Q1 2017 Earnings Call

Company Participants

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

FINAL

Other Participants

- Andrew J. Ritchie, Analyst
- Daniel Bischof, Analyst
- Edward Morris, Analyst
- Frank Kopfinger, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Thomas Fossard, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning or good afternoon. Welcome to Swiss Re's Conference Call on First Quarter 2017 Key Financial. Please note that today's conference call is being recorded.

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

David Cole {BIO 7251632 <GO>}

So, thank you very much. Good morning or good afternoon, everyone, and welcome to our first quarter results conference call. I'm here with Philippe Brahin, as you all know, our Head of Investor Relations.

Let me start with just a few remarks on the key figures we published this morning under our adjusted format and scope. Swiss Re started the year with a solid first quarter with a net income of $656 million. All business units contributed positively to this result. P&C Re reported an ROE of 10.8% despite the impact of Cyclone Debbie.

Our reserve strength remains intact. We experienced positive prior-year development across all lines of business in all regions. We maintain our underwriting discipline in ongoing difficult P&C pricing environment. Premium volume in our April renewals was down 2%, and our year-to-date risk-adjusted price quality remained at 101%.

Life & Health Re maintained its track record of good performance with an ROE of 11.6%. Corporate Solutions also report solid results with an ROE of 10.1%.

Life Capital delivered a strong gross cash generation of $336 million. As expected, the large one-off realized gains in Q1 2016 did not repeat this quarter, and the ROE of Life Capital was 3.9% for the quarter.

The group also benefited from the strong contribution – stable contribution of our investment portfolio with an ROI of 3.4% and a relatively stable running yield of 2.9%.

And finally our 2017 Group SST ratio increased slightly, just slightly up to 262% and remains comfortably above our respectability level of 220%. Our 2017 ratio reflects the previously announced changes in the Swiss solvency regulation. With our capital position, we remain well-positioned to execute on our capital management priorities.

And with that, I will hand over to Philippe who will introduce the Q&A session.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, David, and good day to all of you also from my side.

So, as David mentioned and as we previously announced, we have seen that we have adjusted the format and the scope of our reporting for Q1 and Q3 to focus on the longer view of our performance. So, as we mentioned to many of you already this morning today, we will comment on the key figures as reported in our press release, and we will provide qualitative context of important underlying trends. We will report full sets of financials and the usual quantitative details with our first-half and full-year results.

Also, before we start our Q&A, 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 Guilhem Horvath from Exane BNP Paribas. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes. Good afternoon. Thanks for taking my questions. The first one is would you be able to give us a little bit of quantitative elements on the evolution in terms of underlying loss ratio both in P&C Reinsurance and Corporate Solutions, because you mentioned in the press release that the natural catastrophe was partly offset by favorable prior-year developments in P&C Re and I would like to know how much and in Corporate Solution, if this was the case as well?

And the second is on Ogden, we saw some impact in many of your competitors. I'd like to know if you saw a negative impact from Ogden as well and if you offset that somehow by releasing results anywhere else. Thanks.

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks for both questions. So I'm not going to go into a quantitative further detailing of our combined ratio or loss ratios. As you've seen in our release on P&C, we had a very broad base. I'll just refer to it as well, across all lines of business, all regions, the prior year positive development. I think it's again an indication of the quality of our book and some of the trends that we've seen over the recent years simply has continued without significant change.

We had of course large Debbie loss which impacted P&C Re in the quarter of $320 million, net of retrocession pre-tax. Other than that, really no large net cat losses. Actually, very low losses more broadly outside of the large net cat losses as well.

On the Corporate Solutions side, also an impact from Debbie. In Q1, $30 million net of retrocession and pre-tax. Did have some negative prior year developments. Nothing I think suggesting that the quality of our reserving or the process around our reserving is somehow suspect or weak or we've changed it. Just nature of the business where some of the losses come in a little bit late and therefore they get booked as PYD, prior year development.

Overall, for both of the units, we're not changing anything in terms of the estimates that we've provided at the beginning of the year. We're one quarter in. I think the first quarter has developed to our satisfaction, noting that from time to time we do have the large losses, it's part of our business. The overall portfolios have performed very much in line with our expectations. And I think given the circumstances, have delivered a very satisfactory result.

Ogden - yes, I've also watched and see how others have now been reporting. I know some people included it in 2016 as we did. Others for different reasons, I guess needed to include it in Q1 2017. I'm not exactly sure what drives that. Maybe it's just where people were with the close of the 2016 year.

But we were able to pick it up as part of 2016. And as we previously indicated, looking at the change in the Ogden rate or the impacts, we were able to conclude, it fits very nicely within our existing reserving margins and our overall reserving margins remain quite prudent, quite strong.

Nothing really has changed in Q1 from our point of view. Obviously, we continue to have dialogs with clients, following just our normal reserving process and claims process. It remains a relatively uncertain area, uncertain vis-à-vis what the UK government may do. They've announced we're going to review the situation, but we don't know exactly what they'll do. Uncertain in terms of how behaviors will actually develop with the propensity to take lump sums versus the annuities subject to change as things like these discount factors change.

Pricing levels, will, no doubt, change in the UK market. I think it's probably worthwhile for me to conclude on Ogden just by reminding everyone as we said earlier, I think, in March that overall, UK motor reserve represent only about 2.5% of our P&C reserving base. We have extremely well-diversified book. We have had and continue to have, I think, a prudent reserving approach. And so, we'll continue to follow the developments in the UK.

We had already adjusted our involvement in the UK going back to 2011 or so and we were handful of years ago when the move to PPOs became more prevalent. So, from our point of view we remain well positioned, comfortably reserved, and now we're just engaging with our clients as part of a normal ongoing process.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Thank you.

A - David Cole {BIO 7251632 <GO>}

Next question?

Operator

The next question is from Edward Morris from JPMorgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Thanks for taking my questions. Two questions, please. First is on Life Capital. Gross cash generation looks quite high there and headily sort of run rate that we would've expected. So, can you just let us know if there's anything specific that drove this? Presumably, there's some relatively one-off factors in there, but some commentary about that would be helpful, please.

And secondly on premiums, I see quite a large year-on-year reduction in Q1. I see your comments about their Chinese quota share. Can you just remind us around the phasing of the things like the large quota shares and also the tailored transactions that you did last year and potentially any sort of pipeline for tailored deals this year for what that might sort of look like for the full year? Or is there anything seasonal we should be aware of? Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you. Both good questions. The second may take me a little while to answer, but let me start with the Life Capital question. So, yes we reported in Q1 gross cash generation of $336 million, which we're very satisfied with. Two real contributors to that; one is just the underlying performance of the business is very much in line with our expectations perhaps even exceeding our initial expectations looking at the existing business, plus the business that we brought on board with Guardian. So, the underlying business is performing to our satisfaction. That's comment number one.

Comment number two, and it's not the first time that you're seeing this. In Q1 of each year, we finalized the statutory valuations of our reserves and then we do a true-up. In this year Q1, just as we've had in previous years, in Q1 these true-ups have led to a positive one-off. Both elements I think are sustainable. I use the word one-off and I think we continue to apply prudent approach to the way we look at our reserve, prudent approach to the way we determine our capital position.

And so I think the $336 million generated in Q1 is not something I would suggest you put in to any sort of model for every quarter going forward. But I think it's a strong testimony to the recurring strength of the underlying business and the attractive cash generation that's coming off of the business.

One final thing before I move on to the second question. In UK, we didn't really have a whole lot of move in interest rates in Q1. And it's sharply contrast to what we saw last year where in Q1 rates moved down significantly, Q2 likewise, Q3 they moved down, but to a lesser extent, and in Q4 they actually moved up as did the number of other rates around the world.

This also has the impact on the level of gross cash generated. Basically a decreasing interest rate environment leads to lower cash generation versus higher level of interest rates would lead to a higher level of cash generation. But as we indicated throughout the course of last year, we were managing the overall sensitivity to that interest rate exposure during the course of the year, having started off the year with a relatively higher exposure as a result of bringing on board the Guardian transaction, the Guardian portfolio and then transitioning it to our ownership during the course of the year.

We continue to do that, continue to optimize, I think relative to what we saw in 2016, I'll just reconfirm that we would expect the same degree of volatility. We may still have some volatility there, depending on what happens with interest rates, but the overall impact I would imagine would be significantly lower than what we saw in 2016.

On to your second question. So, yes, you picked up the reduction in premiums more pronounced with the January renewals than in the April renewal. Big part of this is just that the presence or absence of large transactions. We indicated beginning of last year that we had indeed successfully closed a number of large transactions not a single transaction, but a number of large transactions.

We indicated at that time that those are chunky. They're not predictable. We have a very attractive pipeline. We have very active dialogs with the customers, but that's not that kind of thing that just very neatly falls in a linear fashion, either in conjunction with the renewal schedule or even for that matter along a quarterly basis.

If I look at this year's result, outcome of renewals and situation vis-à-vis transactions, we simply don't have in this reporting period the same level of large new transactions that we had last year. And indeed we have reduced some of our capacity allocation in markets where pricing levels continue to trim down to a level that no longer meets our return requirement.

And then finally, as you referenced indeed in China, as expected, primarily driven by the change in the regulatory structure there, some of the previous large quota shares that we had simply no longer makes sense to our clients so that, of course, those type of structures (13:40) a little bit more premium than risk in return when they do have the disproportionate impact on the gross premium written line.

Final thing I'll say is that net earned premium is pretty much stable with last year, just reflecting the solid, high-quality impact of the business we've previously written. Our pipeline remains I think quite healthy, but difficult to predict exactly when transactions may occur. I can tell you that our clients continue to be very engaged in speaking with us about possibilities that we may have to help them grow their business.

Q - Edward Morris {BIO 16274236 <GO>}

That's right. Thank you very much.

A - David Cole {BIO 7251632 <GO>}

Yes.

Operator

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

Q - Daniel Bischof {BIO 17407166 <GO>}

Thank you. Good afternoon. Two question from my side. First one on the Life Capital and the open book business, I mean, it seems to grow quite nicely. Could you provide an update here? Is this mainly coming from Group Life, Individual Life, could you maybe also talk about the launch of ETQ (14:49) in the U.S. and your expectations there?

And then the second on – actually a follow-up on a previous question, the cash remittance in 2017. I mean, with strong – with $2.6 billion (15:02) from Reinsurance, Assurance, $150 million from CorSo, what are your thoughts here when it comes to Life Capital? I mean, gross cash generation was strong last year, also in Q1. Are there any reasons we should be aware of why it should not go significantly above the previous year's numbers of $360 million to $400 million?

A - David Cole {BIO 7251632 <GO>}

Thanks. So first here, we have seen good growth on the open book side which we're very excited about. It's a very attractive market. It's going to, I think, be an attractive market for many, many years, even decades to come, if you just think about the protection gap in the areas that we're focusing on.

You have to remind everyone it is still a relatively small business for us. And, therefore, some of the growth levels just looking at it on a percentage point of view will continue I think to be quite nice. But it takes some time for them to I think reach the overall level where you really start seeing it move the needle. But we're investing in this business even though it has a negative impact, of course, on our short-term reported earnings. It's not a surprise if you think about the type of business that we're building, but we think it's a very attractive opportunity.

So, your question was about the underlying components. And, I can tell you that for, Q1 2017, both Group Life as well as Individual Life continued to show a good growth developments in line with our expectations and in line with what we have communicated at the end of last year around our Investor Day.

In particular U.S., we're absolutely up and running now. We were successful in actually getting our first policy over the line already at the very back end of last year which I think was tremendous delivery on behalf of the team. It's still very early days there, but we see also a very attractive market for us in the U.S. We'll be coming back to these developments on a regular basis. I would imagine, of course, not only the next several quarters, but over the next several years.

And to your second question on the forward-looking statement on dividend levels from the Life Capital, so first, let me just confirm that, indeed, reinsurance paid $2.6 billion dividend (17:24) during the course of Q1 up to the group; and the Corporate Solutions, $150 million, in line with our expectations. You may have also seen that in some of the financials that reported at the end of 2016.

Life Capital for a number of reasons basically having to do with going through the proper process there, internal governance process, finalizing the true-up that I was just referring to in terms of the statutory valuation then also going through the process with the regulatory bodies. We have over the course of last several years, as you'll see if you look back at our reporting, dealt with the dividend from the Life Capital unit during the course of Q2.

And this is what I would expect to do this year as well. I won't make any forward-looking statements about the level of dividend in Life Capital other than just indeed to confirm that the cash generation there has been very much to our satisfaction. And I hope to be able to report something to you – expect to be able to report something to you in the first week of August.

Q - Daniel Bischof {BIO 17407166 <GO>}

All right. Thanks.

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, everyone. Two questions. The first one is just on the reduction in premiums, how much capital – does that kind of release much capital for you to use elsewhere? So, that's the first question.

And the second question, it sounds like you're getting slightly more constructive on the UK motor and the potential there after I guess a number of years of pulling back. Is that a market that might interest you in the upcoming renewals later this year? Thank you.

A - David Cole {BIO 7251632 <GO>}

Thank you for both questions. So, first of all, it's probably a disproportionate reduction in headline gross premiums than it is in capital, part of that has to do with what I was just describing when I was referring to these large Chinese quota share businesses that were not that much risk-involved therefore also not that much capital-involved.

If you look at what we've done with our portfolio rebalancing over the course of the last – actually five years, and I'm referring then to both sides of our balance sheet, we really started rebalancing our liability portfolio back in the end of 2011, beginning of 2012 when we first started talking about reentering the casualty market. And likewise on the asset side, of course, we rebalanced during the course of 2012, 2013, 2014, and now pretty flat. Now, what we're seeing now with the premium developments, I think it would be fair to say indeed more disproportional impact on headline premiums than capital levels.

In terms of your second question, yes, constructive about UK motor. I'm not sure anyone would – well, I think people would perhaps question a little bit my sanity if I started talking too constructively about UK motor. I think it's still a very challenged space. So, quite a bit of uncertainty in terms of how the UK government would like to address some of the perceived challenges associated with the current process of determining these discount rates.

I've seen some indications in the marketplace that clearly as a result of the change in the discount rate, pricing levels for a number of segments in the market, we'll need to adjust that seems to be a rational approach. I think it's important for you to recognize that we remain of course engaged with our UK client base to have a look at things with a very rational set of perspectives in terms of the attractiveness of the business.

But there's still a lot of uncertainty there. I'm not exactly sure when the UK government will be in a position to give additional clarity regarding potential measures they wish to take.

I'm not sure, to be honest, what impact the snap election now at the beginning of June will have on the process of that review. So, I guess it's the space we're going to have to continue to watch before I would be willing to start using the word constructive.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much, David. Appreciate it.

A - David Cole {BIO 7251632 <GO>}

Yes. Thank you.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, Vinit here. So, one question on Life Capital, please, and on Life Re. On Life Capital, I was just curious, there used to be or there's still is an ROE target out there and you have say two points below that, but obviously gross cash generation is very strong. Is there anything that you would like to point our evident in these numbers, which would suggest a gap or a bridge between the target and the achieved ROE on Life Capital? So that's the first question.

Second question is on Life Re, the commentary says that there were a few large claims in the U.S. and also that the investment income was stable, but obviously you're still achieving almost the top end of the range of target on ROE. So, is it an indication that were investment income to be slightly better and if there are no too many large claims, then we could easily overshoot that as well? Just wanted to get your sense. Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. So, I'm not going to start talking about overshooting. I think the targets are really, in the case of Life & Health Re, let me start with that one through the cycle target. Look back at Q1 2016, we are actually well over the target range and Q1 2017 we're very much in the upper-end of the range.

Think about this business as a large, mature, well-performing portfolio. From time to time we have some volatility that comes up, in the case of Q1 now in the U.S. mortality book we had a couple of large losses. As far as we can tell just the normal type of blip to be expected, overall mortality trends continue I think to develop quite positively. Q1 of last year, we talked a little bit about the fact that we had this positive FX impact, which helped the reported ROE up well above the 12%. This year, we didn't have that type of impact.

The investment income here really is driven off of a long-term investment hold-to-maturity type of an approach and has a very stable, overall contribution, satisfactory, notwithstanding we have a low-yield environment, stable and satisfactory contribution. Obviously, if yields start moving back up, then we would expect that contribution to also move up over time to the way I think you're saying about the Life & Health Re business is that we see it as a very attractive portfolio. We have a leading market position. We've been able to demonstrate I think good growth over the course of the last several years in excess of I think 6% or so compounded average.

In Q1 it looked a little bit less. Part of that was just the FX impact. If you think about the business, we would've had in places like the Europe or the UK where we had a pretty strong dollar during the course of Q1, that's just noise from my point of view. Underlying business continues to perform very much in a fashion that we would describe as attractive and stable.

As to your Life Capital comment, so, yes, let me talk a little bit about the target ROE which is very much still there. So, first, we had target ROEs for P&C Re which is 10% to 15% through the cycle, CorSo which is also 10% to 15% through the cycle, for Life Capital it's a little bit of an narrower range 10% to 12% through the cycle.

In the case of Life Capital, we set the appropriate target that we believe for that business is on a medium term basis – we don't think we're there yet for a number of reasons, which I'll get back to – we think an ROE of 6% to 8% is the appropriate figure.

Now, last year, we were well above the 6% to 8% and we always were quite careful to point out some of the deposits that were coming off of the interest rate environment there and the Guardian portfolio. The underlying target is unchanged. So, midterm 6% to 8%. There are a couple of different factors that will determine a little bit the pace at which we get there.

We know that the – let's call it for the sake of discussion the pre-Guardian business was a low-ROE performing business for historical reasons. Good quality business, but we had extracted some of the earnings from that around the financial crisis. We knew it was a relatively stable, but low-ROE business exacerbated by the level of unrealized gains on our balance sheet. Somewhere in the order magnitude of a third of the reported equity is just unrealized gains on this business segment, reflecting the long-term duration of the business and therefore the long-term investment portfolio that we have. I hope that's all clear.

We knew that in order to get to a – this midterm 6% to 8%, we need to manage that business well, continue to improve the efficiency, make sure we have a fantastic operating platform, acquire attractive new portfolios, and average that closed life business ROE up. We also have always said that we really look at our business as an earnings diversification and a cash generation business. That continues to be very true and I think it's being very clearly demonstrated with results over the last several years.

Now there's a final thing that may influence a little the timing of that midterm target. And, frankly, the success we have with our investments in the open life book business. But it's quite clear for a number of I think understandable reasons that those investments in the first couple of years of course will not contribute positively to that midterm target. But we still think it's a very attractive thing for us to do.

So, the midterm target stays there. We'll still need to do some attractive transactions in order to achieve that target and the timing of achieving it will be driven by what happens with unrealized gains, what happens with the timing of new transactions and, of course, the continuing developments on the open book side. I hope that gives you a good context for the midterm target, 6% to 8%.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thanks very much.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

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

Q - Thomas Seidl {BIO 17755912 <GO>}

Thank you. Good afternoon. First question is on pricing. With rising interest rates, I guess, net present value of future claims payments comes down. And so I wonder if you see initial signs that peers and the market is willing to price in this higher investment income expectation and this basically refuels some price softening especially in reinsurance which is a longer-tail business than primary insurance. That's the first question.

Second question on investment income. I think you or the CIO mentioned in the most recent meetings that you expect flat running yields. And now, running yield is down 10 bps, if I'm correct, 2.9% in Q1. So, I wonder if you could give us some update on what the reinvestment yields are right now and what it means for the annual outlook on this running yield. Thank you.

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks, Thomas. So, now, I don't see any indication that the serious players out there in the marketplace are now somehow calculating higher interest rates into their willingness to charge lower prices and I hope we don't see there for a while. I mean, we've all been talking about the fact that we expect at some point interest rates to move back up, they were moving up a little bit at the end of last year. But, obviously, in UK now they were more or less flat and in the U.S. it was more relevant to some of these discussion actually track back down a little bit during the course of Q1.

So, now we certainly are not doing it ourselves. As you know, we price on the basis of risk free and we don't extrapolate all sorts of forecasted increases in pricing in order to somehow justify loosening the discipline on our underwriting.

Q - Thomas Seidl {BIO 17755912 <GO>}

But I think risk is up now. I think it's just natural that when you take the protected cash flows on the actuary over the next couple of years and you have a 20 bps higher yield curve across the whole duration space, shouldn't that lead to basically a natural decline in premium?

A - David Cole {BIO 7251632 <GO>}

Well, I don't know about that either to be honest. I don't know who has a crystal ball on interest rates and where the yield curve is going to go. But no. Coming back to your question, certainly I haven't seen that in the marketplace.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay.

A - David Cole {BIO 7251632 <GO>}

And of course, it could be isolated instances of this. But it's certainly not something that we've seen in like a significant fashion.

To your second question, I kind of think if you hope to (30:55) in the way I intend with respect, I think you may have misunderstood what our CIO has said. So, let me just repeat that. He said at the end of last year that we would expect based on interest rate levels that existed at that point in time that our running yield would be more or less flat with what we had at the end of 2016.

At the end of 2016, we reported Q4 2.8% running yield. Q1 2017 we reported 2.9% to actually up 10 basis points. Now, at the time we said and we would expect to be more or less stable. If interest rates stay where they were anytime that we did that communication. Of course in the meantime, interest rates have tracked back down a little bit. We don't have any kind of anti-gravity boots, as you know, on the investment portfolio. So if interest rates track down, that will have pulled down running yields over time. It's not a dramatic move, but it will move down if interest rates move up.

And, of course, I will have the like – likewise impact on the running yield. We're long-term matched player. I think if I look back, not just the last six months, so Q4 of 2016 and Q1 of 2017, (32:08) stability but just look at underlying net investment income that's coming off of the back of this portfolio in the running yield and whatnot, I think we've been very successful in delivering a stable contribution. And – and it's very important, as otherwise you could play games – and maintaining a very high-quality portfolio.

So we haven't been going down the credit quality curve on this and you see that number of different ways. If you look at the overall composition of our portfolio, look at the level of impairment, and I feel quite confident that that will be the case going forward as well.

So just to confirm, so the reported ROI in Q1 was up about 10 basis points versus Q4 2016, clearly down from Q1 of last year, but that's no surprise given overall interest rate to lose over that period of time.

Expectation going forward is in line with what we have previously said. Obviously, we'll be driven out of the direction and the pace of any changes in interest rates, but we will maintain a very solid, very well-performing portfolio, so we remain comfortable with its overall contribution.

Q - Thomas Seidl {BIO 17755912 <GO>}

But I think, a follow-on on the $2.8 million at Q4, that would mean that you reinvested $2.8 million. If you want to maintain $2.8 million in 2017.

A - David Cole {BIO 7251632 <GO>}

No, that's not what it mean. It depends on the normal roll-off of reinvestment yield and whatnot. But what it basically says is that at the level of interest rate, what we said level of interest rates existed at the time of our report on Q4 2016 that if rates stayed at that level, more or less, that our overall running yield would be more or less stable with what it was in Q4. Okay.

Q - Thomas Seidl {BIO 17755912 <GO>}

Okay. Thanks. Very helpful. David. Thank you.

A - David Cole {BIO 7251632 <GO>}

Yes. Thank you.

Operator

Our next question is from Jon Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good afternoon. Thanks for taking my question. Just two from me, please. So just firstly on the Cyclone Debbie loss, I know we had the figures out for some time, but I just wanted to gauge your thinking as to why the market share of that loss was perhaps a bit higher than we were expecting.

And, secondly, the April renewals were down by just 2%. Obviously, there's so much bigger retrenchment at January. I was just wondering why there's slowdown in the retrenchment. Apologies if I missed that earlier. Thanks.

A - David Cole {BIO 7251632 <GO>}

Okay. I'm going to ask if you don't mind, Jon, if you just repeat the second question. I lost one part of the sentence. So you talked about a slowdown in the retrenchment but I missed...

Q - Jonny Urwin {BIO 17445508 <GO>}

Yes. Sure. Sure. So, one, obviously you guys pulled back a lot from – a lot on the premium front in P&C Re. But the April sort of renewals, there was a bit of a slowdown, wasn't it? It's just down 2%. So, honestly that's just due to the renewal mix and the reason for renewing...

A - David Cole {BIO 7251632 <GO>}

Yes.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay.

A - David Cole {BIO 7251632 <GO>}

Okay. Thanks now it's clear. So, I just missed the first part of your question. So, on Debbie, so, listen, we're a leading reinsurer in Australia and we're very happy to be a leading reinsurer there. It's been an attractive market for us. We have excellent client relationships. From time to time losses occur there, of course, and then we fulfill our claims commitment. And we expect to indeed earn it back.

So, that's the first thing I'll say and I think it's a very attractive – has been a very attractive overall allocation of capital. And I would expect that that will continue to be a market that shows from time to time given the situation net cat losses, other losses, of course, as well. But I think the fact that we have a little bit of a larger market share there is because we are a leading – one of the leading reinsurers in Australia.

Two, is this has a little bit to do with the specifics of this storm and where it hit and the specific damage there and programs that we were on. Nothing I think particular noteworthy there, I mean, other storms were from time to time other large reinsurers show up with relatively larger shares, so I think those are just somewhat random effects based on the specifics of exactly where the storm hits and does the damage come from surge, and does it come from wind, those type of things.

And the third thing is that, of course, in addition to our reinsurance business, we're also active in market with Corporate Solutions. And you see that's up $350 million -roughly what is that? Just about $30 million, we estimate will impact our Corporate Solutions.

There are couple of things there that led to a larger share of the market than the (36:50) people would normally expect. It's one of the reasons we actually decided to come out with the ad hoc, because we had a sensitive market indeed wasn't necessarily fully reflecting our market position in Australia.

As to the second question, you actually answered your own question. So, we have, of course, been pruning our portfolio on the flow side. And I wouldn't say necessarily that it – has moved a whole lot between the January renewals and the April renewals. Obviously, the April renewals are altogether significantly smaller than the January renewals. I think probably a larger impact on the overall level of as you've said to pull back on the premium side or impact such as these Chinese quota shares which are really a January impact as opposed to anything else.

What I'll also say is that we continue to apply our approach which is we're client-centric but we're also I think economic in looking at the attractiveness of a business and engage proactively with clients to allocate our capital to the opportunities with them that give us a attractive return. And if others are willing to provide capacity at levels we don't are appropriate then we scale back our participation there.

I also think that our earlier comments about the market has been softening. At some point, we started seeing it soft. I remember Matt Weber describing the market some time ago and now, we just use the word soft, and more or less around that period of time, but subsequently as well.

We see that the ongoing developments are now – it's quite clear that there's a stabilization broadly that's taking place here. And there are still some minor decreases in pricing levels very much in line with our expectations and I guess that's also not out of line with what you hear from other market participants. And then we have a couple of areas where losses have occurred that we actually see some not just price stability, but actually some positive price developments as well.

So, that's the way I would kind of describe the perspective from April versus the perspective from January, not really a significant difference in view on the market circumstance or pricing developments, per se.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. David, how normal was the tax rate in the first quarter for the group and by division? In particular, when I've looked at CorSo, the only way I can get to your profit given that you had a breakeven underwriting result was either by assuming massive capital gains, which seems unlikely or some good fortune on the tax front. So, if you could just comment qualitatively on how important the tax rate was against normal.

And then secondly, the outlook for CorSo. Your 100% combined ratio included both challenging news on large losses and positive reserve development. So, the magical clean figure that you won't disclose would presumably be a lot lower than 100%. I don't imagine you're going to change your 103% guidance for this year. But the implication is that the next three quarters are going to be 104% or even 105% if your original guidance is still good.

So, can you talk a bit about how we should think about the very first quarter against 103% expectation you set for the year? Thank you.

A - David Cole {BIO 7251632 <GO>}

Yes. Thanks, William. You're right. You're absolutely right. I'm not going to go a lot deeper into quantitative figures here for the reasons that you stated. I appreciate question that but we're not going to do.

But I will tell you a little bit about both questions. First, the tax rate. Tax rate in Q1, if you look at it, it's basically just about in line with what we have informed you should more or less expect from us. So, I think we ended up just above 20%, 21% for the quarter, which is just about what you would expect given the Swiss home base but also the geographic mix of our business is always some elements of discreet items it impacted.

But overall tax rate for Q1 pretty much right in line with what we've previously communicated to the marketplace. Each of the units has its pluses and minuses but I won't go into that now. We certainly will come back to it at the first half.

In terms of the estimate that we've provided, you used the word guidance, but I'm clearly using the word estimate as we always do, which I understand that estimate is just that. The estimate reflects our assumptions about a number of different factors, pricing level, developments during the course of the year, business mix developments during the course of the year, the timing of the individual transactions that may impact the way these numbers are calculated if you think about it on an annual basis over the course of the year.

So you're absolutely correct. I'm not going to update the estimates that we've provided either for Corporate Solutions or for P&C Re at this point in time. I don't think there's really a strong basis for doing that. We recognize that both segments I think produced good results in Q1. We remain confident about the quality of the portfolio. But there's just too many moving parts to start trying to manipulate this estimate on a quarter-by-quarter basis. These are estimates for the full year. And as when we would see a clear indication that we think there's something that we need to inform you about the estimate, of course, we will do so.

Q - William Hawkins {BIO 1822411 <GO>}

Thanks.

A - David Cole {BIO 7251632 <GO>}

Thank you.

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Good afternoon, everybody. I have one question left and it's also on the tax rate, but looking forward. Could you comment a little bit on the impact from a corporate tax rate reform in the U.S.? So if the corporate tax rate goes down to 15%, what would be the impact on your side? And also overall comment on how big your profit base is overall in the U.S.?

A - David Cole {BIO 7251632 <GO>}

Okay. Thank you. So first, we're extremely pleased with our U.S.-based businesses. They're a significant component of our overall mix. I think the Americas as a whole is something in the range of 35% to 40%, of which is a significant part of course will be the U.S. It's profitable business for us. And we would expect that to continue to be the case. Obviously, you can always have a large storm that may from time to time influence those results. But by and large, it's a meaningful, profitable contributor to our overall result.

Yes, what's going happen to U.S. tax rate? That's a fantastic question. I wonder anyone who knows where they're hiding because it seems to get less and less clear as we go forward even noting that there's been some communication from the White House recently about what they would like to achieve. It was rather short on details and not clearly - I'm not really sure what level of support the proposals have been articulated will gather in the Congress.

It's such a difficult thing, Frank, to say. I mean, there's offsetting possible impacts. No doubt if some form of - the border tax adjustment comes in, we'll have to look at the way we structured some of our business and we'll have to think about what that means for us. The ways that we manage it, of course, we just need to wait until we know may happen if anything happens on that space in order to be able to respond.

If there's a reduction in the absolute level of the corporate income tax, we'll have to look to see what other changes are there in terms of deductions and other things that typically comprise the overall final net corporate tax level. Just looking on a face value, a reduction in corporate income tax will, on a long-term basis, of course, be a positive for us giving my comments about it being a profitable market for us.

On the other hand, we'll have to look to see how those changes would impact existing tax positions that we have on our balance sheet and that could be neutral. It could be a positive, it could be a negative. So, a lot depends on how the actual tax reform will be implemented. And from my point of view, it's unfortunate, but it is what it is. It's just too uncertain to say.

Q - Frank Kopfinger {BIO 16342277 <GO>}

But do you have DTAs that would need to be written down as a first step?

A - David Cole {BIO 7251632 <GO>}

I don't know. I mean, we do have DTAs on our balance sheet. So, there's no doubt that there could a day one negative impact, which will then of course reflect itself on a longer-term basis, MPD (45:51) basis in terms of the more attractiveness of the future income streams.

But, Frank, there's just too many moving parts for us to say and I could speculate about all sorts of proposals that get floated to from time to time. I think for us it's important to keep a close eye on it, as I'm sure many others are doing to look to see what actually is able to find its way through the halls of Congress and ultimately into a new tax code in the U.S. And as then when we get more clarity about it, of course, we'll think about what specific measure that we may wish to take in response.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Yes. Thank you.

Operator

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

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

Oh. Hi there, David. Two quick points of clarification just from comments you made earlier. First of all, you used the phrase very low losses outside of nat cat, but is that – are you implying that the sort of man-made large losses were unusually low in this quarter, I guess, both for P&C Re and CorSo? I'm not quite sure what you meant by that phrase.

And the second phrase you used you said that you've included Ogden – the Ogden effect in your 2016 results and you were able to pick it up, I think is the phrase you used. I just want to understand what you mean by that phrase. Because if I look at the triangles, particularly the motor triangles, there's no discernible change in loss pick except for the 2015 year, which I believe is U.S. auto-related.

Now I guess that could mean there was positive and negative offsetting, but is it more that you didn't pick it up in 2016? When you went back and looked at it, you just felt that there's enough margin to absorb the issue. It's not a case that you actually took an extra or added reserves very often, I just want to clarify that. Thanks.

A - David Cole {BIO 7251632 <GO>}

Yes, thanks. I can give you a very short answer to your first question, which is yes. But let me see if I can repeat the question. So, you asked – so when I said there's a relatively low level of the losses, does that mean no man-made losses? The answer is yes, and that applies frankly to both segments. So, we had a relatively higher level of nat cat losses and low level of man-made losses in the quarter, random occurrences.

As to your second question, yes, we've maintained a prudent reserving of both for many years. The developments in the UK are not new. We've been watching it for some time. We maintain an overall very, I think, healthy margin on our reserves, notwithstanding the reserve releases that we've shown over the last couple of years for the different reasons that we've talked about. The overall level of reserving, I think, has remained quite prudent, quite strong.

So, when we looked at the change in the discount rate, we came to conclusion that the way we thought about our reserves in the past, the different offsetting items there led us to confirm our conclusion that our reserving levels were actually more than adequate, and that continues to be the case today.

And, of course, we now are in a normal process of looking to see what develops in the marketplace, how our clients are responding to the changes, working with them on their new business, the propositions working with them on ongoing claims that come in just as we were in the period prior to the rate change.

So, we've dealt with it, as I mentioned, overall it's 2.5 percentage points of our reserving base and the changes in the UK market are not new. It wasn't that sudden that people will discover that there was something called an Ogden rate in whenever it was announced February or March of 2017. So, it's something that we've been aware of for some time. We have, I think, an overall very well established and prudent reserving approach. And, therefore, we were able to maybe look at that and say, well, given all the news that has developed, the ongoing questions about what the potential trade-offs will be, the uncertainties on that, we feel very comfortable with where we are reserved. That was true - that's true on 16th of March, true of 16th of March ...

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

That's one point, I wouldn't...

A - David Cole {BIO 7251632 <GO>}

... and true on the 4th of May as well.

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

That would be why I wouldn't see real change in loss picks because it wasn't required essentially with hindsight?

A - David Cole {BIO 7251632 <GO>}

Yes. As I think in our ...

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

Yes.

A - David Cole {BIO 7251632 <GO>}

... overall portfolio and overall reserving levels and yes we – that said, that's absolutely true.

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

Okay.

A - David Cole {BIO 7251632 <GO>}

There'll be some individual components that will move and of course we'll adjust accordingly. But the overall impact is simply within our preexisting prudent reserving margins. So

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

Okay.

A - David Cole {BIO 7251632 <GO>}

Yes.

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

That's great thank you very much. Thanks.

A - David Cole {BIO 7251632 <GO>}

Yes.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon. Two question on my side. The first one will be can you or will you be able to comment qualitatively on the AIG issue potentially to put a definitive line in the sand on an issue or a story which has been a top of investor minds in Q1, probably dragging your share price performance this Q1. So, any qualitative comments on the process you've been undergoing in Q1, the results and potentially, I would say, your firm and definitive statement on that?

And the second question will be on the SST. Anything you would point out in terms of the moving parts, the different moving parts, i.e., RBC or total capital evolution 2016 versus 2015 – 2017 versus 2016 and how we should expect the different components, numerator and denominator, to evolve going forward? Thank you.

A - David Cole {BIO 7251632 <GO>}

Aha, also a request for forward-looking crystal ball. Okay, let me start with AIG. Thanks for asking the question. I was almost going to be surprised no one asked. And I indeed hope I can somewhat put it – a line under it now, understand the question or whatnot. AIG made a number of comments back when they announced some developments on their reserving side which obviously directed people's attention to Swiss Re. It's a significant client of ours, has been for many, many decades, and I hope will continue to be for many, many decades going forward.

Listen, we don't talk about client business, and I'm going to hopefully draw a line on the sand on this one here as well. But since it's been in the public domain and we've responded to it already at our full-year results, let me just confirm that we have received ongoing information from AIG. We continue to be in the regular as we would always be with our large clients dialog with them about their development. We've looked at the most recent information we've received from them. We analyzed it in quite some detail as you can imagine already prior to our full-year results, but now also in Q1.

We remain comfortable with our overall level of reserving. We reserve on a portfolio basis. We're still on early days here. So, we'll see how this matures over the next couple of years but there's nothing that has come to our attention. And I can tell you we've been paying attention that has led us to adjust our overall reserving levels.

We have a number of different activities with different clients in the U.S. market. Clearly, there's some parts of the market in recent periods, going back to the end of 2015 even I believe, but certainly during the course of 2016, culminating with the announcements that AIG made earlier this year that suggest that there's a need to adjust reserving levels in the U.S. And you're actually seeing now overall in the marketplace that some of the positive developments that were supporting the profits there for a couple of years have started to pave the way in aggregate.

Well, that's not something that surprises us and we've talked about that for a while. We talked about the fact that we thought it may not be a bad time for us to start by entering into the market already a couple of years ago because we recognize that if you do that in eyes-open fashion, recognizing there a number of trends that are likely to over a period of time impact loss levels and pricing levels, then I think you can hopefully be well timed in your decision to rebalance the portfolio. That's exactly what we said back in 2012 I think you've seen us do it.

If you just look back at the overall portfolio mix right now, to be fair, I think we probably have achieved quite a significant degree of rebalancing both the growth in our casualty book, healthy growth, profitable growth, as well as turning back some of our the property nat cat exposure due to pricing developments in the marketplace that have led us with a book that we consider to be very healthy and we remain comfortable with, and we remain comfortable with our reserving levels. So, yes, I hope that we can draw a line under that. Thank you for the question.

A - Philippe Brahin {BIO 19081619 <GO>}

Then there was a second question on the SST ratio...

A - David Cole {BIO 7251632 <GO>}

Yes. Indeed. SST. So, SST, so, yes, obviously there was a change in FINMA, which – if we restate the 2016 SST which was 223% under the old methodology, it became 261% under the new methodology. And then 2017 SST, we move up to 262%. So, a fairly modest move, overall. I don't mind giving a little bit of additional flavor to that.

So, number one, we remain well capitalized and we remain capitalized above the level that we've indicated as our respectability target. We do that because it provide us with quite some flexibility in order to respond to market opportunities. If the market opportunities arise, we want to be able to act quickly to capture them. If the market opportunities don't arise, and we come to the conclusion that we're really sitting on a buffer on top of a buffer, then we look for ways to return it. So, just to put that context there and remind everyone of our capital management philosophy and approach.

Our RBC under SST increased by just a bit more than a $1 billion to just over $50 billion in 2017 basically off the back of profitable underwriting and investment contributions, but also reflecting the dividend projected as well as share repurchases in 2017. We also had some minor impacts off the back of reduction in some subordinated bonds as well as some minor FX impact.

Overall target capital remained more or less flat, reflecting portfolio mix, different market – the challenging market conditions, overall flat. And that market value margin also, which is basically the capital cost for the runoff period relatively flat.

So, if you looked at on a headline basis, you'd almost come to conclusion nothing happened, 261% to 262%. I think, I would ask to think about it a little bit differently. We did a lot of exactly what we said we're going to do in 2016. We generated good profits, we invested in a number of areas, and we concluded that we were holding excess capital, so we sought to return it our shareholders. And that's something that we've been talking about for a number of years. Something I hope to continue talking about a number of years, and not just talking about but demonstrating.

Net-net results of all of these moves was that our capital position remains I think superior, which is exactly where we'd like to have it. We maintain quite a bit of flexibility. And of course we'll watch to see what happens with our profit developments this year and our investment opportunities this year. And as we get a little bit later in the year, we'll look to see whether or not it makes sense to do something with the share repurchase program that was recently authorized by our shareholders.

Once again, exactly in line with the way we communicated about that last year around this time and the year before that or at this time.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thanks, David. Can you remind us if in calculation because you see the forward-looking measure of your capital development a decrease and because you asked formally for the authorization to repatriate $1 billion in terms of share buybacks although the official announcement have not been made yet? But is that accrued already or it's still not reflected in the numbers reported this morning? Thank you.

A - David Cole {BIO 7251632 <GO>}

So once again, short answer yes, it is and very much aligned with what it was last year as well where we also had a similar type of approach. That's the way the SST function is there is reflection of forward-looking capital the management action (59:39).

Q - Thomas Fossard {BIO 1941215 <GO>}

Okay. Thank you.

A - David Cole {BIO 7251632 <GO>}

Yes.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, David. And thank you, everyone, for joining us today. We've come to the end of our Q&A session. And so please don't hesitate to reach out to any member of the Investor Relations team if you have follow-up questions. With that, operator, back to you.

Operator

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