Q1 2020 Earnings Call

Company Participants

- Edi Schmid, Chief Underwriting Officer
- Guido Furer, Group Chief Investment Officer
- John Dacey, Chief Financial Officer
- Philippe Brahin, Head Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Ivan Bokhmat, Analyst
- Jonny Urwin, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's first quarter 2020 key financial data conference call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to John Dacey, CFO. Please go ahead, sir.

John Dacey {BIO 4437051 <GO>}

Thank you and good morning or good afternoon to everyone. I'm here today with Eri Schmid, our Chief Underwriting Officer and Guido Furer, our Chief Investment Officer, who will provide some insights on the impact of COVID-19 on our underwriting and asset management operations. Also in the room is Philip Ryan, our Head of Investor Relations

I'd like to start with a brief overview of the key figures we published this morning. Swiss Re entered the pandemic crisis in a very strong capital position. We also took proactive measures to protect our investment portfolio and the balance sheet in particular and Guido will tell you more about it. On the operational side, we were able to support our clients and partners without disruptions and our activities remain resilient in the current environment, as the quality of our April renewals testifies.

Nonetheless, COVID-19 related claims weighed on our results. We reported net losses of 225 million for the first quarter of 2020. P&C Reinsurance reported a net income of 61 million despite the losses related to COVID-19. The business segment was also affected by large natural catastrophes, slightly above our expected losses, mainly related to the weather events in Australia and winter storms in Europe. We also experienced some negative prior year development which somewhat unusually was driven more by premium true-ups than reserve additions.

Excluding, the burden from COVID-19, P&C Re's normalized combined ratio is in line with our 97% estimate for the year. Life & Health Reinsurance delivered above its target ROE, reflecting strong underwriting and investment results with no material underwriting impact in the quarter from COVID-19. Corporate Solutions reported a net loss of 171 million, impacted by losses related to COVID-19. Excluding those losses, the combined ratio was 13 percentage points better than one year ago and the normalized combined ratio is broadly in line with our 105 estimate for the full year. Life Capital results was impacted by the mark-to-market on our implied holding in Phoenix, partly offset by a hedge on the UK equity markets.

The underlying business performed broadly as expected. The agreed sale of ReAssure remains on track and it is expected to close in the third quarter of 2020. The Group reported a strong return on investment of 3.2% for the first three months of 2020 as an active portfolio management and hedging significantly offset the impact of financial market volatility on the asset portfolio. As for the April reinsurance renewals, we are pleased with the outcome achieved. We saw overall volume growth of 4%, while nominal prices increased by 8%, with a strong increase on Japan windstorm of more than 50%. Risk-adjusted price quality year-to-date remained unchanged, reflecting the lower interest rate environment we are in and material adjustments to loss assumptions, particularly with respect to certain nat cat exposures.

Moving onto the balance sheets, Swiss Re maintains its industry-leading capital position with the Group's Swiss Solvency Test ratio comfortably above 200% as of the 31st of March. As confirmed following our AGM on the 17th of April, and in light of the current volatility in financial markets and global economic situations, the Board of Directors has concluded that the share buyback program will not be launched. We will continue to manage our assets in our capital with utmost foresight allowing us to continue to support the clients and preserve value for shareholders in these difficult times.

And with this, I turn it over to Edi.

Edi Schmid {BIO 18942809 <GO>}

Thank you, John, and good morning and good afternoon from my side. As John already mentioned, our Q1 results were impacted by $476 million of COVID-19 claims. Of these, $253 million were in P&C Reinsurance and $223 million in Corporate Solutions. These reflects claims notifications as well as evidence of expected claims materialized as of end of March. Close to 75% of the reinsurance loss and over 80% of the Corporate Solutions loss relates to event cancellation, with the remainder mostly coming from business interruption and smaller amounts from other lines including credit and surety.

As previously communicated, our total maximum exposure to event cancellation across 2020 is a mid-to high triple digit million amount. This is due toward the first half of the year in terms of events covered, which means, you would expect to book most of the losses in the first two quarters. On credit and surety, we would expect further losses as the recession impact of the crisis becomes more visible in various economies. Economic development remains highly uncertain, depending, for example, on the effectiveness of substantial government interventions.

P&C Re has a 10% market share in credit and surety, and Corporate Solutions less than 3% of the overall primary market, both with a high global diversification across the range of industries. Business interruption remains the most debated area of impact in the context of the COVID-19 crisis. We reiterate that most property policies require a physical trigger and among those that offer coverage for non-damage business interruption, not all would cover pandemic.

In a number of markets, insurance had provided non-damage business interruption expansions that cover pandemic. However, which despite generally tied supplements, could add up to a material loss burden. We are monitoring the regulatory and legislative initiatives very closely. We echoed deep concerns voiced by a number of our clients, peers, and insurance regulators on the danger of potential retrospective changes to insurance contract wording.

Moving onto Life & Health Re, we had so far not seen a net impact on our business from increased mortality. For instance, mortality experience in the US is in line with our expectations in the first quarter. We continue to monitor the trends here very closely, including any changes in lapse behavior and possible increases in disability claims. I would mention that a 5% mortality increase in insured mortality over a one year period would imply additional claims of approximately $400 million for Reinsurance and USD15 million for Life Capital. The current scale of the impact of COVID on our book is still far from such a scenario.

A word on our 1-in-200 year pandemic stress. We previously disclosed excess mortality numbers this figure assumes in key countries, for instance, 200,000 in the US. Globally, our scenario assumes 14.5 million excess deaths. It should be noted, however, that this scenario is based on an influenza pandemic, which assumes a very different age fatality profile to COVID-19. The current virus disproportionally affects all the demographics with an average age of above 80 for fatalities, while 90% of our Life & Health Re portfolio covers individuals aged 60 or below.

Overall, there are still a number of key unknowns when it comes to assessing the ultimate potential impact of COVID-19 on our underwriting portfolio in 2020, the main ones being the severity and duration of the economic downturn as well as the outcome of litigation and legislative initiatives around coverage for business interruption. However, we believe that the impact will be manageable and will represent an earnings event rather than a capital event for Swiss Re.

With that, let me hand over to Guido.

Guido Furer

Thank you, Edi, and good morning or good afternoon also from my side. Q1 saw significant COVID-related market turbulences across basically all asset classes. We experienced falling equity markets. We saw basically two out of the five biggest daily falls in Q1, but those were confronted to this widening credit spreads and bond deals which were folding, all of which are damaging for insurance and reinsurers. However, as John mentioned, we put in place significant hedges in the early part of the quarter in anticipation of elevated volatility. These hedges helped us to mitigate negative impacts and led the gains of roughly $650 million in the first quarter, split evenly across equity and credit.

Ultimately, we experienced a net valuation loss of approximately $300 million in the first quarter. Overall, we report an annualized return on investment for the quarter of 3.2%, which would have been only 0.5% if you would exclude the benefit of the hedges. In addition, we had a $80 million benefit on hedges for the UK equity market, which partly offset the negative impact of the Phoenix share price moving in our Life Capital result. As Reinsurance is classified as held for sale, its investment portfolio is excluded from the return on investment calculation. These hedges remain in place for the time being and we continue to manage them dynamically as the situation evolves, while retaining our cautious outlook.

During the last few quarters, we carefully reviewed our investment portfolio for issuers and sectors particularly sensitive to the ongoing crisis, resulting in a targeted reduction of credit exposures. This lead to small realized losses on energy, special finance, travel, and leisure bonds, as examples.

Our ESG investment approach also contributed to the protective and high quality of our credit positioning. The Group's impairment result was a modest $16 million in the quarter, reflecting the high quality of our credit portfolio. Given the downward trend in interest rates, our Group running yields declined to 2.5% from 2.8% at the end of 2019.

With that, I hand over to Philippe who will take us through the Q&A.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, Guido. And good day to all of you also from my side. So, as usual, before we start our Q&A, I would like to remind you to please restrict yourselves to two questions and register again if you have follow-up questions.

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

Questions And Answers

Operator

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

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thank you for letting me ask questions, I've got two. The first one is on your top line. Could you give us some big picture thoughts on how dependent it is on the economic activity and where do you see the biggest risks stemming from this downturn? And the second question, it's just relating to your SST ratio and capital sensitivities. Given the hedges that had been put in place, could you give us an update of how the sensitivities may have changed and where should we expect the biggest reduction? Thank you.

A - Guido Furer

Maybe Edi, you take the first one, and John, the second one.

A - Edi Schmid {BIO 18942809 <GO>}

Yeah, happy to comment a bit on the top line. And again, as for many other questions, it is still early days to come up with views. What is clear, as with the economic downturn, the lock-down in a number of lines of business, you would expect premium volumes to go down. If you think about motor lines, if you think about workers comp lines or related to the payroll, you would think about some of the sales in the Life business. So clearly there is expected to be an impact on the top line, but we would still expect insurance industry to not be as impacted as, let's say, GDP overall. So quite an impact, but not as material for economies overall and quite dependent on the respective lines of business and segments.

A - John Dacey {BIO 4437051 <GO>}

Edi, I might add that in the context of what will be some clear losses coming on both sides of the balance sheet for many of our reinsurance clients, one could imagine, in the second half of the year and into 2019, an actual increased demand for reinsurance by those primary companies as they look to manage their own balance sheets and reduce potentially volatility of some of those earnings. So I think for well capitalized groups like Swiss Re, you could imagine the situation where the volatility in the marketplace actually creates increased demand for some of our capabilities and products in reinsurance.

With respect to the hedges and sensitivities, we've distributed also recently the sort of baseline that, as you correctly point out, does not include the hedges. What I would say is that we don't expect these hedges to stay on forever. In fact, as Guido said, we'll look dynamically to understand when we can withdraw them when we feel that the economic conditions in the various markets have stabilized and/or likely to move forward in a sustainable positive direction. As such, we've not provided additional sensitivities just because they would be temporal in nature and it would be potentially misleading to put them out there.

What I can say is, the moment we have protected the downside for equity values substantially, the credit hedges are more partial in the coverage and there is undoubtedly some basis risks between the portfolio we have and the liquid hedges that we were able to find reasonable volumes and prices for. On interest rates, generally I think we remain somewhat exposed with some modest adjustments to those sensitivities. But I think, overall, we can say those sensitivities, as we published, are the outer bound of what you should expect over the next quarters. And depending on Guido's actions, we'll either come closer to them or stay much more conservative based on our view of the financial market volatilities.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Could I just ask to get a bit more color on the prior year effect in P&C Re? I'm a bit confused why -- just to go through again the premium adjustments and exactly what that is adjusting, it's clearly not adjusting exposure. And you're saying all of the prior year was related to that or what else was the factor? And then I guess the other question. Do you expect -- I mean, John, you mentioned we could see increased demand and there's evidence of that already. I guess, a question for Edi. Do you expect mid-year renewals to already be affected by what's occurring in terms of slightly less capacity in the market and also increased demand? Thanks.

A - Edi Schmid {BIO 18942809 <GO>}

So on the first one regarding the PYD, so for this quarter, indeed there was a bit more development on the premium line. I will also comment on the claims line later. But what happened a bit more than in other quarters that the premiums that are coming through are not in line with our earlier assumptions. It's coming actually not from one specific part of the business. It's across markets, across lines of business, mainly from proportional contracts where we, in the end, rely on our cedents and therefore costs. And at this time, these forecasts tended to be on the optimistic side. So that explains why a bit more than normal, we had a more significant movement on the premium line.

There was also some slight negative development on the claims line, but very moderate. There were some pluses and minuses. We had some negative on UK motor and there was also some negative from US liability. We had a couple of cedents that were catching up with their reporting on claims. But overall, it was quite a moderate quarter in terms of PYD. And I would also point out that on the Corporate Solutions side. In Q1, the prior-year development was actually slightly positive, which is good news that the decisive reserving actions we took end of last year seemed to be holding up.

And the second one, Andrew, was around impacts on pricing already for the mid-year renewables. I'm also a bit cautious on speculating on prices. But clearly if you look at the industry overall already, we have started to see significant price momentum, as you know, in the commercial markets and more and more now also on the reinsurance side in areas where it was less affected. We had very successful renewals in Japan as John pointed out, where we could achieve substantial premium increases.

So I think with the impacts likely on the capital position on some primary companies with a bit more avoidance of risk in general, clearly the demand is expected to go up while the fee effect in the markets would impact supply on the other hand. So I would say it's quite likely outlook that we see further price strengthening. We can also look just at the recent development in the ILS markets, the alternate capital markets where also spreads were widening a bit, so everything points in this direction, but it's too early to tell to what extent. But clearly, supply/demand equilibrium is shifting.

A - John Dacey {BIO 4437051 <GO>}

Maybe just one clarification on the first part. As Edi mentioned on premiums, there is no direct link to COVID-19 to this premium adjustment. I think most quarters we've got some movements, it just so happened in this first quarter of 2020 that there was an unusually mix of relatively large premium adjustments compared to the size of the claims adjustment that netted through.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

(Operator Instructions) The next question comes from Paris Hadjiantonis from Exane BNP Paribas. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi, everyone. I hope you are doing well. Two questions from my side. The first one will be on nat cat. So basically if I look at your nat cat premiums; these are up about 6% this year, obviously driven by pricing and your budget is also slightly up about less under 6%. So I'm just wondering, are you actually increasing your nat exposures or are you passing most of the additional catastrophe risk that you are underwriting over to ACP or external retro? Then on COVID-19, I mean, we know that giving precise estimates at this point in time is probably too difficult. But I was wondering if there are any developments or maybe exposures that cause concerns especially from a risk management perspective? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Edi, back to you, again.

A - Edi Schmid {BIO 18942809 <GO>}

Yeah. Thanks, Paris, for the questions. On the first one, regarding our nat cat account, this is correct. If we just measure the nat calculated premium in P&C Re, that's up about 6% last year versus this year. That's in line with the strategy. We also explained last year at the Investors Day that we look at nat cat as an attractive pool. However, we have good client franchise and also the risk knowledge to underwrite this business in a good way. But also, back then, we said that our goal is to use our franchise and our risk knowledge to do underwrites. But also we want our nat cat portfolio rather to be more diversified.

So when it comes to the concentration peaks like hurricane, we started to actually share more of the business with alternative capital partners. And that, in the end, you already gave a bit of the answer, explains why the budget is only going up by some 3% which actually means that we see the bit more out to our alternative capital partners, but then we increase on the gross side.

As you may have also observed, alternative capital market was a bit more stretched in recent times. But actually Swiss Re could maintain the support from its third party capital providers and we could even get some more supports which is to issue it, also few more cat on, so that we actually go into the upcoming hurricane season with a good hedged portfolio and the portfolio that in the end is more diversified.

And the second one was quite broad about the areas of concern around COVID. I mean, I've already indicated in earlier calls the areas where there's likely going to be increased claims on the rent cancellation. I think we covered that quite a bit. Obviously, credit and surety is something to watch quite closely. Obviously, that's a line that's closely linked to the economic development with the recessionary outlook and the likelihood of increased defaults. But also -- and maybe there is a good example to just point out the uncertainties, so you can expect recessionary impact and more defaults. On the other hand, the government interventions are really also quite unprecedented. And if you think about specifically for credit and surety, in many markets, there is government support for the SME sector. There's discussions even in some markets that the government actually is backing up the trade credit business because trade credit is important to keep the economies going. So there's just a number of unprecedented factors at play that make it very difficult to forecast what's really going to happen.

But our credit and surety book, to maybe explain better, we have 10% market share in reinsurance. We are not a leader as bigger ones. And of course, I think I mentioned, it's less than 3% and it's a very diversified book of business. And we already -- actually because of the end of cycle situation, already reduced our exposure there. So credit and surety is an area. And then I think there's obviously many other areas where there are pluses, but obviously more minuses there. So I leave it at that for the time-being.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thanks, Paris for your questions. Can we take the next question, please.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Two questions for me. The first question will be, could you tell us if you have taken additional measures since COVID-19 crisis started, if you have taken any additional measures to protect your balance sheet? Actually, you indicated significant derisking offshore investment portfolio. I think that that was clear that was explained by Guido. Now I was thinking on every single part from investments. Have you taken additional measures in order to protect your book, I don't know, with additional protection or something like that in order to meet the effects? The second question will be on CorSo. The first question would be the 13% price increase, so the momentum is still keeping up well. But in light of the recessionary environment and in light of supporting and talking to your clients, how do you believe that certain percent is still achievable in the new environment? And also, due to this new environment, are you taking a pause to the cost reduction program at CorSo? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks. Maybe John for the first question and Edi on CorSo.

A - John Dacey {BIO 4437051 <GO>}

Sure, I might come back on the last. So in terms of protecting the balance sheet, I think that first and foremost these actions on the asset side have been a significant and, if I can say so, obviously effective in reducing the negative impact that otherwise would have come through. On this side, obviously you have whether P&L relevant and then those items which are just relevant on the balance sheet. The one thing I would point out is that the book value of the company has held up extraordinarily well through the first quarter. If you compare book value per share on March 31 to where we were on December 31, the reduction is less than 4%. And that I think is indicative of how we've been able to manage the extraordinary actions that otherwise might have hit us for a potentially double-digit decline.

I think on the liability side, the smartest way to protect our balance sheet is to do smart underwriting. And once again, we're in a quarter where the COVID numbers are distracting us from speaking about the underlying. But let's remember that we made $300 million in our Life & Health Re business in the quarter. We really are on track for the two estimated loss ratios, 97% in P&C Re and 105% in CorSo for the year. So I think the best thing we can do is make sure that, in spite of 14,000 people working from home, continue to deliver the kind of results that we had in the April 1 renewals to make sure that that business is going very well, while simultaneously managing the crisis of the pandemic and the associated fallout on economic activity from that. So that's where management is. There is a series of weekly and even in some cases, bi-weekly meeting that have been instituted to separate the active management of COVID-19 related issues from our day-to-day operations and those day-to-day operations proceed at pace with almost no interruptions.

A - Edi Schmid {BIO 18942809 <GO>}

Yeah, maybe if I could just add bit of color on the liability side. I mean, early on as the COVID crisis unfolded, we took a number of actions in terms of adjusting our underwriting appetite. In the end, this is a crisis still unfolding. So the picture you can have in mind is that of a burning house and obviously as an insurer, you need to be very careful not to provide coverage for things that are already foreseeable. So across many lines of business in P&C and Life & Health, we have tightened our under-appetite to not put undue risk on our balance sheet.

So, for example, we have reduced capacity for large lives it would put out there because there's really a risk of increased adverse selection or when it comes to a line like disability income that is linked to some extent to economic development recession. We also reduced the appetite and there's many examples in other areas. And so that's obviously an important dimension to protect our balance sheet. But, as John said, it's equally important for those lines, those exposures that are not materially impacted by COVID that our business, our underwriting, and everything continues as normal as possible.

And then on your second question, was around the pricing dynamics in the commercial business, I would clearly see this to continue. I mean, we have already started to see the movement. It was still quite slow. We know a year ago, in the beginning, was only 5%, and then over 2019 averaged CorSo could achieve 12%. And now in the first quarter, it's up to 13%. I think also relating to the comments earlier, just dynamics in the risk taking markets overall, it's what's happening. I think the only direction I think that this momentum is going to (technical difficulty)

And I think the last one was on the cost side. John, do you want to take that?

A - John Dacey {BIO 4437051 <GO>}

Yeah. So the restructuring at CorSo was laid out where removing about one-third of the business that was on the books at mid-year 2019. You start to see that show up in the premium earned in spite of the rate increases that we're getting. We've actually, I think, for the first quarter shown a reduction in earned premium because of the portfolios which have not renewed. In many cases, there were whole teams which were relieved with their responsibilities because we're not in the business.

The good news is some of that -- a fair amount of that was done in 2019 before the crisis and so many of those people were able to migrate to other careers that were more convinced of future success in those lines. I think we'll continue to reshape CorSo into a strong performing company. That means following through on already committed actions, I don't think we necessarily need to do more than that at this time.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you, Thomas, for your questions. Can we take the next question, please?

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, everyone, thanks for taking my questions. Just two please. So, firstly, on business interruption, please, could you comment on whether you are seeing reinsurance policy wordings broadly following the primary policy wordings and (inaudible) what will you think of the main risks on BI? So is there explicit or unintended exposures in policy wordings or is it the risk of retrospective legal challenge to coverage -- those comments around on your books specifically? And then, I guess just thinking about the balance sheet and scope to grow gross loss, I mean, do you think you have the balance sheet strength and the appetite to go after the capital intensive lines that could see more rates, given the likely reduction we're seeing in industry capital? Just being -- I suspect you'll say you've got the balance sheet, but I'm more interested in the appetite. Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Jonny. We will start with Edi.

A - Edi Schmid {BIO 18942809 <GO>}

Yeah. Well, thanks, Jonny. The first one on business interruption, as mentioned in the introductory comments, that it's clearly the most debated area and obviously the main discussion first is happening on the primary side to what extent pandemic triggered business interruption is covered or not. We still remain of the view that most property policies, they actually require a physical damage figure for a BI to be claimable, particularly the large limits on BI or these policies.

And then obviously there's a range of what you call non-damage BI extensions in several markets. And these you have to then put into different pockets so that shows where clearly pandemic is. It's excluded on the one extreme, but on the other extreme, there are a number of policies out there that clearly cover pandemic. And then there's a whole range in between where there's, for example, additional triggers that need to be met, so the policy would only pay if there is an outbreak of the infectious disease on the premise and then you need the closure by public authorities.

So it's in this gray area where currently all our cedents are going through their portfolios to identify what is really in their portfolio. So that that's really what's happening on the original side and clearly there will be some areas where there will be legal disputes. I mean, on the retrospective inclusion by legislation, I think commented in introduction, that's just a deeply concerning idea. Insurance really relies on the rule of law. And if we move down that track, clearly it would go beyond what the insurance industry is able to bear, and there I believe that reason will prevail. So that's more the situation on the original side.

And then on the reinsurance side, it really depends on the kind of contracts, proportional or non-proportional. And then there's some contracts, for example, catastrophe contracts where clearly it's name perils, there would be no exposure. But there's also contracts where it really follows the original policy wording. And then a question is then about aggregation of losses. But there we have also quite some elements in terms of event definitions, hours, clauses. So there's a lot of things that need to be sorted out. But that's just to give you a bit of color why that it takes a bit of time to have a clear assessment of the whole landscape around business interruption.

Maybe the second one, John, your take about our ability to asset-light...

A - John Dacey {BIO 4437051 <GO>}

Sure. And just so I understand it is frustrating not to have clear estimates of what this looks like. But just remind people that there's enormous uncertainty on the underlying health issues and nature of the pandemic. In our worldwide offices, we see some place as well organized as Singapore is now looking at its third wave. And so to think that we're out of this first storm of the pandemic, I think is absolutely premature than the subsequent economic cost to it and what is in fact clearly the responsibilities of insurance, primary insurance, and ultimately reinsurance remains highly speculative. And so I just caution everybody from trying to get ahead of the facts on this one.

With respect, Jonny, to your second question, yeah, I think you asked about capital intensive covers. We do think we have got the balance sheet to be able to manage this. But I think the hurdles, as you imply, are probably higher. We are paying a lot of attention to where long-term interest rates are compared to some of our European competitors. We probably have more interest in US dollar rates and are paying a lot of attention to how far down long-term rates have moved. That's affected our pricing. And when we talk about the required price increases in the April 1 renewals, some of that came from more conservative modeling of the nat cat risk, but some of that, as the January 1 renewals came from a different view of long-term rates. And so anything that we do in terms of increasing business going forward is going to require to be value creative in this new rate environment and to the degree that it involves longer tail business, those hurdles just become more and more impactful in what the required pricing would be.

A - Philippe Brahin {BIO 19081619 <GO>}

All right, Jonny, thanks for your questions. Can we take the next question, please?

Operator

Yes, the next question comes from Vinit Malhotra from Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. I hope you can hear me. So one topic left, which I don't know if it was addressed in the first few minutes. I missed it, sorry. This is about the US workers' compensation. Seeing some very wide ranging numbers from various bodies like the NCCI or even in California. I mean could you help us understand where you are sitting on that, what are the risks for you, if any or if material? And any color would be very helpful. Thank you very much.

A - John Dacey {BIO 4437051 <GO>}

Yeah, thanks, Vinit, for the question on workers' comp. We only touched it briefly as one line of business that is likely impacted definitely on the premium line. So US workers' comp -- I mean, what you would expect that, obviously with the lock-downs that the premium is going down, but you could also see that many people working from home, some of the more exposed jobs not being conducted for the time being, it could also be, let's say, a reduction in frequency. But on the other hand, there will likely be claims on certain types of jobs in terms of the healthcare workers, other care workers. Just what we can say, our workers' comp books does not have a significant parts of these more exposed types of jobs.

Also our workers' comp business is mainly proportional contracts in the US. And those would have our occurrence cap, so that the maximum exposure from this development should actually be quite, quite limited. So for our specific situation, we do not expect a material impact from the workers' comp business. But on a more broader basis, again just reiterating what John was saying, it's still early in the crisis in how this is going to unfold, still has more open questions than things we can really answer.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Vinit, for your question. Can we take the next question, please?

Operator

Your next question comes from Vikram Gandhi from Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi, good afternoon everybody. It's Vik from SocGen. Apologies if you have already answered this question, since I dropped out of the line. Firstly, can you give us some color on the underlying exposures in the US casualty, i.e. D&O, E&O, MedMal, general advocacy, et cetera ad what kind of really flows through the umbrella in excess books, which are the lines that are particularly susceptible to adverse developments in the prevailing circumstances? That's question one. Secondly, given the virtually weak results at CorSo and the 141% SST, how should we think about the prospects of a potential capital injection in the unit?

A - Edi Schmid {BIO 18942809 <GO>}

Thanks, Vik. On the first one regarding casualty, lives business in the US workers' comp is just covered. That's just the D&O space you hinted. There is -- if you look into past, recessions are linked to financial market turbulence, so there could be a pickup in losses on the D&O side. Again in industry accounts, that's not a material segment we support. And then there's a more broader liability space that will obviously you could picture more lawsuits against employers and other areas. I mean, if we just add a bit to this picture, we are pointing -- we've been pointing out for a long time that the US liability space is in a quite aggressive environment with social inflation. All the reasons why we think while we have taken a very cautious stance on US liability business.

On the CorSo side, as we mentioned in earlier calls, we have taken a very decisive pruning, exceeding the most exposed lines in US liability. And also on reinsurance, we continue to be quite defensive on the US liability lines, particularly those exposed to severity, so in the 1-1 renewals, but again, in 1-4, we have actually reduced our exposures to US liability. We measure now within the client portfolios the limits underlying exposed to severity. And for the larger corporate segment, we actually have, on a year-on-year basis, taken out some 20% off of exposure. So, clearly there is a room for further litigation also out of this COVID. But again, as for other lines, a lot at this point would be speculation. I have to come up more firm view of how this is going to unfold.

A - John Dacey {BIO 4437051 <GO>}

And your question on CorSo's capital, yeah, I mean, obviously it'd be better if CorSo was making money than losing money. I'd reiterate that the prior year development was a modest positive for the CorSo for the quarter. So we believe that we'll have to weather the COVID-19 claims in Q1 and for the quarters, we'll evaluate the capital levels at the business unit accordingly and make some decisions. But I'd say here at the end of the first quarter, we don't see the need to do anything in particular.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thanks, Vik, for your questions. Can we take the next question, please?

Operator

(Operator Instructions) The next question is a follow up question from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

I just wanted to come back on the April 1 renewals, the plus 4% premium growth. Could you shed a bit of some light on split maybe on geographical basis, Asia versus US maybe? And also if you could split it differently by lines of business, property versus specialty versus liability just to bear the stand? I mean, how you shifted your book in -- at April 1?

And the second question would be really going to social claims inflation, US social claims infection because it's been a big topic in Q3 and Q4 last year for the market. Suddenly it's completely disappearing from any price reducings or con-call transcripts. So -- and I guess that's underlying claims trend has fully not stopped from one day to the other. So just if you could tell us a bit how things -- what you saw in terms of trends in terms of claims so far this year in terms of maybe second derivative acceleration or deceleration? Thank you

A - Philippe Brahin {BIO 19081619 <GO>}

Back to you, Edi.

A - Edi Schmid {BIO 18942809 <GO>}

Back to me. The first one is a bit more color on our renewal account. So 4% growth across the board, obviously that has an element of the price increases. That is the most significant contributor at this time. We could achieve nominal price increases year-to-date on what we renewed of 6%, which is significant across our book. As we also said, actually on a risk-adjusted basis, this would be about flat. But still this is actually positive because it means that we could not only compensate for the more conservative loss specs. In, for example, US casualty, which is related to your second question, where we still see that this is a high possibility environment. So we needed to cost this more conservatively, so that loss assumption increases plus the significant adjustments we made to our typhoon flood modeling in Japan. So these factors we could fully compensate by the normal increases we achieved.

In terms of the growth, it's also a bit linked to the fact that I just mentioned. So clearly in Japan, we could grow the total premium by about 20% in the nat cat space with the price increases. But also we deployed more capacity, given the beneficial outcomes we could achieve. But then linked to our increased capacity on the nat cat side, we could also access some additional business from clients in other lines of business.

But a bit more broadly, I would still say that our trajectory as already explained in 1-1 is to shift the portfolio up a bit more to shorter duration. So we keep growing more on the property nat cat side and have a more cautious stance on the longer tail lines exposed to things like social inflation. Then obviously there's also the important point John made, that in a much lower interest rate environment, obviously these longer tailed liability lines need to get even better in terms of underwriting profit to make sense, given that you cannot discount as much anymore. So that's a bit of color around where the growth is coming from.

And on the social inflation topic really, that's not going away in the US. As we have commented earlier, we really think for the US liability market to become sustainable that there needs to be more than just premium increases and limited auctions. That's clearly what's happening in the underlying business now. But what was this aggressive thought environment with this nuclear verdict, a lot of them are actually around commercial motor. If there is car accidents and bodily injury, then the lawyers will go aggressively after some corporates and the jurors will then abort this huge non-economic damages. And for that to become better, you will need to see some court reform at the state or at the federal level to become again more reasonable. And now you would add the developments around COVID in the US, so it is clearly an area where we would continue to underwrite with utmost caution.

A - John Dacey {BIO 4437051 <GO>}

And maybe just one observation on the penultimate point of Edi. To the degree that motor frequency has materially reduced in all markets with lock-downs, you'll probably see some modest benefit also on some of this commercial motor caseload and associated large jury awards related to it, but there's clearly a very temporal issue. There's no reason to think there has been any structural change or improvement in that business.

A - Philippe Brahin {BIO 19081619 <GO>}

Well, thanks, Thomas, for your questions. Can we take the next question, please?

Operator

The next question is a follow-up question from Paris Hadjiantonis from Exane BNP. Please go ahead.

A - Philippe Brahin {BIO 19081619 <GO>}

Paris, are you there?

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Sorry, I was on mute, indeed. So a couple of very small follow-ups from my side. I guess the first one will be on Life Re. I understand there was a small (inaudible) benefit for the quarter. I don't know whether you can give us some color and quantify that that. I think it was something to do with the capture. And the other one is on the investment side. Obviously, quarter-to-date, we have seen a pronounced bounce back on the equity front. How should we be thinking about the benefit to Swiss Re from an accounting perspective given that you have put quite a lot of hedgers in place?

A - Philippe Brahin {BIO 19081619 <GO>}

Why don't we go to the second question first, so Guido can help us out?

A - Guido Furer

Very happy to do so. Thanks, Paris, for the question. You will refer to the equity protection which we've put in place. And as John has mentioned, we will dynamically manage to deal with it, not only for equity but also on credit. Now on equity, we have only option in place. That means the capital full upside open. And as you know on the US GAAP, both flows through the P&L, the mark-to-market of the equity as well as of the hedges now. The fact that we have only downside protection, doesn't take away the full upside potential. That's why recovery which we have seen quarter-to-date should be very helpful.

I think, on the credit side, we have also a mixed set of different measures. Some are option related, some are index related. And that's why also there we kept some of the optionality open. Very important for us is the quality of the books. And as opposed on the equity as well as on the credit and as John has mentioned, we actively do portfolio management. That's why we not only work with overlays, we take out some of the beta risk, but clearly all the massively improved quality of the portfolio over the last few quarters and to give you just one figure to give you a bit of a feeling. I think there's a good questioning about the fall of angel potential in our industry. And, yes, we know under certain regulation, you don't get the capital benefit if it's outside of investment grades and talking about matching adjustments.

Swiss Re does not make use of that, plus, although we just saw what happened in the midst of the crisis related to Q1, the benchmark portfolios, they had a fallen angel in Q1 of 1%, basically credits being non-investment grade from former investment grades. Swiss Re experienced through the same quarter just a 0.2%. That means one-fifth of the market. And also thanks to the hedge, I have to say, in many of the exposed -- the COVID exposed tax like leisure kind of consumer cyclicals, but also aviation, we are even net short. And that's why it's a very dynamic program. And I think we look at both. We looked at the beta risk which we clearly address with the overlay program.

But in the long term and I also believe as John has alluded to, this crisis is not over in the short term. The economic damage is huge and some sectors will clearly be hammered not only over few weeks, but over a few quarters, if not years. And we recognized that very early, that's why we massively adjusted the portfolio position, started already last year. And to give you just one figure, in Q4 last year and in Q1 this year, we had $7 billion of changes in the cover-bond portfolio, that's basically 25%. And of course, we went into the less exposed area and this gives you some idea how we protect the balance sheet. And again that we -- even if that crisis continues to do, we expect that we will serve relatively decent in this environment. But it's full of challenge. Thank you.

A - John Dacey {BIO 4437051 <GO>}

Thank you, Guido. The first question you had, Paris, I think was related to the Life & Health Re. As we said, we had a strong technical result as well as a good investment return. Specifically, I think there was one -- not huge, but of a size that's probably worth noting. We captured for some individual mortality business in Japan again just serving our clients well and working with them on the way that they like us to help manage their own risk. So nothing special there, ordinary business and we do these kind of transactions on a routine basis.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Paris, thank you for your follow-up question. So we have actually come to the end of our Q&A. If you have any further questions, please contact members of the IR team. Thank you again for joining today. We wish you all to remain safe and healthy. Operator, back to you.