Q4 2016 Earnings Call

Company Participants

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

Other Participants

- Andrew J. Ritchie, Analyst
- Daniel Bischof, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Sami Taipalus, Analyst
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

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

At this time, I would like to turn the conference over to Christian Mumenthaler, Group CEO. Please go ahead.

Christian Mumenthaler {BIO 6479864 <GO>}

Thank you very much. Good morning or good afternoon, everybody, and welcome to our 2016 annual results conference call. I'm here with David Cole, our Group CFO; Matt Weber, our Group Underwriting Officer; Guido Fürer, our Chief Investment Officer; and Philippe Brahin, our Head of Investor Relations.

Let me start with a couple of brief remarks on the results we've published this morning. Our group net income achieved $3.6 billion, with all business units contributing positively to the results. We also benefited from the strong contribution from investments with an ROI of 3.4%. The group ROE is above our over-the-cycle target of 2016 and many other targets were met in 2016. We also reported the estimated outcome of the January renewals. As you have seen, we actively steered our portfolio, reducing capacity where rates were non-economic. The premium volume is down by 18% compared to what was up for renewal, demonstrating our underwriting discipline.

Our risk-adjusted price quality is maintained and stands at 101%. Given our strong capital position and business performance, we also announced this morning that the board will propose to the AGM 2017 an increased dividend of CHF 4.85, as well as a new share buy-back program of up to CHF 1 billion.

Finally, we announced this morning that Matt Weber has decided to step down from his current role to start a new chapter in his life. Of course, we will miss Matt, his experience and guidance of 25 years at Swiss Re and we wish him all the best for the future. Eddie Schmid will take over as Group Chief Underwriting Officer on July 1. Some of you already know Eddie, who has been at Swiss Re for 26 years and brings a broad underwriting and business experience across many lines and markets. And with that, I will hand over to Philippe to introduce to Q&A session.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, Christian, and good day to all of you also from my side. As usual, just before we start our Q&A session, I would like to remind you to please restrict yourselves to two questions each and register again if you have follow-up questions. So with that operator, could we please take the first question?

Q&A

Operator

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

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah, thank you. Good afternoon. First question is on obviously, Corporate Solutions one of the businesses, which didn't meet the even cross-cycle ROE target. You also guide now for 2 percentage point higher, combined ratio, 103 for the year. My question today is what makes you confident that that this comes back in a reasonable time to normal ROE levels, how much patience do you have in this business is my first question.

The second one, I know it's probably difficult to comment for you, but I guess some comment would be helpful on how the let's say, issues one of your clients, AIG had in the casualty business, given that you have a very strong relationship, a very large treaty relationship there and of course AIG now transferring a lot of long-term liabilities to

Berkshire Hathaway. So, I wonder if you could comment how this reserve issue AIG has been experiencing impacts your casualty relationship with this client?

A - David Cole {BIO 7251632 <GO>}

Thomas, thank you. This is David Cole, the CFO. I'll act a little bit as a air traffic control here, I think, the first question you're talking about, confidence in the future of Corporate Solutions, I'll ask Christian to address that and then for the second question regarding AIG and potential impact, I will ask Matt to follow up on that one.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Okay. Obviously, I was expecting a question on CorSo. So, I think it may be worthwhile to summarize my thoughts on that and the EC's thoughts on that. So clearly, the year 2016 was disappointing. We didn't meet the ROE target. So, it's a good time to step back and look at the business and rethink all the - everything we sold, why we have entered and whether everything is still valid. So, let me just share a little bit of our thinking process. The first question is, and we always thought in a - on a long-term future, 10 years or whatever, this is going to be an attractive business or is this - are we sure it's going to be an attractive business. And I think, the answer is still yes, all right.

Even as we shift (04:52) primary business side, some risks will shift from retail to Corporate Solutions type business like on the motor side with self driving cars. So fundamentally, we think this business will be attractive, will exist although in 10 years and it's just highly cyclical as we know and it's an attractive field to be in.

The second question is then, does Swiss Re have any particular strategic capabilities that should make Swiss Re successful in that business? And I think over there (05:21) the answer is yes, in our mind, because in that type of business you need a good brand name, you need capacity and you need underwriting discipline and underwriting knowledge and I think we have all of that. We've been in this business for 20 years or so. And so, I think it's clear that it will take a longer-term view, this is a good business also for Swiss Re.

And then you go to the next level and you might say, okay, so what about execution? So, do we have an execution problem? And there I think it's useful to refer to what you can see out in the markets, our main course of competitors have released figures at this stage and from those I have looked at, they look very similar. So, you have combined ratio published round around 100% right now, which indicates that the market is just incredibly tough, and at the level which is basically not sustainable if you want to make the right profit.

So, it's a really tough market when you compare to competitors, I think you need also to take into account two other things. The first one is, we see this as a growth area. So, we invest significant costs into it also to enter Primary Lead, and then add 3% to 4% combined ratio points that are clearly visible in the cost ratio and combined ratio. And the other one is that CorSo is basically a 2012 startup. So, when we created the group structure in 2012 it was separated out and the old reserves of CorSo were left behind in

Reinsurance. These reserves have produced an equivalent of 4.3% combined ratio points. So, had we shifted them together with CorSo i.e., or another startup like the other competitors there will before 4-point spread in the combined ratio.

But these are not excuses. This is just trying to analyze the factual situation of where CorSo is and whether we have an execution problem. So, my analysis would be this is a growing business. We invest in it as we should. And it's mostly a market issue that we are encountering, which is not sustainable and at some stage we'll turn it as always turns. So, my confidence in the turn is high, but it is very hard to foresee at which point that will happen.

Q - Thomas Seidl {BIO 17755912 <GO>}

But does it mean then that you also apply like you have done in the Reinsurance space, stronger cycle management now scaling back also given the fact that with rising U.S. interest rate I guess, the softening on the underwriting side probably gets a new fuel if you want?

A - Christian Mumenthaler {BIO 6479864 <GO>}

No. Absolutely and if you – but just as we shared, if you look at the last two years CorSo didn't grow, it shrunk. The only reason it grew is, because we acquired the IHC Risk Solutions, and we entered into some transactions, bolt-on acquisitions. But otherwise it was actually one of the few CorSo (08:02) that started to shrink earlier than some others and showed some disciplined underwriting.

So, clearly, we need to do that. They're doing this and we need to continue to do that. So, absolutely, that's a core success criteria in Corporate Solutions. In bad times, you need to be underweight, and in good times, overweight. So, I mean, from the EC-perspective, of course, we have two choices, you can say we stop all investments in the future to try to make the combined ratio look good in the next quarters, but that's not the way we would like to proceed. If you take a step back, you realize that 6% of our capital is in this business, so not 25%, just 6%, and it's a clear growth area, and we don't see any reason to slow down our investments in that area. So – and that means the actual investment in IT infrastructure and all of that. So, that's not necessarily on the – just right business that is not profitable.

So fundamentally, we see no reason at this stage to change our view on the long-term, short-term and what we want to do with Corporate Solutions, and I hope that this lengthy answer gives you a sense, because otherwise I'm going to get 10 questions. So, I hope this gives you the holistic picture of our thinking currently.

A - David Cole {BIO 7251632 <GO>}

Thank you Christian. Let me go to Matt, for other question regarding AIG.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. So Thomas, if it's okay. I will not give you a super long answer but probably...

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah.

A - Matthias Weber {BIO 16674983 <GO>}

...also more than two or three words, because we do understand that this is almost of a bit interest, this topic. Normally, of course we could never and would never comment on the performance of need to withdraw (09:37) clients' transaction. Here, we believe we can say a few words given that for instance, in 2016, a transaction we concluded together was in the public domain. And there I would like to make one or two comments.

So, that's – because so far most questions we have received related to that one. That transaction in, 01/01/2016 covers new and renewal business. Now one year later, we are still in the very early portion of the tail, in underwriting we call this a very green contract.

Green contract as you know has an ultimate loss, which mostly consists of IBNRs, which stands for incurred but not reported losses. Quite frankly, some of the losses have not even happened, which are going to happen for underwriting year 2016. So, we poised down (10:49) to how do we set IBNRs. We do not set IBNRs on an individual client or an individual contract by contract level. We set the IBNRs portfolio segment by portfolio segment, and to give you an order of magnitude, we have Swiss Re use approximately 100 portfolios on the P&C side when we set reserves. And we determined the IBNR provision on the basis of the underlying paid and reported triangles, which means completely independent from the IBNRs set by our clients. And that's just (11:37) important for you to consider. Of course, we received the Q1 (11:46) we looked at them, we analyzed them and on the basis of the Q1 (11:53), we see no need at this point in time to change our reserves.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. Next question please.

Operator

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

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah thanks, good afternoon. Two questions. The first one on the January renewals, the price index declined by 1 point, what is your outlook for the remainder of the year in terms of rate changes? And related to that, I mean the 18% volume decline, how does it impact your planning in particular on the cost side?

And then the second one, yeah, probably again on claims inflation, I mean you've touched upon this briefly at the Investor Day but it was still early days. Given the new administration in U.S., could you talk about your mid-term claims inflation expectation and do you see potential risks on the reserves side either?

A - David Cole {BIO 7251632 <GO>}

Thanks, Daniel. I think, actually both of those questions will be best directed to Matt.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. Good. So the first question, how do we see rate changes to continue, look it's always a little bit guess work. It's very hard to forecast the future. Our current thinking is that the trends we are seeing i.e., a decrease of the rate decreases in Property and the decrease of the rate decreases in Specialty and Casualty plus/minus flat, however, with distinct differences by segment and markets that these trends in the short-term will continue.

In the medium- to long-term, nobody knows. We don't know. It depends how quickly excess reserves in the industry not at Treasury but in the industry are depleted and of course it also depends on the occurrence or lack of occurrence of individual large losses. Your question, what won't be (14:05) related to the 18% volume decrease, will it have an impact on the cost ratio of course, yes it will have an impact on the cost ratio; however, please take also into account that large transactions, that's a lumpy business, sometimes you write them, and sometimes you don't write them. It's hard to really plan for them and sometimes you write big deal in the middle of March, they do not necessarily come all at January 1.

So, by the nature if you are strong in the area of large transactions, this is the risk you incur, especially if you have a good and strong look at the bottom line, that's also important (15:00). We always said our large transactions and our tailored solutions, we regard them as more attractive than the regular core business or the open-market reinsurance business, however, that's not necessarily true for – well it's definitely not true for each and every individual deal. So, also they are prudent underwriting, discriminating risk selection and really good structuring, really does matter and is important.

Your question two, related to inflation. In the U.S. of course this is something we pay a lot of attention to, and we monitor it continuously. We see at this point in time, a little bit higher risk for increasing loss relevant inflation for some lines of business, and in the UK and especially also in the U.S., and we're taking this into account when we write new business.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. We will go to the next question, please.

Operator

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

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

Hello. Hi, there. Just on the Life & Health business, you delivered an ROE for the full year above the target, 12.8%. And yet, when I go to the disclosure on the kind of, I guess the biometric elements of the result, it looked like there were negatives in terms of mortality, morbidity, worse than expected and valuation assumptions.

So, it gives me the impression or maybe you can tell me what you think the underlying ROE was, which you told us in the past for Life & Health. I mean, it must have been aided by sort of higher than expected realized gains. And linked to that, is there a specific action that you need to take in the UK, as the UK that you mentioned in your commentary as the source of weakness.

And I guess, the second question just on Life Capital, your thoughts on transfers occurred. Is there still – are you still transitioning Admin Re UK or Swiss ReAssure UK to an internal model in Solvency II. Has that happened yet, or should that happen in 2017 and would there be an additional benefit in terms of cash flow, if that was to happen? Thanks.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yeah. Thanks, Andrew. Maybe I'll take both of those. So first on Life, listen, we're very happy with the result that we're able to present for 2016. And you're right, Q4 of 2016 was little bit lower, just shy of the 10%, but we remain firmly committed and convinced of the sustainability of the underlying profit of this business, you see that also in the reported operating margin. You're right to point out in UK where we had some issues on the mortality, morbidity side, particularly showing up in Q4. We certainly will address those as we do always when we identify areas where parts of our business are performing lower than our expectations.

We also just had some, to be expected volatility, at the end of each year. We show the volatility coming from our model adjustments, from valuation adjustments what not. Particularly in Q4 of 2016, a couple of those things went against us a little bit. There's nothing specific that would suggest that ongoing profits and our ongoing commitment to the 10% to 12% would need to be changed.

In terms of your comments about the situation in the UK, yes, we were successful and very happy to announce that we've concluded now the Part VII transfers in the UK, the Guardian business, actually there are two specific Part VIIs, that really facilitates a couple of things for us. Number one, it means we can (19:05) go on to the next phase of the synergies. One of the synergies that we certainly would like to capture during the course of 2017 is moving indeed to an internal model. Of course, that's ultimately subject to the approval of the regulatory body in the UK, the PRA. Those discussions of course were already well-advanced prior to the acquisition of Guardian. We decided to put them somewhat on hold because we recognized we (19:30), too significant to simply ignore it and have two different types of treatments during the course of 2016. It's certainly one of our priorities for 2017. And yes, as and when we would see it moving over to the internal model, I would anticipate that to have a positive impact on cash generation.

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

So David, I have just a follow-up. What went better in Life & Health because you were above your targeted return on equity, but it looks like the biometric experience versus expected was below normal for the year.

A - David Cole {BIO 7251632 <GO>}

Yeah.

A - Guido Fürer

Yeah. Maybe I can take that, Andrew. We disclosed a little bit different lines, right, on how the result is decomposed and how that happened. And as you know from a economic perspective, Life & Health is actually more volatile than P&C, but obviously the way it's accounted is much less so. So there were years where the experience was much better than expected and we had done negative adjustments on the models. And this year, I think was basically the contrary like we had some negatives especially in the UK, some negative deviation in actual claims but we had some positive model developments, but to us that's one of the same. So it's not like the ROEs is all dependent on realized gains. It's actually the underlying technical one which contains both components in our view, it's strong. So we feel comfortable about that.

On the realized gains maybe one word. I think, the realized gains are a bit one side of the metal of a low interest environment. So in Life & Health, either you have a low interest rate environment which means that your GAAP equities is a bit blown out of proportion, which makes it harder than ROE, but vice versa each time you touch any asset, you realize gains basically. So to me that belongs a bit together. In a different environment with higher interest rates, the GAAP equity would shrink, and yes you wouldn't have the realized gains anymore, but you still would be able to achieve the ROE. So in that sense, right, these realized gains are not completely meaningless. I think, they're an expression of a certain environment that we're in, which is just – that's a positive side. The negative is that the GAAP equity is very large.

A - David Cole {BIO 7251632 <GO>}

And I think Guido had expressed it well at our Investor Day. We have realized gains in the course of 2016 and before that as well by the way. These were not financial accounting reporting driven, the actions, the vast, vast, vast majority are just based on economic decision making.

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

And it sounds like for the UK, is there any specific review required, you think this will normalize in time, in fairly short time?

A - Guido Fürer

Obviously each time we have something like that that there're reviews. So Q1 we're going to have reviews there through all the levels of the organization on that, so I cannot predict any future movements of that, but from what we've seen at this stage, we think that we did all the appropriate booking. So in other words, I don't see anything further coming through at this stage.

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

Okay. All right. Thanks.

A - Guido Fürer

Thanks.

Q - David Cole {BIO 7251632 <GO>}

Maybe Life Capital internal model application, that was the second question, Andrew.

A - Guido Fürer

Yeah. I'll respond to that. So we hope to have that achieved during the course of 2017. Obviously it's subject to regulatory approval but I think we're in a good position to achieve that during the course of the year.

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

Okay. Thanks.

A - David Cole {BIO 7251632 <GO>}

Next question, please.

Operator

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

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Thank you for taking my question. I've got only one question which his on the Ogden discount rate that the group is using as of the end of last year. I think it stands at 2.5 percentage. This is based on my discussion with IR. Can you just provide us with some sort of sensitivities as to what the hit on the results would be, if it was lower to, let's say 1 percentage or 1.5 percentage? Thank you.

A - David Cole {BIO 7251632 <GO>}

Yeah. Thanks, Vikram. I'll take this one. So yeah, we of course are watching the Ogden situation. I understand that there could be an announcement in the UK at any time. We haven't specifically reflected anything in our 2016 accounts or would we have done that in prior years where adjustments to the Ogden rate would be considered. We remain in an overall strong position as you know for half of the best estimate range. I won't give a specific number for Ogden, a lot depends on where they ultimately end up, which then drives the present value of the potential lump sum payments, but also has an influence on the propensity of claim is to accept either the annuity type of structure or the upfront payment. Our business is relative to perhaps other players, significantly smaller component of our overall portfolio. As and when they announce something, we'll reflect it in our then current period results.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Afternoon. Can I ask about the renewals that you've taken - so reduced premiums there quite substantially in January. Is there much capital benefit to that. So do you have kind of more capital as a result of that. And I guess thinking for Life & Health, do you have plans to redeploy that as this is kind of waiting for more large transactions materialize, that's my question. Thank you.

A - David Cole {BIO 7251632 <GO>}

Matt, you want to take that one?

A - Matthias Weber {BIO 16674983 <GO>}

Yeah. So I make the assumption that you relate to EVM capital when you asked the question. So for EVM capital correlating exposures do matter, especially everything else is almost diversified out. Nat cat, to give you an example, we reduce our capacity for the top key scenarios, including the U.S., U.S. hurricane and California earthquake, but also European windstorm by between 3% and 11%, depending on the (25:44) scenarios, and this percent numbers will influence our total required EVM capital. We have enough capital to deploy, but we do not necessarily have to deploy it. So we just patiently wait for good opportunities and should good opportunities rise, we redeploy it, and if not, we will give it back to shareholders.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much, Matt.

A - David Cole {BIO 7251632 <GO>}

Next question, please.

Operator

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

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

Good afternoon. Thanks for taking my question. I've got two. Firstly, on Life Capital, I think there was a capital contribution of about $150 million in fourth quarter. I think it open book entity in the U.S. Can you just give us a bit more detail on that and whether we should be expecting further capital contributions into the Life Capital business? And second question is around whether there was any specific reserve strengthening in the fourth quarter. I think Matt you mentioned, you're taking some of the claims inflation trends into account for new business, and you made some comments about the 2016 year as a whole, but I was just wondering, if there is any kind of reserves strengthening specifically in the fourth quarter? Thank you.

A - Christian Mumenthaler {BIO 6479864 <GO>}

So thanks, Yong. Let me take the first and I'll come back to Matt on the second. So, you're correct. We have made investment in one of the open life businesses in Life Capital during 2016, basically extending our iptiQ model, which we've been active now in Europe for some time into the U.S. where we actually set up shop, and in fact wrote our first policies before the end of the year, so it was about eight months from start to finish. That included purchasing an entity that provided us with licensees that accelerated our ability to go ahead and start that business up. As for your question about likely to continue that, we have indicated in the past that over the course of the next couple of years, we would envision making investments into the open book business, not necessarily always in the form of acquisitions; relatively modest acquisition I might add as indicated in the U.S. right now, but really just investing in the startup cost and building up the portfolio of business there. That's all been incorporated in our overall communication regarding cash generation. You may recall that after Guardian, we increased our expectation for the three-year period; 2016, 2017, 2018 up to $1.7 billion, but it indicated that over the course of those three years, we would also see a possibility to invest part of that cash back into the business, particularly in the open book business.

So I think what you saw at the backend of 2016 is just fully in line with what we had previously communicated. Just to reiterate, I don't anticipate any significant acquisitions in that space.

A - Matthias Weber {BIO 16674983 <GO>}

Okay. I think your second question related to the research strengthening, specifically in Q4 and overall of course on the reinsurance side and on the group wide level, we had favorable development. However, of course, if you drill down, we found some areas where we had to strengthen our research. The most prominent one which I would like to highlight relates to motor business. There we strengthened our research in Q4 in two markets, one is Turkey and one is again in the United States. And in the United States, it continues to be the trucking business which is producing bigger losses than we expected them to happen, so we made an adjustment to our reserves also in Q4.

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

Could you give us [Technical Difficulty] (30:01)

A - Matthias Weber {BIO 16674983 <GO>}

Sorry, I didn't understand the question.

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

Sorry, the size of the reserve strengthening.

A - Matthias Weber {BIO 16674983 <GO>}

Yeah. I can give you the smooth total we strengthened in Q4 by $30 million.

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

Okay. Thank you very much.

A - Matthias Weber {BIO 16674983 <GO>}

Thank you. We'll go to next question.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon. Thank you. Just can I try to understand better this whole renewals data that has been presented today, because the headline 18%. Now if you go back to last year's data, there was a restatement in the first quarter numbers because of the large transaction. So is it not fair to say that actually the underlying or the normal renewals is not actually down 18%, but probably flat. So how should we really interpret this number please, so that's the first question. And second question is on the pricing commentary. Obviously, you have stated that large transactions are flat in the pricing, so that one can understand, but there's also a comment about high growth markets being flat in pricing and if you could just help us understand where that is coming, because I would have thought there's a lot of pressure in high growth markets, but that's just from the outside. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you. Chris, you want to take the first one?

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yep, while Matt finds the data for the second one. So firstly, I think you're right. I think it's important to state that. So if you go back to last year, I don't have the slide in front of me but I think we said, we ended up with $8.8 billion; this is the second color, right, $8.8 billion. And then when you look at this year's slide, we say up for renewal 10 point something ending with $8.5 billion. So if you make ending point versus ending point, it's $8.8 billion towards $8.5 billion, so that's quite relevant.

But so far what we always showed is up for renewal and up for renewal is really an analysis of the portfolio, what is up for renewal exactly on that date because that shows the kind of selection and underwriting discipline we have. And the difference is basically there are three, four elements to it which is complicated but the obvious one is transactions that are written after we reported to you, but still incepting 1/1 or incepting later but with the renewal date 1/1. So we have some of those, it also sometimes multi-year transactions that end up exactly on 1/1/2017 for example and things like that.

And therefore, before entering into the renewal when you added everything up, it was not the $8.8 billion we had sort of left at 1/1, but it was 10 point something. And so, I think indeed you need to take both into consideration. I think the minus 18 show I would say the underwriting discipline versus what decisions we had to take and the $8.8 billion versus $8.5 billion shows more like a year-on-year basis you have. And as Matt said, it could be we write more transactions. We had written some transaction in between; so hard to make a prediction for that.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And is this discipline coming because there's a bit of a change in management here or is it just the normal Swiss Re growth which I assume to be the case?

A - Christian Mumenthaler {BIO 6479864 <GO>}

No, I would say it's only me change though, I'm not that influential. I think it's much more - the discipline you have in the system, right, it's quite brutal. We have this long-term price adequacy. You could see last year it was 102 and there's a distribution around 102 and obviously, it's quite a normal distribution or something like that, right. So there's a lot of these around that, which means that if prices go down overall in the whole market, which they nearly did, it becomes quite tough, right, to keep it above 100%. So you have to - you start to have to shed a lot of business. So I think that is a - it's more a mechanical approach we have with every underwriting having to do, every deal, price on the EVM basis and nobody wanting to have negative EVM clients, for example. So I think it's more a natural consequence of the - that was so close to 100% long-term price adequacy that you see more shedding and clearly some of these large Chinese quota shares, they were always not in a greatest place, but now, it was just too much.

A - David Cole {BIO 7251632 <GO>}

Thanks, Christian. Matt?

A - Matthias Weber {BIO 16674983 <GO>}

Okay. So we think the spectrum of high growth market segments and I do have here the number in front of me, of course. We have individual segments that deteriorated in price adequacy and we have individual segments that improved. Overall, we stayed extremely close to flat, specialty improved tiny little bit, causality deteriorated tiny little bit, within the area of high growth markets and property stayed more or less flat. So these are the observations we made within high growth markets.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. We go the next question please?

Operator

The next question is from the Sami Taipalus from Berenberg. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Good afternoon, everyone and thanks for taking my question. First one is on casualty rates, you mentioned in your disclosures that pricing was about stable year-on-year on renewals. I just wanted to drill into this a little bit more. Are you referring to (35:46) business. Are you referring to seeding commissions there and how do you feel in the pricing of this with long-line primary business that you – do you feel that data also flat year-on-year, maybe if you could comment on that separately from motor and non-motor, that would be great, so I'll think there is some loss driven rate increases in some of the most segments?

Then, the second question I have is on the Life & Health Reinsurance business. Now, the health premiums grew for quite a few years in a row, but have been quite stable actually the last couple of years. So I'm wondering, what's the reason for that stabilization is and whether you still see that as a growth area into the medium term? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you, Sami. So I'll let Matt. I'll take the first one. Okay. So, your question is related to the price stability in casualty. We distinguish between proportional and non-preoperational, under-proportional side, we take into account the movement of the price efficacy of the underlying policies of the underlying portfolio and we also take into account changes in the commissions or the expected commissions to the extent that variable commission features are involved. The more important one is the former, so the profitability of the proportional reinsurance contract is determined by the profitability of the underlying business.

On the non-proportional side, of course, we have reinsurance rights that apply and our statement, flat renewals applies to the combination of both pro rata business and non-proportional business on a combined basis. Of course, as I tried to point out earlier in the call, we observe differences by markets and some of the markets have seen some difficulties in the past, for instance U.S. motorists is one of these markets and as a result of this U.S. motor has reacted already, on the underlying portfolios, and then (38:16) has lead to price increases there, and that is taken into account.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sorry. Can I (38:22) just follow-up very briefly on that. Did you see a significant difference into the rate dynamics between the non-proportional business and the proportional business?

A - Matthias Weber {BIO 16674983 <GO>}

Yes. The non-proportional business is always more volatile than the proportional business, yes.

Q - Sami Taipalus {BIO 17452234 <GO>}

All right. Thank you.

A - David Cole {BIO 7251632 <GO>}

And as to your second question, there are three things, I'll say. The first is just indeed looking at individual quarter, I think is always quite challenging because of the fact that we do have from time-to-time also large transactions in this space and in the health space. I think if you look at the overall compounded growth in the last couple of years in health, it's also been quite healthy and we would, based on our view of the continuing protection gap and our position in the marketplace, see that we still have very nice attractive growth opportunities going forward. So, a little bit of quarterly (39:12) noise. It was perhaps also a little bit exacerbated just for actual reclassification within our business unit, within Life & Health, also within the health areas. So I don't see anything there that looks like really (39:22) across into future opportunities and future growth.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. I wasn't actually referring to the quarterly growth rates, I mean just looking at your disclosures, the premium was $4 billion in 2014, $3.8 billion in 2015 and $3.7 billion in 2016, more like the trend over the last few years, but perhaps it was this reclassification that you mentioned, maybe that?

A - David Cole {BIO 7251632 <GO>}

Indeed there is some reclassification, but also just some currency impact there, because the good part of that business is written in Asia and other markets outside of the U.S., so that also is having an impact.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay, but nothing is changed in your outlook.

A - David Cole {BIO 7251632 <GO>}

Nothing. In fact, I think there continues to be an area where we see good opportunities going forward.

Q - Sami Taipalus {BIO 17452234 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon all (40:21). I had two questions, the first one will be on the group investments, so referring to slide 10 of your slide pack. The running yield in 2016 was 2.9, only 10 basis points down compared to 2015, so seems to show kind of flattening of the negative impact from the low interest rate environment. That said, it looks like you are still investing your new M&A (40:49) around 1.9 in Q4. So could you help us to better work out what we should expect in terms of running yield assumptions for 2017?

And the second question will be probably for Matt and relating again to inflation risks. I think that there is a lot of attention around the evolution of CPI, but based on history of your books. Can you tell us what has been in the past a correlation between your (41:25) in post inflation and CPI and here behind I am referring to one of your peer commenting - peer's comment (41:33) saying that they have so in the past (41:36) in their books, negative correlation between CPA and CPI post inflation? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you Thomas, also for giving me opportunity to direct the question to Guido. Guido you want to pick up first one.

A - Guido Fürer

Yes. On the running yield, as you correctly mentioned, it's 2.9 for the year. Now we also make the statement that we believe this is now a good level which we should be able to hold in going forward, more or less, of course, always depends on what the yield level is doing. But then if I look U.S. rates have come up a bit, I think we clearly have some expectation there that we see slightly higher rates.

If you also look kind of overall reinvestment rate and if you refer to Investor Day, where we showed basically how the structure of our fixed income portfolio is, and probably we have seen the bulk of securities are really in the longer term, that means you still have very high level of coupon income. In respect of new investment, in other words, bonds which mature, you can capture, let's say, levels which are closer to the current running yield, that's why I believe 2.9 is a good guidance.

In contrast to the former years where we have to (42:57) comps and kind of rundown of that piece, we believe now we probably reached a good bottom, doesn't mean that it cannot drop considerably low, but if I stick to our forecast, I assume we should be able to hold the running yield around this area, which the tendency maybe slightly to the off-board, again depending what policy rates are doing, if you just think again behalf (43:23) at the moment 50% in cash in short-term. If we pick up slightly higher yield, again if rates are going up, you have an immediate impact also on that component plus of course, if we invest into U.S. corporate 10 year (43:38) you have around 3.6%, 3.7%, which are good levels, that's why overall I feel comfortable with 2.9%, and again make the statement this is probably a good assumption as a flow (43:50).

A - David Cole {BIO 7251632 <GO>}

Thank you Guido.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you. Just kind of (43:55) 50% cash, any willingness to really provide (44:00) in the short-term? Thank you.

A - Christian Mumenthaler {BIO 6479864 <GO>}

I think cash is always, it's an asset class first of all. One part of it is driven that's the right short-term business that means, we don't want to take unnecessary industry risks. On the other hand, it offers a lot of optionality and opportunity. And finally, it's a combination of both, (44:22) cash is a considerable (44:26) piece which gives you a lot of flexibility in allocation as well as capturing some – (44:32) opportunities going forward.

A - David Cole {BIO 7251632 <GO>}

Thank you. Matt, you want to ...

A - Matthias Weber {BIO 16674983 <GO>}

We did a while ago, a stocky (44:42) probably trying to figure out a similar type of correlation or empty correlation. Indeed my (44:51) memories is correct, and the stocky is (44:54) a little bit dated. I believe we found a weak positive correlation of the weak one (45:06) and if you now just lean back and forget about the stocky (45:07), and look at it qualitatively, inflation on the P&C side matters most for casualty in the United States.

The U.S. is 50% of the worldwide casualty markets and the one with the longest tail, so that's where inflation does matter. There are three inflation types that are important; medical inflation, wage inflation and social inflation. Social inflation is the kind of the catchall (45:40), but it includes also pain and suffering and how pain and suffering reimbursements develop over time. And if you now think of it, medical inflation contributes to CPI, but it's clearly not the majority of the CPI basket, it's a smaller piece. Social inflation, it doesn't contribute at all to the CPI. So if you just lean back and think it through qualitatively, you would probably also expect a small positive correlation, but it's really not the big one.

A - David Cole {BIO 7251632 <GO>}

Thank you. May we go to the next question please.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have two questions. My first question, I would like to come back to the (46:37) budget and the exposure. If you said you are cutting is down, you try to answer it was the EVM impact. Could you also (46:47) little bit on the SST impact at the end of the day, that this lower exposure will have? And the second question is on the derivatives movement in the last capital segment, which affected Q4 again, should we expect this P&L volatility to continue going forward along the interest rate movements, and or the other question would be when will it fade out?

A - David Cole {BIO 7251632 <GO>}

And the last part of the second question was?

Q - Frank Kopfinger {BIO 16342277 <GO>}

When should we expect it to fade out if at all?

A - Christian Mumenthaler {BIO 6479864 <GO>}

Okay. Thank you. Yeah. Thank you. Matt, you want to pick up the first one.

A - Matthias Weber {BIO 16674983 <GO>}

Yeah. On an SST basis, (47:27), given the fact that it diversifies heavily away from the big risks including market risks. I would expect the decrease we have done and decreases we plan to do going forward will have a very, very minimal impact currently (47:49).

A - David Cole {BIO 7251632 <GO>}

So, let me come back to the derivatives impact on Life Capital, so just to put into context, we started showing the derivatives impact with Q1 2016, in both Q1 and Q2, as well as somewhat less but still important Q3 showed positive impact as rates were declining in the UK, but we also announced right away with the acquisition of Guardian, that we would over the course of, basically the first part of year convert that portfolio into more of a Swiss Re ownership optimizing of our approach in Solvency II.

Now we by and large achieve that reduction in the size, if you will, of the derivatives position during the course of the first nine months or so, first part of 2016 anyway. So that leaves us now with a position has DV01, at the end of Q4, of $2.4 million. And that's a position that we probably going to be more less comfortable in holding.

Now it does have an impact on our reported financial results, but we hedge the business on the basis of economic view as opposed to all the financial expansion view (48:57). There may well be some noise volatility going forward, we'll show it to you each time, so it will be up to see it. Given our current intent to maintain the position more or less the way it is, I think you can probably calculate the potential impact on a going forward basis. Guido, you want to add anything to that?

A - Guido Fürer

No, it's perfect.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

A - Christian Mumenthaler {BIO 6479864 <GO>}

Next question please.

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there, good afternoon. Just quick question from me on the normalized combined ratio, could you help us bridge the 2016 guidance for the actual and then also the 2016 actual to the 2017 guidance, that would be helpful. Thanks.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Thank you. Matt?

A - Matthias Weber {BIO 16674983 <GO>}

Okay. So let me do it for 2016, first reinsurance and first if it's okay, we don't give guidance as we share with you our expectations, because we feel it's not really our task to guide you, it's just our task to share with you what we think, but that's just terminology thing. On the reinsurance side, our adjusted combined ratio was 99.8% for reinsurance. Our expectation which we stated at the beginning of the year was 99%, so this is less than 100 basis point difference if we view this as the normal range of uncertainty.

We have for instance with respect to agricultural losses a little bit higher losses driven by trends for instance than we expected and this alone explains already 0.7% of the 0.8%, a point difference. On top of this, we have additional things where we were a little bit too optimistic and other things where we were a little bit too pessimistic, but overall we felt we actually did a pretty good job formulating realistic expectation for reinsurance and that is true for the full year. I wouldn't pay too much attention on a quarter-by-quarter basis, because the volatility, the quarterly volatility is just too big.

On the Corporate Solutions side, we were a little bit too high, with respect to what happened compared to what we expected to happen. Our adjusted combined ratio was

104%. We said we would come in at 101%, this 3% point difference is due to the fact that we shrank our premium a bit more than we anticipated it would, which increased our cost ratio, our expense ratio. We incurred more market softening than we anticipated at that time and last, we have more losses between $2 million and $10 million than we expected to have.

With respect to our expectations for 2017, going back to the reinsurance side starting at 99% which we felt was a good expectation, and we realized (53:13) adjust for the higher losses that happened on the agro side, at one - we lost 1% point in the price quality, assuming that might continue brings us to the 100% expected combined ratio for reinsurance.

On the Corporate Solutions side, the thinking goes as follow. We start with the 104% on a normalized adjusted basis. We take into account smaller, but still further rate decreases which we expect to incur also on the Corporate Solutions side. And we subtract from this the positive impact we expect to see from portfolio pruning actions and portfolio steering actions, most of which we have done already or most of which we have started already, but it takes a few quarters until this flows through into U.S. GAAP numbers.

A - David Cole {BIO 7251632 <GO>}

Thank you, Matt. Any other questions?

Operator

This was the last question. I would now like to turn the conference back over to Mr. Philippe Brahin.

A - Philippe Brahin {BIO 19081619 <GO>}

Well, thank you very much. Thank you. We have come to the end of our Q&A. So thank you very much for joining, and don't hesitate to reach out to any member of the investor relations team if you have follow-up questions. Back to you, operator. Thank you.

Operator

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