Q2 2018 Earnings Call

Company Participants

- Christian Mumenthaler, Group Chief Executive Officer
- Edouard Schmid, Group Chief Underwriting Officer
- John Robert Dacey, Group Chief Financial Officer
- Philippe Brahin, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Edward Morris, Analyst
- Frank Kopfinger, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Sami Taipalus, Analyst
- Stefan Schürmann, 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 First Half 2018 Results Conference Call. Please note that today's conference call is being recorded.

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

Christian Mumenthaler {BIO 6479864 <GO>}

Thank you very much. Good morning and good afternoon, everybody, and welcome to our first half 2018 results conference call. I'm here with John Dacey, our Group CFO, and Edi Schmid, our Group Chief Underwriting Officer, and Philippe Brahin, our Head of Investor Relations.

Let me start with a few brief remarks on the results we published this morning. The group delivered a solid set of results in the first half of 2018 with the group net income of $1 billion. We saw material improvement in earning quality with strong underwriting performance. As in Q1, our results are impacted by U.S. GAAP accounting changes. Excluding this impact, our group net income would have matched last year's first half results.

We also report growth in the first half as premiums increased by 8% particularly driven by our Life & Health business and Corporate Solutions, which is operating in a moderately improving market environment. In terms of our P&C Re renewals, volume is up 9% and price quality improved 2% year-to-date.

Finally, and as you will have seen, we're also exploring a potential IPO of our UK closed book business ReAssure in 2019. We believe that the UK closed book market offers significant opportunities and remains a growth area for Swiss Re. However, the business is subject to significant asset risk charges under the SST capital regime. Given the size of future potential opportunities, it is important for ReAssure to have access to substantial new capital. We expect to remain a significant investor in ReAssure in the context of a potential IPO.

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

Philippe Brahin {BIO 19081619 <GO>}

Many thanks, Christian, and good day also for my side to all of you. Before we turn to the Q&A. I just would like to remind you to please restrict yourself to two questions each and reregistered for follow-up questions.

So with that, operator, could we please take the first question?

Q&A

Operator

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

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

Hi, there. The first question, thanks for the disclosure on slide 23 on Corporate Solutions. I guess I'm just curious would you not have expected the attritional underlying loss ratio to have improved given better pricing. Maybe clarify what's going on there? Would you expect that to improve in the second half? Is it that we haven't seen any earn through yet of the re-underwriting or the better pricing? That's the first question.

Second question, just to clarify on ReAssure, I'm assuming - sorry, this is a question of mechanics, in order to free up your need to consolidate the capital requirement, you'd be looking to end up less than 50%, you have to actually deconsolidate it, is that the aim? Thanks.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andrew. Why don't we start with Edi on slide 23 and maybe John on the ReAssure question?

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

Sure.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah, thanks, Andrew, for the question on Cor So. Yes, it's true the underlying combined ratio or the loss ratio on attritional is a little bit up. A few man-made losses contributing to that. And the main reason, I think you already stated it, has to do with the time lag. Of course, we started to improve the portfolio pruning some of the underperforming businesses quite a while ago, but with the time lag on renewables and the time lag on earnings. This always takes one to two years until this comes through on a U.S. GAAP earnings basis. I think that's really all to say about that. But over time as we announced Cor So is operating in a moderately improving market. It could achieve some growth through the Prime Lead (sic) [Primary Lead] (00:04:17) initiative, but we still keep improving the quality particularly on U.S. liability as they have explained in the past from large corporate segments where we still see a need to drive prices further up. So we continue to drive it up, but it will take a bit of time until everything earns through into a better combined ratio.

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

What the return rate change is in the first half (00:04:43) earned?

A - Edouard Schmid {BIO 18942809 <GO>}

No, we set the target of 5%, we are working towards that target. We're not quite there yet, so we still have more work to do. That's how I would describe it.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Edi. John on to...

A - John Robert Dacey {BIO 4437051 <GO>}

With respect to ReAssure - Andrew, it's John Dacey - yes, you're right. To deconsolidate, we at least have to go down to 49% in terms of ownership. The other important dimension will be to give up direct management control of this into the - and independent board of directors will be put in place where the company management would be reporting to that board.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andrew, for your question. Next question, please.

Operator

The next question is from Paris Hadjiantonis from Credit Suisse. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Hi from my side as well. First question again on ReAssure. I think you are saying that capital is one of the big issues for you in exploring further acquisitions. Can we interpret that you are actually looking to raise substantial capital loss part of the IPO and then get diluted a bit or do you look to basically actually sell part of the business during the IPO process and therefore get proceeds on it?

The second question will be on P&C Re casualty, motor seems – especially in the U.S. seems to be a place where there's been authorized development and it's also a place that will have seen adverse development in the past and also you have been saying that prices have been going up. When do you think we're going to see some improvement in motor U.S. business? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Paris. Maybe John, on the first question.

A - John Robert Dacey {BIO 4437051 <GO>}

On the first one, Paris, if I can just be sure that we're all clear when you talk about capital needed for acquisitions that's within the ReAssure business, acquisitions of closed life blocks requires additional capital in the UK market for the execution of ReAssure's business that's what we're speaking about. And yes, that's true. We obviously committed from the group real capital when we did the Guardian transaction a few years ago, some smaller deals with HSBC and most recently last year with Legal & General where most of the equity capital was provided by MS&AD as they came in for a 15% shareholding in the ReAssure business.

On a going forward basis, we undoubtedly see that there is a pipeline of potential opportunities for the absence of doubt ReAssure is open for business and we'll continue pursuing those opportunities while we prepare simultaneously for the IPO to be ready in 2019. It's premature to suggest the nature of the IPO whether it will be entirely secondary or a dimension of primary that would depend on what happens with those opportunities for the business in the UK market in 2019 or even the second half of 2018.

But for now, again, the objective of this transaction is in the first case to provide another source of capital for the continuation of this business and the potential growth of this business that would not necessarily be on Swiss Re's balance sheet.

A - Philippe Brahin {BIO 19081619 <GO>}

Edi, on U.S. casualty.

A - Edouard Schmid {BIO 18942809 <GO>}

Question on U.S. casualty, I think, was more specifically on U.S. motor. I think as you correctly pointed out, motor has been quite a drag for the whole industry. The whole industry underestimated motor loss ratios a couple of years ago, various factors contributing to that. But I would say both actually on the direct side as well on the Reinsurance side now for two (00:08:37), we have seen significant corrections. Original rates picking up and also reinsurance terms, commissions, we could improve. We continue to see improvements on U.S. motor. And I think this has to continue for the longer. I think particularly in focus is the U.S. commercial motor market, which has been even under more pressure where we have also seen some, let's say, large verdicts, though we clearly see a need to further improve pricing there. But I think there is traction in the market both original and on the reinsurance side. But as commented earlier on the course of question, it takes a bit of time, until these improvements really earns through under U.S. GAAP as well.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thanks, Paris, for your questions. Next question please?

Operator

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

Q - Edward Morris {BIO 16274236 <GO>}

Hi. Good afternoon, everyone. Two questions, please. First, just coming back to ReAssure again. Just wondered if you could talk to the rationale behind why you're considering an IPO and whether this is the only real outcome now? Has it been a consideration to also look at more minority or potentially majority investors as in sort of trade sale type scenario? And secondly just looking at the growth in the open book, it would appear from your slide on slide 11 that the open book seems to have written double in Life Capital, double the premium in the first half that it did in the entirety of last year. So, clearly growth is coming through extremely strongly there. Is that indicative of an ongoing run rate and how close are we in terms of the business turning a profit, should we expect where is the profit contribution from the open books?

A - Philippe Brahin {BIO 19081619 <GO>}

Great. Thanks, Ed. Maybe Christian, on the first one; and then John, on the second one.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yeah. Sure. Yeah. Thanks. So it's funny, right, but you go through the years and you can see investor appetite shift from BU to BU and come back added again. ReAssure has really been the unloved child for quite some while. We obviously worked hard on it, but I remember two years ago everybody was saying sell it, and I said this would be a huge waste of shareholder funds because you would dump it to somebody who have a very, very small – pay a very small price.

It's actually an interesting business. I really think there's an investor base that would really love it and I actually – I personally would love it if I didn't have the SST and the risk factors in SST and in our own risk model which we say it just creates a too high concentration in asset risk for the Swiss Re Group overall. And if you look where we have grown, clearly ReAssure has been more interested in unit-linked product, in mortality product with profits. I think we struggle more than others when we look at annuities for example. And yet if you look into the business, the small deals have gone. There's still some small deals around, but some of the big ones will come eventually. So if you think about all of that, it's quite clear to me and I think has been clear to this community for the last two years that Swiss Re, it's a great business, but Swiss Re is not the best holder of this business economically. I think, to me, this is crystal clear. And so the question is more what's the path towards this end stage which creates the highest amount of shareholder value. And we have discussed that internally obviously in great length, in great detail going through all the scenarios.

And our view is that the first step was to bring in a good shareholder who shows the value of the business, and that we have done with a client of ours who's a client of ours for more than 100 years. And obviously you could start to have now number 2, 3, 4 in, but their relative value for our shareholders shrinks because we have already one who sets the value. And at this stage looking at the comparables in the market, the overall market situation, I think, is a relatively good time window which might close before we are there, but it's a good time window to create significant shareholder value in my view through an IPO.

Now, we are driven by creating shareholder value. So if anybody jumps in with a huge offer or whatever, we will always consider that and see whether that's a better path. But at this stage, since we need to have preparations and there's leakage risk, we wanted to be upfront investors, announce it today and start working on it more or less immediately. There's no real pressure or anything, we're not a desperate seller if there's issues with Brexit, if there's any issue that would prevent us from creating maximum value for shareholders, we simply keep it, right, at that sign. But I think there's an interesting opportunity at this stage. That's our own assessment.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Christian. John, on the open book?

A - John Robert Dacey {BIO 4437051 <GO>}

On the open book growth, it's two observations. One, yes, there is a strong growth in both the iptiQ and the elipsLife businesses, which are part of Life Capital. This was probably given an extra boost in iptiQ EMEA by one large medex transaction that was booked, is unlikely to recur, so we won't see that level of growth. And lastly, there is a positive impact in these numbers from an internal group retrocession of the came through. It's part of our capital management policies across the group, but it flatters the actual growth rate. So I think it'd be wrong to extrapolate this in a sort of geometric fashion, but the growth is strong and we are very optimistic about the opportunities for the open books in Life Capital.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks. Thanks, Ed, for your questions. Next question, please.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. Three questions. First on P&C and I guess exposure on wind season. There're comments say this morning talking about most of hurricanes in one year being a decade's event rather than hundreds of years' event. Can I assume on that basis that your retro program has changed ahead of well – I guess now that in wind season, any comments on that? And the second question just looking at Life & Health, I guess taking seasonal claims, are you sure this is just a blip and any comments or assurance around that? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks. Edi, you take them both.

A - Edouard Schmid {BIO 18942809 <GO>}

So, on P&C Re and retro into this season, we didn't make any material change to our retro policy. As we explained, we actually like the nat cat business a lot. We understand it. We can demonstrate. We cost it accurately over time. We see lost levels emerging as we cost for them and as long as we can well diversify the risk, we want to keep it on our balance sheet. So, what we have in place for the upcoming hurricane season is similar to what we had last year.

Apparently, last year, it was a unique year because we didn't have one or two very large serious events, but you had three medium-sized hurricanes, plus a few smaller ones and that explains why our recovery was lower than you would have expected. Well, actually, we did make some changes on the Corporate Solutions side, where in the past we were running quite large net (00:16:29) retentions also for nat cat because our thinking was this is still part of the group balance sheet. But obviously in comparison to commercial peers, the losses looked a bit out of proportion.

Into this year, we have strengthened the IGR, the internal power around Corporate Solutions with a bit lower attachment point and in particular we also have a negative cover in place. So, Cor So would be much less affected by another series of events. But from a total perspective, what we see out of the group balance sheet, it's pretty much in line with what we had in place last year.

A - Philippe Brahin {BIO 19081619 <GO>}

And the follow-up question, Edi, on the Life & Health mortality claims, the seasonal effect we saw in H1?

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. It's correct. Mortality experience was adverse in the first half year and we have seen an increased frequency of claims, which is seasonal. Flu is a contributor to that, but we also had (00:17:33) rich number of severe claims. I mean that's the natural volatility in the mortality book. On the global basis, we can well absorb this and more importantly we don't see any material adverse development around U.S. mortality that would change our overall view how we approach this business.

A - Philippe Brahin {BIO 19081619 <GO>}

Perfect. Thanks, Kamran, for your questions. Next question please.

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thanks for taking my questions. In the P&C business, I've been hearing from many players about a softening of momentum for renewal rates increases. You've actually shown 104% price adequacy compared with 103% in January. So is all of this just down to sort of mix effect in your book and sort of more technical things or is Swiss Re believing it is more optimistic on the direction of renewals than I guess I've been hearing from the market in general?

And then secondly, this large internal reinsurance contract between Life Re and Life Capital that's boosted the premiums. Has that had an impact on capital and earnings allocation between the two entities? And if so, how much? Or is it just purely something that boosts the top line of Life Re, but is irrelevant to earnings and capital? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

So, maybe Edi, on the first one; and then John, on the IGR.

A - Edouard Schmid {BIO 18942809 <GO>}

On the first one, the P&C Re quality, let's say what we wrote at mid-year versus year-to-date, this is largely explained by the composition of the business that we knew in the middle of the year, it's a bit more property and U.S. focused than (00:19:13) where is bit more European and casualty focused. I wouldn't say we are more bullish than other players in the market. Clearly we are also disappointed by, let's say, the rather moderate reaction to the large nat cat losses in 2017. But what pleases us that we could drive through quality improvements in our portfolio actually in various segments, and at the same time, we could grow the P&C Re business. Obviously, improvements were a bit stronger in loss affected accounts, but also in other portfolios we could drive some quality improvements. The momentum is not as huge, so I would not (00:19:51) competitive out there, but at least there is, I would describe it, a change in tide also in terms of pressure on terms and conditions. This has eased quite a bit. So my outlook is more positive. But clearly, it stays competitive and we need to do more work.

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Bloomberg Transcript

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Edi. John (00:20:12)?

A - John Robert Dacey {BIO 4437051 <GO>}

With respect to the IGR, again this has been driven by our attempts to have capital efficiency at the subsidiary levels and across the group. There's been no material impact, I think, on the relative earnings of the different businesses. If you want a little more detail on those IGRs in the longer presentation, note for the half year 2018 report gives you some details for the flows.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, William, for your questions. Can we have the next question, please?

Operator

The next question is from Sami Taipalus from Goldman Sachs. Please go ahead.

Q - Sami Taipalus {BIO 17452234 <GO>}

Hi. Thanks for taking my questions. So, first one is on P&C Re and large losses. I note that there was no sort of man-made losses that made it above your limit in the half, but if you could just comment on whether there was something below - significant amount of losses below that limit that would have affected the results in the half year, that'll be great. And then the second question is just tiding up a couple of things on ReAssure and the first one is if you were to sell down, would that have any impact on your capital planning because it kind of sounds like you're probably not going to have to plan for as much potential of M&A in the future and will that increase your capital flexibility centrally, and also related to that, it wasn't quite clear to me what was going to happen to the debt that's in ReAssure at the moment, so if you could just clarify that? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Sami. So maybe, Edi, on the first one; and John, on the second.

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. Thanks for the question on P&C large losses. As you correctly stated, we have nothing to report above the $20 million threshold. There are a few smaller large losses, but overall it's fair that the man-made large loss experience is a bit below expectations, but maybe a bit surprising is that on the Cor So side, we report a very large claim, $51 billion from this engineering loss in Colombia, $51 billion, and we don't show anything on that loss on the Reinsurance side. Also in Reinsurance, there is a little bit, but is below this $20 million, and unlike in other situations, we generally see it as I explained before rather little retrocession outside. But as it happens that we offer significant capacity sometimes both on the Cor So direct side as well as behind some (00:22:51), we can have significant shares on large senior risk policies or on large construction policies. And for that situation, we actually have a per-risk cover in place to avoid, let's say, out-of-proportion accumulation of large senior risks. And in this engineering loss in Colombia, actually external cover was triggered and that explains why we only show this $51 million in Cor So, that's the retention after IGR, but we don't show anything on the Reinsurance because a large part of this loss actually is ceded externally.

A - Philippe Brahin {BIO 19081619 <GO>}

Great, John?

A - John Robert Dacey {BIO 4437051 <GO>}

And with respect on the potential ReAssure IPO, yeah, we find ourselves in the position where we're selling down our stake from the current 85% to something that's 49% or potentially even slightly below 49% and in the meantime the pipeline has not resulted in any additional transactions. You should expect that that would free up additional capital. We're pretty far away from that moment. We've got a lot of preparation to do. And as we said, we hope to be ready to execute in 2019. When we get closer to that, we can, I think, have - reengage on what that might actually mean for capital.

A - Philippe Brahin {BIO 19081619 <GO>}

And there was also a point on debt. Maybe you want to comment on the...?

A - John Robert Dacey {BIO 4437051 <GO>}

Yeah. So, we in 2016 issued a debt. It was a replacement of some bank financing that had been in place for ReAssure. It's at the level above ReAssure business, so it would not - the holding company where the debt was issued would not be part of the transaction. We would, I think, look as we would approach the IPO, what would be the appropriate level of debt and equity for the entity which goes out into the market. In the meantime, we've stated explicitly in the press release today that should Swiss Re Group no longer be the majority owner of this business, we will be sure to indemnify the bondholders.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you, John, and thank you, Sami, for your questions. Next question, please.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon. Sorry to come back to ReAssure. Just a very simple point from my side. What is the overarching reason for (00:25:27) doing this now? So it's not like SST has changed some rules or it's not like, is the pipeline that you had imagined before, and apologize, you did clarify that, we've been thinking about two years, but in the meanwhile you also got the new investor, so obviously just curious as to what is that trigger for (00:25:49)? And just on the Life Re, are you able to quantify a little bit this slow season impact (00:26:02) you said a bit more frequency came in, but if you could just quantify something? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Vinit, we couldn't hear your second question. Do you mind repeating it? First one we got, but the second one.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, the second one is Life Re mortality pickup in seasonal claims, are we able to quantify that or is there some lag effect even for further quarters that we should be aware of? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Thanks. Maybe, so, John, on the first one; and then Edi.

A - John Robert Dacey {BIO 4437051 <GO>}

Vinit, I think part of the issue frankly has been the success of ReAssure in recent years, and capturing the Guardian transaction which was relatively large, the HSBC, and most recently Legal & General. We see the opportunity in this business for continued accumulation of assets underneath the ReAssure business model. And the challenge for us is the relative size of those assets to the rest of the group has gotten relatively large. There's, if you will, a finite amount of asset risk that we would be comfortable with, I think, over time. We not at that point today, but at some point in the future especially if ReAssure engages in some of the larger transactions that we see are potentially out there in the UK market, this could become a constraint for us. And we'd rather build today the operational freedom for the business to continue to grow, to continue to transact. And doing that outside of the SST framework, I think, is good not only for that business, but potentially for the remaining businesses inside Swiss Re Group who benefit from a reasonable level of asset risk in running their operations. Christian, I don't know?

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yeah. I think a bit to add to that, right, it's not something we have decided a week ago and we just do it, right? These things need the right level of strategic thinking, consensus building and then the time. So when I took over two years ago relatively clear we created consensus around the overall direction and we started to implement it. And this is just the next logical step in that point. So maybe comes as a surprise to you, but hopefully there were enough signals that would make this less of a surprise. I think there's a complete logic in our communication over the last two years if you go back in the past we intend to take. And so, this is just the next step.

A - Philippe Brahin {BIO 19081619 <GO>}

Right. So, Edi, on the mortality claims?

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. On the adverse mortality experience in the first half, I think there's not much more I can say. As I mentioned previously, party is clearly seasonal, so we don't expect that to repeat. Flu is a factor. The other component, I mentioned, is an average number of severe claims that is random. There is nothing to do with seasonality, so it could occur at any point in time. But the key point I would repeat from before we don't see anything material systematically that would make us to believe we have to change our view on U.S. mortality rates.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Vinit, for your questions. Can we have the next question, please?

Operator

The next question is from Stefan Schürmann, Bank Vontobel. Please go ahead.

Q - Stefan Schürmann

Yes. Good afternoon, and just two questions. First, coming back to, I think, the open book growth. Can you maybe just quantify how much basically this growth eats into your Life Capital earnings? I think it was quite substantial and that cost you some upfront obviously acquisition cost. And the second one on prior year developments, you showed 1.5 percentage points in that. How much was related to basically HIM claims last year, so the hurricane claims you reserved for last year? There was any positive development here I guess.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Start with John on the open book.

A - John Robert Dacey {BIO 4437051 <GO>}

So the open books, elipsLife is a little more mature business than iptiQ which is obviously effectively a tech-enabled startup within the group. These are both primary life companies and precisely because they are able to capture the fast growth that you see in the premium line, it will be some time for a breakeven of iptiQ in particular. elipsLife, I think, is there, but the contribution to earnings is modest and we continue to expand that business in new geographies. As we expand the business in new geographies, we're going to have to invest in those new geographies, so I don't think you should expect the open businesses of Life Capital to have any material impact turnings in the near to mid-term as long as we see that investing continues to grow value for us, we will think potentially as the IPO of ReAssure approaches for being able to provide more information on value of new business or some other metric, which would give you a better sense of how we see the value creation in the open book businesses.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, John. Maybe Edi, on the PYD.

A - Edouard Schmid {BIO 18942809 <GO>}

Yes, Stefan, on your question regarding the 1.5% favorable prior year development in P&C Re, actually from HIM, we only had very moderate releases. We think we are adequately reserved for the big hurricanes. Actually there was some adverse development this time for property overall, but that is mainly driven by some losses out of Japan. There was another typhoon in 2017, name of Lan, and there were some late reporting on this event and that explains the negative prior year development on property for once. But overall, as we say, it's positive, so both casualty overall, but also special lines continue to deliver positive prior year development. That's the whole picture.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Stefan, for your questions. Can we have the next question, please?

Operator

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

Q - Thomas Seidl {BIO 17755912 <GO>}

Yeah. Good afternoon. First on the ReAssure, again, Christian, you say it's an attractive segment, but you're not the best owner. I mean what we do know is that it's a low ROE segment and given management is paid for ROE, I wonder why you think it's so attractive and why you shouldn't sell down closer to zero rather than staying at the 14.5% mark you're indicating today. That's my first question. What keeps you from selling down really close to zero? Second question, investment income stripping out the $265 million from mark-to-market tough, you have that $40 million realized gains in H1 compared very low to the previous year. So the question is why is it abrupt change on realized gains in sort of the $40 million you see in H1, the normal run rate?

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Maybe we'll start with Christian.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yeah. So, yeah, I have to qualify attractive, right? By attractive, I mean there is tons of people knocking on our door who would love to have a piece of that, who find this attractive, right? There's a lot of people, there's PE funds, there's all kinds of people in the market who find that attractive. There's a shareholder who are interested in a high dividend yield, they find it very attractive. You can see the other big company who does that in the UK, Phoenix and their valuation, and so from all of that, it's clear that this type of business is attractive for a whole set of shareholders and not necessarily for Swiss Re, you're right. So I can definitely see shareholders for whom this will be very attractive business including the growth prospects and all of that.

Swiss Re, once we go down, once we don't own it, deconsolidated and now all of that, right, then other aspects of the business are attractive. The cash profile, for example, is attractive. The cash IRR is attractive. The dividend capability (00:34:25) is attractive. So at this stage, we certainly would like to stay a shareholder of this, but on a much smaller share, on the share that is not consolidated and doesn't create the SST-type issues, right? You also look at it differently from an SST perspective once you have a smaller share. So it really looks different once you're a smaller shareholder, and to stay in and as the people we know, the business we trust, all of that to me makes sense.

A - Philippe Brahin {BIO 19081619 <GO>}

John, maybe on the realized gains?

A - John Robert Dacey {BIO 4437051 <GO>}

On the realized gain, Thomas, you're right that even if adjust for the change in the U.S. GAAP guidance, you get a return on investment of 3%, that compares to 3.5% a year ago for the first half of 2017. I don't think it's correct to assume that the $40 million or the 10 basis points above the running yield is the new normal for our investment portfolio. I think the asset management team took a look at where markets were, where the portfolio was and we felt that that was an appropriate set of actions in the first half of this year. I will say overall with rising interest rates on the fixed income portfolio, obviously the unrealized gains are shrinking. But I think it's pretty clear that we would have the opportunity both in some parts of the equity portfolio, the private equity portfolio, the real estate portfolio as well as this fixed income that if the asset management team felt it would be appropriate time to harvest some of those gains that they would be doing. So I would not plug $40 million in your model as the new normal.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Thomas, for your questions. Can we have the next question, please?

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good afternoon, everybody. I have two questions on ReAssure. My first question is on site constraints for a potential IPO. Could you comment on first whether MS&AD would be willing to do the IPO if the valuation would be below their level? And secondly, can you touch also on the reaction from the regulators which you've got so far and certainly whether the IPO itself depends on a deal and so this would the site constraints? My second question is, on a standalone basis for ReAssure, can you quantify the cash and debt capacity that ReAssure as a platform has as of now, so to do further deals without IPO, whether the company is already at the limit?

A - Edouard Schmid {BIO 18942809 <GO>}

So let me see if I've understood the questions correctly. The first one, the time constraint if that was your question, we...

Q - Frank Kopfinger {BIO 16342277 <GO>}

No, it's - not more on this, I called it site constraints and...

A - Edouard Schmid {BIO 18942809 <GO>}

That is...

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes.

A - John Robert Dacey {BIO 4437051 <GO>}

No, look, we've obviously spoken with MS&AD in advance of this announcement. They are supportive of this action. We'll see as we progress how we move this forward. But I don't think there's either contractually certainly not nor operationally a floor that we have to worry about in terms of pricing for the deal. We will not bring this to market if we don't think it's in the interest of all shareholders including MS&AD. But that doesn't necessarily mean that we've got a hard hurdle that needs to clear. I will say also since MS&AD made the initial investment, we've announced the Legal & General transaction. We've paid out $1.1 billion dividend to all shareholders, 15% of which went to MS&AD. The business continues to move forward, and while its U.S. GAAP returns on equity look pretty meager under the statutory accounts and IFRS, we see a much more positive result.

So I think we don't feel see as though we have our hands tied. We also don't feel as though we've got any absolute need to do this. We are not at the limit of transactions. We are open for business as I said before and can go ahead and transact should a interesting opportunity arrive in the market, so we've explicitly told the management of ReAssure that they should not reduce their activities vis-à-vis new business.

A - Philippe Brahin {BIO 19081619 <GO>}

John, there was also a question regarding the reaction of regulators.

A - John Robert Dacey {BIO 4437051 <GO>}

Regulators, we've informed the UK regulators as well as the regulators here in Switzerland, I'd say the response was neutral with no particular concerns raised to us, but a strong desire for us to keep them informed of progress.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Frank, for your questions. Can we take the next question, please?

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Two questions on my side. The first one for Edi. Maybe to come back again on the renewals because looking at slide 21 and looking at the strong increase in casualty, it seems to me that casualty is going up 16% year-on-year. So can you give us a bit additional granularity on what is driving that, and especially because I find it a bit difficult to reconcile with the charts you're showing on the Corporate Solutions side where you're showing that the actually the U.S. general liability (00:40:46) has decreased by 21% in terms of writing over two years. So I know that we are comparing apple to pears, but I mean it seems to be very, I would say, differentiated underlying trend. So if you can help us to reconcile what's going on?

And the second question would be again on ReAssure. So clearly this has been over time very big generator of cash for the group, dividend as well and you paid $1.1 billion in Q2 and actually it's been managed for cash more than for earnings over the past year. So I mean, in terms of cash generation and obviously this is not the only cash generative engine you've got within the group, but I mean with this IPO, this will be, I mean, a significant decline in the cash generation within the group. So how we should think about it going forward and how are you going to replace somewhat what is going to be lost, we see, with the IPO process? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Edi, on the first one?

A - Edouard Schmid {BIO 18942809 <GO>}

Yeah. The first one is regarding, let's say, the portfolio composition and it's correct on the P&C Reinsurance side, the casualty share has increased if you look at first half 2018 versus 2017. This comes to quite extent from Asia and also to some extent from transactions where we had some successes that explains this increased share in casualty. As we explained in previous calls and the meetings, we remain quite selective on U.S. liability overall. And so, this is a segment where we still see need for significant improvement. We could achieve some in 11 (00:42:36), but clearly that's an area where we stay quite selective. And versus the different picture in Corporate Solutions, actually, yes, you've seen we grew the Corporate Solutions business quite a bit, first half year 18% and that comes from a number of sources first obviously is the bearing some fruits of the Primary Lead initiative and if you look at lines of business, it is quite spread some in engineering, aviation, the Bradesco joint venture in Brazil is also starting to bring some additional volume.

And again, also in Corporate Solutions, as we said enough for quite a while we are very selective on U.S. general liability where we have pruned the portfolio quite a bit in large corporate risks, taking down capacity and also premium significantly and this segment continues to be underwritten very selectively. On the other hand, we had some growth also in the U.S. on employee stop loss business, and then other segment where we could grow in Corporate Solutions is around financial and professional lines, particularly with an MGA (00:43:49) which is running very successfully, which explains also some growth that is showing up on that U.S. casualty.

But clearly, we remain selective. We grow into pools where we see the profitability meeting our hurdles, and we continue to drive improvements, we're willing to take away capacity where we see terms and conditions and price not at the level we like it. But the main reason is obviously there's always some transactions that tend to impact this portfolio composition quite a bit from one year to the other. So, it's not so easy to fully explain.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Edi. John, on the ReAssure cash generation post IPO.

A - John Robert Dacey {BIO 4437051 <GO>}

Yeah, look, I think you're right, the Life Capital and specifically ReAssure has been a big provider of cash and dividends. On slide 11 of the deck, you'll see that that's been particularly true for the last two years, but important in previous years but in some ways our view is that were we to sell our share down, obviously that would simultaneously bring cash into the group and at the same time reduce the amount of equity capital that we've got tied up, there are currently $6 billion in Life Capital that would be a smaller number absent a vastly expanding pie.

What we do with that capital, I think, is something we can discuss in the future when we're closer to an actual IPO. But at the moment, our capital management remains intact is what we've said in the past. We need the capital to, in the first case, run the businesses we have; in the second case, to defend the ordinary dividend; in the third case, to look to expand the existing businesses and if there are opportunities in the open books of Life Capital or in Cor So to continue to build scale, we're happy to do that so long as it's value creating for all shareholders. And finally if we can't do any of those well, then we repatriate capital to shareholders and I think our track record on this is strong and transparent.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Thomas, for your questions. Actually we have come to the end of our Q&A session. So, thank you very much to all of you. Please do not hesitate to contact any member of the Investor Relations team if you have follow-up questions. Thank you again everybody for your participation today.

Operator

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