Q3 2017 Earnings Call

Company Participants

- David Cole, Group Chief Financial Officer
- Edouard Schmid, Group Chief Underwriting Officer
- Philippe Brahin, Head-Investor Relations

Other Participants

- Daniel Bischof, Analyst
- Frank Kopfinger, Analyst
- James R. Oram, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Nadine van der Meulen, Analyst
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning or good afternoon. Welcome to the Swiss Re's Nine Months 2017 Results Conference Call. Please note that today's conference call is being recorded.

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

David Cole {BIO 7251632 <GO>}

Thank you very much. Good morning or good afternoon, everyone, and welcome to our nine months 2017 results conference call. I'm here today with Eddie Schmid, our Group Chief Underwriting Officer; and Philippe Brahin, our Head of Investor Relations. So, let me start with just a brief overview of the key figures that we published this morning.

Our nine months results were impacted by the large claims expected following Hurricanes Harvey, Irma and Maria, as well as the Mexican earthquakes, which in aggregate amounted to $3.6 billion. As such, Swiss Re reports a net loss for the nine-month period of $468 million. These severe nat cats are earnings (0:55) events for the Swiss Re Group.

With P&C Re and Corporate Solutions reporting net losses for the first nine months, and our capital position remains very strong. The market developments we observe in the aftermath of these events validate the rationale of our capital management priorities and demonstrate our significant financial flexibility. We're able to absorb the losses, respond to client demands and strengthen the capital position of Corporate Solutions, so that it is able to take advantage of opportunities in the commercial insurance market.

Additionally, we're able to repatriate excess capital to our shareholders with the launch of our share buyback program. Specifically on Corporate Solutions, Swiss Re has established a leading platform in excess layers, providing nat capacity to underwrite commercial risk. Both in Corporate Solutions and in P&C Re, we are very well positioned to benefit from pricing improvements, which we expect to occur across all lines.

The group also benefited from the diversification of its global book as Life & Health Reinsurance reported a strong ROE of 14.3% on the back of good underwriting and investment performance. Life Capital also reported strong gross cash generation of $789 million for the first nine months.

And finally, Asset Management provided a solid contribution to the group with the strong ROI of 3.5% and a stable running yield of 2.9%. Our share buyback program, as authorized by the 2017 AGM, will be launched tomorrow on the 3rd of November, as we have received all the necessary approvals.

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

Philippe Brahin {BIO 19081619 <GO>}

Many thanks, David, and good day to all of you also from my side. Just a quick reminder that we have adjusted the format of our reporting and our comments during the call will be on our nine-month figures, in line with the scope of our press release. And also, I would say, as usual, please restrict yourself to two questions and register again for follow-up questions.

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

Q&A

Operator

The first question is from Nadine van der Meulen from Morgan Stanley. Please go ahead.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Good afternoon. Thank you very much for taking my questions. You mentioned that you expect pricing conditions to improve across the board. Could you give a little bit more flavor there or anecdotal comments, perhaps, on sort of three different buckets; so the P&C Reinsurance, but also on retrocession and perhaps on the primary commercial P&C pricing for the CorSo business? So, that's the first question. And the second question, the SST ratio, the last time you talked about that, it was 262% for 2017. Has this changed taking into account large losses and maybe you could give an indication to the extent that it has changed? Thank you very much.

A - David Cole {BIO 7251632 <GO>}

Thank you. Nadine. Eddie will take the first question, and I'll come back to the second.

A - Edouard Schmid {BIO 18942809 <GO>}

Okay. I'm happy to give a bit more flavor around the expected price increases. Maybe as an introductory comment, it's clear that both the P&C Reinsurance business as well as the Commercial business globally has been running below cost of capital. If you normalize it for nat cat would lock (4:23) and reserve releases. So, it's pretty clear that this is now the time where prices have to return to sustainable levels. Obviously, these expected increases, they vary, firstly, depending on how loss-affected certain businesses are, but then also how much the price deficiency was on the expiring accounts. So in broader terms, I would say, clearly, most significant increases are expected in U.S., as this is the market most effective, but of course also in the Caribbean and then a bit to further away, we would expect more moderate price increases, but pretty much a global impact.

In terms of lines of business, it's obviously the property lines that are most affected. But then also on the specialized side with lines like marine affected, you would expect something. And even on the casualty lines, we would expect improvements, not particularly for the cat losses, but some of the casualty lines like motor in the U.S., motor in Europe, U.S. liability have also not performed well.

And so pretty much, an across-the-board increase, but quite some differentiation. And you also see that maybe it's about the different segments of the markets; retro, reinsurance and commercial. I think the positive dynamics is that all these three parts of the gain are now under pressure to improve. It starts also on the direct side, with the commercial pressure, business has been under significant pressure for some time. Actually, a lot of these losses in U.S. state (5:55) was primarily commercial players. So, they clearly have to take some actions to bring their profitability up. And then also there will be some pressure from the retro side, quite some reinsurers depend on retrocession traditional, but also alternative capital. We think quite a bit of these alternative capital is affected or at least locked in collaterals, so that will put some pressure on retro prices, which then forces some of the reinsurers that depend on retro to also increase the prices.

And according to historical plateaus (6:28), clearly, you would expect biggest increase on the retro side and then still significant ones on the reinsurance side. And then on the commercial side, the direct could also be quite significant. So that's just a bit the picture how I would differentiate, without being too specific in terms of numbers. It's still early days, we have some price point, some deals out there, renewing, as we speak, they are positive. But it's too early to give any, let's say, quantitative assessment.

A - David Cole {BIO 7251632 <GO>}

Thank you, Eddie. And Nadine, coming back to your second question on our SST, you're right, last time we published it was 62% (7:06). We'll of course update that the beginning of next year. Just to give you some indication however (7:13) order of magnitude, what I'm about to say is very much a simplification, but I think it still gives a good sense. A post tax loss of about $500 million would reduce our SST ratio by something in the range of about 3 percentage points.

Now, there are a lot of moving parts and also, of course, we'll come out with our SST at the beginning of the year. But as you correctly mentioned, I think we came into the year, into the third quarter with a very strong capital position. We have seen these losses and are able to absorb them within our capital position, and at the same time, act in the marketplace as well as act vis-à-vis our shareholders exactly in keeping with the capital management philosophy and priorities that we've stated before, and I think this is very important, because we're able to demonstrate that the capital position of the group is strong and that there are advantages to that.

We obviously expect to be very active in the marketplace right now, but I think it's also important that given the overall financial situation and flexibility of the group that we're also comfortable in launching the CHF 1 billion share repurchase program.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Okay. Very clear. Thank you so much.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Question on Corporate Solutions to start with, the $1 billion capital injection, could you give us an indication of maybe how much business going forward you expect that to support. Those are, I mean, I think – based on my math, it's kind of $1.3 billion to $1.5 billion, but any kind of color or kind of rule of thumb there.

And secondly, on the share buyback, given the extremely strong capital position, you've been able to launch the share buyback today. Would you consider launching it earlier in the year next year, if we get to that point? Just any color or thoughts on that would be really helpful? Thank you.

A - David Cole {BIO 7251632 <GO>}

Eddie, you're going to answer the first and I'll come back to the second again.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. I'll give it a try for the first one. I mean, I would say, CorSo is on a long-term growth strategy. And now is really the time to restore the profitability. That's the first priority that will also then support growth in premium volumes, in exposure. But the real game is to also continue to build the primary lead capabilities to increase the footprint. So, the big growth is over a number of years. So, I think the first focus is clearly to drive pricing. And then, depending on how much price we can really gain, we'll also deployable more capacity into that space. But I would not give a direct number how much more premium volume this $1 billion of capital injection would be.

A - David Cole {BIO 7251632 <GO>}

Thanks. So let me just add one comment there...

Q - Kamran Hossain {BIO 17666412 <GO>}

(10:05).

A - David Cole {BIO 7251632 <GO>}

...before I go on to the share buyback program. If you look at the nine months results, Corporate Solutions incurred approximately $1 billion of losses through the nine months. And effectively, what we have done now is strengthened the capital back up to position the Corporate Solutions, which was at the beginning of the year. Now, they started the year in a very well capitalized position. I think we're in a very well capitalized position today. And that's important, because we see the opportunities in the marketplace.

And as Eddie said, we have a long-term strategy, long-term ambition here, and these types of market events, obviously, will impact our short-term results. But in terms of how we wish to participate in the market, how we wish to actually grow that business, these events do not change that.

Let me come back to your second question, Kamran, regarding the share buyback. So obviously it's a little bit too early for me to talk about potential share buybacks after we've included this one. We certainly will be thanking about the feedback that we've received from various stakeholders. We do that every year to make sure that our communications are well understood. We believe there's a lot of value and consistency. I don't think we should just be changing things left and right. After this year's program, at the end of the day, we came to the conclusion that notwithstanding the losses that we incurred, we still are in a position to launch the program. Things could have been different. Irma could have hit a little bit differently. There could have been more damage coming off the back of some of the other events. I think it's always important to realize what it is what we're saying to the marketplaces. We want to hold the capital available to invest it quickly into the business, into the market if opportunities arise.

Here, of course, we have very significant losses for the Swiss Re Group, $3.6 billion. So, there's only one way to describe that, it's significant. I think our capital position remained strong. So, I have to perhaps disappoint you just a little bit, perhaps not a surprise that I would do that in terms of the possibility of future share buyback programs, you have to wait to the beginning of next year. Thank you.

Q - Kamran Hossain {BIO 17666412 <GO>}

Great. Thanks very much.

Operator

The next question is from Daniel Bischof from Baader Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Good afternoon, everyone. Two questions, the first one on Corporate Solutions. I think you made the point that you're deliberately allowing for a higher volatility at CorSo, given the strong capitalization and flexibility you have. But then, I mean if you look at the years 2012 to 2016, I mean, you reported an average combined ratio of 95% if we exclude 3 points for the ramp-up costs of the business and adjust for PYD.

So, I was wondering, we were (12:49) at CorSo should not report a little bit stronger numbers in years with good luck in order to balance volatility that we're seeing right now? And then, secondly, on Maria, what was surprising is that Swiss Re's is one of the few in the industry which has actually quite a high number also from Maria. I mean at $1.25 billion for CorSo and P&C Re. So, I was wondering whether you have a fundamental difference on this loss event than your peers or is it simply that you have a higher market share, specifically in this region?

A - David Cole {BIO 7251632 <GO>}

Okay, Daniel. I'll take the first question and ask Eddie to come back to the questions about Maria. So, I guess, in a high level, I would say, yeah, I think your comment is correct. So the fact of the matter is that we've actually shown some very good results in the benign loss (13:40) years with Corporate Solutions notwithstanding the investments we're making in growth. And to the extent that the business mix would remain unchanged, when the consequence of this exposure to excess layer in the related higher volatility suggested some years we have larger losses and other years we have higher profits. Now, our ambition, as you know, is to extend the footprint and extend the risk profile, the diversification of the risk book of Corporate Solutions. So over time, I would actually expect relative to some of its peers that exceptional volatility would perhaps reduce somewhat. But having said that, I think your comment is a fair comment. Let me turn over to Eddie for Maria.

A - Edouard Schmid {BIO 18942809 <GO>}

And the first one is fair to say that uncertainty about Maria is still there. We still have issues on Puerto Rico. The power is still not fully restored. I don't think it will be getting as bad as some modeling companies hinted earlier on with whatever market losses $40 billion, $50 billion, $60 billion, $70 billion or even $80 billion. The pharmaceutical companies actually managed to restore power quite quickly, they were flowing in generators. So it's quite operational already.

Again, just to give you a bit of a context, our estimate actually for Maria, overall, is $1.25 billion and $125 million (15:03) of that comes from the Reinsurance side, and $325 million (15:08) from the CorSo side. So, you see over there Corporate Solutions will have a significant share as they are a major player in the commercial game with high excess layers, and we have quite a few policies also with Caribbean exposure. But also on the Reinsurance side, we of course on the right business in the Caribbean that explains this loss level. But Maria is still clearly event with more uncertainty and we feel comfortable with the estimate we put up there, as I said the $1.25 billion.

A - David Cole {BIO 7251632 <GO>}

Thank you, Eddie.

Q - Daniel Bischof {BIO 17407166 <GO>}

All right. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. Thank you very much. So, the first question is on the P&C risk appetite. So from your commentary, it's a little bit more encouraging than probably it was in Monte Carlo (16:01), but is there any – should we expect that your appetite for nat cat, however, you would like to measure it or state it, is likely to go up or how would you like us to think of that if the market does follow what we expect or what you expect?

Second question is just on Corporate Solutions strategy-wise, I mean, is there any – I mean you have reiterated the strategy and your confidence in the business. But are there any discussions that you think that there should be some review of such a large loss? I mean I know in the gross (16:43) cycle, it probably looks okay, but when you're putting in $1 billion in now, are you trying to change something or just hope that the bad year never happen again or just a comment (16:56)? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you for both questions. Eddie, if you'll pickup the first, I'll come back to the Corporate Solutions strategy.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. So the first one is about our nat cat risk appetite basically and we have an approach to manage our portfolios very actively. So, we did run, let's say, quite always nat cat positions a number of years ago and the pricing environment was very favorably since a couple of years, as you also well know, there has been quite some pressure and rates softened quite a bit. So we also started to take away some of that capacity. And clearly, if price environments change a lot, we will also deploy again more capacity.

But it's important that the first thing is really to restore the profitability to bring these price levels up to sustainable levels. And again, that goes even beyond the nat cat space. I think it's really for the whole P&C Re sector and the underlying commercial business that needs to move again up to levels above the cost of capital. So, I would not narrow it down just to nat cat. But if prices really move, we clearly have the capital and the appetite to deploy also again a bit more.

A - David Cole {BIO 7251632 <GO>}

Thank you, Eddie. To the Corporate Solutions strategy, more broadly to our willingness and our desire to learn. After all losses, we really take the time to think about what has happened, how does it compare with what we had expected or model of previous experiences and whatnot, and that certainly will be the case here now as well, not only for Corporate Solutions, but also far P&C Re businesses.

Now, we had a loss now reported in the first nine months for Corporate Solutions a little bit larger than the market would have initially estimated based on the overall group loss, reflecting the excess layer concentration of the business, but also the concentration in the Americas, which America lowered about (18:59) 55%, if you include Latin America, you get up to about 65%.

We certainly will take a look at this and come to a conclusion whether the way in which we've been handling the aggregation and the balance sheet where we're holding risk continues to make sense. I have to say the initial – but it really is the initial review, doesn't lead us to conclude that somehow either we miss something or there were something that was overly surprising.

The facts are that we had, in this case, in addition to the two quakes (19:28), three rather significant storms, each of them certainly a material loss, but none of them in the outer ranges of the level of expectations about potential losses. So, we will look at this. We'll think about our overall strategy in terms of the level of retention within Corporate Solutions, but the initial review hasn't led us to conclude that somehow we had missed something.

A - Edouard Schmid {BIO 18942809 <GO>}

If I just maybe add, David, regarding this point, I think even if we had more reinsurance in place, nothing would have changed in the way Corporate Solutions would have underwritten that business. It was a conscious decision to run it with little reinsurance as we managed the capital rather than (20:11) group level. It, in the end, would have been more of a left pocket, right pocket situation that we would then have to (20:17) more losses on the reinsurance side, what we see as a positive (20:21) actually to see the CorSo business as it is without the impact of reinsurance.

And particularly, I think the property business in Corporate Solutions, that's a portfolio I know very well. If you look at that over a longer period of time, we clearly have achieved very attractive returns on equity on every whatever, four, five, six years, we will have a year with significant nat cat losses where the end result is impacted. But as David said, we'll definitely look at it again and maybe then we come up with a slightly different answer.

A - David Cole {BIO 7251632 <GO>}

Thanks, Eddie.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

All right.

Operator

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

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Good afternoon. Thank you for taking my questions. Firstly, can I just ask what's your assessment about the losses from wind versus flood on the three hurricanes? Is there a feeling that the flood losses are perhaps less appreciated today in the market than they should be? And going forward, do you see stricter sub limits being applied till the industry gets a better handle on it? Secondly, it appears that CorSo suffered from material adverse prior (21:38) development during third quarter as well. Can you shed some light around how we are seeing the underlying book developing? And as a sub question to that, how should we think about the dividend up-streaming from CorSo over next one or two years? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you. Eddie, maybe the first two questions, then I'll take the second part of question two.

A - Edouard Schmid {BIO 18942809 <GO>}

So, the first was about wind/floods split, and I think you really have to differentiate between the three hurricanes. If you look at Harvey, that's clearly a flood-dominated event. There was actually not that much wind damage, just where it made landfall, and the bulk of the losses come from the Houston area, which there was really record rainfalls.

And again there, the bulk actually comes from the commercial business, which also explains a bit higher share of the CorSo loss. A lot of the personal line, the residential lines, they don't even have flood coverage. It's mainly with the National Flood Insurance Program. So, clearly, in Harvey, flood is dominating part. In Irma, it's a bit more balanced. And then in Maria, there's clearly a lot of wind losses as well. And you made a good point about sub limits deductibles and kind of thing. And also let's say that part in the last couple of soft market years, there has been a bit of deterioration of some of these conditions. So it's also important now to not just think about price increases, but also to fix some of the tightness of the wording (23:10), so that's an important part of the improvement story as well.

In terms of your second question that was relating to some adverse developments on the Corporate Solutions business, I think we commented on that at Q2 results. Actually, that is coming mainly from some larger U.S. liability claims. And again, a bit of that happened in the third quarter. I would say that with the nature of these liability claims, the way it plays out with CorSo being in excess position, for some of the losses to really materialize and become clear, it takes a bit of time and that has actually explained quite adverse development in CorSo for the last few quarters. What I would say that the U.S. liability segment has been in focus of the underwriting team in Corporate Solutions for quite a while now and it has been underwritten. We have also taken away some capacity in that segment to fix it. And now, a little bit more headwinds from the catastrophe losses, we'll continue to improve the U.S. liability business, push for full (24:24) rates and also tighten conditions. And if it doesn't improve enough, we will again take a bit of capacity away from that business. So, that's I would describe this adverse development in Corporate Solution.

A - David Cole {BIO 7251632 <GO>}

Thank you, Eddie. As to future dividends from Corporate Solutions, let me take just a second to draw the context, which is that just as at a group level we want to be consistent in our capital management philosophies. We think it's also important to have discipline in the way we manage capital throughout the group and couple of things that I'll point out that are I think relative to your question.

The first is that we – it is important of each of our underlying carriers to be properly capitalized, to capitalize in a fashion that not only meets the regulatory requirements, but also make them attractive to the clients and gives the units proper capacity to pursue their growth strategies. And that, of course, will continue to be the same, not only for Corporate Solutions, but for other carriers as well.

The second thing is we think it is a good discipline across the group to ask each of the underlying units to basically move up to the group level in excess capital that they develop during the course of their activities. We do that at least on an annual basis. Just this is little bit too early for me to talk about dividends for the Swiss Re Group for the full year 2017, it's a little bit too early for me to talk about future dividends for Corporate Solutions. It will very much depend upon how they get along in the market in terms of their profit to generation.

But let me just reiterate that they're well capitalized. They have the ability to write attractive business. And as a matter of group philosophy and framework, we think it's appropriate that there is a discipline throughout the group that people are also thinking about the need to properly push capital back up to the group on a regular basis. And that's something that we review every year and I anticipate that discussion or review to take place around Corporate Solutions next year, just like it did earlier this year and last year and over the last handful of years.

I think if you look at the track record of Corporate Solutions, you'll see they've been a very attractive dividend payer to us, but notwithstanding they've been on a growth trajectory. And I would expect – without making a specific comment about beginning of next year, I would expect that trajectory to continue. Thank you.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

Operator

The next question is from James Oram from Citigroup. Please go ahead.

Q - James R. Oram {BIO 19736003 <GO>}

Hi, guys. Afternoon. This is James Oram from Citigroup. I have two questions please. The first question is on Life Capital. We had five quarters or so of gross cash generation of around $200 million-plus in the unit and you've now reached $1.5 billion of generation since the beginning of 2016. I just wondering if you think it might be time to raise that guidance of $1.4 billion to $1.7 billion over 2016 to 2018 or whether that implies that the recent positive trends might not be sustainable. Thanks very much. That's the first one. And the second one is back to internal dividends and holding company cash. It's unlikely you're going to see massive amounts upstream from P&C Re or CorSo next year, I would imagine, particularly if you want to grow in those units. If you factor in the capital injection back into CorSo as well, are you worried about what that might mean for your holding company cash position, particularly when it comes to potential acquisitions or additional capital returns? Thanks very much.

A - David Cole {BIO 7251632 <GO>}

Thanks, James. Two great questions. So let me pick up both of them. First on the Life Capital side, so yes, we've been very pleased with the gross cash generation of that business unit over the last several years. I think the numbers you quoted are just about right, it sounds very familiar to me. It's a little bit too early for us to be talking about what's our ambition going forward, but we certainly are thinking about that type of thing.

In terms of the underlying nature of your question, we're now anticipating a significant negative development in cash coming off (28:24) those businesses. Now, quite the contrary, I think the underlying performance of the closed life business has been actually very much in line with our expectations and very much to our satisfaction.

We are continuing to invest in our Life Capital business, including in the open life book business, which of course is in the initial years, not a generator of cash, it actually is consuming cash. But on an overall basis, I think we remain very, very pleased with the cash generation prospects of the Life Capital business unit. And we certainly will come back to the $1.4 billion to $1.7 billion, I believe, off the top of my head, gross cash generation for 2016 to 2018 at the beginning of the year.

As to your second question, exactly this type of thing, of course, the overall financial position of the group and the flexibility of the group that we are thinking about in terms of how we wish to position the underlying operating units, but also how much capital and the nature of the capital available to us, we would like to hold at a group level.

So, it's absolutely true that in situations where losses occur, we may wish to put the capital back into the business units and we've demonstrated that, I think, very clearly with our action on the Corporate Solutions side. I think we've discussed in the past that we hold a buffer at the group level, which recognizes the inherent volatility of our business. So, we want to be able to maintain the dividend even in a year where we may have losses across the group, and therefore we hold reserve for that purpose.

We also hold capital that we don't clearly have a clear view on exactly where we may be able to invest it over the intermediate future recognizing that sometimes opportunities arise in unexpected times, in unexpected ways. And certainly, these types of market events would remind us that we need to be very, very alert and looking at the market opportunities that may come out the back of this.

The short answer to your question is, we feel comfortable with the financial condition of the group, also at the holding company level. We've, I think, for many years, followed the practice of maximizing the fungibility of our financial resources, maximizing the flexibility of the group in terms of access to financial resources. And I think when we reviewed the situation at the end of Q3 of this year, we concluded that we still are very comfortable with our overall financial strength and our ability to pursue the capital management philosophies that we've earlier articulated. Thank you.

Q - James R. Oram {BIO 19736003 <GO>}

Great. Thank you very much.

Operator

The next question is from Thomas Seidl from Bernstein. Please go ahead.

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Thank you. Good afternoon. The first question is on pricing, if I may, so Baden-Baden was last week, where usually reinsurers give first vote (31:25) and you get a better sense of where pricing is going. Secondly, I would say (31:29) that a half year still had a 102% (31:31) price adequacy; and third, you might record this year 20%, 22% nat cat losses in P&C Re, but when you sum it up over the last five, six years, you are still below the average annual budget of nat cat losses. As I wonder, why you're confident that this calls for a market-wide price increase rather than you just lost prone accounts. That's first question.

And the second question regarding capital, again, sorry to come back to this topic, as you say, you want to have this buffer, $3 billion to $5 billion. Now, you're going to pay $2.7 billion on the buyback dividend, you're allocating $1 billion to CorSo. What is remaining is maybe $1 billion to $2 billion. Is that basically sufficient to capture the growth opportunities you expect from those losses?

A - David Cole {BIO 7251632 <GO>}

Thank you, Thomas. I'll ask Eddie to pick up first question. I'll come back to the second.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. Historically, we had always the meetings (32:36) in Baden-Baden, and obviously, there will always be a bit of pushback about the need to increase prices. But I would first go back to a comment I made earlier. It's really very clear that the P&C Reinsurance industry has been clearly running below cost of capital and that's not just the nat cat story. Of course, you need to normalize for that. But also significant impact was actually from favorable reserve development from much earlier they're using, but (33:02) really normalize it, it's clear that the P&C Reinsurance business is not meeting the cost of capital and just a momentum. And from the retro side, and as I mentioned from the commercial side where clearly also prices have fallen to inadequate levels, I clearly expect this to have an impact. There's always a bit to debate to what extent then losses, in whatever region, like the U.S., will impact the pricing in Europe. But it's fair to say that everybody has benefited over a number of years from a global, very benign loss environment and from fairly benign inflation levels.

So, everybody was quite okay to benefit in their markets to get some price softening. (33:44) these events just make it very clear. And at the industry, both on the reinsurance side, but also on the commercial regional side, is not at sustainable price level. So, there will be a lot of negotiation and it's not always an easy talk, but clearly I think the industry has to take some action and we expect this to have very positive momentum.

We will have a bit of time lag as well. I mean as the European renewals, original (34:12) policies, but also reinsurance renews at different points in time, and then we see this momentum building up over time.

A - David Cole {BIO 7251632 <GO>}

And Thomas, as to your second question, well, a couple of the figures you cited, I don't recognize. So, I won't respond specifically to the numbers. The concept, I'm very happy to confirm that, yes, we retained sufficient capacity to be able to deploy it into the marketplace and that's exactly what our colleagues are doing right now. So, you can imagine that across the globe, both of our P&C segments, but also in our other segments, our colleagues are out working with clients, thinking about their needs, looking at the claims they may have incurred, but also the protection needs they see going forward. So, we remain very comfortable with our ability to fulfill our capital management philosophy, starting with the superior financial position, but certainly being able to respond to market opportunities that may arise.

Q - Thomas Seidl {BIO 17755912 <GO>}

But you still want to maintain those $3 billion to $5 billion buffer you mentioned in the past, or is this number not valid anymore?

A - David Cole {BIO 7251632 <GO>}

That's the second time you come up with a number. I think your numbers may be a little bit off, but we remain well in keeping with all of our previously communicated respectability targets.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. All right. Thank you.

Operator

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

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon. Two questions. First, I tried to – first on P&C Reinsurance. I tried to reconcile your nine months figures with my estimates and I want to understand the combined ratio in P&C a little bit better. So, quite frankly, how much prior-year reserve development did you book in the third quarter? And did you use any of your retro protection? The second question on Life & Health Reinsurance you showed a quite strong result, in my view. And can you speak a little bit about the drivers of this result? And in particular, are there any special one-off effects or favorable development in this Life & Health Reinsurance results?

A - David Cole {BIO 7251632 <GO>}

Thank you, Michael. Eddie, will you pick up the first, and I'll come back to the second.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. On the first one, P&C Re, so for the first nine months there was, indeed, some positive prior-year developments, as we had in earlier quarters. We do not disclose the details, but will only happen again in the full year. You also hinted to retrocession, so we have some protections in place. We have some side covers for our cat portfolio. We'll have some recovery, but we also don't provide the detailed break downs in terms of the gross and net losses. So there's some, but we're not relying hugely on retrocession, as you know.

Q - Michael Haid {BIO 1971310 <GO>}

And can you say, to what extent, ILS affected your P&L in the third quarter?

A - Edouard Schmid {BIO 18942809 <GO>}

Nothing significant. It's a drop.

Q - Michael Haid {BIO 1971310 <GO>}

Okay.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. It's a drop.

Q - Michael Haid {BIO 1971310 <GO>}

Okay. Perfect.

A - David Cole {BIO 7251632 <GO>}

And to your second question, Life & Health Re had a very strong performance through the first nine month, and also, as you have seen, if you do the math, in the last three quarters. I think the most important thing to cite is just the well-performing underlying, well-diversified portfolio and the good (37:54) business that we've been writing. We experienced, I think, some positive mortality experience over the course of the last period. We have had some financial gains on the – realized gains mostly coming from realizations on the equity side.

But I think, if you ask me, what's driving the performance, the underlying driver is the high-quality well-diversified portfolio, which we manage quite actively. And I think it gives us also the comfort for that through the cycle target, which is to have an ROE in excess of 10% to 12%. Now, we actually are showing higher numbers of that right now and we're very, very pleased with that. There's not an exceptional item that I would like to cite, impacting us for the first nine months. I think the real underlying drivers just a good quality well-diversified portfolio. Thank you.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. I'm following up slightly, but Eddie, you referred a couple of times to rate increases being needed, because your returns are below cost of capital. And I guess (39:13), one of the question implied your risk-adjusted price adequacy in P&C Re is 102%.

So just to clarify those things are not consistent, were you – is your cost of capital statement about the industry, because when you were saying it initially, it sounded like you were talking about Swiss Re. I can't reconcile those two statements.

(39:30).

A - Edouard Schmid {BIO 18942809 <GO>}

Indeed, I was referring to the industry overall, P&C Reinsurance globally, where you can do this calculation and it clearly tells the story. We have managed our portfolio quite actively, as I mentioned earlier. So, we also started to take some capacity away. We reduced the business in some parts of the business, actually, to maintain the price quality as close as possible to our profitability target. So, the picture I was painting was an industry picture. Yes, so that's important to clarify. Thanks.

A - David Cole {BIO 7251632 <GO>}

William, I have a suspicion you had a second question.

Q - William Hawkins {BIO 1822411 <GO>}

No, that's very kind of you. Thank you. With regards to internal dividends, is it a foregone conclusion that P&C Re pays basically no dividends, because you've made no earnings? Or given that you still got lots of capital flexibility within the Reinsurance group overall, is there still the potential to be up-streaming some noticeable amounts of capital at the end of this year?

A - David Cole {BIO 7251632 <GO>}

Yeah. Thanks. I won't talk specifically about upcoming dividends from the different units, as I mentioned. But I think your comment about, is it a foregone conclusion is incorrect.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions. My first question, I would like to come back to Corporate Solutions. So, obviously, for Corporate Solutions, it was not an earnings event only, it was a capital event. And with this, my question is whether you and also we, our markets, underestimated the risk profile of this business? it's a – at the end, it was $1 billion loss from these nat cat events, this is 12 (41:23) times your budget. And so, the question is, did you and we underestimate the risk profile? And going forward, should we expect that the nat cat budget is going to rise there?

And then secondly, on your Life Capital business, obviously, in Germany, there are some major life portfolios – run-off portfolios for sale now, potentially, is this something so far you are not involved in the German run-off market, but is this something you're looking at, would this fit into your strategy?

A - David Cole {BIO 7251632 <GO>}

Thank you, Frank. Eddie, you want to talk about Corporate Solutions. I'll come back to the...

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. Corporate Solution, and let's say, the nat cat exposure in that business. I mean, from all we can see so far from these three hurricanes as well as the earthquakes that there is no, let's say, big surprise factor. So, it all sees (42:21) within the way we assess these risks going forward. As you know, we have a lot of experience in modeling, assessing these nat cat risks. So, every policy in Corporate Solutions is runs through the group cat assessments tools to price the business, but also then to monitor the accumulation up to the group level. And we allocate limits at the group level and then to the business units and then to the various profit centers.

And all these losses, from what we can see now, are well within this framework. Obviously, we will review once the losses are more mature, whether some of these modeling assumptions need to be calibrated, particularly on the flood side, which is still a bit a more tricky peril to (43:08) model. There's factors like how much demand surge will we see post these large losses, three hurricanes in a short period of time, there's a bit of lack of loss adjustment resources and labor, materials. So, we'll definitely assess that. But at this point, from what I see, this is all well within expectation. So, no big surprise elements as they have been from some cat losses in the past, like the Thai floods or the Katrina.

So I'm still very comfortable that we really know what we do in the Corporate Solutions business. It's just fair to say that it was in still, let's say, a limited premium portfolio, these exposure of course creates a lot of local volatility. So, it really only makes sense to then see it in the bigger context of the group balance sheet, wherein together with reinsurance it's in proportion to how we run nat cat business as part of our total risk book (44:08).

A - David Cole {BIO 7251632 <GO>}

Excellent. Thank you, Eddie. And Frank, to the second question about the rumors, of course, we get confronted with rumors from time to time, it's our policy not to respond to specific rumors for all sorts of, I think, very understandable reasons. But what I'm happy to do is just confirm some of our earlier communication, which is that we are very much focused on the UK, and I expect we'll continue to be focused on the UK. And there's two very important reasons for that, the first being (44:36) is that we have an exceptionally strong and competitive platform in the UK. And the second is that we continue to see a very attractive pipeline of potential transactions. So, just leave it at that.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning, guys. Good afternoon, sorry. One quick question for you is, could you talk about and comment about the underlying profitability of the PC Re segment and CorSo stripping out the, I would say, some of (45718) the noise created by the cat in Q3, though, if you could benchmark or compare the current underlying performance versus the 100% combined ratio for PC, or 103% (45:33) for CorSo just to have the underlying picture? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you. Eddie, you want to respond?

A - Edouard Schmid {BIO 18942809 <GO>}

I'm not quite clear what you really want to know beyond the combined ratio. Can you...

A - David Cole {BIO 7251632 <GO>}

Thomas, maybe I give a quick reaction and, Eddie, you can add on to that. We're not going to go into the detail of the underlying performance. But what I can tell you at this point in time, Thomas, is based on our results year-to-date, there's no reason for us to change the estimates that we've provided at the beginning of the year regarding the underlying performance of P&C Re, but also Corporate Solutions. I think, based on our view of the business year-to-date, the estimates we provided at the beginning of the year are not something that we believe we would like to change at this point.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Great. This is Philippe Brahin again. So, we've come to the end of our Q&A session. So thank you, David and Eddie. If you have any questions please don't hesitate to reach out to the Investor Relations team. I also wanted to mention that we would host our Investor Day next year on the 4th of April in Zurich. So, we hope to see many of you at our events.

With that, thank you again for your participation today.

Operator

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