question is on the buyback. Could you shed some light on your thinking behind the timing now, because we have now a shorter timeframe until the mid of February? And what were the drivers and your thoughts behind that?

A - David Cole {BIO 7251632 <GO>}

Excellent. So, I'll ask Matt to respond to the first question and then I will come back on the second.

A - Matthias Weber {BIO 16674983 <GO>}

I think, it's Guido.

A - David Cole {BIO 7251632 <GO>}

I'm sorry, Guido. I'm sorry. Sorry, Guido.

A - Guido Fürer

No, not a problem.

A - David Cole {BIO 7251632 <GO>}

Didn't had a chance.

A - Guido Fürer

(51:07).

A - David Cole {BIO 7251632 <GO>}

Apologies.

A - Guido Fürer

Again, so P&C, there you should expect most of active positioning, and that's why if you look at the underlying portfolio, of course, it has the shortest duration compared to Life & Health. That means in respect of fixed income, yes, you see probably – just based on the duration, you see a lower kind of current investment income.

Now, it's very – actually, there is no way to give any forward guidance. Again, I mentioned this is an active book. And again, if we composition equity now – as I mentioned before, we sold in Q3, if we have a massive sell off in equity market, maybe this will change our appetite in equity. Similarly with corporate credit, again we reduced corporate credits. We took profit based on the spread tightening. This was the economic profit-taking. And again, if a spread developing in different direction getting extremely wide, and we believe now it's a good point to go back, we will see a different line in respect of current investment income. That's why, important is that you consider that part of the book. There we can take, let's say, the best – that's the best place to take economic position. You should expect more turnover in that book compared to the other one, which I referred to, which is Life Capital, and Life & Health. That's why the composition of returns are different.

In respect of guidance, again there you see the biggest realized gain out of reason which I mentioned before, which of course has an impact on the underlying running yield. On the other hand, again if things are changing and, let's say, if yields are going up, of course, this is offers enormous potential to not only deploy cash, which we're holding, but again achieving higher net investment income line, just based on yield. That's kind of my answer to your question.

A - David Cole {BIO 7251632 <GO>}

Thank you, Guido. Let me come back to the question regarding timing of the buyback. So, I saw a few comments about that this morning and I'm very happy to give some insights here.

You may recall last year, we announced our intent to launch a program, but they were subject to receiving various regulatory approvals. And then, we received those approvals and we were able to launch the program, off the top my head, somewhere around the middle of November and then we concluded it the very beginning of March. I think it was the 12th of November till 2nd of March.

When we looked at it this year, we said maybe we can actually try to achieve the following, that we go ahead and start the program very quickly after announcing it, and in order to do that, we actually sought the requisite approvals in advance of being formally agreed to, by our board yesterday, subject to their agreement, of course, but we actually were able to go ahead and achieve those agreements in advance of announcing our Q3 results.

And we have – I think our full-year results announcement for 2016, I think, scheduled around the 22nd or 23rd of February. So actually there's not a whole lot of difference here. We hope to conclude the program now by 17th of February. So if you look at the actual number of days is actually just a few – perhaps, a few days shorter than it was last year. And we just want to be able to include the final outcome whenever we announce our full-year results.

Just like last year, you can track where we're getting to with the program on a weekly basis on our website. And of course, there are rules that also govern how active the purchase program can be in the marketplace. But Frank, there is no additional thinking or guidance, other than we see an opportunity to launch it a little bit earlier than we did last year and we'd like to try to close it by the time we actually announce our full-year results. It's just that simple.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Yeah.

Operator

The next question is from In-Yong Hwang from Goldman Sachs. Please go ahead.

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

Hello. Thank you for taking my questions. I've got two. Firstly on the large tailored transactions. You talked about the impact on the level of combined ratio going forward from the growth there. But anything you can talk about in terms of volatility of the combined ratio going forward? I'd imagine some of the capital release should have a bit more stable profitability. So, does that mean that we should expect low volatility going forward? I guess related to that, some of the outside losses that we saw this quarter in terms of agricultural losses and motor, is that related to large transaction that was up more from flow (55:52) business?

And the second question is around just a quick on Corporate Solutions. You talked about kind of the market situation there. Is there anything that you see currently that makes you a bit more positive about growth going forward? Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Just to be fair, should I ask Guido to answer?

A - Guido Fürer

You can try.

A - David Cole {BIO 7251632 <GO>}

Matt, how about you give it a try.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. I will try and Guido can clean up after me. So, with respect to will we have more volatility given that we expect over time to continue to write more large and tailored transactions, possibly yes, but not necessarily, because a portion of the volatility comes from nat cat. And right now, we are really not including nat cat in almost any of the large transactions we are writing.

So, in the short term, I would say maybe we might even see less volatility. Of course, if you write more long tail-related large transactions, this means while you pick up less shock, risk potential, you expose the balance sheet to more trend risk. That comes without saying. The actual (57:36) losses came to a very large extent to our agricultural flow business book.

On the Corporate Solutions side, look, we are now in a soft market and we are not in a hard market. This does not mean that every piece of business is bad. Of course, there are segments where we are still writing and feel good about it. And of course, your question could be what are the segments, if you intended to ask the question, I'm not intending to answer it, because that's a trade secret, but it's not all bad. but given the past years, it is absolutely necessary that now we enter cycle management territory.

We actually have started to do this already on the Corporate Solution side. For instance, with respect to umbrella business, we shifted our book from high asset business to lower asset business. We have shifted our book already from large companies to medium-sized companies. Offshore energy, we have massively reduced over the last several months. Aviation, we are very selective on large airlines. We are writing almost no space business these days, because we just couldn't do it in a profitable way.

I mentioned already on the property side, we have reduced our peak nat cat exposures, also on the CorSo side, but also on the reinsurance side. And in Corporate Solutions, we are very cautious in Brazil. We continue to do that, and some industries such as, for instance, steel producers, we almost don't write them.

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

Okay, and thanks for the details. Very helpful.

A - Matthias Weber {BIO 16674983 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

Next question, please?

Operator

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

Q - Stefan Schürmann

Yes. I just have one question on basically the view on interest rate. I would be eager to see how you expect interest rates to move, go forward. If you see any adjustments necessary, basically in terms of ALM. Maybe also giving an update on the asset liability mismatch at Q3 or to date, if possible.

A - David Cole {BIO 7251632 <GO>}

I'm sorry. I didn't hear the very last part well, Stefan. Could you repeat the very last part?

Q - Stefan Schürmann

Yes. Sure. I mean, just on the ALM mismatch, if you could maybe update us, if there was any change or if you see any need for a change going forward in terms of your view on interest rates.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you. That's clear. Guido, you want to...?

A - Guido Fürer

The view on interest rate is, we expect lower for longer. That means there's no priced in hope that yields will sharply go up. That's also the base how we cost the business on the reinsurance and insurance side. That means, we always work with the current yield curve whatever the market is pricing. From that point, a few of you can argue you're somehow neutral from a business point of view. Of course, for the overall industry, higher yield would help.

And our forecast is clearly not an upbeat one. That's why also you saw the reduced sum of equity EBITDA on the corporate credit side. Then we think – believe now we see a lot of support in the market from where it comes (1:01:29) and this clearly cannot last forever.

Now, the mismatch question which you raised, Swiss Re is pretty much neutral. We were neutral already in Q2. We capped that position. It's a very, very tiny short position. That means, from an overall point of view, Swiss Re Group is basically, from again talking about ALM, from economic point of view, not taking any major interest rate position.

You saw the huge unrealized gain position, which we have in the book. Of course, you know this due to the GAAP treatment of our assets. And that's why we have to make distinction between ALM, which is more economic description compared to GAAP one.

But again, yield wise, we assume that the current yield assets will not disappear. That's why we try also to position portfolio in areas where we still believe we have a relative value. And again, relative value comes from the structure of our book, be it in which market can work (1:02:34). Again, if you only have the Swiss book, I think it would look very different compared to very global, on which we have – which is dominated by U.S. dollar.

Again U.S. dollar compensates you for some of the risk. That's why, overall, I think we can believe, as you can see, the investment results are not completely immune. On the other hand, you see quite a sticky part in it, again, based on the fundamental long (1:03:00) book which we have.

Q - Stefan Schürmann

Okay. That's very clear. Thank you. Yeah.

A - David Cole {BIO 7251632 <GO>}

Thank you, Guido. Next question, please.

Operator

The next question is from Vikram Gandhi, Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Thank you for taking my questions. The first one is on, can you update us on how the Chinese market has evolved post implementation of C-ROSS? Now that you are close to one full year under the new regime, are you seeing a shift from the regular motor quota share to, let's say, the cat business?

And secondly, can you please explain how the Life Capital cash generation was so high during the quarter despite the dip in the interest rates? Thank you.

A - David Cole {BIO 7251632 <GO>}

Excellent. So, Matt, you want to respond regarding China, and I'll respond regarding Life Capital.

A - Matthias Weber {BIO 16674983 <GO>}

Yeah. So, in China, C-ROSS had exactly the expected effect. We saw, let me say, less incentives for clients to buy motor and more incentives to buy nat cat and we saw a little bit shift and we expect this to continue.

A - David Cole {BIO 7251632 <GO>}

And regarding the gross cash generation in Life Capital, a combination of things. First and foremost, I think it really is the most important, the underlying business is performing well, certainly in line with our expectations. We've a number of offsetting elements and we have lower interest rates – slightly lower interest rates, of course, which tends to pull that down under the Solvency II regime that our closed Life business operates in the UK. Offsetting that, we continue I think to be successful in finding synergies and delivering synergies, reducing our expenses loads.

There is also a number of other quasi one-off things that impact us in any given quarter. We also have, of course, as you see in Q3, the positive benefit of lower tax rates being enacted in the UK. So, a number of different elements contributed to the quarterly gross cash generation. I think if you look at the first nine months, you'll see that we're on track. The number of things have also there been pluses and minuses, but the most important thing is that the underlying business is very much performing in line with our expectations. Thank you.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

Operator

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

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Coming back to reserve releases and inflation, I have a hard time believing that I should assume zero run-off profits for you going forward. When you reserve new business initially, you obviously take into account expected inflation. If later on actual inflation turns out to be lower as you initially reserved for, you must have run-off profits.

Your reserves are usually on your back book for several years. That's the nature of long-tail business. That means that you probably must have more run-off profits to come, as I have a hard time to believe that your reserving was based on the current low inflation levels. Did you release all reserve redundancies that came from the low inflation environment which we currently have or what is the mistake in thinking that I make?

A - David Cole {BIO 7251632 <GO>}

Excellent. Thank you, Michael. Matt, you want to respond.

A - Matthias Weber {BIO 16674983 <GO>}

Look, the reserve – the inflation – and by the way, maybe it's important here to say, when I use the term inflation in the context of our reserves, I mean of course loss-relevant inflation. And since this affects mostly casualty wage inflation and even, more importantly, medical inflation is what matters. So, please don't think of inflation as CPI type of general inflation.

The problem is right now, the inflation, also the medical inflation, is very low. However, our reserves are here to pay for the losses and the loss developments also in the future. And we have absolutely no guarantee that the relevant inflation pieces, including wage inflation and medical inflation, are going to stay where they are right now.

You heard concerns coming from the UK. In the U.S., for instance, wages are going a little bit up. There is some uncertainty related to the future U.S. President. And together with this uncertainty, there is also some uncertainty related to ACA, Obamacare, and that could have an impact on inflation. So, personally, I take the low inflation the way it is currently, but I do not think it's going to stay where it currently is for always and ever.

A - David Cole {BIO 7251632 <GO>}

If I...

Q - Michael Haid {BIO 1971310 <GO>}

So, is it fair – yes.

A - David Cole {BIO 7251632 <GO>}

If I just may add to that, we have a very well established and consistent approach to reserving for all of our businesses and, certainly, for the long-tail business is extremely important. We position ourselves prudently within a best estimate range. We look at all of our business effectively every quarter around the globe. Time to time, we do deep dives. The effects that you were just referring to, we have seen as the industry has seen as well over the course of the last several years.

So, time will tell, of course, how these reserves now evolve over time. But I think what's important is that we're not somehow hiding capital in the form of incremental buffers on reserves. We're not changing our reserving policy. And just like we're not trying to accelerate gains on the asset side, we're not trying to manage the realization of our best view of what the ultimate loss ratio, the ultimate loss levels are going to be on the exposures that we have.

So, it's very key here that we maintain consistency. We do position ourselves, on a prudent basis, within the best estimate range. And we report on that on, obviously, a regular basis and once a year a little bit more detail.

Q - Michael Haid {BIO 1971310 <GO>}

Is it fair to say that the reserve releases or the run-off profits that they generally come from business which is close to be settled or – settled?

A - David Cole {BIO 7251632 <GO>}

No, I think as Matt indicated earlier, it comes from a wide range of businesses across all the various geographies. So, there's not a single vintage, if you will, if I understand your question correctly. It really is looking at our entire portfolio across all lines of business, across all geographies. We've seen a fairly consistent – if you look at over the course of the last handful of years, consistent positive development amongst other reasons, of course, no doubt coming off the back of inflation levels that were lower than what we'd have originally costed. We were conservative in (1:10:36) the costing, and maybe some other things have contributed to it as well.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

The next question is a follow-up question from Olivia Brindle. Please go ahead.

Q - Olivia Brindle {BIO 17273762 <GO>}

Thank you for the follow-up. Just on CorSo. I mean, you talked about some of the issues in that business at the moment. I'm just looking at the expense ratio, which was almost 39% in the quarter and you referred to some ongoing investments in that business. So, just wondering whether there was anything specific in that quarter that we can sort of strip out? And what is the expense ratio that we should be thinking about going forward? Obviously, 39% is a very, very high level. It doesn't feel like that's the number we should be extrapolating. But equally, it's probably a little bit higher than in the past. So, just some color on the expense point would be helpful.

A - David Cole {BIO 7251632 <GO>}

Very much appreciate the follow-up question. So, let me put it into the context. From time to time, I see comments about people looking at CorSo, and indeed they want to look at it on a quarter-by-quarter basis and try to extrapolate that into the future, based on the number of different factors, including things like combined ratio, normalized or not.

And while I can understand it, I think it's important for everyone to realize that we see a business opportunity here that we have decided to invest in. And it's really a long-term investment program, based on what we see to be a very long-term attractive market.

CorSo has a relatively modest position. It's a growing position, and we're very pleased with the growth that we've shown over the last handful of years. But it's a market that we believe that we can continue to experience profitable growth going forward. Now, it'd be silly for us to put on the gas, put on the brakes; put on the gas, put on the brakes, based on any individual quarter's results.

Specific to your question, Olivia, I would estimate it's probably 2% to 3%, something in that range. It's not to be the same exactly every quarter or so. But our expense ratio is probably elevated beyond what we would see as where we would aim to achieve going forward, as we are investing in this business.

Now, from time to time, our premium levels are up or down, depending on things like FX rates and things like, is it a soft market, yes or no. All these things are relevant to us and we certainly don't ignore them, but we can't base our investment program on one quarter's results.

So, I really encourage everyone try to take a step back from that when they're thinking about Corporate Solutions. Look at our results over the last couple of years, look at the market opportunity, look at the capabilities that Swiss Re has and kind of go with this in understanding that investment case. Thank you.

Q - Olivia Brindle {BIO 17273762 <GO>}

Sure.

Operator

The next question is a follow-up question from Guilhem Horvath from Exane. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Thank you. It's also a question on CorSo (1:13:28), and I hope that you will not be obliged to answer the same. It's actually on the credit and the combined ratio, which spiked this quarter compared to last year. It's actually quite contrary to what we see on the monoliners, which tend to normalize a little bit on the loss they have in Latin America and Asia Pacific. So, can you comment on this? What's your view on what's happening on credits in these regions and what's your outlook? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you for the question. Matt, you want to...?

A - Matthias Weber {BIO 16674983 <GO>}

Can I ask quickly, what – could you define for me monoliner, please, because there is more than one definition that is possible?

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yeah. Well, I would define monoliner, for instance, (1:14:17), these kind of players which have (1:14:20), for instance, but not the broad range of the business that you have.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. Look, I cannot comment on what some of our clients are doing or experiencing. I can only comment on what we are doing and what we are experiencing. On the credit side in Corporate Solutions, we have experienced an increase in loss activity recently.

On a global basis, we have seen a higher frequency this past quarter of small and mid-sized losses. We did not see that in Q2 and we did not see that in Q1. However, we saw it in Q3. So, at this point in time, we believe it's a quarterly blip in operation, but we are staying alert and continue to observe.

In addition to that, as I mentioned already, we are taking a bit of capital off on the credit and surety side in Corporate Solutions. In addition to that, we have seen in Asia the Bank Trade and Infrastructure loss of the order of US$10 million approximately. This is a that type of losses, which sometimes happen. In most quarters, they do not happen, but sometimes they do happen. And whenever such a loss happens on the Corporate Solutions side, it immediately has a 10 point combined ratio impact, order of magnitude.

A - David Cole {BIO 7251632 <GO>}

Thanks, Matt. Can we go to the next question, please?

Operator

The next question is from James Shuck. Please go ahead.

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

Hi. Just a quick follow-up for me, actually. I just like to – the new Rhode Island Legislation, potentially going to open up the market, to close the business in the U.S. I appreciate you can't comment on particular deals and things. But you could perhaps just comment about what your appetite is for dealing in that sort of market were the market to open up as it might be?

A - Matthias Weber {BIO 16674983 <GO>}

At this point, it's not yet fully established. Nobody has experience. So, it's too early to talk about our appetite.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Thank you, Matt. I think – this is Philippe here, and I think we've come to the end of our Q&A. So, I wanted to thank you all very much for joining. Also, a special thanks to Matt and Guido for joining us today. So, don't hesitate to reach out to any member of the Investor Relations team if you have any follow-up questions on our Q3 results.

I also wanted to mention that we will host our Investor Day on the 2nd of December, in Rueschlikon, near Zurich. The agenda, the registration is available on our website. And we hope to see many of you at our event as we will present an update on our business priorities and strategy.

So again, thank you very much for your participation today.

Operator

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