Q1 2019 Earnings Call

Company Participants

- Roland Vogel, Chief Financial Officer
- Ulrich Wallin, Chairman and Chief Executive Officer

Other Participants

- Andrew Ritchie, Analyst
- Farooq Hanif, Analyst
- Frank Kopfinger, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Sami Taipalus, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. I welcome you to today's Hannover Re International Conference Call on Q1 2019 Results. For your information, this conference is being recorded. At this time, I would like to hand the call over to your host today, Mr. Ulrich Wallin, Chief Executive Officer. Please go ahead, sir.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you very much and good morning ladies and gentlemen. I'd like to welcome you to our conference call presenting our results for the first quarter of 2019. As usual, I'm joined by our CFO, Roland Vogel. Overall, the first quarter of 2019 marks a good start to the year. The increased demand for reinsurance, as well as our good competitive position within our markets allowed us to grow our portfolios both on the Property&Casualty, as well as on the Life&Health side. Even more important, we were also able to grow the bottom line, as the net income coming in at EUR294 million, 7.4% higher than the first quarter of 2018, which already was quite a good quarter for us. This in fact marks the 42nd consecutive profitable quarter -- quarterly result of Hannover Rueck, of which I had the privilege to report to you the last 40 as CEO of the company. This is also the last quarter I will report to you, as tomorrow after the finish of our AGM, Jean-Jacques Henchoz will take over as my successor.

Due to the strong earnings and significant increased valuation reserve, the book value per share increased by 12.2% to reach a new historical high of EUR81.6 million. Nevertheless, we managed to keep the return on equity at 12.6% well above our minimum target, which comes in at 9.4% being 900 basis points above the so-called risk-free rate. The Solvency II ratio stood at 246% at the end of 2018 and should be somewhat higher at the end of the first quarter. The result of our Property&Casualty business was again very strong. This growth of the technical profit of 25% based on increased premiums for the tune of about 20%.

Regarding our Life&Health business, we saw a significant increase of our profitability, as the group net income increased by 73.2% to EUR89 million. This is in particular gratifying because already the first quarter of last year was a good quarter to us and we could report favorable results was better than expected results from our US mortality business. This continued in the first quarter of 2019. However, we saw some weak performance of our Australian disability business as a result of significantly deteriorating trading conditions.

On the other hand, our Financial Solutions business and here in particular those treaties that are deposit accounted developed very favorable but resulted in a significant increase of the contribution to the bottom line from the other income and expense line. Once again, the income from investments developed above expectations, the ROI from assets under own management coming in at 3% and thus exceeding our minimum target of 2.8%.

On this note, I would like to hand over to Roland, who will explain these favorable figures in more detail.

Roland Vogel {BIO 16342285 <GO>}

Yes, good morning and thank you, Wallin. I will try to keep my comments brief as the Q1 2019 results do not include too many one-off effect worth commenting on. I would like to take this opportunity also to point out that we have published our Solvency II so called SFCR reports for the full-year 2018, adding a bit more detail to the Solvency ratios which we have already published together with our year-end results. You will find them on the company website. We have also put together one slide on the Solvency capital generation in 2018 and have added it to the appendix of this slide deck.

On the next page, we see that we've continued to see very attractive top line growth in the first quarter of 2019, adjusted for currency effects, gross written premium increased by 16.1% driven by favorable business production in both business groups, but again with pronounced contribution from P&C. Due to the change in unearned premium and a slightly reduced retention in Life&Health, net premium growth was a little less dynamic. However, I would expect this difference between gross and net premium to narrow down until year-end because the change in unearned premium will naturally decrease, when we earn it over the course of the year.

Other income expenses on a Group level increased mainly due to another increase from deposit accounted Financial Solutions business and Life&Health. The tax rate is backed to a normalized range, still it could have been even slightly better or slightly lower, but the deterioration of typhoon Jebi to which we will come in a minute has hit especially our Bermudan operation and led to a lower-than-expected contribution from the low tax environment. The previous year's figures have been inflated by the one-time effect from the US tax reform as you might remember. Altogether, Group net income increased by 7.4% to EUR249 million -- EUR294 million, sorry.

On the next slide, the operating cash flow in the first quarter was particularly strong, driven by attractive reinsurance growth, as well as pleasing results on the investment-type. On top of this increasing valuation reserves and currency effect supported the growth in assets by around EUR800 million and EUR650 million respectively, leading to a record high level of assets under own management close to EUR45 billion.

Similar developments are also visible on the capital side, here on the next slide in addition to the favorable earnings in the first quarter, the increase in OCI boosts the growth in shareholders equity to 12.2%, largely driven by the valuation change due to the decreased interest rates and lower credit spreads. On top of this, the EUR600 million change in unrealized gains includes around EUR100 million resulting from a reorganization of the shareholder structure of Viridium Gruppe, which became necessary in connection with the acquisition of the Generali Leben, this will most likely lead to a reflection of the appreciation of that value in the Q2 P&L. The composition of the total capital on the right hand side of this slide here is unchanged with a high degree of flexibility around the hybrid bucket, as we mentioned before.

On the next slide the P&C gross premium increased by a remarkable 19.4% on an FX adjusted basis, this is driven by both our structured reinsurance business and by diversified growth in the traditional book. This is in line with the developments which we have reported for the January 1st renewals. However, the growth rates in structured reinsurance in particular should come down slightly over the course of the year, due to the pattern of premium recognition for some of the larger treaties.

Net premium earned growth is a bit less pronounced because of the unowned parts as well as growth in the ILS market, where our net retention as we all know was zero. A 2% of net premium income -- major losses were remarkably below the already benign first quarter of 2018. As in previous years, we stuck to our reserving practice and reflected the large loss expectation as part of our IBNR reserves.

When it comes to the run-off profit, we've seen some negative developments from larger losses in particular, typhoon Jebi for which we have increased our loss estimate by almost EUR50 million based on a higher to market loss apart from this, the reserve development in the first quarter was as always or as nearly always positive and still in a usual range. As we have not changed our initial reserving approach, our current assumption is that the confidence level of our P&C loss reserves has not changed compared to year-end 2018. Altogether, it's gratifying to see the underwriting results, the result increased by more than 25%, even stronger than the premium growth.

And at the combined ratio of 95.7% is clearly below the full-year maximum target of 97%. Ordinary investment income was stable. Net investment income decreased due to a lower contribution from realized gains, as the overall turnover in the portfolio was not driven by huge capital transitions or not driven by the huge capital transitions we had last year's resulting from the US tax reform.

Other income and expenses did not include any material one-offs altogether Group net income of EUR235 million is down by 6.7% compared to a very good first quarter in the previous year and also affected by a higher tax rate, which I had already mentioned earlier. The operating result is almost stable,

As mentioned on the next slide major losses we're very benign adding up to EUR59 million in the first quarter. Therefore, the unused budget amounts to more than EUR100 million. The list of major losses in the first quarter is obviously comparatively short, along with the two net cat events only one marine claim and the Ethiopian airline aviation claim made it onto the large loss list. I might say that of course it is rather early to comment on the Russian airline crash, but we don't expect it to be included on the large loss list.

On the next slide, we sorted our business group's down based on premium contribution, as you can see numerous lines of business in regions contributed to the good under writing result was combined ratios well below the maximum target. You might wonder why the combined ratio for our structured reinsurance and ILS segment is at a very good 95.2% after we had told you over the past years that this business line actually has an inflating impact on the reported P&C combined ratio due to the low risk nature of the business. The good profitability in the first quarter can be partly explained by the strong contribution from the ILS component of this business line, in which we have seen increased demand and successfully expanded our business volume. Additionally though, structured reinsurance business, which is by far the larger component here reported favorable profitability. The combined ratio effect of these two factors overall led to the good result.

A few lines also exceeded the (inaudible) range, most notably UK, Ireland and London market, as well as our cat business. The former was affected by a rather weak technical profitability of the Lloyd's business that we support. Just to be clear, I'm not referring to our subsidiary agenda, which is actually included in the facultative and direct line of business, but our other Lloyd's activities. Furthermore, the combined ratio of our cats -- our non-proportional cat business looks rather weak, despite me having told you that the large loss experience was very benign. This is mainly driven by the development of the Jebi loss, which is more or less fully captured within this business line. Overall, the combined ratio of our highly diversified book is favorably below the target combined.

In Life&Health, gross written premium is up by 9.6% adjusted for the fixed effect, new business production was particularly favorable in Asia and also in South America. The in-force management actions within our US mortality book in 2018 led to the expected improvement in the result, even though the different compared to the previous years is less visible in the technical result, because the underlying mortality was particularly good in Q1 2018 and the first quarter of 2019 also included some smaller recapture losses, where we capture effect of some 10 million.

The main reason for the decrease in the underwriting result is an underperformance of our disability business in Australia, Ulrich had mentioned that already. And additionally, other business was also slightly weaker overall then the strong 2018 first quarter without any larger individual effects. Ordinary income increased compared to the previous years, especially the fair value changes through P&L boosted the net investment income to EUR104 million. Other expenses -- other income and expense is mainly driven by the further improvement in the contribution from Financial Solutions business recognized according to the deposit accounting method. EBIT increased nicely by 21.3%, clearly outperforming the 5% growth target. Group net income increased even more strongly, which is a result of the unfavorable tax ratio resulting from the US tax reform in the previous year.

On slide -- on the next slide, the development of our investment in the first three months of 2019 was very satisfactory. Return on investment of 3% is above our return expectation for the full-year with increased ordinary investment income compared to the already good figure in 2018. Realized gains decreased due to the lower portfolio turnover already mentioned, consequently the realized gains are almost entirely driven by the sale of one real estate property at very attractive pricing. This decline was offset by the change in fair value of our financial instruments to which the ModCo derivative contributed EUR5.3 million.

Given that interest rates in our major currencies, decrease in credit spreads also trended remarkably lower. The unrealized gains on our investments increased significantly compared to year-end 2018 to reach a level of EUR1.8 billion, which means an increase of around EUR800 million within only three months. It's always good to have such buffers as we all know, but as we all know this automatically comes together with a decrease in reinvestment yields and irrespective track on the future ordinary profit.

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

I think this concludes my remarks and as always, I'll leave the target makrix and the outlook to you, I think Uli, the target matrix is nice to be presented this time.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland, yes, you're absolutely right. The target matrix shows that the numbers of the first quarter of 2019 support all our mid-term target, to the extent applicable. This confirms again that we had a good start into 2019. Coming to the renewal in the first quarter, the traditional Property&Casualty treaty renewals from 2nd of January to 1st of April of 2019 was later date being the most important, during that period pretty much confirmed the trends that we had already seen, it's generally first renewals. This means that loss effect of treaties saw meaningful increases, but loss reprograms overall they're renewing largely flat, but benefiting to some extent from rate increases in the primary market in many territories.

Overall, the rating level is above the comparable levels for 2017 and 2018, but is still significantly below the levels we have enjoyed in 2015 and prior years. This is the result of continued competitive markets, there are many market players seek to increase their market share. At Hannover Rueck, we saw an increase of our premiums based on unchanged exchange rate of 6.6% to EUR984 million. This was predominantly a result of increased pricing, as we kept our share largely unchanged and to balance between new cancelled and restructured business was only modestly positive.

The most important renewal was the 1st of April, Japanese renewal as many of the natural catastrophe programs had suffered from series of losses in 2018, in particular, the ever-increasing losses from typhoon Jebi. Loss effected wind and flood programs in Japan which were the majority of those programs that were loss affected, as well as the combined wind and flood and earthquake cover loss affected increased anywhere between 10% and 30%. Some higher increases were even seen the sum of the aggregate excess of loss covered, most of which had a total loss last year. On the other hand, loss free programs and in particular earthquake only program saw flat renewals and also some meaningful capacity was bound on multi-year terms and thus rate could not be increased.

This resulted on average in an increase of the prices just under 10%. As we did not want to put additional pressure on pricing, we kept our participation stable and thus our premium increase was almost exclusively the result of increased prices and for coming in at around 10%. From the other lines in Japan, we saw some opportunities to grow our participation, which resulted in increased premiums to the tune of 8%.

Regarding the renewal from North America, we saw rather favorable trading condition and thus we were able to increase our volume by 18%, stemming both from non-cat property and casualty business with the emphasis lying on casualty. Outside Japan and for US, catastrophe excess of loss business renewed quite stable and the rate and quality did not entice us to grow the portfolio. Due to selective underwriting, we saw some meaningful decreases of our premium volume and market share in the agricultural business, where we also saw some increased exposure due to certain weather phenomenon.

On the marine side, the most significant renewal in the first quarter was the marine liability renewal, which is a rather large program also known as protection and indemnity business. On this program, we increased our volume quite significantly, raised on our proprietary terms. However, if we look at the marine business, including the January 1st renewals, we kept the premiums largely unchanged. Unchanged, we also left the guidance for the current year, even though the development so far during this year provided us with an additional comfort level that the guidance should be achievable provided of course it's large losses are not significantly above the large loss budget and there is no dislocation of the capital market.

But firstly it has to do with the numbers of the first quarter, the -- regarding premium growth and return on investment we were above our guidance. Furthermore, Roland already mentioned that in relation to our continued shareholding in Viridium, we will see the realization of off-balance sheet of valuation reserves to the tune of EUR98 million, which will support our investment income and will of course report it in Life&Health business group.

Regarding the dividend payout again provided that we reach our guidance, the dividend of 2018 should provide the minimum benchmark for the dividend of 2019. So, it's very likely that we will again be paying an extraordinary dividend. Regarding the outlook of the Property&Casualty business for 2019, you can see that many segments, the arrows pointing upwards. So we expect healthy growth on our Property&Casualty business for the entire year. Also the profitability, but it's not perfect should still allow us to overall earn the cost of capital, so that's the growth should be supported by the commensurate profitability.

On Life&Health, we expect to see significant increased profitability mainly as the result of our US mortality business should improve considerably, because the burden from the recapture charges which are one-off burdens of course the reduce very remarkable. The Financial Solutions business again carries the bulk of the profitability, but we already have seen in the first quarter on longevity, we expect to earn the cost of capital, and when it comes to premium growth, most of that were surfaced on the morbidity solutions business. Therefore, positive outlook on the Life&Health business, altogether on the P&C side for 2019 and in the medium-term, we expect that our strong competitive position and our lower admin expense ratio will allow us to outperform the market.

On Life&Health, reduced burdens already mentioned from US mortality business will allow us to grow the profitability and this does even include the negative developments that we have seen in Australia, which we believe we have well under control. Finally, on the investment income, continued positive cash flow should mean that in the mid-term, the trend of the income from assets under management should be modestly upward.

On this positive note, ladies and gentlemen, we come to the end of our presentation. And we would be more than happy to answer your questions. Thank you very much.

Questions And Answers

Operator

(Operator Instructions) First question is from Farooq Hanif of Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Oh, hello, thank you very much, good morning. I had two questions if that's okay. Firstly on your Solvency II slide, in the appendix, can you explain the operating impact of 0.4%, what the impact of operating variances has been, so that if you look to the very clean quarter, just to get an idea of what the operating growth would have been without those variances. That's question one. And then question two, going back to Viridium, I just want to understand a little bit more about how we should see the development of your shareholder value in Viridium going forward, will it simply be a matter of unrealized gains coming through in Life&Health Re or will we -- could we expect dividends or other realizations in the future. So how should we think about modeling that? Thank you very much.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, maybe I start with second question and maybe Roland can answer the first one. Viridium, I mean we have basically seen when we originally invested in Viridium that our investment was really paid back almost completely by dividends and retiring their preference fab. That meant that the book value we had in the book for Viridium was below EUR1 million. Now of course in the process of some reshuffling within the funds of our majority co-investor, we have to realize the proper value for the Viridium business up until there is a purchase of Generali Life. And that is where the one-off positive comes from. Of course, we invest further moneys now in order to support the purchase of Generali Life and if the development is similar to what we have seen now, we will see in the future contributions from dividends and maybe again retiring of preference shares, that's if all -- if the future is the resemble of what we have seen in the past, where we have no reason to believe that that should not be the case. Then your first question is around modification.

A - Roland Vogel {BIO 16342285 <GO>}

I must admit, we are not in the position to really comment on the details now, also I have to admit, if you perhaps can repeat it and we can come back to you later, if there is an (multiple speakers).

Q - Farooq Hanif {BIO 4780978 <GO>}

I just wanted to -- for the sake of modeling Solvency II going forward, the operating impact that you show 0.4 points is a smaller part obviously and clearly there are some negative variances in that, because I'm sure you on an operating basis will more than that. So I wanted to, if you could break down the operating impact between what is operating, operating and what is non-operating operating, if you understand what I mean.

A - Roland Vogel {BIO 16342285 <GO>}

Again, I've done this -- we have published all the information as this was Q1 call, I don't have the details with me now.

A - Ulrich Wallin {BIO 4863401 <GO>}

We can send you the answer.

A - Roland Vogel {BIO 16342285 <GO>}

Yeah.

Q - Farooq Hanif {BIO 4780978 <GO>}

Could I just ask quickly on -- apologies for my lack of knowledge, but how much are you investing in Generali Leben?

A - Ulrich Wallin {BIO 4863401 <GO>}

That's probably proprietary information I would say, because I don't think the price was necessarily -- it was necessarily published. So I can't give you that answer, but it is below triple-digit million, so it's double-digit million.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, good morning, everyone. Just one question on life insurance, could you give us a hand on, I guess what the underlying results look like versus you're kind of EUR400 million to EUR450 million guidance you've talked about in the past. I'm just trying to work out whether it feels like the guidance still is pretty conservative or not. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I don't think we said EUR400 million to EUR450 million, we said above EUR400 million and that is quite (multiple speakers) that is quite conservative now.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay, brilliant. So and in terms of I guess the quantum of Australia versus the West US mortality experience, how does that kind of balance out or does that net out that could you...

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, Australia have a lower double-digit million, negative impact that we expect for the entire year. I mean it's not that there is nothing we can do about, of course, I mean the negative impact largely were coming from the investigations of the Royal Commission, which of course distracted the market player to some extent and also basically increase the disability claims both on TBD as well as DII. But I mean of course in our Australian business, and this is a new business that we write, we have the ability to increase rate. So we will rectify the situation and definitely will not accept any new business there, where we are not confident that even on those new trading conditions, we could reach the necessary profitability. So we don't really see that as a long-term fundamental problem, because I mean the run-off of our legacy DII has been -- has actually been quite positive. So I mean it is something that we have to deal with, but nothing to be unduly concerned about.

Q - Kamran Hossain {BIO 17666412 <GO>}

Good and thanks very much.

Operator

The next question is from William Hawkins of KBW. Your line is now open.

Q - William Hawkins {BIO 1822411 <GO>}

Hi, thank you very much. Really, congratulations on your tenure at Hannover Re, I hope you have an enjoyable future.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you.

Q - William Hawkins {BIO 1822411 <GO>}

So yet speaking up on what Kamran just asked, little bit more detail on Australia please. I think you just indicated, so just to double check, to extent that there is any remedial action required for the rest of this year, it's measured in the double digits of millions. Just to confirm, you said that until help me understand from -- that is correct, yeah?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yeah, that's correct.

Q - William Hawkins {BIO 1822411 <GO>}

Great. Roughly speaking what are the reserves over some insured are in this portfolio that's affected, that's kind of question number one. And then question number two, can you just help me understand a little bit more of the reserve development movement this quarter in non-life. I can't remember, so if you can just confirm me what you think is the normal level of positive reserve development, because my suspicion is that the Jebi figure alone shoots or wipes that out and so to the extent that it clearly hasn't in your overall results, if you just be clearer, was there a positive, a specific positive that offset Jebi or is all of this just kind of lost in the rounding of your billions of reserves? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you, William. Well, I mean on the Australian business, that is basically business largely that we have written from 2013 onwards. And it is what's called lump sum business, as well as DII business. And of course the expectations are that this business has the future positive cash flow and that is reflected in the rather low reserves I would say. What happened, I mean and I should also say that there are significant differences, the way we write DII here as compared to the legacy DII. And the most important difference here that we can increase the rate and we have already increased the rates on this business in the past in order to keep it profitable and we are engaged to do that now again.

So that should then close the DII problem. We also have other than on the legacy DII there is the retention of the ceding companies were always rather low on the -- on the new business the retentions are quite meaningful. Therefore you have much better alignment of interests and then on the legacy DII. But we also have seen that the lump sum business, which is Life and TPD, which historically has actually been quite profitable, why it's not be negative, the profitability has more than halved on that business. And this is due to the fact that the TPD payout has actually increased rather significant. So there is a little bit of need for increased of rates as well. And that is really how we think we should solve the problem. The good thing on both end is the full alignment of interest that help this with our ceding companies, which makes the overall corrective actions a little bit more easy.

Q - William Hawkins {BIO 1822411 <GO>}

So I'm sorry to come back and drive the call, just to make sure I understood what you just said. The issue that you're talking about has nothing to do with the legacy business that you had addressed with the big charges back in 2013. So even the new business that you started writing has actually proven to be not good as you'd originally hoped?

A - Ulrich Wallin {BIO 4863401 <GO>}

That is a new business and that is the result actually of the ramifications of the investigations of the Royal Commission.

Q - William Hawkins {BIO 1822411 <GO>}

Got you. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

But that's a market wide phenomenon, I mean if you look at the market figures for Australian life business in the second half of 2018, you will see a significant deterioration of those result. And unfortunately we couldn't isolate ourselves from that.

Q - William Hawkins {BIO 1822411 <GO>}

Sure.

A - Ulrich Wallin {BIO 4863401 <GO>}

And on the cost reserves, Roland if you might take.

A - Roland Vogel {BIO 16342285 <GO>}

Yes, I can take that. Well, I think with all uncertainties I think the numbers we gave over the last course about expected or to be expected run off result per quarter should be around positive EUR100 million. Again we have sometimes larger transactions, which can interfere here. But this is to be expected. The Jebi loss development as I mentioned was EUR48 million or EUR49 million and the calculated run-off result including that for the first quarter was around EUR70 million. So if you add that, then the overall runoff would have been without Jebi around EUR120 million or EUR130 million in that area. The rest of the positive and negatives were really in line with expectation, nothing extraordinary which is worth mentioning here.

Q - William Hawkins {BIO 1822411 <GO>}

Very helpful, thank you.

Operator

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

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah, hi, thanks for taking my question. The first one, just sorry to sort of bore you on the Life&Health reinsurance business, but I didn't quite get a feel for the -- for your comments about the underlying profitability there in the first quarter, you've obviously had some negative drag from the -- from Australia, but it also seems like maybe the US mortality was a bit stronger than expected and the investment income was I guess also quite strong. So could you just comment on whether you -- it would be -- would it be sensible to annualize this run rate or do you think that you were slightly so ahead or behind there and just a bit more insight into moving parts that would be great.

And then second on the structured reinsurance business. I didn't quite understand how the moving parts you mentioned upfront would affected the results, so if you could just run through that a little bit more in detail. And I mean maybe I'm wrong, but my understanding most of this should be quite a stable business in terms of margin. So it'd be great to understand what drove that volatility. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I would say on the Life&Health side there was not many extraordinary developments in the first quarter, maybe with the exception of -- I mean the derivatives here mainly the ModCo derivative. So I mean from that point of view, I would probably caution to take the -- outside Viridium to take the first quarter times four. But if you want to take something times four, it's probably north of EUR100 million, I would say just only slightly north of EUR100 million. This of course considering that there is significant volatility on a quarterly basis, which of course reduces the lot if you look on an annual basis and if you look on a three average, the volatility is very low on the Life&Health business.

When it comes to the structural business, we make it little bit difficult for you because we -- I mean aggregate the structured business the CRS business. And the ILS business is really business we don't keep retention, but only keep part of the premiums as a fee, that means that the combined ratio on structured business normally is well below 10%. And then if you

of course add that to the higher combined ratio on the structured business, it looks little bit nicer, as the ILS business in the first quarter has actually grown, so the profitability from the ILS business has grown is valid had a positive impact on the combined ratio. Otherwise, the structured business was largely in line with expectation coming in with a combined ratio around 98% that's nothing then drawn and something spend a little bit better than expected. But we expect that between 98% and 99.5% every quarter, so 98% was on the positive side of that bracket.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, so just to be clear it's a pure mix shift, basically you had an unusually large volume of that.

A - Ulrich Wallin {BIO 4863401 <GO>}

Exactly, yeah.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, great. Thank you.

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi, there. Yes, Ulrich, just congratulations on your tenure and good luck for your retirement, maybe this is your last opportunity, could you give us a sort of overall view on reinsurance market conditions. Your tone sounded slightly more cautious than maybe at the time of the full-year in terms of quite a lot of capacity coming back in opportunistic, maybe in light of that just give us a sense of how you think the midyear renewals may pan out. The second question, just a sort of small question, what exactly happened in UK, London market, we had a very high combined ratio 122, was that large loss related or Jebi related? Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, the overall reinsurance market concentrate on the P&C side, because it's more cyclical than the Life&Health side. I would say still really characterized by most of the market player wanting to add capacity to the market and increase their shares and you -- we haven't seen maybe with some exception from the RF capacity, any withdraws of capacity, that underlying mean that the market is biased market and quiet soft. There is of course some discipline in the market due to the rather disappointing results of the market as a whole in 2017 and 2018, but I mean we haven't seen any capacity reductions or capacity withdraws and therefore it remains a competitive market.

I mean as I said the pricing level is a bit better than the previous two years, but it needs new fair amount to desire, because I mean coming close to the 15 level what actually be probably more is adequate. We have a slight advantage here with our expense ratio advantage, which we actually extended in the first quarter 2019 to reduced expenses on the Life&Health side with increased volumes. So that's quite positive in a difficult market.

As far as the London market is concerned, wasn't really the effect of development and tied from Jebi. There was some more -- on some of the large business that we support through what's called trade capital, where we provide a quota share to a corporate name and thus have a provision like corporate name ourselves. So we participate in the capital of the large (inaudible) and we then book the result as premium and losses. And I mean the rather unfortunate development of the results in the large market is also shining through on those kind of participations.

In addition on the UK motor excess of loss business, we still, I mean book the reserves also on the new business based on minus 0.7% discount rate, which means that we book rather high combined ratios because pricing in that market is lot -- works on the lot higher discount rates then minus 0.75, it's probably on average I would say the UK motor excess of loss pricing might be at 0.5% discount rate. And we book the initial loss reserves as minus 0.75, of course, we book very high combined ratios and what so has contributed to this rather high overall combined ratio. Naturally, should the UK government feel fit to reduce or to increase the auction discount rate, then of course also the reserves on the newly written business will presumably come down.

Q - Andrew Ritchie {BIO 18731996 <GO>}

All right. Thank you very much.

Operator

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

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good morning. Just one question left from my side, typhoon Jebi you mentioned EUR48 million or EUR49 million net increase of reserves. Could you also give us the gross figure of -- for the increase of reserves and did the amount -- to what extent did the whole account covers -- play a role in this additional reserving?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, first of all, the whole account cover did not play a role because the typhoon Jebi loss now it's pretty close to the retention of the whole account cover. That of course would not allow to grow a lot further. If you look at the extra advise and paid losses at the end of the first quarter and compare that to our reserves that we had at the end of the year 2018, there were still quite a bit of distance between our reserve and the paid and advise cover. However, due to our reserving practice that if we get adviced losses to layer in the program, we would normally put a reserve on the next play up as well. And that despite the fact that from the pure advised losses, we could have kept the reserve unchanged due to this method, we increased the -- our own reserves on Jebi quite significantly.

Q - Michael Haid {BIO 1971310 <GO>}

So the gross and the net figure are fairly similar?

A - Ulrich Wallin {BIO 4863401 <GO>}

No, the gross figures is a lot higher because that again has to do with the K-transaction because basically all the heavy losses from Japanese natural catastrophe excess of loss, they all see that to the K. And also of course on our ILS business, we upfront a fair amount of Japanese excess of loss business to transform the business into the capital market, they of course that shows up on the gross loss as well, but of course this is not -- they have no effect on the net loss.

Q - Michael Haid {BIO 1971310 <GO>}

Okay, perfect. Thank you very much.

Operator

The next question is from Vinit Malhotra of Mediobanca, your line is now open.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good morning. Just two quick follow-up please. In the terms of last quarter we were discussing at length the combined ratio, the 97% and the business mix and the structured. And now we produced even below 96% and structured well even low growth as you said, is there something that should drive us to 97% or even this kind of 96% level should be achievable, given what you know today. That's the first question. Second question is, just a very small numbers one, the life -- the funds withheld in the investment income you've seen sort of a big jump, which has taken us back to the levels of '14, '15, '16 even, but not seen in last few years in a quarter, the EUR70 million plus range, isn't there some one-off or just something to note here please. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, on the funds withheld on Life&Health, I means that's some new business that we rolled on funds withheld basis. And therefore, you saw that increase. Of course we should or you should always bear in mind that the income -- investment income on the funds withheld are part of the overall margins of those treaties. So I mean part of that is always offset by losses on the underwriting side, so that the overall margin of the 3D is in line vis-a-vis it has been quoted, of course earnings cost of capital. I mean as far the combined ratio is concerned, I have to say that the first quarter of 2019 really the underlying loss development outside some major losses was actually quite favorable, but there is no guarantee that that will stay for the entire year. One would say that I mean the underlying loss development below the major losses in 2018 overall was some relatively high losses and I mean slight improvement at least in the first quarter, quite a good improvement on that end in first quarter of 2019. But I mean quarterly results on reinsurance always are little bit difficult to interpret because naturally I mean there is volatility on a quarter-by-quarter basis, even with the underlying loss ratios, I mean, lot is actually casualty and things like that, but I mean in first quarter just had been pretty good on the line.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you very much.

Operator

The next question is from Frank Kopfinger of Deutsche Bank. Your line is now open.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good morning, everybody, I have also two questions. First question is on the other income line within the Life segment, this EUR62 million in Q1, is this -- should this be seen at normal level going forward also. And then secondly on the Boeing loss or the airline loss which you report on, my understanding is that, this reflects the loss for the airlines, is there any risk that due to liability issues this is going up?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well, I would say the other income line from deposit account really was quite positive in the first quarter, so just multiplying this by four would probably be quite optimistic, but it's productivity close to that. I mean and that's actually quite a reliable number, I would say. On Boeing, well, I mean two ways to use, of course, the Boeing losses when it comes to Boeing itself also includes the Lion Air loss from last year, because if I understand that from our experts, the grounding loss would actually fall on the Lion Air loss being the first one that showed an issue that finally was resulting in the grounding. So the grounding liability which is supplemented at EUR500 million is not featuring in this European airlines loss.

For us, I would say yes. I mean of course there is the possibility based on US jurisdiction on the passenger legal liability losses when there is a product liability case against Boeing and at least claim and lapse that that is the case, that might drive up of course the liability losses as the awards in the US court systems generally tend to be somewhat higher than in other jurisdictions.

So we have to see how that develops. On the other hand, I mean for us on the net side, I'm not too concerned, because we for all the comprehensive specific retro fashion protection that that would limit our losses from these aviation disaster. Naturally I mean, aviation excess of loss is part of K, so little bit more than 40% of all our losses from the excess of losses would be covered by K and then we have in addition to that excess of loss on excess of loss protection. If you look at the direct facultative and pro rata, we have a comprehensive program covering that and there regardless how much the losses would increase on a pool of basis this -- on this basis tool us together will probably not exceed on a net basis $5 million, that's just the way our protections are constructed.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay, thank you very much. And all the best to you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Thank you.

Operator

(Operator Instructions) There are no further questions, I hand back to the speakers.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, thank you very much for listening into our first quarter conference call. Currently, most things are pretty clear. So we I think have a record time for the conference call. I cannot promise you that that will still be the case on the second quarter or half year, but yes thanks for listening and all the best to you. Have a nice day.

Operator

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