Y 2020 Earnings Call

Company Participants

- Christian Mumenthaler, Group Chief Executive Officer
- John Dacey, Group Chief Financial Officer
- Thierry Leger, Head of Life & Health Products Reinsurance
- Thomas Bohun, Head of Investor Relations

Other Participants

- Andrew Ritchie, Analyst
- Ashik Musaddi, Analyst
- Iain Pearce, Analyst
- James Shuck, Analyst
- Kamran Hossain, Analyst
- Michael Haid, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant
- Vinit Malhotra, Analyst

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's Annual Results 2020 Conference Call. Please note that today's conference call is being recorded.

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

Christian Mumenthaler {BIO 6479864 <GO>}

Thank you very much and good morning, good afternoon, everyone wherever you are. I hope you're safe and healthy. I'm here in the room together with the Group CFO, John Dacey and the Group Chief Underwriting Officer, Thierry Leger as well as Thomas Bohun of our Investor Relations team. So, today we're going to talk about the 2020 results, some outlook and before I go into Q&A, I just like to go through a few points I have noted down that are important to me and hopefully give a quick overview and maybe some points that I'm sure will come back later in the Q&A.

So, the first -- I want to talk about the pandemic, the underlying result and the outlook. When it comes to the pandemic, you have seen, we booked finally USD3.9 billion for the full year. This is probably relatively close to what we thought at half year even though Q4 was worse than, I guess most of us expected, clearly I guess in summary there was some hope of an easier Q4 but in particular in the US, if you look at the mortality, there was, I think 180,000 excess deaths in the US, this was quite catastrophic and worse than expected.

But overall, I'm extremely happy with our claims team, how they were upfront early, their assessment is astonishingly precise and what they did at half year and so there remains a big uncertainty around business interruption. As you have probably seen in the slides, this is the one where it is the most difficult to say and the IBNRs are incredibly high, but that's just something to be aware of. Also important to be aware of is the way we defined mortality, COVID lost is two, I think, valid ways of doing that. One is to add up all the death with the death certificates that specifies that the person died of COVID-19 which is what most people have chosen to do or you can say all deviations from the norm of the last three years, is probably due to COVID-19 and that's what we have done and that's a higher figure. We have both figures internally, that's a higher figure. So, it doesn't change the end result, just the attribution to what is COVID-19 and what is not. So keep that in mind when you compare.

We also tried to give an outlook 2021 of what's still up on the mortality side, we continue to believe it's better to just give you a sensitivity. You can follow the excess death on different websites. So, if it's 200 million for every 100,000 excess death in the US since that's our biggest driver. And on the P&C side across CorSo and P&C Re, we came to conclusion that the 2021 year should be below 500 million of aggregated loss, that's of course based on, I guess, the scenario that is dominating right now, which is that we have lockdowns or strong restrictions everywhere in the Western world, the vaccine is being rolled out. We all watch Israel with great interest since that's the only country that is actually through now, we're vaccinating all the population including the second jab and where we see significant falls in new cases and new hospitalization of the older people.

So, this gives a lot of hopes obviously there are some doubts around virus variations and all of that. But the main scenario is clearly that, we will get through that and that the second half of the year will be -- maybe not completely back to normal, but much more normal and if we see a third wave, it will be much smaller and probably limited to the people who have taken the jab.

So that's about the outlook on the pandemic, as I'm sure you're aware of the uncertainty around that but we tried to give you our best estimate opinion. So, then you turn to the underlying result of USD2.2 billion excluding COVID, I'd just like to highlight a few points here. If you go one-year back, the biggest worries in the community and investors and analysts were around CorSo and reserve development. So, I have to say I'm extremely pleased with CorSo and where they are, they have executed in everything they had promised. They were helped by stronger than expected market turn with very significant price increases last year and the year before and it continues. So, this is very good momentum here. There, the combined ratio without COVID in Q4 was way too good. We think there's a lot of good luck also in that or that due to COVID maybe there's less losses. So we don't take this 85% as anything to predict the future. And if you look at the normalized, including manmade normalized, combined ratio of course for for the full year, it's more around 101%, which is ahead of 105 we had hoped, but it's still a bit of way to go for the new 97, although we have announced for 2021, but everything as in CorSo, every element is positive. So I'm very pleased they were early, they recognized things early, they worked on stuff and I think now they're reaping some of the benefits of that. Then, the second point on PYD. I know there is always a big worry of the community, we saw much less activity in the second half of the year.

There are, as usual, as we would expect of a huge amount of reserve, some positives and negatives, but they're basically canceling out each other. This is not a prediction of the future as usual, you know, this is always best estimate of where we are. But certainly just what we observed the patterns and everything gives me hope for the future in terms of PYD. So these were the two biggest items and then I would say, the third is probably P&C Re, which is extremely important for the whole group. In January of last year, we said we're going to have an underlying combined ratio of 97 which was achieved last year.

And then, as you've seen with the renewal we had, we now believe we can go 95 or below with the new portfolio. So this is also very positive and in the slides, you can see that the last time we were somewhere there is 2014, so, it's a long time ago. So, the whole (inaudible), has been painful. I would also highlight that we executed on ReAssure. I know this is sort of done and dusted, but there's a lot of work this year to get this done, get this over the finish line and we're very, very happy with how Phoenix has taken that I think this was a genuine win-win transaction.

So very happy for both shareholder base that this could happen and Phoenix is doing a tremendous job at integrating it in their own business. First point around asset management, you have heard at Investor Day that all the work that was done underneath the surface also to scrub the different portfolios to look at the sectors that will be particularly touched and to position ourselves correctly already in February has really paid off. So, the performance of asset management was a very good one and has supported this year -- last year's results.

And then finally, if the queue -- our start-up, still small, maybe not that relevant for you at this stage, but we are very pleased, we see part of the future in that and as it grew more than 70% in terms of premium of the core business, they have. So, even within the pandemic, there were able to onboard many different partners, there are not 40 partners, so that's a pleasant -- good development.

So, I come to the outlook part, renewal acknowledge that some people that might have been astonished that we are shrinking the portfolio, in the Investor Day, we were altogether I think I said to a question that was asked that we would focus on margins, which is precisely what we have done, we don't give premium targets to people. It's really more the orders were around pruning casualty in a strong way, getting lower exposure to this Nat Cat aggregates while we increased the models still feel there is an influence of climate change and uncertainty and so the executed the minus 11% you could see the results of that execution. As you can imagine, John and I looked in depth into all the data. We have all the data available to us and we are extremely satisfied with it. There is always a question that always a big part of business that's sitting around 100 plus percent combined ratio, which is business that's as you would expect has transacted in a very efficient way, low volatility, low margin, low capital usage, so it's marginal business.

We don't see it is really bad business. It's just business that is about 100% and the teams this year has decided not to write some of that and we're perfectly fine with that. It has a extremely little impact on our economics and actually the outcome is very much in line with what we had hoped in terms of economic profit.

So, very happy with this portfolio, it's much as Thierry Leger would say, a much better portfolio than what we had previously. So, that makes us very confident going into this year and allowed us to lower this combined ratio estimate for this year to 95 or below.

And in CorSo, as I said before, we continued very good momentum, continued this year, we haven't disclosed yet any figures, but it's really positive and then with the Life Capital despondent and basically the transfer of ReAssure to Phoenix, we have improved the risk return profile of the group, which should benefit us in the future.

And with that, I think we can start the Q&A session and I hand over to Thomas.

Thomas Bohun

Thank you, Christian. Before we start, if I could just remind you to restrict yourselves to two questions and then rejoin the queue if you have any additional questions. With that operator, can we take the first question please.

Questions And Answers

Operator

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

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi there. Thanks for the opportunity, could I just get a bit more detail on your decision to cut back on the aggregate business. Is this, I guess this is business you were happy to write last year. So I'm just curious to understand what your view of risk has done over the last year. What particular insights have you gained on loss frequency, I guess I'm trying to balance your decision to cut it back versus being happy to write it last year and what this tells me about your of cat load modeling.

The second question, I want to open the whole can of worms but you did mention, John, in your prepared remarks the SST assumption on inflation was changed in Q4 and just, could you give us more detail what that is and I mean that would suggest us a forward-looking indicator of expected higher losses than the accruing GAAP or is that not the way to think about it. Thanks.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Thank you, Andrew. Thierry, if you could start with the question on the aggregate. Maybe I'll start because it is a bit of a long history, just three days is the time of Thierry as Chief Underwriting Officer. So overall, the net capital has performed extremely well over the last few years, including the aggregates. But when you split it into more detail, and we do this more in-depth analysis, it's clear that the one underperforming part, the last few years has been these aggregates and in that analysis and so there -- you can imagine, there is always a strong confidence of (inaudible) writing Nat Cat but these analysis as we went through them, we think; one, there is more and more signs pointing in the direction that climate change is influencing this so-called secondary perils like flood, hail, wildfires, drought et cetera. And as you know, you remember, we adapted our models last year to that, but even once -- even when you do that, we felt that we certainly don't want to be overweight in this segment and the uncertainty -- the pricing uncertainty there remains much higher because this aggregate over the -- aggregate all the small losses the clients have over the whole year and our model certainty is much higher when it comes to hurricanes or earthquakes, which are the much bigger events where we have much more data. So, we don't exceed, we don't say they are all bad and prices have increased quite significantly in the aggregates. But, yeah, you have these reflections during the year that even at increased rates, it's more market positioning, how big you want to be, you might remember, actually two three times last few years, we don't talk about the good ones, but there were a few bad ones in Australia or so, where we stuck out and that's not something we want to do in the future. So it's a mixture of considerations. I don't know, Thierry, you want to add something new to that.

A - Thierry Leger {BIO 16674977 <GO>}

Just a few words, so -- first of all, as Christian said, it's the frequency is a lot about secondary patterns. It's a lot about unmodeled risks and we obviously prefer modeled risks to unmodeled risks, as you will understand and the aggregates had the tenancy over the last five years to move more and more into the frequency. There are frequency covenants, but they moved even more there. So our aim was to move more out of those unmodeled risks. If you look at the loss impact we had contribution from secondary perils to the overall losses over the last few years, the impact from the secondary perils have actually increased to around 50% in 2020. So that trend we had to break as well. So, all of that pointed to a reduction in the aggregates, but also in the attempt to move some of the aggregates away again from the money where they are. Unfortunately, at this renewal, we have seen an attempt from clients to go the other way. It is obviously a desire because they have seen them working pretty well to go even closer to the money.

A - Christian Mumenthaler {BIO 6479864 <GO>}

And John, on the SST

A - John Dacey {BIO 4437051 <GO>}

So thanks, Andrew. And I'll be careful about keeping my prepared remarks as short as possible in the future if they're going to have questions here. But let me give you a try. We've got a series of parameters in the SST calculation that we routinely evaluate and recalibrate. As I mentioned, one of the things that we've recalibrated for the January 1 number, which we will release next month. It is in fact the parameters related to long-term inflation and this has done little bit on some of the more extreme shock inflation scenarios where combination of a potential reversal of globalization on supply chains, the unwinding of the giant monetary easing that's occurred in the context of the pandemic has -- takes us into territory otherwise was not necessarily foreseen a year ago. You should assume that the potential impact here on a probability basis is also brought back into the reserve positions and some of the reserving actions taken frankly in the last couple of years have reflected this impact of social inflation and here the question is whether a more fundamental CPI change would be catching up frankly to some of the claims inflation parameters, which we've already adjusted.

So, I don't think you should expect any particularly knock-on effect on claims reserve positions as a result of this. It will have some reduction in the reported SST number and we'll give you more details about that when we show up in March.

A - Thomas Bohun

Thank you, Andrew, could we have the next question please.

Operator

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

Q - James Shuck {BIO 3680082 <GO>}

Hi, thank you good morning, good afternoon everybody. So two questions from me. John, again on your prepared comments you talked about deploying capital in the business. I think through the January yields, we haven't really seen that and the Nat Cat exposure has gone down, the P&C volume is down, the last SST update you gave at July 1, I think you indicated that this target capital growth 700 million in P&C Re, 1.5 billion in Life & Health Re.

So, can you just kind of -- because SST is forward looking. So I just want to get an idea, is that capital that you indicated on July 1, is that still valid now and when you do talk about deploying capital, where is it likely to come through. Is it the financial market segment if you take on more investment risk.

And then second question was around the investment income side of things. So, I'm just looking for a little bit more clarity and little bit more specificity here if you like, because the running yield is 2.4%, you got 2.0 billion of investment income. I know that reinvestment rates are coming down, and I know you have let it to be long duration. So there's a number of things pulling in different directions, because you go increased re-risking potential, you got growth in the underlying business. So really, I'm looking for absolute number at the group level of 3.0, how should we expect that to trend over the next two to three years please? Thank you.

A - John Dacey {BIO 4437051 <GO>}

James. Let me try and answer in the order you have asked. With respect to deploying capital, I think one of the things we didn't want to leave is any confusion about the actions we took on renewal versus our appetite for writing correctly priced business and various pieces. So on the renewal, we were focused on margins, we are focused on further reductions in our US liability exposures and we are focused on the terms of conditions of the policies we wrote, Christian mentioned specifically on some of the property exposures vis-a-vis the aggregates and that led to a reduction, actually I think the total premiums in Nat Cat was flat year on year on premiums written as of January 1. There is a lot of business, which will come through in the rest of the year. Our whole transactions books, which typically is not part of the 1-1 renewals, the renewals in Japan and in North America coming in June and in July after the April renewals. So, I think the message is where we've got adequate pricing, correctly worded terms, we're prepared to write more P&C business in our reinsurance book in the first case.

Corporate Solutions, which has been able to grow some of the better priced lines of business consistent with the new portfolios that they're moving forward with and we showed a slide, I think in the deck, we'll continue to catch up some ground, we were down 3% on premiums year-on-year. I would expect that to reverse to a positive increase in premiums in 2021. Our Life & Health business, which was up 6% to 7% in 2020, I think should continue to grow again, we've seen opportunities there with our Life & Health clients, some of which are doing some fairly significant restructuring of their own portfolio providing this opportunities, particularly on some of the protection business, which is what we like to help them in managing these restructuring.

So, I think overall, I'm fairly optimistic that we'll find those buckets on the liability side. With respect to asset side, what you did see when we did the -- we've shown the comparison of our portfolio ex-Reassure together with where we stood at year end, there you did see a bit of a modest increase of some of the credit risk. I think you've seen that we maintain some of our hedging into the year-end on our asset side both in equities and investments that was related to the uncertainties and the political world frankly both in with the US and UK.

As that has resolved itself largely, we continue to de-risk or de-hedge, so I guess, increase again in modest steps the risk of our asset portfolio and we'll take advantage of the situations where, Guido and the team in asset management sees the opportunity. You were specifically asking about investment income, I mean you're right, we've got a six-year duration on assets plus or minus. We've got a lot of long-dated bonds in the portfolio on fixed income, which are relatively stable and providing at the reinvestment yield of 1.3% will bring us down, we're not going to overstate what's happened between December 31 and now, but at least, we do see some positive moves on interest rates and if that continues, it's going to cushion whatever blow of the reinvestment that we see in front of us.

I think the most important thing is the pricing of our P&C contracts in particular, but also our life business reflects the current interest rate environment and if we find ourselves having to reinvest 1.3 for longer period of time, we're prepared to do that because of the price we can get on our portfolios in P&C and Life & Health.

A - Thomas Bohun

Thank you, James. If we could have the next question please.

Operator

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi everyone, couple of questions from me. The first one is on dividend, I guess in a very difficult year for the industry, the good news is, you've paid the dividend again. What scenarios would stop you paying it because it feels we've kind of pretty much stress tested paying the dividend or not. That's the first question, how much flexibility do you have around that going forward.

The second question is on, I guess, pandemic losses versus what you've booked, it looks like, if you total up total COVID losses, they seem to be well below your view of the pandemic, which I see reflects your losses for the year plus net share, do you think the rest of the industry has taken as cautious a view and therefore where do they go from here really, any thoughts on those two would be very helpful. Thank you.

A - Thomas Bohun

John, would you like to take the first question on dividends.

A - John Dacey {BIO 4437051 <GO>}

Sure, on dividend, we've shown and I think there is even a size that Christian referenced earlier today, our capital management framework and the maintenance of this dividend is an important piece of what we think is appropriate. It comes second after the first one was to be sure that we're adequately capitalized as a company to run our business. And so, I think to answer your question, yes, the dividend was stable in Swiss Francs actually, for the people that are interested in the US dollar return it's probably up 9% compared to a year ago but I think like any company, we look at the source of earnings and most importantly for Swiss Re, the economic earnings which form the basis of our ability to be able to sustain this dividend and 2020 was a tough year, both on our US GAAP and on our EVM basis because of the large amount of losses that we've incurred both from pandemic and frankly from some of our normal business. We've, had it been a normal US GAAP year of making USD2.2 billion, which is the ex-Covid number and the EVM been adjusted similarly, I think this would be even easier, but it wasn't a difficult decision this year in maintaining this dividend. I think it also wasn't necessarily difficult to say that 2021 is not going to be a year of share buybacks.

We'll continue to build capital, we looked to remain one of the best capitalized insurance groups in the world and that dividend at the moment looks pretty secure to me.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Maybe, I'll take the one, the difficult one on pandemic losses, Kamran. My feeling talking to peers is that we -- the more immediate peers, we have a very similar view at this stage.

They have got much more similar over time of how big it is going to be, some have obviously some protection. The biggest gap there or different views probably exist in the business interruption, which we all acknowledge is very uncertain. So it could be that we are more cautious there and only time will tell, who is right. We don't have more information than others to guess what it should be.

When it comes to the wider industry, I think one thing that became clear and clear to us because it's not affecting us that much, is that, while there's big negatives, there is also going to be some very, very big and significant positives for some insurance companies, which obviously is not necessarily something they want to talk about and I think in particular on the motor side, you can imagine that while they gave back some premium and is a different mechanism, there is still some very high positives. And so when companies give out the numbers, it's always the net of those numbers, the negatives and positives, then it will be very hard to keep it apart or take it apart and see how it looks like.

We still think that the negatives will be a very severe loss, but I think it's dampened and the overall aggregate you're hearing by some of these lower frequencies which are, I guess, most important where you had lockdowns and where people have a lot of motor business.

A - Thomas Bohun

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

Operator

The next question comes from the line of (inaudible) retrieve his question. We take the next question, which comes from the line of Iain Pearce with Credit Suisse please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi and thanks for taking my questions. My first one, I guess, was sort of following on from the point you just made on capital. I'm just wondering if you could discuss the economic framework and the capital framework around the new solvency guidance. Should we not be expecting share buybacks unless you're above that 250 target range and similarly, do you now view 200 is sort of an absolute lower bound in terms of the solvency ratio. And then my second question just on casualty, sort of similar to Andrew was asking on the Nat Cat book, what has changed on your view of casualty business in the last year that led to the pull back in those areas? Thanks.

A - Thomas Bohun

John, would you like to take the first question.

A - John Dacey {BIO 4437051 <GO>}

Sure, so let me -- the range we put in, we replace what we thought was inappropriate utilization of a point estimate originally, which was I think misunderstood or miscommunicated, as I view it and then understood later to be a target around which we would move, but we think the 250 to 200 is more reflective of a range which at some places the Board will -- and the management certainly will be comfortable in the lower part of, given especially macroeconomic conditions and in some places, we're going to feel more comfortable being in the upper end of this range.

Just to your specific question, no we do not necessarily have to be above 250 to launch a share buyback. I think if we think the stars have aligned and we're in strong capital position and we don't foresee the utilization for writing lots of new risk or taking material additional asset risk, then yes, we'll be happy to return capital. Similarly, I don't think 200 is an absolute limit, obviously with respect to the regulators, it's certainly not and what I think it means is were we to go below 200, we would be moving aggressively to get ourselves back into the range.

But I think this is a range which allows a certain level of flexibility for us to maneuver and reflects frankly a little bit of what we saw in 2020 which says number of exogenous variables can move us around a bit without causing concern about the overall level of the capital -- strength of the capital that we have. So, I know or we anticipated that some of you won't necessarily be pleased with this kind of a range, but I'd also suggest it's probably coherent with what most of our competitors are utilizing for their own capital management, I simply note that our numbers seem being relatively conservative.

A - Thomas Bohun

Thierry, on casualty.

A - Thierry Leger {BIO 16674977 <GO>}

On casualty, so when we looked back at the last few years and what actually has driven the reserve strengthening, we have realized that the social inflation that is not a new phenomenon has increased to particular strategies of the plaintiff bars that we've observed. Obviously this is US -- this is US general liability and they've also found that it is particularly the large companies that are impacted by this. So, the first out of three steps in casualty that we have decided to implement was to reduce our exposure from these large corporate risks in the US.

So, again general liability targeted. The second target I have mentioned at the Investor Day, which is that we will focus more than ever on technical results in this low yield environment which is what Christian mentioned already. So those deals that you would write above the 100% combined ratio, less desirable, typically those deals are those that have higher volumes as well, but not necessarily high profit expectations. So technical result was the other area or second area of focus and the last one I wanted to mention, are the reinsurance structure, so, when you see improvements on the original side of the business that doesn't necessarily mean it comes through the reinsurance structure one-to-one for us. So, we've been very clear on which reinsurance structures we like and which we don't like and we have exited typically those structures that don't allow us to recover or profit in the same way our clients to fund improvements on the original rate side.

A - Thomas Bohun

Thank you, Iain. If we could have the next question please.

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes, good afternoon, thank you. Just the first question is on slide 12 today please, the USD4 billion, which was up for renewal for casualty against which there is 17% fall. So, I just noted, this number is significantly different from what was renewed last year, the same cycle of last year, which was USD5.2 billion. Usually I understand from earlier years and our conversations that it could be multi-year treaties and all that, but it does suggest that for casualty in particular, there USD1 billion plus of treaties which are multi-year contracts or something else, which has driven this. So, that's really the question that, is it -- are you comfortable with what you have now in this casualty book considering that there was already a sizable portion which it was not renewed and you probably could not negotiate around it. So, that's really just a question on casualty. And second question is just on corporate solutions and reserve movement, fourth quarter seems to be quite a strong reserve, I believe close to 10 points I think -- you said a comment on that which we could use -- any detail or any help. Thank you very much.

A - Thomas Bohun

Question on casualty, Thierry.

A - Thierry Leger {BIO 16674977 <GO>}

I'm happy to take this one. So, it's well observed we need reduction from the USD5.2 billion to USD4 billion as a starting point and the main -- the main drivers of this are what you mentioned multi-year deals that we did not need to renew. So, they didn't come up for renewal at this time and the other one is as well that we had some deals that we're coming through as premium deals previously and now due to some structural changes, actually has changed to be accounted for without premium, so that it was accounted and both of these effects have actually reduced the renewable and casualty premium.

A - Thomas Bohun

And the second question, John, on corporate Solutions reserves.

A - John Dacey {BIO 4437051 <GO>}

So, you're right, corporate solutions did release a prior year reserve in the fourth quarter, it's probably about half of the total that they've done for the year. This was a judgment made at the end of the year when they actually had the four months, what I will say or four quarters, I'd say that 2020 has been a challenging year for understanding claims patterns and both in terms of what's been notified during the course of the year, but also how some of the claims have either resolved themselves or not arrived in times that you might have thought that they would.

So, we think we've taken a fairly conservative view on corporate solutions, both for the current year and for prior year, but this release appeared appropriate for us and we just remain very comfortable. Obviously the underlying result ex-COVID did not need this, it wasn't any attempt to make that number looked better, it was just frankly a challenge not to release given the evidence that was in front of us.

A - Thomas Bohun

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

Operator

The next question comes from the line of Will (inaudible) with UBS. Please go ahead.

Q - Unidentified Participant

Hello, everyone first of all, you talked about the gross premium reduction around 11%, January renewal. Can we discuss what action is being taken on the reinsurance retro protection. So how we should see that coming through on a net basis. I know you touched on this at the Capital Markets Day, but just wanted to get some clarification from January. And then the second question thinking about the SST ratio, may be probing a bit on what James was asking earlier, it's regarding exposure reduction, has that already been reflected as such way or will it be when you get the SST ratio next month in terms of the exposures reductions that you've already taken and then presumably that has this explosive growth assumption going forward. So, if you can give any sort of quantification for that and expectations for the remainder of the year, that would be helpful. Thank you.

A - John Dacey {BIO 4437051 <GO>}

Sure. Well, I think I've got both of these. On the first one, you're right, at Investor Day, we gave you some detail about the alternative capital partners, the team and the actions they are taking and the retro programs that they expanded in 2020 and continuing to 2021, we expect to continue to be an important player here. And so we're unlikely to dial back the retro activities of the group that might lead to little bit of a squeeze on the net exposure, the gross doesn't quite renew, but frankly that renewal was not that far off of plan.

So, as I said January 1 is important for us, but we've got the rest of the year, especially the summer renewals in North America with respect to TCNA and US exposures. So I think it's premature to think that exposure overall will shrink in any dramatic ways. The SST exposure, we do try to include some adjustments for the renewed portfolio in the January 1 estimate of SST. It's one of the reasons why this takes some extra time along with our EVM results and having said that, the majority of our capital is based on the in-force book and so and permutation around renewals probably don't have a big impact on what to expect. The other thing I'd just reiterate in the SST number on January 1, will be the expected cost of the dividend, which I think moved up to $1.9 billion for us as well as the expected loss for the COVID claims in 2021 and there is one difference between what we've disclosed here and what's in that calculation. The P&C numbers will be very clear with what we've got and released today, on Life and Health, we had to make an estimate of what the Life and Health loss might be for the year, whereas we provided the calculation for you to work with your own view on where ultimate test [ph] might come up to. So, but those two will also be in the calculation for the SST.

A - Thomas Bohun

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

Operator

The next question comes from the line of Ashik Musaddi with JP Morgan. Please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yeah, hi. Thank you. This is Ashik Musaddi from JP Morgan. Just a couple of questions. First of all, I mean as you mentioned earlier in the call as well that the climate change, it looks like a bit real and it is impacting some of the losses which you see. But you still haven't changed the climate change, 7 percentage point, if I'm not wrong, in the Nat Cat budget. I mean, so how do we think about that because it continues to bring in bliss to your earnings expectation I would say.

The second question would be, you mentioned that with the increase in pricing, you are comfortable in guiding for less than 95% combined ratio for PNCV but that includes a lot of conservative loss assumptions. Can you give us some clarity of how that compares like that conservative assumptions this year compared with what was baked in say 97%, so as to just assess how better could it be versus 95%. And just last question is a simple clarification, 2021 COVID losses that you are suggesting of less than USD500 million. Is it based on the current information or is it based on some future expectation as well, like for example, cancellation of Olympics et cetera. Yeah, that would be great. Thank you.

A - Thomas Bohun

Thierry, would you like to take the first, Nat Cat budget.

A - Thierry Leger {BIO 16674977 <GO>}

Yeah, so climate change is a big topic, as you rightly said but Christian mentioned it already. So we've looked into this in detail. We found that, as Christian said, that urbanization, so more people moving to areas exposed to climate risks. That's actually the primary driver of the increase in losses over the last two decades by far and that is one of the reasons why actually climate change has not been really detected, if you go back, but we feel that over the last few years, and I think I made the point already, we see that in terms of the load to secondary perils, so not the main perils, we've actually seen real impact and we, for the first time actually see that beyond urbanization, there is an impact that we think is coming from climate change and we have updated all the models that we have.

But as I said before, we cannot model and we do not model every secondary perils. So that's one of the reasons why we actually want to move away from the secondary perils that we expect will surprise us on the negative side, even more so in going forward.

A - John Dacey {BIO 4437051 <GO>}

Maybe also from my side as a clarification. So, the way -- we were close to the climate science and all the scientists in the world and the consensus at this stage is that climate change is visible in the secondary perils not yet proven in the very big ones but the way it finds its way into the budget is through the expected loss. So, last year we increased some of the model of the secondary perils, which means that at costing and everything in the end, you see it in our budget, so thankfully, we don't take multi-year trend risk in climate change because it's a certainty, it is not a risk. What we take is just the yearly volatility and the middle point of that is just moving up with updates of our model. So this is how it's captured in the models.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Maybe I'll come in on the question on the combined ratio. I think both for Corporate Solutions at less 97 and for P&C Re at less than 95, we've adapted in 2019 and 2020 our loss picks by line of business across the world to get to what we think is a correct fully costed book which will not require us to do any further reserve adjustments in future years.

And so the conservatism that we might have alluded to is I think systematically learning from some of the actions that we had to take in 2018 and 2019 on reserving in P&C Re, actually even in the first quarter of 2020, to be sure that on a going forward basis, were starting off on the right foot. Now, unfortunately I don't think that allows you to make any real assumptions about where we're going to land, other than better than 95. I can only say that we don't view 95 as a particularly round number. So, we were confident that we're going to be better than 94 we might have said that, but we didn't. So, for now I think that's the right guidance to work with and obviously as we go through quarters 1 and quarter 2, you'll get a view of how we're developing during the course of the year.

With respect to the COVID losses, which was your third question, I guess I encourage you to go back to page 6 where we give a little bit of detail around the three buckets, specifically with respect to event cancellation, you see the second bullet points says this ultimate losses anticipates larger sporting events will take place maybe without spectators in 2021 and certainly in the second half of 2021.

So, a difference there, I mentioned earlier today as we speak, the Australian tennis open is going on successfully even with fans, very different then during the summer of 2020 when Wimbledon was canceled with real consequence for the insurance industry, which had to pay up for some of the lost revenue. So, we're anticipating some return to normalcy, we've seen evidence that people can travel that they can manage these kinds of events. It won't be the same as it was in the case of the Olympics five years ago, but it should be okay as our current hypothesis, if it's not, we'll adjust.

But the other thing which I just reiterate, on the COVID P&C reserves that we've got set up, 70% of these reserves remain IBNRs, we believe that these will come through. But it's not as though there is no room for little adaptation as actual losses get reported in here. So I think we're in good shape, we're comfortable that the reserves we have are appropriated best estimated at year-end and our view is that these three numbers on page 6 reflect ongoing exposures that we've got as a best estimate.

A - Thomas Bohun

Thank you Ashik. We could have the next question please.

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon, two remaining questions. The first one would be on mortality, so you're providing an unchanged sensitivity, but I was wondering if there were any offsetting positives that could play into the year or into H1 in order to offset a higher potential mortality claims coming from the US. And the second question would be related to IBNR. If you could disclose the IBNR for the BI line of business. Thank you.

A - Thomas Bohun

Thierry, would you like to take the question on mortality.

A - Thierry Leger {BIO 16674977 <GO>}

Happy to do so. Hi, Thomas. So the offsetting we've communicated on this already a little bit. So we have the longevity line of business with some offset, that's also one of the reasons why we write longevity and we have seen that offset. The other line of business where we have seen better than expected results was in medical. So, as you all know that simply being less people going for surgery and that had quite an impact on those lines of business. Other than that, there were no particular offsets observable in our portfolio.

A - Christian Mumenthaler {BIO 6479864 <GO>}

(inaudible) thinks about whether as we progress, the people would have died anyway and therefore we going to have to and that's a big question we are debating internally. As you can imagine, unless there is strong evidence for that, there is reluctance to recognize that. I think some effect will be seen as you know, I think half of the people or so in Europe who died were in aging homes where usually the life expectancy is low. But equally there is also quite a bit of people who have died who had many, many years to live otherwise. So, I don't think we see at this moment, a big upside in that sense in the portfolio. Some, yes, but we are cautious and it's very little is included in the EVM.

A - Thierry Leger {BIO 16674977 <GO>}

Yeah. Thank you Christian, sorry Thomas for having misunderstood the question but we have obviously launched a whole project around this two to monitor these potential negative or positive impact because they can go both ways and so far we are neutral.

A - John Dacey {BIO 4437051 <GO>}

And maybe Thomas with respect to the IBNRs, I'm not sure that we're releasing by line of business, but I can give you a little more detail by business unit. So, we won't be surprised that the lowest level of IBNR is around our Life & Health Re business where 75% of the claims are related to actually received and reported claims on that business. So, the IBNR it sits at 25%, for CorSo it sits at 52% and that's a mix of probably higher IBNRs in the business interruption and lower amongst event cancellation and credit and surety. For P&C Re, IBNRs for the reserves, the $1.9 billion of reserves we have is at 80% and again I think it's safe to say that the event cancellation probably is below that and the other lines and business interruption are likely above that.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Thomas, and on slide 5 we have -- you see that at least visually on VI that it's a very significant amount.

A - Thomas Bohun

Thank you, Thomas for the questions. If we could have the next question please.

Operator

The next question comes from the line of Michael Haid with Commerzbank. Please go ahead.

Q - Michael Haid {BIO 1971310 <GO>}

Thank you very much. Good afternoon to everyone first question on asset management, apparently you have hedges in place, some hedges on credit risk, which you put on in the fourth quarter and then you have also some hedges on your PIA[ph] portfolio. The credit hedge is just still in place and why do you have FX hedges on your PIA portfolio. Second question on the renewals, as we discussed, you reduced exposure to Nat Cat aggregate covers which exposes you to secondary perils which suggest that pricing of these risks are still too low. So the conclusion is that prices have to rise further, can you put a price tag on this, or is this just a portfolio decision just to reduce your previously overweight position to a normal position?

A - Thomas Bohun

The first question to John.

A - John Dacey {BIO 4437051 <GO>}

Sure. So, Michael, yes, we have had some hedges in place vis-a-vis the credit portfolio. Again as I mentioned at year-end, the uncertainty around some political situations in major economies made us a little more cautious than hindsight suggested that we should have been, we don't regret that. I think we're comfortable with them and yes, we've been reducing them subsequently. And so I think you should anticipate at least some modest increase in our credit exposures in the asset portfolio. With respect to PIA, we actually, I'm not quite sure the source of the information, but we don't hedge the individual investments. In a couple of cases we will hedge a little bit some of the currency exposures we might have, but the actual investments were typically strategic and we are comfortable with what we own there. So, there really isn't much logic to hedge anything that we've got there. I'd say lastly, the one somewhat chunky investment we have is the Phoenix shares. And again, that creates certain volatility which will play itself out on a quarterly basis, but it's easy I think, for everybody to understand what that is and why we have it and since we've taken those shares they've performed very well. The company, as Christian said, has done a very good job on the integration of ReAssure and we're fine.

A - Thomas Bohun

Thierry, the second question.

A - Thierry Leger {BIO 16674977 <GO>}

Michael, on your question around the aggregate. So I mean historically we've been a leader in these aggregates. We have more than a decade of experience in this space. And I think we understand these covers quite well as they level rated already on the issue around secondary perils and the impact of climate change. So, I think what needs to happen first for us is to move the aggregates further away from frequency. That's the first move that has to happen and once we have achieved that one, then obviously we need to also a price increase to achieve satisfactory returns.

A - Thomas Bohun

Thank you, Michael. If we could have the last question, please.

Operator

The last question for today comes from the line of Paris Hadjiantonis with Exane BNP Paribas. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi everyone from my side. I hope you're doing well. So two questions remaining. Just going back to BI where a lot of the uncertainty around, the risk in cost of COVID COVID-19 lies, you have on that almost USD400 million of reserves here in Q4, so I'm just trying to understand what is driving that. And relating to that, how is the UK BI decision by the Supreme Court changed your view of what should be covered under aggregate catastrophe treaties. I understand that some people are talking about potential arbitration on aggregate catastrophe treaties going forwards.

Then the second question is on portfolio pruning and the reduction in aggregate covers and casualty. So, is there more to come over 2021. I think from your comments you're basically saying don't annualize the starting 11% premium reduction. But you could give us some better color on what is yet to come, that would be helpful. Thank you.

A - Thomas Bohun

First question to John.

A - John Dacey {BIO 4437051 <GO>}

Yes, Paris. Thank you, you're exactly right. We did increase some significance the BI covers both in corporate solutions and in P&C Re in the fourth quarter. Two main reasons for that, one was the court decisions in Australia, especially, but also the reaffirmation is in the UK, which with view as having some marginal increase in our exposure, maybe somewhat larger increase in the exposure of the industry as a result of those decisions and so we've added that and the second was in the context of the second wave of lockdowns in Q4, there probably will be some new claims coming from disruptive businesses that's probably smaller than the issue of the interpretations of liability coming out of the court decisions. But the combination of that led us to a more prudential view, I think, and that's why we got USD1.4 billion up between the two business units.

A - Thomas Bohun

Second question to Thierry.

A - Thierry Leger {BIO 16674977 <GO>}

Yeah. To the second question, I'd love to know the answer and be able to see the future today. So, your question two is there more to come in pruning on the aggregates and on the casualty side, it's obviously difficult as we actually really focused on the quality of the business, quality of margins very much so, and obviously very actively in discussions with our clients to get the structures and the treaties in a spot that we like. So, what I certainly wouldn't advise to do is just read through these 11% reduction with the rest of the year. That is certainly not something I would say, as John also pointed out, we see still lot of opportunities throughout the years.

John mentioned transactions typically one month is not necessarily the moment we do all those transactions, that is there is a lot still out there in that field. I'm personally very confident that with this portfolio that we have achieved on 1/1, which is a very, very solid portfolio, Christian mentioned it by the mix, and also much better terms that on the basis of such a portfolio, and we will be very confident in looking at further opportunities throughout the year.

A - Thomas Bohun

With that, thank you all for joining today's call. As always if you have further questions, please get in touch with any member of the Investor Relations team. And with that, we wish you all a nice weekend. Thank you and thank you, operator.

Operator

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