Y 2020 Earnings Call

Company Participants

- Clemens Jungsthofel, Member of the Executive Board, Chief Financial Officer
- Jean-Jacques Henchoz, Chairman of the Executive Board
- Klaus Miller, Member of the Executive Board, Life and Health

Other Participants

- Andrew Ritchie
- Kamran Hossain
- Michael Haid
- Thomas Fossard
- Vikram Gandhi
- Vinit Malhotra

Presentation

Operator

Good afternoon, ladies and gentlemen. I welcome you to today's Hannover Re International Analysts Conference Call on the 2020 Annual Results. For your information, this conference is being recorded. At this time, I would like to hand the call over to your host today, Mr.Jean-Jacques Henchoz, Chief Executive Officer. Please go ahead, sir.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Well, thank you very much and good morning everyone. Welcome to this conference call, which is aimed at presenting our results for the full year 2020. As usual, I'll start with an overview before our group CFO, Clemens Jungsthofel goes over the financials in more detail. I will then comment on the outlook for 2021. And for the QandA, I'm additionally joined by my board colleagues, Klaus Miller and Sven Althoff.

2020 was definitely an extraordinary year, and the world still finds itself facing an exceptional situation. We've had all to deal with ongoing difficult circumstances and the COVID-19 pandemic has dominated development in society and economies around the world. It remains as well a challenge for the whole industry, insurance and reinsurance. In this volatile environment, the Hannover Re Group has again proven its resilience and demonstrated its support for its clients. Bearing in mind that we have absorbed a total net pre-tax impact of around EUR1.2 billion from COVID-19 in our PandC and Life and Health businesses. The group net income of EUR883 million and the return on equity of 8.2% can be considered quite satisfactory.

Additionally, the Solvency II ratio stayed above our minimum threshold of 200% throughout the year and stood at a strong 235% at the end of 2020. Not only that, we recorded double-digit premium growth, particularly driven by the improving market environment in PandC, reinsurance and overall. While there are still uncertainties surrounding the course of the pandemic, it is our expectation that COVID-19 will have significantly less influence on the development of Hannover Re's business going forward.

Furthermore, we anticipate sustained improvement in prices and conditions in both the insurance and reinsurance markets, and Hannover Re is very well positioned to benefit from these market dynamics. For this reason, we have decided to omit payment of a special dividend for 2020, and to make maximum use of the opportunities opening up in the market. For the ordinary dividend, we will propose to pay EUR4.5 per share.

Going into the details of the results for our PandC Reinsurance business. The additional EUR250 million reserving related to COVID-19 claims in the fourth quarter brings the total net loss estimate to EUR950 million. Here we have taken a more conservative and also a more long-term view of the loss expectation with further reserves added for event cancellation, credit and surety and also long tail lines like casualty. Additionally, it was important for us to keep the IBNR at a high level to reflect the uncertain environment and large loss expenditures, excluding the COVID-19 losses were bit below average overall. However, including the COVID-19 losses, our budget for 2020 was exceeded by EUR620 million, bringing the full year combined ratio to 101.6%.

In Life and Health Reinsurance, the COVID-19 impact on the result was EUR261 million. Here the main driver continues to be our U.S. business. Against this backdrop, the EBIT of EUR385 million is strong, also stripping out some extraordinary effects from an equity participation. Financial Solutions continues to perform superbly, and the U.S. mortality experience excluding the COVID-19 effect was in line with our expectations. Finally, at 3%, the return on investment was quite favorable and ahead of the 2.7% target, which we communicated in November last year.

The dividend proposal of EUR4.5 per share or EUR542 million in total represents a payout ratio of 61%, well above the 35% to 45% range we normally target for the ordinary dividend. Overall, this keeps the payout ratio in line with prior years, and confirms our commitment to dividend continuity even in an extraordinary year like 2020. The fact that we ultimately decided to increase the ordinary dividend by EUR0.50 is a reflection of the positive earnings momentum we're anticipating in the coming years, and hence shows that we feel comfortable enough to raise the benchmark for the ordinary dividend in the future.

Finally, as mentioned before, we have omitted a special dividend for 2020 because we expect continued positive pricing momentum, particularly in the PandC business lines, and we want to be optimally positioned to take advantage of further growth opportunities.

The profitable premium growth in 2020 and our investment activities are the main reasons for the record high operating cash flow of EUR3.2 billion, the strong cash flow more than compensates for the negative effect from currency translation, resulting from the appreciation of the euro. Additionally, the increase in valuation reserves supported the growth in assets under own management to EUR49.2 billion. This development is of particular importance in the current low yield environment because the growing asset base partially helped us to mitigate the impact from lower investment yields.

Looking now at our capital position. Shareholders' equity increased by 4.4%. As you can see, the net income was more than sufficient to cover the dividend payment in Q2. And within the OCI, the positive impact from the decrease in interest rates is more than compensating for negative effects from currency translation. On the left side of the slide, you can see that the capital composition is more or less unchanged, apart from the increase in shareholders' equity. We have therefore maintained the high level of flexibility around our hybrid capacity.

On the next slide, as mentioned earlier, the return on equity is highly satisfactory, bearing in mind that the group absorbed EUR1.2 billion COVID-19 impact. At 8.2%, we actually only slightly missed our target of 900 basis points above risk-free. On the right hand side, you can see that despite the challenges the reinsurance industry was facing over the past five years, we have outperformed our ROE target, therefore, the 11.7% average of ROE for this period remains quite pleasing, even more so if we take a look at a comparison with our peer group on the next slide.

On the one hand, this slide confirms the high profitability, low volatility profile of Hannover Re. And looking at the five-year average the spread of almost five percentage points versus the industry average is significant. On the other hand, industry returns over the past five years again highlights the need for further Improvement in reinsurance pricing.

On that note, I'd like to hand over to Clemens, who will explain the figures in some more detail.

Clemens Jungsthofel {BIO 20496428 <GO>}

Thank you, Jean-Jacques. Happy to do so. Good afternoon, everyone. I'll move directly onto the segment reporting starting on Page 10. I will start with the development of our Property and Casualty business group.

Gross written premium grew by 15.8%, adjusted for currency effects. All three regional markets; Americas, EMEA and APAC contributed well to the diversified growth. In the specialty lines the growth was most significant in our agricultural business. Altogether, the development was driven more by Property than Casualty business.

Looking at the large loss situation for Hannover Re, the loss expenditures from natural catastrophes and man-made losses were moderate overall in 2020. This allowed us to absorb at least a part of the EUR950 million COVID-19 impact that Jean-Jacques was mentioned earlier, within our large loss budget. Still, the budget of EUR975 million was ultimately exceeded by EUR620 million or 4.4.% of net earned premiums. Adjusted for this budget overrun, the combined ratio would have been pretty close to our target combined ratio of 97%.

As Jean-Jacques mentioned, in spite of this accelerated reporting of losses in the fourth quarter, we kept the level of IBNR at a very high level, 65% actually, to be precise. Even though there remains uncertainty around the loss situation, the additional reserving, particularly in the fourth quarter, has reduced the risk of further additional reserving in 2021. So the high level of IBNR still provides significant headroom for actual claims to be reported.

The runoff of our reserves was positive. In 2020, we have seen particularly positive developments in the underlying ultimate loss ratio. And since you will ask me that question anyways, I will have a comment on our reserving level, on our confidence level. Altogether, I would expect that our confidence level in our reserves is at least stable or has actually slightly increased. Other income and expenses were clearly positive at EUR115 million. This is mainly driven by positive currency effects. Altogether, the EBIT margin decreased to 5.9%, mainly of course due to the corona loss impact on the underwriting results.

Moving on to Slide 11, total net large losses, including COVID-19 related claims accounted for roughly EUR1.6 billion in 2020. Compared to the last 3 years, as you can see, the difference between the gross and net loss is significantly smaller this year. This can be explained on the one hand by the COVID-19 losses, which are only partly triggering relief from our retrocession program. On the other hand, our ILS business was less affected due to the more moderate loss situation on the NatCat side.

On page 12, you can see that the first part of our large loss list shows a certain frequency of NatCat losses. However, the severity was limited overall and only one loss, the so-called derecho storm event in the U.S. made it onto the triple digit numbers for our net account. The second largest event was Hurricane Laura, however, altogether at EUR484 million natural catastrophes were almost EUR300 million below the allocated budget.

Moving on to Slide 13. On the man-made side, the port explosion in Beirut accounted for EUR87 million net, but even including three other property losses, the total impact for the year was below our man-made large loss budget. Looking at the numbers for COVID-19, you can see that the gap between the gross and net losses has further increased since the third quarter. The reason for that is that more claims were actually reported by our clients, hence enabling us to allocate IBNR reserves to individual treaties. And we also take into consideration our retrocession protection, of course.

Overall, the net loss increased by EUR250 million in the fourth quarter, with further additional reserving in casualty lines, credit and surety, as well in the area of event cancellations. For business interruption, we have seen a mix of some increases in the loss assumptions and further relief from our retrocession protection.

The next slide shows the profitability of our PandC portfolio by line of business. As you can see, overall, COVID-19 affected multiple regions and lines of business, but Europe and credit and surety were the most severely impacted ones. The weaker technical profitability in the Americas was mainly the result of the weather-related U.S. losses, agricultural business mainly was affected by the bushfire in Australia. On the positive side, the technical profitability of our Facultative business as well as our Aviation and Marine business was very favorable. Altogether, the combined ratio was at 101.6%, largely reflecting the impact of COVID-19.

On Slide 16, looking at the development of our Life and Health business group, growth was mainly driven by a large financing treaty in Australia. However, this was partly mitigated by the expected reduction in premium volume due to the effect of recaptures in our U.S. mortality portfolio as a result of our management actions, as you know, in the previous year. Altogether, gross premium increased by 4.7% adjusted for currency effect. The impact from COVID-19 was EUR261 million in the full year, of which 1/3 is booked as IBNR.

The main driver also in the fourth quarter was our U.S. mortality book. Apart from this, we expect to see some impact on our Australian disability business, as already reflected in the Q3 numbers. Overall, the material difference between population mortality and the effect on our portfolio continues to be visible due to socio-economic factors and a different age structure.

Apart from COVID-19, the result of our Life and Health business group was quite favorable. The legacy U.S. mortality portfolio performed in line with expectations. The earnings contribution from our financial solution business, in particularly continued to be excellent, and the results from our longevity book was also very strong. In addition, the results from one -- at equity participation increased significantly to more than EUR80 million, and also realized gains in the Life and Health segment were higher than expected. On a normalized basis, the EBIT would have been around EUR500 million.

The net investment income increased slightly as the EUR100 million positive one-off effect recorded in 2019, as you will remember, was offset by the increased result from at-equity participation, as mentioned earlier, and higher realized gains. Otherwise, the ordinary income was favorably supported by an overall positive contribution from the change in fair value through PandL.

Other income and expenses are primarily driven by a further increase in the contribution from our deposit accounting, Financial Solutions business not only in the U.S. but also in China. Currency effect was slightly negative, and at 15.2% the tax ratio is low, mainly due to good results from subsidiaries in jurisdictions with a lower tax rate and the tax reduced investment gains from the aforementioned participation. In the fourth quarter, as you will see, the standalone tax ratio was higher than usual. This is mainly because of some adjustments to loss carry forwards.

On Slide 17, as sort of as an additional information beyond the IFRS numbers, you can see on this slide an overview of the new business written in Q4 2020, as well as upcoming business opportunity in the Life and Health segment. Both the new business and the pipeline business are rather diversified by regions and reporting category, but particularly our financial solution business is an area where we continue to see very, very healthy demand. Altogether, the value of new business for the full year 2020 stood at EUR778 million, well ahead of our full year target of at least EUR220 million. Main drivers were U.S.

Financial Solutions business and our longevity business. Additionally, we were particularly successful in new business generation in China and in Australia.

So let's move on to our investments on Slide 19. I think it's fair to say that it's quite pleasing to see that despite the very challenging environment on the capital markets, the return on investment of 3% is well ahead of the full-year target communicated last year in November. The decrease in ordinary investment is driven by a lower contribution from our inflation-linked bond portfolio. And we purchased that to hedge inflation risks as well. And then lower ordinary income as well diminished by some lower returns from our private equity portfolio.

On the positive side, the results from associated companies, which is included in the ordinary income on this slide, shows a remarkable increase by the results from that -- at equity participation mentioned earlier. The effect of this at equity participation, just to put it in context, was around EUR80 million in 2020. I would not necessarily call the full amount an extraordinary effect, as it is driven by regular business but EUR80 million was certainly more than we would have expected for the year.

Realized gains increased to EUR330 million, mainly driven by some reallocations within the fixed income portfolio, which will inevitably trigger disposal gains in the current interest rate environment of course. This was also the main reason for the out performance of our own expectation in the fourth quarter. Impairments and depreciations, as you can see here, were higher than last year, largely due to some impairments for alternative investments. But overall, really still very moderate. Unrealized gains increased significantly to an all-time high of EUR3.5 billion, driven by significantly lower interest rates and further normalization of credit spreads in the fourth quarter.

On the next slide, Slide 20, you can see that our asset allocation remained rather stable despite the volatile market environment in 2020. Listed and private equity as well as other investments increased slightly by 1%, looking at the numbers. But these developments are rather valuation driven and the actual numbers did not really move a lot. So in the first quarter, as you will remember, we took advantage of the price correction on the stock market and we carefully re-entered listed equities buying around EUR250 million of listed equities. This portfolio has, of course, developed quite nicely through the year and carries a good portion of unrealized gains at the end of the year.

For a few months, we have been following a passive de-risking approach with new money being invested in high quality assets only, but we carefully started to normalize our credit risk taking in the third quarter. The contribution to ordinary investment income is diversified, as usual, this time with a lower share from private equity.

Slide 22, last slide in my part of the presentation, you can see that our Solvency II ratio stands at a strong 235% at the end of 2020. This is significantly above our limit and threshold. Even more importantly, despite the significant volatility on capital markets and the loss burden from COVID-19 pandemic, our Solvency II ratio remained above the 200% at all times throughout the year, proving the effectiveness of our risk and volatility management, as well as our ability to absorb shocks. Overall, the decrease in Solvency II ratio in 2020 can be explained by the increase in the SCR capital, the required capital. And this is mainly driven by business growth, but also due to the lower interest rate levels and higher market volatility.

Own funds, on the other hand, also increased driven by the strong operating capital generation of around EUR1.6 billion. The strong capital generation was also the driver for the improvement of the solvency ratio, particularly in the fourth quarter. The two most important factors here were the strong value of new business in Life and Health, and the positive reserve runoff in PandC. We will publish the full reporting in our SFCR on the 8th of April, so I have to ask you to be patient for the full details.

Finally, just as a reminder, please bear in mind that the numbers for our regulatory Solvency II ratio on this slide reflect, of course, only one of the capital models that we have to consider in steering our company, other models, particularly from rating agencies have different requirements.

So this concludes my remarks and I'll hand back to you, Jean-Jacques.

Jean-Jacques Henchoz {BIO 17457677 <GO>}

Thank you, Clemens. And I'll move to Slide 24 with our target metrics, which reflects on the one hand the impact COVID-19 has on our profitability. On the other hand, we met or exceeded a number of targets, despite the challenging environment, confirming that we remain very successful in growing our business, both in terms of premium and measured by the value of new business. Also, our investment results, as highlighted earlier, is very strong and Clemens mentioned it, we maintained a capitalization well above our 200% target.

On Slide 26, moving on to the outlook for the 2021 financial year, I'll start with PandC Reinsurance. Here, our expectations for volume and profitability confirm the successful outcome of our January renewals, which as Sven and I presented about a month ago. We're taking advantage of the improving market environment and are growing on a diversified basis. And we also continue to expand our position in non-traditional reinsurance.

On Slide 27, showing the Life and Health overview. The picture is a bit more diverse. Growth is expected in longevity and Financial Solutions. In the last decade, this volume indication also includes business, which is booked according to the deposit accounting method and is, therefore, not visible in the premium income.

In mortality, we expect further losses from the COVID-19 pandemic, mainly in the U.S., and hence the profitability will be impacted during the year. The premium is expected to be slightly lower, mainly due to the natural decrease in our in-force book and our limited appetite for new business in the most competitive segments in traditional lines in health, particularly in the U.S. and the U.K. market.

In morbidity, the overall development is more stable.

On Slide 28, our guidance is unchanged compared to the numbers that we communicated back in November last year and confirmed a month ago with the publication of our January renewals information. Gross written premium is expected to grow by around 5% for the whole group. Due to a very healthy pipeline for new business opportunities. There's probably more upside potential to this number than downside risk, and we expect a return on investment of around 2.4%, mainly reflecting the deterioration of interest rate levels.

The group net income target is in the range of EUR1.15 billion to EUR1.25 billion. In PandC, we feel confident about achieving our goals, particularly the combined ratio target of 96% or lower. This is supported, as mentioned earlier, by our reserving for COVID-19 related losses in Q4 2020, which has significantly reduced the risk of further additional reserving in 2021.

At the same time, due to the prevailing uncertainty around the COVID loss development in liability lines and credit and surety, we have decided to remain cautious and have kept our initial loss ratios rather stable in those lines instead of translating the full price increases achieved in the January renewals, directly into improved loss ratio assumptions.

In Life and Health, we have to expect further COVID losses, in particular, driven by the expected development in the U.S., at least until we see the positive effects from vaccinations later in the year. However, part of this development was initially already included in the outlook, and we will see a positive one-off effect of EUR130 million in Q1, triggered by a restructuring of the reinsurance arrangement for the ING portfolio. Altogether, this will help to mitigate the impact from additional COVID losses in 2021.

Finally, we will continue to adhere to our general dividend policy going forward, with a payout ratio of 35% to 45% for the ordinary dividend, and the addition of a special dividend if our performance is in line with expectations and the capitalization of the company remains comfortable at least the case today.

This concludes my remarks. And we will be very happy to answer your questions. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin our question-and-answer session. (Operator Instructions) And the first question is from Vikram Gandhi, Societe Generale. Your line is now open. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Hi. Good afternoon, everybody. It's Vikram, SocGen. I've got three questions, please. Two on COVID claims, one on SCR. Firstly, can I ask how comfortable are you with respect to the BI reserves since I see the group has -- had releases over third quarter and fourth quarter as well. I know you mentioned the retro recoveries, so is it just that or even your view on a gross basis has improved? That's question one.

Secondly, the significant increase in other lines with respect to COVID in Q4. Can you comment on what are the key casualty classes where you've increased the results? And if you don't mind, the IBNR position on that bucket?

And lastly, I noticed quite a steep increase in the (inaudible) capital for the life and health business, the SCR, and I wonder what's driving that? And now that you have a better balance between the two businesses, why isn't the diversification benefit going up? Thank you.

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

Well, thank you very much. So Sven will take the two questions on reserves for BI and casualty lines?

A - Klaus Miller {BIO 16886879 <GO>}

Yes. Thank you for those questions. Our BI gross reserving has actually increased during the course of the fourth quarter. So when you see that our net position has reduced, this is mainly a function of our retrocessional position and the developments which we have seen late in December and beginning of January, both Australia and the U.K. are baked into those numbers. So from what we know today, this is all reflect in our reserve position. But there are, of course, further cases in the various countries in the court, so we have to wait the outcome on those but we have tried to anticipate the outcome when we put up our IBNR reserves on the property side.

When it comes to casualty, we have used a rather broad brush approach when it comes to COVID-19 related reserving. So we have not specifically highlighted any particular class within casualty. We have just moved our provisions across casualty by a few percentage points in order to also reflect the uncertainty from which part of casualty exactly losses will come from. So from that point of view, it's the more general rather than specific approach. I cannot give you the exact percentage of our IBNRs on the casualty side, but the absolute majority of our casualty reserving is IBNR. And it is clearly above the 65% level that Clemens has already mentioned when it comes to our overall COVID reserving position.

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

Thank you, Klaus, on the SCR?

A - Klaus Miller {BIO 16886879 <GO>}

Yes. The business we have written last year was in terms of risk capital, we needed or solvency capital, we needed for that, was driven by mainly longevity from the U.K. We have written significant number of deals last year, and the full premium volume will only be seen next year, because this was written over the course of the year a lot in the fourth quarter. And also the morbidity business especially CI and China, as well as the disability income in Australia is driving this to some extent. But the vast majority is from longevity business.

A - Clemens Jungsthofel {BIO 20496428 <GO>}

Vikram and probably briefly on the diversification that you mentioned, we do have a slightly different approach when it comes to un incepted business and how we bake in un incepted business in life and health versus PandC in our Solvency II numbers. So to a substantial amount in the SCR, not in the owned funds, there we are very prudent but in the SCR, we do reflect business that has been written on the life and health side. And on the PandC side, when it comes to future business. We are much more prudent to bake that into our Solvency II numbers. So that might let it appear as an imbalance but in fact it is not.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. That's very helpful. Yes, that's very helpful. Thank you very much.

Operator

And the next question is from Kamran Hossain, RBC. Your line is now open. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. (inaudible) RBC. Two questions for me. The first one is just looking at your Solvency II ratio, obviously, you're well above your kind of threshold. So you seem very, very, very comfortable there. But the comments about the market opportunity and the trade-off between dividend, especially keeping, the total dividend payout at the same level as last year or growth suggests that actually things somewhere else as far tighter? I mean, on my calculation, a further euro dividend would have cost about two points on Solvency or about EUR120 million. How should we reconcile that ultra-strong Solvency II? And what seems -- what I assume is still a very strong capital, but there's some kind of constraint in there. So that's the first question.

And on the second question, in your Solvency II ratio, and I guess, by inference in your earnings. Can you talk about how long you expect excess debt to continue in 2021? Thank you.

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

Thank you. Clemens will take the capitalization question and Klaus on the mortality?

A - Clemens Jungsthofel {BIO 20496428 <GO>}

Yes. Kamran, happy to take the first one. So when it comes to Solvency II, I mean you've seen that the development within 2020, of course, I mean the Solvency II ratio has remained very stable as mentioned. However, it has come down due to the business growth, and of course, the certain other factors, partly the low interest rate environment et cetera. So we do expect the Solvency II ratio stay comfortably above our limited threshold. However, it will decrease further throughout 2021. So there is headroom, yes, but still there are opportunities out there both on the PandC and life and health side. So we do believe that the Solvency II ratio will come further down, and then of course, we do have, of course, other capital requirements particularly in our rating capital model as you know, so that will partly be on the table in 2021, of course as well. We still have buffers above the rating agency capital requirements. However, due to the strong business growth that we are expecting in this year and in next year, we believe that that redundancy will decrease further risk out.

On the Solvency II -- Okay. You're welcome. On the Solvency II, Klaus will briefly comment on that. We've actually baked in some of the expectations into our Solvency II calculation as well.

A - Klaus Miller {BIO 16886879 <GO>}

You had a question about the excess debt, what we expect for 2021. And as Clemens said, we have partially taken that into account when we calculate our Solvency II numbers. But in general, the gross claims are currently already decreasing globally not in all countries, but they are decreasing in the U.S., they are decreasing in the U.K., our two most important markets. They are still increasing in Brazil right now for the time being. I would even expect that incidence rates might still go up or be on a very high level for quite a while but with the vaccination being on its way, especially, in the U.S. and U.K. and all the developed countries, I would expect that the debt claims come down significantly in the next three, four months. So by the end of the second quarter early third quarter, I would expect that the excess debt you would really see in a statistically significant way, both in the population mortality as well as the insured population will disappear.

You will still have the occasional COVID death claim in three years from now. COVID will not completely disappear that easily. But I have some serious hope that in the third quarter on the debt side, this is over. On our own portfolio, we also have a retro cover pandemic cover, as you know, we talked about that a year ago, which might kick in, in the very near future, so as Hannover Re, I'm not very concerned any longer for our balance sheet, but still volatility can be high. Does this answer your question?

Operator

So the next question is from Andrew Ritchie, Autonomous. Your line is now open. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Thanks. I can't speak on behalf of Kamran, Klaus, but I think you did answer this question. My questions are first of all, could you just update us on U.S. liability reserves, I'm talking ex-COVID? I think in 2019, you added a little bit or you took a little bit of conservative action on loss picks on U.S. liability in Q4, '19. What was the kind of year-end round up of having looked at that in 2020 ex-COVID?

Second question is a simple one. Could you remind us how big your TIPS portfolio is, so your inflation-linked bonds portfolio is? And what tenor it's struck at? I think it's five year, but I can't remember.

The third question is an nerdy one, on Page 29 of the annual report, it shows an incredibly high economic return for life and health, 18% which is a bit surprising given the COVID claims depressed life and health. So why is that so strong on an economic basis? Or is that just reflecting very strong new business and a very strong economic performance of are different from the IFRS performance? Thanks.

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

Thank you, Andrew. So we'll start with the U.S. liability reserves ex-COVID.

A - Klaus Miller {BIO 16886879 <GO>}

We did not take any particular action at year end on U.S. liabilities this year Andrew. The overall run-off result of our U.S. long tail portfolio was stable. So we didn't see a particularly upward downward trend of our reserve requirements and then therefore we decided to stay at the level we were at the year end 2019 in relative terms.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

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

On the inflation-linked, you wanted to have the volume, right, Andrew?

Q - Andrew Ritchie {BIO 18731996 <GO>}

And what duration you struck at? So well, what -- I'm keen today where I should look on Bloomberg to market-to-market?

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

Yes. On the volume roughly really in market value, we're talking about it's mainly euro and U.S. dollar, and the volume is roughly sitting within our government bonds is EUR4.5 billion. And the duration is really spread out Andrew between all sort of duration. I think the bulk of our duration would sit in within roughly 9 to 10 years.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. And you -- sorry, you markup to market through other -- there is mark-to-market through the P&L isn't it?

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

Yes. Exactly I mean that's the element sort of baked into the inflation linkers and that flows through both the amortization as well as the yield flow through our ordinary income.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay.

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

That's what you see in that the impact in 2020, particularly, in our ordinary income.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks.

A - Klaus Miller {BIO 16886879 <GO>}

Andrew, I did not quite get your question on the life and health.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Well, I noticed in the -- you give us the intrinsic value creation in the annual reports which is given on Page 29 and the life and health number looks exceptionally strong, I think it's 18%. Why was it so strong given --

A - Klaus Miller {BIO 16886879 <GO>}

This is the basically the value of new business, which is reflected here, that's one thing. And the other is also the actual to expected number for some of our business was extremely good. We have been very conservative with some of our financial solution deals, where the client had the opportunity to recapture the business in the first couple of years. And because clients didn't do that, we now reflected the full profits from these treaties for a longer time.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So it implies, there's a dramatic difference in the economic and the IFRS performance in -- which there always is I know because of new business, but there's even bigger difference in--

A - Klaus Miller {BIO 16886879 <GO>}

Yes. You can easily argue that we had EUR260 million of COVID claims, this was cash out of the door. On the other hand, we had nearly EUR780 million of value of new business. This is future profits, which will come in, in the next couple of years. So the financial solution business was extremely successful, especially, in the fourth quarter and we expect that this continues in 2021. And this means you can argue whether we really benefited from COVID on the financial solution side, because there are problems for clients not necessarily by -- for paying claims, they all can pay their claims, but on the financial side, the financial markets are an issue for our clients and reinsurance can help and did help.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thanks very much.

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

Andrew, I would like to specify the question on inflation linkers. Just looked it up in terms of duration, for our euro portfolio it's roughly nine years average duration, and for the U.S. dollar portfolio, it's seven years.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you very much. So my two questions, one is more like a follow-up and one is on reserve release. So one is -- the first one is, what -- in which scenario would -- if you're looking one year out now on a special dividend. So how -- what needs to happen for this special dividend to come back next year. Is it that the market stabilized? Is it that the rating agencies are a bit more over latched? Or just wanted to hear your thoughts on which scenario you think it can come back the special dividend?

Second question is just on the run-off result, which is a bit lower than last year, I mean premium to percentage terms 4%, is not completely unheard of, it has happened in the last six, seven years ago as well. But just I was wondering, if there was any degree of conservatism there, we will keeping that number low because you thought you'll wrap ahead for COVID or frequency pick-up or something, so just wanted to hear any thoughts on this lower reserve release run-off number? Thank you.

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

Well, thank you for the question. I'll take the first one. I think we didn't change the overall policy, we keep it for 2021. In the current circumstances looking back at 2020, we looked at an earnings situation where we're lower than usual. We looked at the capital planning, which we briefly talked about with the positive outlook particularly the momentum in PandC, but also the opportunities we've seen in the structured space. So that was the consideration and we felt that the EUR4 which we announced late during 2020. There was a bit on the low side, then instead of having a special of EUR0.50, we decided to go for an increase in the ordinary dividend.

My sense is that we have a better grasp for the exposures from the COVID pandemic. We have a better view on the profitability of the incoming business and the outlook. So when our -- if our expectations are in line then I would say, special is absolutely in the card, so no change in our appreciation, and my sense is that EUR4.50 is our benchmark for the ordinary going forward and very much hope that we can consider a special dividend if our predictions come through by the end of the year.

A - Clemens Jungsthofel {BIO 20496428 <GO>}

Vinit on the run-off results, I would probably call it is roughly EUR600 million for 2020. I would call it, let's say, a normalized result also reflecting, of course, the level of prudency that we've built into our reserves as mentioned earlier that we believe that we've slightly increased our redundancy level. And particularly when you look at the recent years prior years particularly we -- that included our reserve releases of course. Last year that amount was roughly EUR240 million and that is included in last year's number. So if you take that out, I think it's pretty much on the same level, I would assume.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thanks very much.

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

Thank you.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. A couple of question on my side. Just to come back on the Solvency II special divi and growth. Maybe one additional clarification to understand. I'm trying to link the absence of special divi with the 5% growth expected in terms of premium for 2021. I know that this was not probably the time in the year for you to change guidance. But maybe you could give us a bit more hint on the premium evolution, especially, since it looks like you're focusing more on growth this year and you achieved the plus 8.5% premium growth at the 1/1 renewals?

The second question will be related to two major events, which potentially took place in Q1. Maybe you could shed some light on how we should think about the Texas winter storm Uri. And also if on the credit side, you might have some exposure direct or indirect exposure to greenfield and what's going on this side? And maybe the last one, if you could quantify how much was the buffer on the SandP rating, the capital buffer over -- I don't know if in the past you mentioned it as a above AA or above AAA, but any guidance would be interesting? Thank you.

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

Thanks, Thomas. Then we'll get started.

A - Klaus Miller {BIO 16886879 <GO>}

On the growth outlook for PandC, as you will remember, we guided for PandC that we should go 7.5%, it was less growth than 5% on the life and health side. So overall, we are coming up with a 5%. We had a good start to the year with the 8.5% growth. At the 1st of

January renewals. We have Japan, Australia, and U.S. renewals ahead of us. All those areas were impacted by losses in the recent past, so we are optimistic that we will continue to see good levels of rate increases this year, which should further support our 7.5% target for PandC. And in addition to our structured reinsurance colleagues are also working on a rather full pipeline of additional opportunities.

Here we are always careful to put that with too significant amount of money into our premium expectation. For the simple reason that us coming to a conclusion with the client is, its a very digital scenario. We either win the business or somebody else wins the business. So it's not a co-reinsurance situation. And even though, we are optimistic that we will be successful with some of the prospects in our pipeline. This is not fully baked into our numbers yet. So maybe there's going to be further news during the course of the year.

Then you asked about Q1 losses, when it comes to the winter freeze in the United States, we are expecting that we will have a net loss position in the double-digit -- mid double-digit area. We are currently working on an industry loss scenario of $15 billion. And this should result in such a double-digit losses as I just mentioned on a net basis.

When it comes to greenfield, it's still a little early to fully understand the impact of the implications when it comes to this potential scenario, when it comes to direct involvements according to our due diligence. We should have limited exposure through -- to greenfield. But of course, their main business model was financing project and we have to wait and see whether there are implications on the refinancing side from Greensville further down the line. This is, of course, something which we cannot anticipate. So we have to wait and see the outcome on the debt side, but when it comes to the direct exposure, this should be rather limited.

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

Maybe we should also add, Thomas, that we don't have any exposure on the asset management side to this counterparty just to get the full picture on it. And last but not least the capital buffer topic.

A - Clemens Jungsthofel {BIO 20496428 <GO>}

Yes, on the capital buffer, I mean, I don't, Thomas, I don't have a actual number with me right now as we are still sort of calculating the final numbers. There is still quite a buffer above our AA minus rating, for example, on SandP. And based on the forecast numbers, we've done a rough forecast. The predicted redundancy will, of course, decrease due to the strong business growth. Again, it will stay above the capital requirements well above but we really don't want to limit our opportunities throughout 2021 and 2022 as well. That's really the reason behind it but with the upcoming renewals and the business inflow on the life and health side as well.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

(Operator Instructions) And the next question is from Michael Haid, Commerzbank. You line of now open. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much and good afternoon to everyone. Two questions, first on life and health. As you mentioned, the value of new business was very strong at EUR780 million. This stands against your target of EUR220 million. Is this target still a valid target going forward or should we assume on a normalized basis, I mean, I understand that there is a high demand for financial solutions, which might not last forever. But on a normalized basis, is it not the target which is too low and it's time to revise that?

Second question on the dividend, I want to understand that to what extent the regulator in Germany played a role in setting -- in your decision about the special dividend. I noticed that there are three other large insurance companies including your mother company, they left or proposed a stable dividend year-over-year. You were able to increase the ordinary dividend, that is extraordinary. And I just want to know that does the regulator likes you more than the other ones?

A - Clemens Jungsthofel {BIO 20496428 <GO>}

Okay. I'll start with the value of new business. The EUR780 million is significantly above the EUR220 million. The EUR220 million has been increased already for 2021 to EUR250 million. You might think that this is not that much and we -- at least would have doubled it. But the reason for the value of new business, the calculation and we didn't just took the number out of the air, but we had a calculation behind it. And that is the capital, which is internally allocated to the life and health business. And this requires a -- we have to surface capital. And if we do that with a normal business mortality, longevity, morbidity business, then this is what we can afford probably. And this was a calculation what is necessary in terms of value of new business to provide the return of 900 basis points in excess of the capital allocated to the life and health business.

Now what we have done for a couple of years is and you have noticed that is, we have shifted our focus more to financial solutions business, and some of this business does not even require any capital but it provides capital. It's booked as deficit account, future more or less guaranteed income, this provides alternative to capital. And therefore it looks a little bit strange, but the problem is, if we increase to it 300 or 400, it will be very difficult to go back at any point in time. But the financial solutions business depends on the regulatory environment, not so much our regulatory environment, but the regulatory environment of the client.

And when you look at the value of new business and now I just have to guess it, but I think it's an educated guess more than 80% of the value of new business is just from a dozen different treaties, and most of them are from U.S., China. And any change in financial solutions business or regulation in these countries could eliminate our opportunities for the future drastically. I don't expect that. And there are other countries, where we also do financial solutions, but it's dependent on the regulatory framework. And therefore, we are hesitant to increase this target knowing that it looks like it's easy to get over the hurdle each and every year, but in fact, it's not.

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

Very good. On the dividend question, I cannot say if the regulator like us more than others. But what I can say is that we have very good and constructive dialogue. We -- as always, we had an exchange on the different key performance indicators. We looked at the earnings projections. We looked at the Solvency level, the liquidity, the strong cash flows which we've mentioned. But also the quality of reserving generally. And from that point of view although we decided to increase the dividend from our earlier messaging, the German regulators based their assessments on all these metrics and confirmed their alignment with our views, so not an issue. The same is true for other regulators, where we have good dialogue allowing us to upstream dividend flows to the mother company. So not a huge topic at this stage.

Q - Michael Haid {BIO 1971310 <GO>}

Very good. Thank you very much. Very helpful.

Operator

And there are currently no further questions. So I'm back to the speakers for closing remarks.

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

Well, thank you very much. I'll be short because I think we've covered the ground very well on the key topics. We wanted to highlight that 2020 was, of course, quite an exceptional year. But we proved our resilience in spite of these adverse circumstances. The reserve level for corona losses or expected losses as we said in PandC, we feel were sufficiently reserved to cover for exposures, so no big concern at this stage from what we know, and we feel we can protect the quality of earnings for 2021.

We see market momentum particularly in the PandC, of course, but also in the transactional space. And for that reason we wanted to adjust our capital planning. The guidance we confirmed it, but of course, we see in spite of the uncertain environment we see a lot of upside. And from that point of view, I'm quite confident about the market outlook and about our ability to outperform the market in 2021. So that would be the few words that the key topics, I hope you gained a good overall picture on where we stand today. But thank you very much for your participation and for the good questions.

Operator

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