S1 2021 Earnings Call

Company Participants

- Christian Mumenthaler, Group Chief Executive Officer
- John Dacey, Group Chief Financial Officer
- Thierry Leger, Group Chief Underwriting Officer
- Thomas Bohun, Head of Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Ashik Musaddi, Analyst
- Iain Pearce, Analyst
- Ivan Bokhmat, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- Will Hardcastle, Analyst

Presentation

Operator

(Start Abruptly) turn the conference over to Mr. Christian Mumenthaler, Group CEO. Please go ahead.

Christian Mumenthaler {BIO 6479864 <GO>}

Thank you very much and good morning and good afternoon to everyone. I hope you're all safe and well, no matter where you are. I'm here with John Dacey, our Group CFO and together with Thierry Leger, our Group Chief Underwriting Officer; and Thomas Bohun, our Head of Investor Relations to talk you through the half-year results.

I'll just say a few remarks from my side before going into the Q&A session, so that you get a bit of my perspective on this first half-year. So I'd say that overall as you can imagine we're quite happy or very happy about the results because we see a lot of hard work that went into the businesses over the last two years. Finally paying off and being visible.

The results were -- the underlying results last year were already quite a bit better, but overshadowed by COVID. Well this year I think it's in the open and extremely visible. If I quickly go through the different businesses. I look at P&C Re with 94.4 combined ratio. I think that's an excellent result. Also normalized 94.4, it's below the target we have set of 95% combined ratio.

On top I remember the skepticism in this circle in January when we took some quite radical actions on the underwriting side to cut some of the casualty business and some of the aggregates and nat cat. I think you could see that we could catch up with the volume by year-to-date where 85% of the renewals is now done and we are flat, but was a significantly better portfolio and further price increases.

Despite the fact that with our scale, the efficiency, and the Life & Health Re diversification with a combined ratio of 94.4. We have a very high ROE already. So I'm very pleased with P&C Re and the trajectory it is in. Life & Health Re obviously heavily impacted by COVID. I think everybody has been surprised by the huge amount of deaths unfortunately in the US, but also in India, South Africa. So we pay for that with all the underwriting measures we took on the wording side that the 01/01 renewal actually are in full effect and you can see that very little losses are left in CorSo and P&C Re.

The underlying in Life & Health is also looking very good. I'd just be a little bit cautious here because this is on the exact science how to separate COVID from non-COVID losses as you know this different methodologies you can try to estimate that. And so a bit cautious around the underlying here, but overall Life & Health Re, the technical side has worked very well also in this first half year.

And then CorSo, I'm very pleased in my eyes the turnaround is finished successfully completed and you can see the results here now. They continue to have price increases. They had year-to-date 13%, which is quite something, I would say, and that's as you know will be earned over about two years. So the momentum is very strong, continues to be strong. You've noticed that the normalized one is still above -- the normalized combined ratio is still above the target we have, but causes in the trajectory. So we're very confident to be able to hit that when you look at the full year figures.

And so, yeah, very pleased with the overall direction where they stand and the position they have in the markets. And then finally on the COVID losses. We continued I think to have a good estimate. We are very comfortable about the overall estimate. There's still a big portion of IBNRs as you have seen in the slides I think it's 43%.

So time will tell how much we need that, but at this stage, we feel that's the best guess we can have at the final losses. And, as I said before, it's tapering off on the CorSo and P&C side. We gave a figure of less than 200 million on these two business lines until the rest of the year.

And then on the Life & Healthy side, it will obviously very much depend on how many deaths we have in the markets we are active in. I think there's encouraging signs looking at the UK, in particular, with the delta variant and number of cases are now going down and for all these fourth wave a very, very significant reduction in hospitalization and tests.

So vaccines are working against all variants at this stage. And if that's the case then I think that bodes well for the rest of the year and beyond. So that's just a few remarks. I'm sure you have more questions. And therefore, I'd like to hand over to Thomas Bohun who will lead into this Q&A.

Thomas Bohun {BIO 22165501 <GO>}

Thank you very much, Christian, and hello to all of you from my side as well. So before we start, as usual, if you could restrict yourself to two questions and then rejoin the queue if you have additional questions.

With that, operator, could we have the first question please.

Questions And Answers

Operator

The first question comes from the line of Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Good afternoon. I guess I'm normally the first to ask. Two questions. Both relating to comments that John made this morning. First of all, you used the term protecting the yield of the fixed income portfolio. Hence there was much lower fixed income realized gains. I mean over the last five years, 70% of Swiss Re's realized gains have come from fixed income. So I'm not quite sure how to take that sort of the guidance I suppose. You're expecting non-fixed income returns, I guess returns on alternatives in particular to make up for the loss of fixed income realized gains or maybe you could just guide us to where we should think the running yield on your new definition should go to. I noticed the underlying fixed income recurring income has dropped quite materially vary materially year-on-year. So just -- I'm just trying to interpret what you're saying about this protecting yield. It seems like it's a new element. The second question is, again, John you made a comment, it's on Bloomberg, it's -- it's a headline I can't see the detail, you say that insurers need to be quote more realistic on weather losses. Who are you referring to there, your seasons people buying reinsurance or the industry in general. And I guess in that context, does that signal that you need to think again about where you're positioning in terms of nat cat versus frequency or who you're aiming that comment at? Thanks.

A - John Dacey {BIO 4437051 <GO>}

I guess I'll answer these two questions, Andrew. Thanks for asking them. With the first one on the -- you're right I was quoting protecting the yield. I think in the first half of the year we just wanted to the point out that the relatively solid investment results 3.2. We got delivered without having to move on the fixed-income portfolios in a point where the outlook on future interest rates is unclear. And so I think we're comfortable at the moment or we're comfortable during the first half of the year that -- one the continued caution around credit. We've managed to avoid any impairments whatsoever on the credit side and the positive marks we got on the private equity portfolio in particular were more than sufficient for us to go through the quarter. I don't think you should interpret this as a -- us giving up intelligent moves in the fixed income portfolio when we see opportunities to realize a reasonable level of gains, but we're not going to squeeze the portfolio down to nothing when reinvestment rates are where they are. As you said the recurring investment yield is down to 2.3% from 2.5% a year ago. That's not surprising given where interest rates are the tenure was climbing back up 1.7, but the one last I checked this morning I think we're back. It's 125 [ph]. So we're just going to have to manage through this. The most important thing is that we're pricing our business to reflect the current yield environment and not some hopeful reversion scenario. And that's what's going on. So I think we're fine. I don't think you should interpret this is a -- any material change in strategy. Just a recognition that during the first half of the year, we were able to move forward and achieve this without any significant realization of gains out of credit and/or other fixed income instruments. On the second one. The Bloomberg quote -- to the degree that I was aiming at any one. I think it is both for the primary industry and frankly people that buy retail insurance. The reality is the -- what we've priced into our rates for secondary perils is what we think needs to flow down into homeowners in Florida or in California to commercial enterprises around the world to be able to deal with the losses that we see from more extreme weather events. It doesn't mean that we need to do another round of improvements in our models. Our models we think are already reflecting the current reality, but not everyone agrees with us on where some of these prices have been. We've -- the classic example was in the State of Florida where we've continued to be underweight because we think the prices that start at the very beginning of this chain are not reflecting the risks that are there. And so over time, we hope to be able to demonstrate that our picks, which seem to be relatively high are the right picks for people to go with. And if that cascades down into underlying policies, that's the right answer. A great example of where that did happen for us was frankly in Japan property after the typhoons of 2018 and 2019 where the primary companies fundamentally change their rates as a result of the pressure that we put on them in our reinsurance side.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Andrew. Could we have the next question please?

Operator

The next question comes from the line of Will Hardcastle with UBS. Please go ahead.

Q - Will Hardcastle {BIO 16346311 <GO>}

Hey, there. Good afternoon, everybody. Two questions. The first one is, I guess, a compare to this week suggested it would be looking to increase its catastrophe budget expectations in light of recent track record. I guess, in that regard, are you still confident that your catastrophe budget is struck sufficiently robustly. So could this be something that Swiss Re's looks at as well. And then the second one is within prior year development. It's a very small number, it's nice to see that the adverse development on casualty lines and it has come down a long way. Is it possible to break this out perhaps in quantum between the adverse development on North America liability and cyber versus at favorable workers' compensation development and what drove the adverse. Is it just specific cases or are there any assumption changes within that? Thanks.

A - Thomas Bohun {BIO 22165501 <GO>}

John, would you like to take those questions?

A - John Dacey {BIO 4437051 <GO>}

Sorry, the microphone. Well, the first one, our belief is that we've got and we frankly look at every year and during the course of the year. The expected losses we've got on nat cat. We allocate that during the course of the year with a overweight in Q3. So we've got a larger expected budget on Q3 than any other quarter and it served us well. And frankly with the exception of 2017 in the HIM losses. I don't know that we've been particularly far off over any longer period of time. We've actually been very, very close to budget on average. No, any particular year is going to be up or down given the good or bad luck. So I think you should expect that we do review this constantly and we're comfortable where we've got the picks for this year and that has on nat cat alone probably 700 million expected losses between reinsurance and CorSo for the third quarter and that doesn't include the large man-made events. On the prior-year development, you're asking for a level of specificity, which I don't think we're going to provide. What I can say is in any one quarter, we evaluate different lines of business and if there are places where we think we -- it would be prudent to reinforce certain reserves, we'll do that. But on a net basis, the reality for P&C Re has been very clear. It's been positive for the year-to-date. We don't believe we've got any holes in the reserving positions. We'll continue to evaluate if we've got new information or new events that make us think that we should do that. We'll reinforce where we need to, but the good news is, we found redundancies and many other parts of the book, whether it's in the property side, some of the accident and health businesses other places and we've been able to fully cover the funding of some minor adjustments during actually for the last four quarters now.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Will. Could we have the next question please?

Operator

The next question comes from the line of Kamran Hossain with RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good afternoon. The first question is just following on from Will's one about cat budget. Could you just talk a bit about how you actually calculate the cat budget. I guess based on my understanding and conversations with other kind of companies and people in the sector, a lot of cat budget you calculated on the backward-looking basis. So it's on historical data kind of overlayed onto your portfolio. And the issue that these models have is that they don't tend to factor in the change in climate. So just a few words on kind of how you calculate the cat budget and kind of factor climate change, it seems like it is happening into models. And the second question is just on the, I guess, the level of prudent in your COVID reserves. Obviously the kind of 43% IBNR reflects kind of event cancellation and mortality offers, but if I look at the kind of business interruption book, it looks like you've got $1 billion plus of IBNR prevents that really happen more than a year ago. So just interested in how those reserves that moved year-on-year whether actually you would expect to get more clarity whether it would be claims will develop or not in the coming quarters? Thanks.

A - Thomas Bohun {BIO 22165501 <GO>}

Thierry, do you want to take the first question and then John, the second?

A - Thierry Leger {BIO 16674977 <GO>}

Happy to. So on the nat cat budget. So the starting point is always with the expected loss. So you have to imagine that in our costing we priced in an expected loss for a given year for the business we write. So that's the starting position for defining the budget. And then we do several adjustments with regard to profit-sharing agreements, reinsurance premium, of course retro comes into play as well because the expected losses on growth, late reportings and things like that, and that's how we get to the budget that we disclose. And more specifically to your question around climate change. Of course, that is part of our expected loss we start with. So as we actually change our views on our loss pick, we for example, for climate change that would impact expected loss and accordingly also the budget over time.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Maybe if I could jump in, Thierry, because it could be that some reinsurers are really using just historical loss data over the last 10, 20 years. And I think it's important to stress that we have a team of dozens of nat cat experts who the program forward-looking model, physical models for hurricanes for example et cetera. And of course their ambition is to capture all trends and have a forward-looking view and model and that's the figure we use here. So of course that gets calibrated indirectly when you do models, you always calibrate to the back, but it includes all information we have about climate change for example. So there should be definitely a forward-looking element in the cat budget you can see.

A - John Dacey {BIO 4437051 <GO>}

And Kamran, on your second question, with respect to the COVID reserves. You correctly identified that the level of IBNR for the business interruption claims are around the property book remains strongly in IBNRs. And this frankly reflects a current market dynamic where the presentation of claims has been very slow from the primary markets. And here we're -- in some cases they themselves are trying to come to a final conclusion of what their losses are. And then thinking through the specific issues of event definition and accumulation where, in some cases I'm guessing we'll have a pretty coherent view ourselves of the way they are thinking about it. In other cases, we may have a seriously different view of the way that they're looking to pull together a potential claim recovery. So what I can say is there's been relatively little movement on this specific bucket in the property side over the last two quarters. I would expect probably around year-end as we look again to the renewal season that we might sort out some of the uncertainty, but this is probably going to continue into next year at some level. So I wish we were in a different state, as an industry we're not -- and there's not much we can do until the primary markets come to us with a clear proposal about what they're expecting and we can either agree or disagree with that. So the discussions have been occurring. I don't want to say that there has been no discussions or nobody thinking about this, but it remains as you say a big chunk of this 1.4 billion that we've got in this bucket to be resolved. We continue to believe that we are well reserved.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Kamran. Could we have the next question please?

Operator

The next question comes from the line of James Shuck with Citi. Please go ahead.

Q - James Shuck {BIO 3680082 <GO>}

Hi. Thanks very much. Good morning and good afternoon. So my two questions. Firstly, on the fixed income running yield in the I think certainly in the appendix. I mean if I think the 886 for the first half of the year. It's look like a yield of about 3.1% and I think you're saying that new money at the moment is about 1.25 at least based on the treasuries. Can you just remind me about your strategic asset allocation and where you are versus that and how we should think about the scope to re-risking. I think your market risk is shown in the SCR is actually quite low by historical standards. So if I just annualize that fixed income yield sort of around 1,800, 1,900 or so. Is that number directionally going to go up as you change the asset allocation. That's my first question. Secondly on CorSo, I hear the comments that you say Christian about very confident with the outlook in the trajectory. Just a bit puzzled about the first half result because it's 97.7 normalized, but that's not normalized for man-made losses and man-made losses were about two point benefit. So excluding that sort of closer to 99 or closer to 100. So when you make your comments around contract to below 97 that's getting the benefit from a low level of man-made losses. So just comment about why is you're so confident you're on track versus plan would be helpful? Thank you.

A - Thomas Bohun {BIO 22165501 <GO>}

John, do you want to take the first question and then Christian, the second?

A - John Dacey {BIO 4437051 <GO>}

Yeah, sure. So, James, with respect to the current investment portfolio. I think on the slide deck in the appendix we had on page 25 or 26. Looks like I have trouble reading this with this slide, 26. 40% government bonds, 30% in credit, another 10% in equities and mortgages and other loans, some policy loans. So I think that, to give you a sense, we have increased modestly the risk from the beginning of the year. We've reduced our cash position from 17% down to 14%. We continued to have some runway if we want to bring in additional risk onto the balance sheet at this point of time. I think we, as a management team, is reasonably comfortable with where they are. So the underlying point you have which says will this -- with current interest rates, will this return and the recurring investment yield continue to trend down. The answer is probably yes. I don't think anything dramatically, but -- we don't see an inflection point on this. We'll look to continue to see what's available on the alternative side and we've got teams that have done a very nice job frankly in private equity and other alternatives to support a strong yield, but the core fixed income side of this is not just for Swiss Re, but for the industry going to be under some modest pressure with reinvestments. And that's why the kind of price increases we've seen corporate solutions we need to continue the underlying primary -- industry getting those rate increases helps us directly on that side, but also frankly as a spillover effect to our reinsurance portfolio as well.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yeah, and of course I think you're right. If you add man-made we come to a slightly lower number. So our team would say 98 point something. But if you look at the trajectory of the price increases and that as it gets earned through over two years. I think mathematically, I have quite some confidence that we get there by the end of the year. Just looking at the pro with you quarter by quarter and how it gets earn through. But yeah, clearly we pushed them down, we give them tough targets. They now have also elipsLife, which is a different type of business and so on, but I am confident we will get to 97 at this stage.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, James. Could we have the next question please?

Operator

The next question comes from the line of Iain Pearce with Credit Suisse. Please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi. Thanks for taking my questions. The first one was on the dividend upstreaming from the different segments. I know P&C Re didn't upstream any cash to group this half year there any cash remittances from Life & Health. Is there anything to sort of flag there? Is it due to the cash inflows you've had from some of the divestments or the sort of restructuring that happened to the different operating entities and/or should we be expecting a sort of normal remittance pattern in the second half of the year. And then just following up on the corporate solutions point. Yeah, I was a bit surprised to see the underlying development worsened this year on the combined ratio. So just if there's anything to flag there as to why that has worsened. And if you look at slide four does the historics include elipsLife and we're looking at underlying combined ratio?

A - Thomas Bohun {BIO 22165501 <GO>}

John, do you want to take the first question?

A - John Dacey {BIO 4437051 <GO>}

Yeah. So with respect to dividends. I mean you're right and the flag that we have done this restructuring of the legal entities in Switzerland effective the 1st of July. I don't think I would read anything into the -- what you saw in the first half. We continue to be highly liquid both at overall the group, but also -- and more broadly in the consolidated businesses. We'll think through what dividends we might want to see either in the second half of this year or next year between the legal entities. But I don't think that there's any particular cause for concern about our ability to manage both liquidity and capital between the subsidiary and the parent company.

A - Thierry Leger {BIO 16674977 <GO>}

Yeah, maybe the question on the normalized combined ratio. I think the issue here is, we don't normalize for man-made to make it comparable to P&C Reinsurance. So if you did the normalized with man-made last year would be higher, the combined ratio than it is now. So I don't know -- I can't remember the exact figure but Investor Relations can provide that to you.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Ian. Could we have the next question please?

Operator

The next question comes from the line of Vinit Malhotra with Mediobanca. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Thank you. So my first question is on the kind of the flood and the weather we talked about and earlier in the year, we've been talking about the reduction in the secondary perils. Are you able to give us some kind of direction or indication or some kind of quantification that okay because affordable underwriting measures they were slightly lower lots to be expected from this flood. So anything to that effect would be very helpful. That's the first question. Second question is, John, there's a very strange remark in Bloomberg headlines again might not be fully accurate, but just to see what I just read out what I see. It says that you said there's still some more mortality. So continued to see major mortality losses. And just to understand, I mean I would have assumed that from your comments as well that mortality should trend down lot like from in second half, but if you could just reiterate that or clarify that will be very helpful? Thank you.

A - Thomas Bohun {BIO 22165501 <GO>}

Thierry, if you could take the first question and then John, the second?

A - Thierry Leger {BIO 16674977 <GO>}

Yeah, I'll take the first one on the flood and the weather as you called it. So indeed, we reduce our exposure to these secondary perils. And we were actually assuming at the time, you will remember, we also talked about it already at the Investor Day. We were assuming that the trend of the secondary perils, the volatility that we have seen emerged over the last years is not going to go away suddenly. So we view this as a real trend. So what we did do actually two things. One is one that John mentioned already was the adjustment of models. For example, in Japan, that we have also adjusted the models in other areas and obviously we continue as we learn from new claims. We continue to adjust our model. So that's the one thing we did, which leads over time to an increasing loss pick. The other thing we did is, we looked at structures that we don't like and in this regard we very closely looked at these cat aggregates that can actually pickup these secondary perils quite easily and in a way, we didn't like as much anymore. So we did indeed address those and reduce our exposure, but not only to these aggregate covers, we also have the top and drop structure. So everything in that frequency area we did reduce. And our own estimation is that it would certainly be a triple-digit amount of losses and it was certainly a triple-digit amount of loss that we have avoided with those actions.

A - John Dacey {BIO 4437051 <GO>}

And Vinit thanks for bringing up. I'm not quite sure exactly where the headline came from. What I did say is the mortality losses, we're the only significant COVID loss that we had in the first half of the year. And I'm not sure if that's was somehow misunderstood of my point. What I can say very clearly is obviously, our biggest exposure for Life & Health losses in COVID, our mortality losses and in the United States. We've had some losses in other countries, in the past, the UK, not much on Continental Europe, but the US has been dominant. What we saw was on Q1, our biggest single quarter because of the number of deaths in January and February in particular that has tailed down considerably the Life & Health losses overall reduced by 60% quarter two over quarter one. And given the trends of vaccination and the continued success of the vaccines against the variants to-date, we would, all things being equal, we expect that to continue to trend down. What we did see in the second quarter was some losses that were booked from geographies, other than the US, about half of that number that we've booked the 240 was US related. The other half came from some other countries where losses were established reported India, South Africa and some small numbers out of certain Latin American countries. We do not expect that those numbers will be substantial going forward. What was booked in the second quarter was loss is actually in the second quarter and probably a little bit of catch-up from previous quarter deaths that were reported to us after considerable interactions with the primary companies. So I think we would expect the run rate with what we know today and the current trends of both the functionality efficacy of the vaccines vis-a-vis the different variants and the slowing, but still increasing levels of vaccination to reduce these losses in future quarters. I hope that helps.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Vinit. Could we have the next question please?

Operator

The next question comes from the line of Thomas Fossard with HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Oh, yes, good afternoon. Two questions on my side. The first one would be related to CorSo. I think that you're flagging the -- the end of the turnaround program at CorSo and potential you're flagging more or return to more normal growth. So could you help us to understand what we should expect now in terms of topline growth for CorSo opportunities you're seeing, you're currently contemplating in the market. And if on top of what you're getting in terms of rate increases we should stop thinking about growing exposures. And then the second question would be related to the renewals. So year-to-date, you're coming with 4% nominal price change. Can you update us on what the impact of those on the combined ratio basis, on a net profit basis and at the end of the day I'm guessing that it's net of everything, it's 2% higher. So just was wondering if you could put some qualitative comment on this and say in your view this is enough or I mean actually it needs to be further improved going forward? Thank you.

A - Thomas Bohun {BIO 22165501 <GO>}

John, would you like to take the first question?

A - John Dacey {BIO 4437051 <GO>}

Yeah, so with respect to the CorSo, I think it's important to remember that Andreas Berger came in 2019 and took responsibility, the pruning was severe, a third of the portfolio was jettison. Teams were shutdown, disbanded and picked up in some cases by some competitors, but we were consequent in removing ourselves from certain lines of business, whether it's excess and surplus liability in the US umbrella liabilities. We just decided that we would be better off not in these lines of business. And for the absence of doubt, there is no reconsideration of those lines that we did exit from. We're very comfortable that we can move forward without necessarily being players and what we consider to be more challenging lines at least over any reasonable period of time. What we have reached is the inflection point and that's what you see actually here in the first half where premiums are starting to grow again not by much, but as a result of these price increases coming through on the book of business and the potential expansion in certain lines. So the European property book of CorSo is growing. We're adding new risks, but we're also getting good pricing. We would expect then to see an increase in premiums earned at the very least from these price increases. They may not be 13% in the next quarter. We're not making a prediction of what they are, but there is momentum carrying the commercial rates forward. So even if the book doesn't necessarily grow very much this momentum on earned we should see. And to the degree that the CorSo does see valuable opportunities for writing new business in lines where they're already present. They've got our support and we've encouraged them to put that capital to work. So there is -- we're not making a prediction on where they're going to end the year, but I'd be very surprised if you wouldn't see some acceleration of the growth from where we are today.

A - Thomas Bohun {BIO 22165501 <GO>}

Thierry, on renewals.

A - Thierry Leger {BIO 16674977 <GO>}

I'll start on the renewal and quality question, Thomas, that you have. So indeed you are right there's this nominal price increase that we disclose and against that we have the yield increase that we observed earlier in the year and we have the loss pick that we mentioned already that you have to set against it. And of course if you deduct them from the nominal price increase and what's left is not as much as we promised the result improvement will be. So the difference is actually and the difference is significant is coming from the improved portfolio mix. So we've said that -- and if we have disclosed that as well. So we are on the one side addressing our underperforming treaties in the casualty space and in the property space. So one reduce exposure to social inflation LCR. Those are typically treaties with the high combined ratio. And you are addressing the lower layers on in for example cat and property and those are equally businesses we have typically higher combined ratio. So as we move more and grow more and by that I mean also exposure into businesses with lower relatively lower combined and actually reduce business with relatively high combined ratios. So overall we quite strongly improve as a result, the combined ratio of the portfolio through an improved mix.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Thomas. Could we have the next question please?

Operator

(Operator Instructions) The next question comes from the line of Ashik Musaddi with JPMorgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, thank you, and good afternoon. Just a couple of questions I have, if I may. So first to all. You mentioned that the expected losses on the recent floods et cetera is about mid triple-digit million and then if I heard it correctly you mentioned that the third quarter budget for cat losses is 700. So I mean that leaves a gap of this 200 million. How confident you are that the hurricane season would not more or less exceed those extra 200 million net. I mean we are still left with the whole hurricane season. That's one question I would ask. The second thing is, if I think about the growth I mean at the moment, we are trying to make sure that the portfolio is more profitable especially in the P&C Re business. Pricing is the main focus whereas volumes is not, but what needs to happen for the volume to start picking up as well. I mean when do you think that the volume get start moving higher as well in the P&C Re. I mean CorSo it's pretty clear. I mean pricing is driving volume total premium as well by in P&C Re the premiums are still kind of flattish. And the third one is, you mentioned there is 200 million of remaining losses from COVID in P&C and CorSo, but like this quarter you have booked almost nothing. So what is the reason for that 200 million. It's just because there's just no visibility and uncertainty or is it that you have some line of sight which makes you put that 200 million? Thank you.

A - Thomas Bohun {BIO 22165501 <GO>}

John, do you want to start on those?

A - John Dacey {BIO 4437051 <GO>}

Yeah. So maybe I can. With respect to the floods. What we said is the combination of what is a man-made event the social unrest in South Africa and the floods in Germany are likely to be a mid three-digit loss. We will clearly be working on this in the next weeks to try to get more precision on this. And as long as it's consistent with what these preliminary estimates are, we'll just move forward, but I think with respect to the nat cat budget, you should not expect that all of this is going to land in the nat cat, but the part in South Africa will be outside of that calculation for us. So I think we've probably got a little more room than you might indicate if we -- our preliminary guesses are there. We do have some expectations for man-made losses, which would take the number over 800 million when you combine it with the nat cat budget. The third question, I think I'll answer as well. With respect to future P&C losses on COVID. What we said at the beginning of the year is, we still saw three potential opportunities for us to take losses. One is the very constrained exposure we now have on property treaties that are multi-years or otherwise might pick up some losses if there were to be a new set of lockdowns, obviously, that's not happened in any material way into the first half of the year. The second was on the event cancellation. What I can say there is one good news, lots of events are occurring including the Tokyo Olympics. Very pleased to see, but also even some of the other ones that were canceled. What we saw was the ultimate cost of that cancellation was lower than we might have had reserved especially in the CorSo book. And so what you saw in the second quarter was actually a bit of a positive on event cancellation, which covered some modest losses of the places. And the last on the credit and surety side, the reality is the governmental support in fiscal stimulation continues to keep companies in pretty good shape. And so we didn't see anything, any material losses that we would have linked to COVID activity in the first half of the year on credit and surety are very small. The 200 million that we take for what's left in the year is basically a maximum amount if things were to go relatively poorly in those categories for the second half of the year. If they go well, it will be a lot less than $200 million, but we're not prepared to predict that at this point of time, but I think we specifically use the phrase less than $200 million to give you a maximum that we would expect and it may well be materially less than $200 million given the experience we've had in the first half of this year. There's nothing we see on the horizon, which says, we're going to be close to that number to date.

A - Thomas Bohun {BIO 22165501 <GO>}

Thierry, on the growth opportunities?

A - Thierry Leger {BIO 16674977 <GO>}

Yeah, on the volume pickup. So I mentioned I think and John mentioned to say there are underlying lines of business that we are growing that CorSo has been growing that P&C Re has been growing through the whole transformation and turnaround they have been through. So nat cat has been an area where we have always found spots of nice growth and that's also what we have seen in the first half this year. I mentioned specialty across CorSo and P&C Re. We have seen very attractive growth there lies for example in credit and surety where we are still a bit down on the brakes currently, but that could potentially if the markets become attractive become another area of growth for us. Casualty has been much more careful because social inflation is here to stay very clearly and there are no signs or indications that this would go away. To the contrary, we think this social inflation impact could also move into other lines and therefore certain on casualty, we will remain careful. The other elements that is difficult to predict how it's going to evolve is that we've seen a trend generally to non-proportional which in my view is a very good trend. It's usually a trend to quality portfolio when we move because we have very, very good understanding of non-proportional costing. So that's usually a sign of confidence and very positive, but we have seen a decline in the first half on the proportional business, and that's very difficult to predict how will the commissions behave with our customers what actions do our customer take on their portfolios, all of that is more difficult to predict. But equally there, if opportunities present themselves, we will try and find opportunities to grow there too.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Ashik. Could we have the next question please?

Operator

The next question comes from the line of Vikram Gandhi with Societe Generale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hello. Good afternoon. It's Vikram from SocGen. Hope all of you are doing well. I've just got one question. We've seen some settlements in the US with regards to the opioid crisis. I know the group has been fairly cautious on the casualty side over the past year, year and a half, but if you can just share some of your thoughts as to your level of comfort with the historical pharma sector exposure, that would be great? Thank you.

A - Thierry Leger {BIO 16674977 <GO>}

Yeah, Vikram, thanks for this. So we have had historically I mean we were among the first move is early 2000 with regard to pharma exposures with pharma exclusion that we have implemented in across our businesses since. So I think I can say with confidence that we have been adopting a very cautious approach to pharma exposures in particular. So however, we do find still exposures, but certainly it's a very measured approach we take still today and the settlements that we -- you see you read in the news all of those were ongoing settlements we've been observing monitoring, but none of them has been a surprise to us and is in line with our expectations I would say. So no particular bad news or good news to us.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Vikram. Could we have the next question please?

Operator

The next question is a follow-up from Mr. Thomas Fossard with HSBC. Please go ahead sir.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, thank you. Just wondering if you wanted to make any comments on your capital position at midyear direction and actually you disposed also couple of stakes since the start of the year. So any hints on what could be the use of them and if you've got some idea and care plans already? Thank you.

A - John Dacey {BIO 4437051 <GO>}

Thomas. Hi, it's John. Look what we've indicated is that our SST ratio is above the midpoint. As of June 30th, we'll go through the work we have to go through to get a more precise answer and share that with the markets with the third quarter results. So the robustness of a capital, I don't think anybody questions. Your question I think is going further than that which is, are there going to be any additional capital measures. I think it's premature to discuss those. We'll obviously look to complete the year. We are very much pleased with the first half performance and with the underlying economic earnings as well as the US GAAP earnings that are coming through. And so we'll see how this plays itself out in the second half of the year, but our overall capital framework remains intact. We look to make sure that we've got a very strong position. Check that box too. We support important growth that's what you see doing. The premiums were up. Earned 8%. Life & Health Re I think is a franchise that you should not ignore in terms of the relatively strong growth that we continue to see there in terms of value creation. And frankly even if it remains a very small business or etiquette business is another place where we're continuing to invest in as it grows very, very strongly year-on-year. If we find ourselves in a great position with more capital than we know what to do with and we'll come back to you with some of those ideas.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Thomas. Could we have the next question please?

Operator

The next question comes from the line of Ivan Bokhmat with Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good afternoon. Thank you. I've got a couple of questions. The first one is on Life & Health Re. Just wondering the underlying performance excluding COVID has obviously been very strong for a couple of quarters running now. I was just wondering if you could share some views on the drivers, some of the stuff we're reading is that the flu pandemic has actually been very benign. So just wondering if there is any one-off effects that you can flag within those numbers. And secondly just on some of the earlier comments you've made on the increasing the nat cat exposure. Obviously you said that you're still being very selective on the regions and then the types of coverage you take, but I was wondering if you could just suggest which geographic areas have you been growing into if it's let's say not Florida and how is the portfolio changing? Thank you.

A - Thierry Leger {BIO 16674977 <GO>}

Okay. So on the Life & Health underlying drivers. We Christian mentioned I think it's an important point that the allocation between the COVID losses and non-COVID losses is somewhat sometimes a bit of an intellectual debate and not an straightforward. So there could be some element or noise coming from that allocation. We have seen, however, positive mortality developments for example across the board. And we've seen good developments in disability for example in Australia, which was positive after some more difficult quarters and we have also seen some positive developments in China. So generally a positive underlying technical result. But we say that we shouldn't take this obviously as an indicator for the second half of the year. On the nat cat side we go -- you used the word selectively. I think selectively has more to do with structures and with specifically frequency related layers, but otherwise we model 185 different perils and we're actually very, very keen to grow every single one of those. So there is no particular preference on areas where we are indeed very cautious. So we have been historically cautious. Historically is a big word but cautious over the last year in Florida, for example, but that is no news. And other than that, as I just said, we have actually quite balanced appetite across the board and then, yeah, I think there is not much more I can say.

A - John Dacey {BIO 4437051 <GO>}

Maybe if I could just add on the first point on the Life & Health underlying performance. As Thierry said, the technical performance has been strong universally across geographies and products. We're pleased with that. It's a little unusual. Normally there's one or two places where you might see some a temporary relapse to a less good situation. The other thing, the current return on equity has been flattered by a relatively low level compared to where we set the targets at 10% to 12%. The business was supported by a notional $8 billion of equity capital. The reduction of the unrealized gains in supporting that business has reduced that below 6 billion I think right now and we've got a situation where the ROE looks good in part because the ease more constrained. But the earnings themselves at over 500 million for the first half of the year or probably better than anticipated and no matter how you own it at the high end of the -- of what we might have expected.

A - Thomas Bohun {BIO 22165501 <GO>}

Thank you, Ivan. We probably have time for one more, if there's someone waiting in the queue.

Operator

Yes, we have a follow-up question from Mr. Andrew Ritchie with Autonomous. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Oh, hi, there. I think there are fairly short ones. Apologies if this is a simplistic question. I'm curious as to why the loss cost assumption in the pricing disclosure. So it was you gave us a nominal price in January and you knocked off 1.5 points, 1.5% for loss costs and that's become minus 1. I guess I'm just setting in the context of generally there has been an increase in loss cost expectation across the industry year-to-date given the inflationary backdrop. How come that's not the case for you assuming that's something to do with the mix of the type of renewal, but if you could just clarify that. And the second question I think is also for Thierry. On the nat cat growth and thinking specifically US, obviously, we are in hurricane season. When I think about your exposures, have they grown across all return intervals or is it more 150 and return it below that. Is there anything unusual about the growth across the return intervals?

A - Thierry Leger {BIO 16674977 <GO>}

I put myself off. So on the loss cost assumptions that you've mentioned. Indeed, we have reduced that slightly. When you look at the numbers we disclosed, in reality it indeed has to do with the mix of business that obviously has an impact as well on this number. So we have been growing more in specialty and property and the adjustment on the loss pick side has just been much smaller compared to what we actually think we need on for example casualty. So that explains that relatively in my view anyway small change between earlier part of the year and the later part. The second point on nat cat US. So we have indeed changed somewhat the exposure to the different you called it I think return periods. So we have clearly moved the way from the higher return periods, but those are the five, ten-year return periods. We are talking about and moved into what we call the belly somewhere in the middle part. So not necessarily to the 150 years plus that you mentioned.

A - John Dacey {BIO 4437051 <GO>}

And, Andrew, I might just add on Thierry's first answer. Even on the January one renewals, we took a position on coming inflation that related to not just social inflation, but also the risk a broader-based inflation and that was in the pricing model. So I think while it became a bit fashionable for people to talk about cost of goods and other loss inflation in the middle of that half year. We've already made some moves earlier on for those inflation assumption. So you might not have seen that delta increase in our own cost fee models that you're thinking about.

A - Thomas Bohun {BIO 22165501 <GO>}

So with that we've come to the end of the call. I would like to thank you all for attending. Thank you for your questions. If you have any additional questions, please reach out to the Investor Relations team. Have a nice weekend, and thank you again. Operator, back to you.

Operator

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