Shareholder/Analyst Meeting

Company Participants

- Alexander Andreas M. Berger, CEO of Corporate Solutions
- Christian Mumenthaler, Group CEO
- Edouard Schmid, Group Chief Underwriting Officer
- Guido Farer, Group CIO
- John Robert Dacey, Group CFO
- Moses I. Ojeisekhoba, CEO of Reinsurance
- Philippe Brahin, Head IR and Head Governmental Affairs & Sustainability
- Thierry Leger, CEO of Life Capital

Other Participants

- Andrew James Ritchie, Analyst
- Edward Morris, Analyst
- Farooq Hanif, Analyst
- Heather Takahashi, Analyst
- Ivan Bokhmat, Analyst
- James Austin Shuck, Analyst
- Jonathan Peter Phillip Urwin, Analyst
- Kamran Hossain, Analyst
- Paris Hadjiantonis, Analyst
- Sami Taipalus, Analyst
- Simon Fassmeier, Analyst
- Unidentified Participant, Analyst
- Vinit Malhotra, Analyst

Presentation

Philippe Brahin {BIO 19081619 <GO>}

Okay. We are a little bit ahead of schedule. But I suggest we start. Good morning, everybody. Good morning. Welcome to Swiss Re Investors' Day. I'm Philippe Brahin, Head of Investor Relations. It's a pleasure to welcome you all here today to our offices in London in the Gherkin. Also a warm welcome for those of you following us on the web today through our webcast.

So we have quite a full agenda we prepared for you today. I'd like to walk you through the agenda quickly. We will start with a group view on Swiss Re with the CEO -- Group CEO, Christian Mumenthaler. He will open the day on an update with the group strategy where we focus on our 3 differentiation factors: client access, risk knowledge and capital strength. Then immediately after, we will have John Dacey, our Group CFO. He will provide us an update on our very strong capital position, the flexibility of our financing. You will hear about Alternative Capital Partners and as well as our capital management actions. And after John would be immediately Guido, our Chief Investment Officer, on the quality and the performance of our investment portfolio.

We will have a joint Q&A of Christian, John and Guido here on the podium for around 40 minutes. Then we break for lunch. And afterwards, it will be more the business unit perspectives, starting with Moses Ojeisekhoba, the Reinsurance CEO. And Moses will talk about the core business, transaction solutions of Reinsurance. Moses will be joined by Edi Schmid, our Chief Underwriting Officer, also the Chairman of the Swiss Re Institute. And Edi will talk about the growth strategy of Swiss Re on the nat cat side -- the more defensive, cautious approach we have on casualty lines. And we will have a joint Q&A of Moses and Edi on Reinsurance.

Then will be Andreas Berger, the CEO of Corporate Solutions. He will give us an update on the management actions we announced earlier today this year and a little bit the strategic priorities of Corporate Solutions.

Finally, we'll have Thierry Leger, the CEO of Life Capital. And Thierry will focus more on the open book in iptiQ, our B2B2C white labeling platform.

I just wanted also to mention that we have some booths open for you to go -- to go and visit today. We did the same thing last year. It worked well. It gives you an opportunity to engage with our colleagues and hear more about the solutions in Reinsurance, iptiQ, Corporate Solutions platforms and also our commitment to ESG and responsible investments. So I really invite you to go and meet the booth.

I wish you all a very good day. And with that, I give the floor to Christian Mumenthaler, Group CEO.

Christian Mumenthaler {BIO 6479864 <GO>}

Thank you, Philippe. Welcome, everyone. It's great to see so many familiar faces, investors, analysts. Thank you very much for taking the time to come here. We very much appreciate it. I know it's a busy time of the year for all of you. So we really appreciate you took the time Monday morning to come here to the Gherkin.

So my 20 minutes are around the high-level view of Swiss Re. And I'd like to start with this slide, where, on the bottom. And you have seen that before because I'm quite passionate about this, are what I would call the 3 biggest strategic assets at the core of Swiss Re. So all the businesses are built on those. But these are 3 differentiating strategic assets.

The first one, client access, you could also say brand, basically means that we have access to all the insurance clients in the world, the C-suite of these clients that we know, thousands of corporates in the world through Corporate Solutions and that we basically have the right to play.

The second one, risk knowledge, is the accumulated knowledge around risk that we have accumulated over decades, which allows us to have hopefully deeper insights into some of the risks and to price the risk more adequately.

Then capital strengths, which used to be probably the most important one 20 years ago, is now a bit less important in this low interest rate environment where there's plenty of capital. But still a very important differentiator for our clients. Clients appreciate the capital strength that we deliver.

So these are the 3 strengths. And I will go through each of them in a bit more detail. Then based on those, we have 3 businesses, which are all in different states right now. Reinsurance is clearly the foundation of our strengths. It's regaining and increasing the earnings power in this environment that's slightly improving. So it's the core of what we do.

We then have Corporate Solutions, which is clearly in a transitional phase, trying to get back to profitability and doing a strategic refocus.

Then Life Capital, also transitioning from a unit dominated by reassurer to a digital B2B2C player. And Thierry this afternoon will tell more about that.

So I'll also go quickly through the 3 businesses and how I see them and where they are. But first, let me go through the strategic assets. So first one, around client access. You know that's some of my favorite charts. What do they show on the left side is a visualization of a relationship with big insurance clients. So every time anybody at Swiss Re has a meeting anywhere in the world with particular clients like Allianz, they write a discussion note with who was there, what was discussed, et cetera.

And the client executive will get these notes. So they see everything that's going on between the 2 entities. And this is the visualization of all these data. So we have all the names of people on top, names from the clients on the bottom. And this shows who has met with whom over time. And with these big clients, typically, 10 interactions a day is the norm. So there's a massive interaction between Swiss Re and the client organizations at many different levels, which yield some clear benefits, in my view.

What I haven't shown yet is the slide on the right. So there's an expansion of it to the broader industry, to other industry players. And this one shows the different units within Swiss Re and how they interact with other parts of the industry. So not insurers. But technology company, real estate, OEMs, i.e., car manufacturers and finance. And what you can see here is, obviously, you would expect Corporate Solutions here to have contact with all of those and maybe group IT with the technology part.

What is probably a bit more surprising is that Reinsurance has quite a lot of interactions with those because in the solutions team we have a lot of things we're doing with some of those, including, for example, the collaboration with BMW on ADAS, which is public. But also many things that are not public. Then on top, you can see Life Capital, which is basically iptiQ has a massive amount of interaction with a lot of these players. Very little is visible yet in terms of outside announcement. But there's clearly a huge interest by those company and by us to work together.

There's also a global diversification of the Swiss Re Group, which is quite unique, in my view. You all know the U.S. GAAP figures in the regions. So $16 billion in Americas, $11 billion in EMEA and $7 billion in Asia. But if you look at the EVM premiums, which is basically the discounted future cash flows of the premiums. So in particular, in Life & Health, you take the discount of all the future premiums that the current contract will yield, the picture already looks quite different. It's $15 billion in the Americas, $13 billion EMEA and $16 billion in Asia. So Asia is now the biggest one, particularly because of the Life & Health business.

That's also, because of this global reach, that we say our purpose is to make the world more resilient. And we measure all kinds of KPIs around that. We're active in more than 150 countries. There's more than 100,000 P&C clients supported, most of them, Corporate Solutions, obviously. Then in Life & Health, we measure how many family members we support, which is more than 175 million. So this is basically the client access reach the firm has.

Then in terms of risk knowledge, two years ago, we founded the Swiss Re Institute, which is -- was created to have an overview of all research activities at Swiss Re. We have about 450 people working on R&D, 13 R&D teams, 80 R&D programs. We can now structure those in terms of what value they bring to Swiss Re and what the intent is of those. We have this segmentation of 5 different categories here.

First one is market intelligence, which helps business steering. Second one, we call insurance beta, which helps capital allocation here. So these are related. Then there's insurance alpha, which is basically risk selection and pricing tools, which we have for all kinds of lines of business. Then there's this commercialization, which is around data solutions, publications and this includes tools like Magnum and Life Guide. By the way, outside is a booth for Magnum, in case you're interested to want to see it live. Then there's efficiencies, process reengineering. We also use all of our R&D to make ourselves more effective. So this is the framework and how we steer now the different pockets. We have made adaptations since we have the Swiss Re Institute to focus to the areas we think are most important.

In that context, we have a tech strategy, which I showed to you, I think, April last year. It's completely embedded into this SRI framework. Our tech strategy has 4 priorities. The first one is increase our clients' competitiveness. So this is through tools like Magnum. This is the whole commercialization aspect of what we try to achieve. Then we apply the tech to improve our own value chain. So this is the efficiency bucket. Third one, get closer to risk through digital platforms. That's the big bet we make on the iptiQ platform. Then finally, there's one around data, harvest the full potential of our proprietary data, which supports all of those.

There's approximately $300 million we spend per annum on the whole technology side. Half of that goes into iptiQ, which is really, from all the ideas we had, the one we believe in most. Then there is a second biggest project is, we call it ATLAS. That's basically creating a new general ledger for the whole Swiss Re Group based on the SAP HANA technology. So that allows for a 5-day close. Because in memory, we also have done a co-innovation project with SAP.

And the reason they chose us is because we have this EVM knowledge for more than 20 years. And this was now crucial to create a product which can do IFRS 17. So this is a very interesting co-innovation project. The product is actually out. This FPSL is already out. It is marketed to companies who will use it for IFRS 17. Then one other area we're quite active in is this whole automotive and mobility solutions.

These technology initiatives have an impact on Swiss Re. And you will see it over time. This is a graph that tries to show how much of the EVM premium is coming from or is related to some of these technology initiatives. So you can see, over time, the biggest one obviously is Magnum in Swiss Re in the Life & Health solutions. And we talked many times about Magnum. So this is the business that is linked to Magnum. So Magnum is a tool that is used for underwriting at the front end by our clients. Then in the back end, we link to that, we have a share of the business. And this is the business that we get through this Magnum platform.

Then you see P&C Re Solutions, which is relatively new where we have different solutions. We have Corporate Solutions, very small. That's the new platform they have. So there's a few clients on it. But this should grow quite a bit. Then iptiQ on top. Again, this is EVM premium. So this is basically the discounted future premium of everything we have written at this stage. And that's why life is dominating because you see all the future premiums whereas P&C is a bit smaller. So it's becoming significant. And there's some real impact for us.

On the capital strength, I probably don't need to spend much time on here. The figures are all known to you. So the last SST ratio we published is 241%. We try to calculate the Solvency II figure. I think this is a cautious approximation, which is why we say it's higher than 260%. Then we have some data from competitors and peers, which are lower. So this leads us to believe that, on a comparable basis, Swiss Re is one of the stronger balance sheets out there in the market. And that's important, again, for our clients.

Let me now go through the 3 different businesses. So Reinsurance, clearly, in my view, is in a very good state and has significant competitive advantages, several ones, actually. The first one is global scale. You see the market shares here is 17% for Life & Health, 11% for P&C. But scale just generally means you have some efficiencies of scale.

This is direct client access. Most people go all through brokers. We have 90% in Life & Health without brokers and in P&C is about half.

There's a very high diversification, in particular with Life & Health. Many of our competitors don't have a life and health business. We get significant benefits from having a Life &

Health business.

Then superior risk knowledge is not the focus of this presentation. But last April, there was a presentation where we showed you in more detail how we measure the delta and value we get from our risk knowledge and from the different things we do. And more than 50% of profit is differentiated profit. So profit you get on top of what we would expect the market to be able to get.

So Reinsurance also has a positioning, obviously, as a net risk taker. So we're a shock absorber for society. We have net positions in nat cat that are bigger than most. And that's basically based on the hypothesis that in good years you outperform the rest -- in bad nat cat years, you underperform. But on average, you save the retro premium.

And so if you look at the last five years, that might be -- I think it's quite a remarkable result, 11.5% ROE and that includes 2017, which was the most costly year in nat cat ever recorded in terms of market loss. It includes 2018, which is the fourth biggest nat cat loss year. That includes the first nine months of this year, which clearly have been heavily impacted by nat cat. So Reinsurance, overall, including Life & Health, obviously, is able to absorb this volatility from the nat cat side and produce good returns.

If you look one level deeper, we also see this Reinsurance as the source of the more immediate-term earnings growth, Life & Health Re. This is the costed view in EVM. So this is basically when we write the business, how do we see it coming, including expected loss, how do we see the profit growing. So Life & Health Re, you can see that in our costed use, ex ante, we grew it about 50% since 2015. So we went to $1.2 billion EVM profit.

You can see on the P&C Re side, we had a drop with the soft market to '16 and then a bit of a bottom out. And then now we start to see more EVM profit being created through growth and slightly better margins. So that, I guess, that picture makes us optimistic because we don't really see a particular end to the Life & Health growth. Asia is still growing. And on P&C, we clearly hope for the conditions, which seem to happen right now to improve.

So CorSo. We talked a lot about CorSo this year, for obvious reasons, got stuck in a really bad market. We talked a lot about the left part here at the half year results. So I'll call it the fix it part, which has 4 components here. It says about pruning. It's about price increases, improving productivity and optimizing reinsurance structure with the target to get to 98% combined ratio by 2021. And yes, we're going to get the question, we're still confident to achieve that.

But that's just the fix it part, it cannot be the only thing. Andreas today will also talk a bit about the more strategic side of the whole thing. For now, it's strategic priorities, the strategic directions we want to take on top of that because just fixing it is, in my view, not good enough. We also need to fix the direction, which will make CorSo something more unique than it used to be.

And here are the components of that. The first one, in my view, extremely important because it touches a lot is what I call decommoditize our core business. So not just look at what is profitable or not. But also look at where do we think we have competitive advantage, where can we claim that and to focus basically on those pockets.

The second one is grow with differentiating assets. CorSo has a few unique assets. For example, for JV with Bradesco in Brazil, this is quite unique. We have a good name. So we can do other JVs in other high-growth markets. We have the platform, PULSE, which we also showed in April of last year, which is probably one of the best, if not the best, in the market. The question is, can we leverage that? We also have a structure team that does parametric transactions, which is quite unique. It's well hidden within CorSo. It's only subpart. But it's quite unique and producing good profits. So it's really the question, do we see differentiating assets? And can we leverage those going forward?

And the third one is maybe a bit esoteric. But we still put it on here because there's real demand by these ecosystems to talk to us, we call it here, expand through tech-driven solutions. There are these ecosystems and they ask themselves, how can they include insurance into the ecosystems? Are there different ways to distribute corporate insurance, which overall is extremely ineffective in terms of a value chain currently. And we are on all these discussions. I put it out there so that you're not surprised if something comes out. But it's not a proved point at this stage. But I think it's an interesting strategic idea.

So I come to Life Capital. Based on popular demand, I guess I reiterate the question I get at every investor meeting. So what's next for ReAssure? I'm still going to get the question later, I'm sure. But here, the first version of it is, clearly, the -- what I say is the north star is unchanged. So the direction is unchanged, right? Strategically, I think it's a great business. But it doesn't fit with our balance sheet. And therefore, the priority must be to deconsolidate it over time.

But we're not a forced seller. So I want to do it in a way that makes sense for shareholders. And therefore, we continue to explore all kinds of routes to achieve that goal. But under no circumstances, do we want to become a forced seller, which means that in the meantime, the team has our full support. They can do acquisitions and we'll support everything that increases the value of this asset.

Now 2 slides on iptiQ because I talked about it for the first time in April of last year. And I think it's quite exciting and we put a lot of effort into it and attention. So why would we do that? So iptiQ is our state-of-the-art digital white labeling B2B2C platform. So we work with big brands, corporate brands who can sell to their clients. We have now -- by now 28 partners, insurers, insurance intermediary banks and ecosystems. But many more are thinkable because it's basically the whole value chain you need to distribute life insurance and now also P&C insurance.

The geographic reach is now the EU basically and the U.S. So quite a lot of consumers and focus.

The capabilities, you have 60 days to partner on-boarding. So it means that if you want to sell life insurance under your name, we have all the capabilities. And within two months, you're up and running with one of the best platforms. It's multichannel, it's end-to-end, with customer insights, et cetera. So we try to learn from everything that is around the best possible value chain step and we're also rearranging it. So we work also with some start-ups if they're better than established players. So we work in a range of the value chain than trying to program everything ourselves.

The products are -- we started all in life so term, whole life, accident, critical illness, health add-ons. So these are all biometric products, which are, in our view, which are the piece of the life and health market which we understand the best and I'd call it, the fillet of the beef -- of the animal. So it's really the most attractive part of the life and health market.

Then P&C, we now have capabilities since a few months, travel, cyber, mobility and home. So the platform can do a lot, it's scalable.

And we have some beginning results that we can show here. The gross written premium this year, that's estimate since we're not at full year-end, about $225 million. And the annualized new business premium of $155 million. I'd say why bother since this is Swiss Re, it's so big, right? And the reason to bother is that, first of all, it can grow much more, obviously. Second, this is parametric risk where we know a lot and it's the best piece of the life and health market. And you have to put it into context. So $155 million APN is getting close to what leaders, right, in big markets like the U.K. is typically $200 million to $300 million in the biometric risk spectrum.

Most of what people write is savings products. But in that space, it's already like a big local player. And if you stopped growing at this stage here at $155 million, you just continue to write $155 million every year, you get to about $1 billion of gross written premium in 10 years because it's multiyear premium and you have some lapse rates, et cetera. So I think it's easy to see from that, that while it's still small now, if it continues to grow. It could become something much more substantial for the Swiss Re Group. And that is obviously our bet and our way to access some of that primary risk we don't get so much through reinsurance.

Then, finally, a word on sustainability. We're very proud about what we have done at a time where this was not so fashionable as it is now. We have on the investing side, obviously, 2, three years ago, switched to ESG benchmarks. And Guido will show it. I think the interesting thing for everybody here is that now we can see how it works in practice. And in practice, it works better than what we thought and what the benchmark will be without that. So it's an interesting difference between practice and what you expected.

Underwriting, we are one of the leaders in wind farms. We do many other things.

Then our own footprint. Since 2003, we're 100% greenhouse gas-neutral because we buy certificates. Even within that, we have halved our footprint. So we made efforts within our footprint to make buildings like this one, which are quite effective. So we have invested a lot in making ourselves as neutral as possible, which has been recognized also externally through different indices in the world.

And with that, thanks a lot for listening. That hopefully gives you an overview of the group. And I'd like to hand over to our CFO, John Dacey.

John Robert Dacey {BIO 4437051 <GO>}

Thanks, Christian. And thanks, everyone. And again, we'll have questions for the 3 of us when Guido finishes his session.

I wanted to spend a little bit of time just reminding you of where we stand in terms of our capital position, how that's developed over the period, our ability to repatriate profits not only inside the organization. But to our shareholders along the way and then a couple of slides on the ACP team that we've organized in September.

The starting point is the macroeconomic conditions for the insurance industry remain challenging, I don't have to tell you that. You've followed this industry very well. I'd argue that our team on the investment side has done a great job of positioning itself to deal with lower interest rates. The running yield continues to be at 2.9% through the first nine months of this year. There will be pressure on reinvestment rates and that's likely to come down slightly. But I think, overall, we can be very confident of the ability for us to continue to earn large profits in the investment functions.

The slowing global growth is an issue for not just investments. But also for the demand for insurance. At the same time, we think that the protection gap that we see, especially in high-growth markets, is huge, unaddressed and Swiss Re is uniquely positioned to support both the primary companies who want to get after this. But also with our iptiQ business model to do some of it ourselves.

I would say that we're now in the third year of an industry with large P&C losses. To date, the nat cat losses have been less than in 2017 and 2018. But you see some of the pressure coming up on the casualty side. Obviously, everyone in the room wants to talk about that, we've got Edi here to do that after lunch. But I will say that the hardening of rates across geographies and across business lines makes us fairly optimistic, both for our Reinsurance business but also the CorSo business for 2020.

The group capital position we announced with the Q3 results that at July 1 this year we've moved down a little bit to 241% SST ratio. That compares to our target of 220%. And maybe the one novelty on this slide that I'm not sure that we've disclosed explicitly. But to reinforce the 220% is a target, not a limit. We have included the number 200%, which is where we've got management authority within the executive team to bounce to if we see good reasons to be below the 220%. But over time, that's our target. We expect to be around that number.

I think what you see in the first six months of '19 that both the required capital and the available capital have increased. It's just that the required on a proportional basis has increased a little more, which brings us down to the 241%.

We showed a slide similar to this earlier. But just to reiterate, there's a series of places where the economic earnings of the group come from. On the left side of the slide, you see the new business, what we're actually underwriting in the current year, has a strong positive performance over this period. In 2017 and 2018, you see some negative movements down. This is nat cat losses that we have booked. 2019 is just the first half of the year. So the second half nat cat numbers are not in there. You can expect for the P&C businesses then you'll see something that will be negative, decreasing the total number. But I would say that one important thing. And Christian mentioned this earlier, the stability of the Life & Health economic earnings, contributing $1 billion a year to new business economic profits.

Then we've got the release of the current year capital cost for the underwriting side, again, a strong and improving performance over the periods. And similarly, release of the current capital costs for the investment side. And there, the lower interest rates probably have muted a little bit that contribution. But on balance, a very strong performance.

Economic earnings for the last eight years averaging $4.2 billion. And the reason this matters is these economic earnings are the basis for our SST calculations, which then drive our ability to talk about capital management.

And in particular, when we look at what we've been able to achieve, both through the regular ordinary dividend, which has increased systematically over the period, up to $5.60 this year and the special dividends and share buybacks of recent years. What you see is the total yield on our share price far in excess of our major peers. And even the ordinary dividend by itself of 5.3% is peer-leading. There's one other firm which matches us.

The flows coming up through the businesses continue to be strong. Reinsurance is down a little bit in '18 and '19 because of the losses in the nat cat side. But the underlying balance sheets of these business units is robust.

You see in Life Capital, the cash that we've been getting in part are largely, frankly, from the reshore [ph] business delivery and that continues in 2019.

We've been able to do this in the context of a capital structure, which is delevered over the period. When you go back from '13 to '19, what you see is the top components of these pillars of our capital are what we've been able to adjust. So the letters of credit dramatically down, senior debt down. Subordinated debt remains an important part of the capital structure. But the core capital, very stable over the period.

Our leverage ratios for both subordinated and senior down to 14%. We think that this is a smart way to be managing our capital base.

Enormous flexibility going forward. We've got the $2.7 billion prefunded subordinated debt. That's not included in the SST ratios. That's available at our discretion should we see the need for it.

We've also included here the allusion to the Alternative Capital Partners. Alternative Capital Partners is a team that we've assembled from the ILS team based between New York and London, our retro and syndication teams. This is existing capabilities that we've had in Swiss Re.

Between 1997 and today, we're the largest sponsor of nat cat bonds in the world. The people behind us are typically the large brokers, which are coming on strong in this space. But we continue to have unusual expertise that our clients rely on.

We've got our own portfolio of cat bonds where we actively trade. We find opportunities where there are discontinuities in the market. Over some period of time, this has been significantly profitable and sustainably profitable. It's not a big source of earnings for us. But it allows us to get a pulse of the market on a daily basis.

Then our sidecar, Sector Re, everyone in the room, I'm guessing, who's familiar with it, allowing us to be able to flex the amount of retrocessions that we go into the market with.

In 2019, as we've increased our nat cat gross exposures, we've also put another $900 million of those exposures into alternative capital in what is increasingly a challenging market spot. We maintain the majority of the underwriting risk on our own balance sheet. We will continue to do that. We're not looking to lever out the way some of the competitors have. We think that's the best way of making sure that we maintain an alignment of interest with the investors who come into these vehicles.

The other thing on the right side of this page, dealing with our peak risks in this way allows us a more efficient management of our capital position over time. We expect our Reinsurance team. And over time, CorSo to be able to find opportunities where these peak risks that we write could become challenging for us to fund with a normal capital structure. Using ACP selectively on those risks gives us a chance to be able to manage those tails with another set of tools.

I've mentioned the partnership approach. Over the last 20 years, we've been able to establish strong partnerships along the way. We're looking to expand that with opportunities for people that might not have been receiving great experiences in the last 2.5 years on the ILS market to spend more time with Swiss Re and potentially bring us into their portfolios.

The differentiated approach. I mentioned we think there's a real ability for us to manage this team together with the underwriting team of the nat cat side. But also with the treasury team on the finance side. And it's one of the reasons why we've decided to take this out of the Reinsurance business unit and into the group for the management of those 2 dimensions.

Lastly. And I can finish here, I'd just like to reiterate what our capital management priorities are. In the first case, our goal continues to have superior capital. Christian talked about this. Our clients respect this. But also count on it. And their willingness to give us unusual market shares and long-term contracts, in some cases, is a function of that capital strength.

We expect to grow the regular dividend. We've demonstrated in the last five years our ability to do that even through difficult market conditions on the P&C side specifically.

We deploy capital for business growth. Again, here, we've been able in 2019 to demonstrate a strong growth capacity, leveraging our existing underwriting strengths. But also bringing down the cost ratios as the volumes are increasing with a similar cost base.

And priority 4, which we have not forgotten, is to repatriate for the excess capital. We're more than 50% through, almost 70%, I believe, at this point in time of our share buyback for the year. When we finish the year with the Fourth Quarter, we'll have the discussions of future capital actions with our Board and announce them in February in case anyone wanted to ask the question already today.

And with that, I've been able to give Guido a little extra time for his session.

Guido Farer

Thank you very much, John. It's a big pleasure to talk about the asset management side of the house and show you a bit where we are relative on the value contribution. And you see here on this slide, it's not only about producing investment results. But the team and technologies also leverage for many other things.

Now starting with one figure, going to put this -- it into a historical context. The last five years, the asset management side could produce $4 billion of net earnings, more or less consistently, with raised -- more volatility. But we not only produce investment return, we could also establish a very flexible investment platform, which should help in more stormy times because we can easily manage assets externally, we can also easily manage assets internally with the full flexibility and also capability.

We do a lot in the ALM context, again, together with my colleagues on the business unit. But also with Edi on the group underwriting. That's a truly iterative process, which we apply on both sides of the balance sheet, which again helps to extract extra value.

We're a big user of technology. Nowadays, financial market is not only about fundamentals. We know there's many more things, which needs to be incorporated into an investment strategy. That's why pattern recognition, particularly if we talk about credit migration risk, it's a great tool, which we fully apply and invest into it.

Big data. Analyzing unstructured data is not only a topic in many consumer goods. It's also a very big topic on the investment side. And again, we invest resources, time and capability to basically make something with data, which impacts the sentiment in financial market.

Ultimately, it's about scenario modeling, something which we have done for many years. But we try to make it more and more sophisticated, also making sure that we understand the full world and this is not only a financial market world, it's basically also the environment. But ultimately, also the underwriting side.

Christian has mentioned, we continue to work on this ESG approach. I give you an update afterwards where we are on the investment side.

And finally, our team and capabilities not only used on the asset side, we are an integral part of the product offering to our clients on most of the tailor-made transaction. And Moses will cover this afternoon. We have colleagues from asset management joining. We've done the modeling of implied financial market risk. But also try to find out how regulation drives the preference or the dislike of certain implied financial market risk and basically how we handle them.

Great. That's a few examples that you see the team has not only used to produce investment return. But ultimately to the benefit of our clients, that we have a full understanding of the value chain.

Now let me talk about the investment result for a second. This is a historical overview. And what we can see, it's 3.6% return on investment the last five years, which is 30 basis points better than our peers. Again, this should keep a bit of consistency that this is a strong performance over a multiple year. And that's mainly fixed income, that's why you are in the financial market. 30 basis point outperformance is a considerable piece. I will explain afterwards how we did it.

Important is, basically, the running yield, which is an important phenomenon, particularly for forecasting the sustainability of investment result. And John has mentioned, we are a bit impacted, hopefully, less than the market. The main impact comes through the denominator.

To give you one figure, you can also easily calculate yourself, if interest rates moving by 100 basis points, basically parallel shift, this has an impact of about 20 basis points on the running yield. That means rates have come down on the 10-year. If we go back 1st of January, we were around 2 70, now we are at 1 70, gives -- 1% has an impact of 20 basis points. That's why probably we will show 2.8 for our Q4. Could be there's another 10 basis point next year, 2.7. But it's mainly the denominator. That's why there is kind of onetime effect. The denominator is relatively stable. And also coming back to that, why we could keep that up.

Now if you look at the composition, it's basically less than a quarter, which comes from gain realization over the last five years. There's one special. This is 2018 where you see the unrealized gain -- or the realized gain is negative. And this was the introduction of the new GAAP rule, as you all know, on the equity side, which goes now fully through the P&L.

This was the exception. But again, if you look through that figure, it's very consistent in respect of production.

How can we held up this relative high competence on the bottom line contribution? One of the main reason is that the unrealized gain. And the area, a true differentiator, most of our unrealized gain is at the very, very long-term bucket of the term structure. That means 2/3 is in the 10-year-plus maturities. And that's very sticky. That means if you don't touch it. And we haven't touched it in the past, there's no intention to touch it, that remains. And again, that's a true differentiator. I think there's not many who has so much unrealized gain in that part of the bucket. That means even if rates are coming down, we should be less exposed. And the things, which mature before the 10-year pocket, has a lower book yield than what we basically hold in the 10-plus piece.

Also, if you look at Swiss Re's fixed income portfolio, we tend to have a lower -- sorry, a longer maturity, has to do with the business which we are writing. We are fully matched on an EVM basis. That means we have also the luxury to hold very long-term assets, which, of course, if you had locked them in, in earlier days where yields were still decent, that's a big plus. And this exactly happened in our shop. That's why having a longer kind of maturity based on the ALM, not because we have long duration, makes you much less exposed to a lower yield environment, which we forecast. And we don't hope that yield will go back overnight. I think we will face lower for longer.

But this gives you an idea how we can cope in this environment. I'm pretty sure some of the features they will stay. And that's why I'm very happy to say I feel we can cope with lower for longer even if it stays.

What have we done on the asset allocation? That's the main driver, I guess, of the sustainability of the return. You see on the left-hand side the classic asset allocation. It's about 41% credit instruments and equity and alternatives. And that piece increased by about 10% the last three years. And you see that government bond actually is slightly negative while the total balance sheet, which we managed, went up by 4%. And we know lower yield, of course, has an impact, particularly also on the government bond portfolio. Nevertheless, the major add-on happened on the higher-yielding piece.

Now the main question, which you should have, did we basically make compromise on the credit quality, which other words is yield hunting a topic. And I can ensure you, it is not because if you look at the credit bond slide, it's pretty much unchanged in respect of composition. Average rating is A -- in the credit side. Now if we take the full fixed income portfolio, very happy to report we have AA-, which is better than the market. Our peers have an A+. That means we have higher-quality type of fixed income portfolio. And probably our true differentiator in the amount of unrealized gain, in particular, where those unrealized gains are in a term structure.

We massively increased in private debt. You see the last three years, we increased by 65%. Now how we have done this? It's through different channels. We have also direct sourcing of private transactions. And you see we captured, we call it the so-called compensation for liquidity risk, we captured 75 basis points on top of a kind of a comparable credit portfolio. That's considerably higher than any type of benchmark would adjust. Benchmark in this area is around 20 to 35 basis points. We have more than double captured. And that's locked in. And most of them are long-term loans with infrastructure or CML.

Again, that's something which we will continue. And these are not funds. These are directly sourced or together with our partner. Each transaction is an own one. And this is a very successful activity, which we have built up over the last year, which we will continue. That means the underwriting pen or the investment decision is with us. And that's why we could capture such a nice premium without compromising on the credit quality.

Of the real estate, I think it's good to show you what we have done. And it's also a message we will continue. We don't invest into real estate fund. These are direct investments which we do. Again, it has increased by almost 1/4 the last few years. And these are core, core-plus type of real estate, unleveraged. And we show a net yield of 7.7%. Again, a very strong return, much better diversified than five years ago. Again, these are directly on our balance sheet. We decide which building we buy. It's not a fund investment. And this is something which we have started a few years ago. Now we established a very nice network. And that's why you can expect this should help to sustain nice returns even if yields stay low.

Let me come to the last slide. And also Christian and John has mentioned it. We have done probably the most important decision, changing benchmark. And this has been done in the end of 2017, beginning of 2018. And I think we are still the only insurance company which fully applies ESG benchmark across all liquid markets. The good thing is we haven't suffered on the return. It's the opposite. Equity, for example, we outperformed.

If you have taken an ESG benchmark the last few years, we had a better performance. And without a doubt, it's a much safer portfolio. And if you can express it, the information ratio is one example, we took different time selection. It's true. It doesn't matter if you look the last 12 months, the last 3, four years. It's a continually better portfolio clearly on a risk-adjusted basis. But in our case, even on the yield side, we didn't suffer any foregone return.

I show you one effect which is really impressive, at least for me, hopefully for you as well. I show you on the bottom basically our so-called carbon intensity of the portfolio. Before we switched, I took 2015, that means how many millions of CO2 you have per million revenue of our underlying securities. And you see what happened since we introduced this benchmark. On the corporate credit side, the drop was 42% -- and on the equity side, it was 52%. So almost half, which is an incredible achievement just within three years. And now it's not only good for ESG and maybe some inclusion in certain benchmark. This is a portfolio which is far less exposed to any stranded asset discussion. Or if a regulator kicks in with extra penalty, we are prepared. And I think, better prepared than many others.

That's why we continue on this soft leadership from the ESG side. And another example of that. We were one of the co-initiator of this United Nations Asset Owner Alliance. We committed, together with a few colleagues, to have a net-zero emission portfolio by 2050. It's long away. But we will define milestones between today and then. And I feel confident because of what they have seen the last three years, basically reducing by 50%, I think we can go further than that. That's why we did, after we really looked at our own portfolio, after we looked what it means, that we can commit to such things.

PRI again asked us to join the so-called Leaders Group, also in recognition of the work which we have done. We had the best rating ever in 2019 based on portfolio action but also engagement. These are a few examples which matter, matter particularly in respect of the sustainability of our investment return.

With that, I would like to ask Christian and John to join me for the Q&A. Thank you.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, Guido. Okay. Yes. All right. We'll start the Q&A session. I'll -- maybe I'll ask you to introduce yourself and restrict yourself to 2 questions each, please.

Questions And Answers

A - Philippe Brahin {BIO 19081619 <GO>}

So maybe Kamran first. And there is a microphone to help you.

Q - Kamran Hossain {BIO 17666412 <GO>}

It's Kamran Hossain from RBC. Two questions. The first one is just coming back to the, I guess, the 3 strengths of Swiss Re. It sounds like to me that you're getting paid or you've got a differentiated terms from, I guess, the access you've got to people and the knowledge. The balance sheet is less important. If you're to roll this forward into the future, especially with something like Alternative Capital Partners, is it unthinkable that Swiss Re moves away from having a AA rating in the future? Would you ever reach that point? That's the first question.

And the second question, one for Guido. There's been some discussion around where there might be some investments in other parts of the world. Could you maybe run us through what the strategy for principal investments is, particularly around trigger points? I know you sold Swiss America. FWD sounds like there's going to be a transaction in the press in the coming years. Maybe some more color around what you're thinking there.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Okay. Happy to take the first one. So I think you're right. And I alluded to that, right? Capital strength has become less relevant. I don't think in the past 20 years, 30 years ago, people came to us just for capital strength, certainly a little bit for the rest. So there's clearly a shift to the others. Whether that remains true for the next 50 years, I'm not so sure, right? There are scenarios where capital comes back into fashion.

I think in terms of relative strength, in the past, everybody was AAA, I mean, the big ones. Now that's gone. I don't think we'll ever get back to AAA. Even if we technically are AAA, I don't think our clients expect that or would want to pay for that. So I think the clients expect a strong balance sheet. If you want to do a long-term business, then even strong as AA, I think, is useful at this stage. But in end, it's all a relative game, right? I wouldn't want to go lower if my main competitors stay at AA. If everybody is A+ and that's the new standard, we will have to adapt to that, right? But at this stage, I think -- I don't think the next 2, three years, that's a big discussion point. Yes.

A - Guido Farer

Maybe on the global investment side, as we continue to be a global investor, one piece is driven by our insurance activity. Again, if we sell more insurance or reinsurance in China, our portfolio will grow. We try to be matching in respect of currency as far as this is suggested by the liability. And outside of that, we are opportunistic. And PRI is an investment activity. It's different than if I look at our liquid equity portfolio. And you see most of our investments are in high-growth markets. And that means it's another way to improve or increase our footprint. We had a very successful story, as we mentioned with New China Life but also ReAssure. Then we continue to do that. That means it's a bespoke transaction into a market which we believe in, where we can add value, not only providing funding but also knowledge transfer.

A good example also, in Africa, we have 6 different holdings. These are long-term shots. And I think the 2 examples I showed you, it can be applied very successfully. And again, not only helping an investee but also basically add bottom line value for our own shareholders. That's why -- FWD is another example, where we're fully engaged as a shareholder and help the company to increase the footprint in Asia. And I presume there will be other examples coming.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you. Vinit, you are next.

Q - Vinit Malhotra {BIO 16184491 <GO>}

So Vinit from Mediobanca. Just so my 2 questions. First is on the nat cat strategy, Christian. And so you -- I mean, I'm a bit surprised that given where you are coming from in the marketplace, you've chosen to bring in more and more of alternative third-party capital when, in theory, you could have said, Hi. this is really the opportunity we've been waiting for. We want to grow. Because when we see the growth numbers, they are so strong. Then we have to remind ourselves not to get too excited about them because some of that are just fees that is for a fronting kind of thing. So just why bringing these people now into this party? So that's the first question.

Second question is just on the Solvency II equivalence. And apologies, I might have missed some earlier comments. But the last time I remember, this number was well north of 300%, 310% relative to SST being, say, 270% in range. And there seems to be quite a difference in this 260% versus the 240% now. I mean maybe it's just not that important. As you just said, capital is not really the main ingredient. But if there anything to point out, I'd be pretty happy to take that.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Happy to do the nat cats, right? Overall at the end though, we're going to have Edi, the expert, obviously tell us a bit more. I think nat cat is obviously a growing risk pool and one we can very successfully compete with our own R&D tools. We had very good results over time. So we have fundamentally high confidence, right? It's fits very much our strategy. And we have some peak exposures but some others where we have much less.

So the most efficient portfolio will be to grow most of the non peak exposures but to keep the peak, the very big peak capped. And that, you cannot do by choosing clients because a lot of clients want to see -- have an unbalanced portfolio. So the only way to do that is to grow the overall and then hedge more -- some of the peak exposure, which is some of the capabilities we had but we're now putting more to the front. So -- and all of that is in the context of increasing cat rates obviously right now. So this is attractive.

The capabilities we have with this ACP, I think, are very useful because there's a potential world out there. There's different worlds out there, right? But I think one potential world is capital is plentiful. People will find ways to play as much as they want. And that's a world where our clients will demand -- instead of them doing a lot of this alternative capital thing, I can see more and more of them saying, Why don't you do it, all right ? I'll give you a bigger share. But then you share some of it in the back end so I don't have to care about all of that. Now if -- so that's the strategy, right?

I think it's really good to have all these elements for the full machinery in place, which we have in terms of tactics. If rates were to fall down, or if retro rates were to go much higher up, then on a tactical basis, for next year, we would steer the portfolio differently, right? We can choose not to grow too much. Or a lot of the retro we have is actually not in the retro market, right? You will see from a chart in Edi's team, it's swaps of Japanese, it's sidecar where people get the same price we have and things like that. So we're less dependent on the retro market.

But still you could have situations where the prices there are too high, which is a pricing signal to the front. And then we don't write as much. So I think it's more about the strategic establishment of the full machine. And so nobody has the impression that we cannot provide what other reinsurance players are providing to the market. We can actually do the same if necessary.

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

And I just -- I'd reinforce that last point of Christian's. We are not dependent on this market to be able to continue to grow our business. We see the ability to grow faster facilitated by a bigger capability out there. But I think what you see in 2019 is obviously the gross premium is growing very, very strong and net premium is also growing strong, just a little bit of a differentiation between the 2. So I was -- and I apologize, the second?

A - Philippe Brahin {BIO 19081619 <GO>}

The difference on the Solvency II current figure.

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

Yes. So here, I'd say 2 things. One is on the July 1 number, it's both an estimate under the SST regime, a very good estimate. But it's not a full year audited set of numbers. And we probably included a little more leeway in the transitional calculation of our Solvency II. So the point is 241% doesn't equal 260%. 241% is above 260%. And I'd say you should not read anything particular into a closing of the gap from the Solvency II ratio to the SST ratio. Both numbers are lower than they were when we previously -- when we did this the first time. But we're comfortable that we remain on a Solvency II basis above the high end of the range of most of our competitors.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you. Maybe here, Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif, Credit Suisse. On ReAssure, are you waiting for a particular set of conditions or proof of concept. So further deals? Because obviously, there was a hiatus. And there will be more deals before you come back. Question one, I guess.

Question two, can you characterize what you mean in asset management by a moderate decline? Because obviously, there's a decline that we can mathematically try and estimate from the current yield environment or your investment yield and then there's what you do to offset that. So are you going to, for example, half the decline? Or can you give us some idea?

A - Christian Mumenthaler {BIO 6479864 <GO>}

Maybe I'll take the ReAssure question, right? So I can assure you, we are not waiting. So once the North Star is set, obviously you'll look at all your options you have. And these options change over time, right, every quarter. There's different options we have to achieve our goal. And there's no particular need to wait. It could be that the market conditions improve and certain avenues become more attractive. It could also be that we get approached by somebody who's willing to pay the right price, in which case, it's faster. So there's really no need to wait in our minds, right? This is a goal we have set ourselves. And we'll execute when it makes sense for shareholders.

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

I would say the -- our ability to transact on the Quilter deal in the second -- in the autumn of this year, I think, explain to the market a capability that we have to continue to find attractively priced opportunities to bring onto this book of business. It was one of the questions around the IPO. Is there a pipeline and can we execute across our pipeline? And that transaction itself, I think, reinforce the view that the answer to both those is yes. The other thing we did say publicly is we weren't going to start the IPO process until 2020. I think we can safely confirm that.

A - Guido Farer

Okay. Maybe addressing the yield question which you raised. We have official forecast, again, done by the colleagues, Nestor Ray, chief economist. He believes that rates will stay be low for longer. He assumes 1.4% until year-end and not much higher for the next few years. And it's also linked to global growth outlook. I think -- I only see downward revision, whatever you look, with OECD, IMF, whatever. That means we can expect lower growth. We have uncertainty, which we all know, which I don't need to mention. That's why the environment is different. And you still see very accommodative Central Bank policy.

The good thing is some recognition. It can't be the only game in town. It has some side benefit, which can be costly. That's why I think there's some reluctance to take rates much lower. But I think we have to get used that the levels which we see here will not disappear soon. And that means, from a long-term perspective, I have to be even more careful in portfolio turnover. That's why what I referred before, which is a true differentiator in our balance sheet, is even more valuable.

We try to compensate it a bit through growing in private markets. And the reason why I showed you the slides is to also give you comfort that we'll not just grow for the sake of growth. We do it very bespoke, very careful. For us, if we deploy capital in those markets, we know it's illiquid. Secondly, most of the things are long term. That's why we want to lock in yields which are attractive, always on a relative pace.

Of course, five years ago, it was more attractive. But if you look where our government bond is and most likely will stay, the private market capability is a key piece. And what I showed you shows we can really differentiate and can capture some of the yield, which is otherwise not possible. And it's done by Swiss Re. This is not that we invest into existing funds. It's done by the own team. This should mitigate the low-yield environment. And again, the main impact comes through the denominator effect, which we described before.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Next question, maybe Ivan.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

All right. Ivan Bokhmat both from Barclays. I've got 2 questions. The first one would be on the interplay between your investment yield and the pricing you're getting on the P&C Re side. Just wondering, with the lower level of rates -- lower level of yields, do you feel that the rate you're getting offsets that pressure? And if not, how much more rate you need? Putting this in context, you have been able to produce $1.2 billion of EVM profit in 2015. How much further do we need to get back there?

Then the second question is on the buyback. From the discussions with investors you've been having over the past few months, it's become clear that the $1 billion buyback is being viewed more and more as an ordinary buyback as opposed to the $1 billion that was canceled at special. I know that you may not agree with this assessment. But I'm just wondering if you would put some more of your framework around it and how much you could possibly tolerate having the payout externally higher than what you generate internally from dividends from business units.

A - Christian Mumenthaler {BIO 6479864 <GO>}

I think I'll take the first question, right, since I'm probably closest to the business. So the way it works in the P&C underwriting universe is that everybody who writes a piece of business does so in these EVM terms. So discounted cash flow terms. And the discount is the so-called TPF rate, right, the transfer price of fund. And that's a risk-free rate and it's set before the renewal. It's actually up -- it's actually reset several times a year.

And if it changes a lot, even more frequently. So it means the practical challenge is, somebody who's writing longer tail lines of business, when they look at the same piece of business, with the new TPF curve, if that person gets the same price, it's going to be a significant hit on the EVM compared to what they had last year, right? So -- and that's mostly for the longer tail of line. It's not for nat cat or so. But for casualty, that will be, for example, a big issue.

So starting in Monte Carlo, we have started to communicate with all clients that lower rates means higher nominal prices just to compensate, right, just to get to the same expected EVM profit. So some fully understand, some maybe don't. Some pretend not to understand. So it's the usual, I guess, negotiation because the nominal rates still play a role, right, psychologically for people. But the decisive thing is that nobody will be motivated in our troops to write something at negative EVM.

So the pressure will be entirely there. And if clients don't come in with the right increases, we're going to write less of the business. That's going to be the consequence of this framework. So at least, I think, we always have a rational view around that. But you're absolutely right, that psychologically, people struggle much more with this direction than the other one. I think in the other one, we got some tailwinds because people felt that paying the same price is good where economic profit had increased. Yes.

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

And maybe with respect to the question on the buyback. The -- you're right to identify that we didn't think about the second tranche of the 2019 buyback different than the first tranche. And we were explicit in saying it would depend on the excess capital in the second half of this year. And 2 of the important dimensions of that excess capital are going to be, in the first case, the success or nonsuccess of reducing our stake in the ReAssure business -- and secondly, the benignness or non-benignness of the nat cat season. So on both of those cases, we found we didn't get what we thought was the adequate pricing for the ReAssure transaction in the summer. We -- the cash did not come in the door. And secondly, I think it's fair to say that this year's nat cat season, while not terrible, has been robust. And it's delivering losses in -- also through the Fourth Quarter.

We've separated the capital returns to shareholders into the ordinary dividend and the share buyback. That share buyback, or previously the special dividends, have been an important part of moving us down towards our target capitalization on an SST basis. And as I said, when we close the year and have our final accounts both under EVM and U.S. GAAP, we'll evaluate our ability to deliver capital to shareholders in multiple forms. So I don't think you should read across that by not doing the second tranche, that it has necessarily implications for future capital actions other than we've got $1 billion more than we otherwise would have had.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you. Heather?

Q - Unidentified Participant

So just following up on the ReAssure question. You've been clear that you won't be a forced seller of it. But do you think about potential use of proceeds of any transaction? For example, what's your strategic thinking on, for example, growing in the U.S. specialty lines, property casualty market or doing other transactions with the proceeds? How -- what's the big picture view that you take on what you could do with those proceeds?

A - Christian Mumenthaler {BIO 6479864 <GO>}

M&A, right? You're talking about M&A?

Q - Unidentified Participant

Yes, M&A.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yes. Because, I mean, investing in the business, we have done this year. As you know, about $2 billion, we invested in the business. So that's not M&A. I think it will be highly unlikely to link it one on one to a transaction, right, how do you get the timing right and everything at the same stage. So I think we focus on ReAssure on its own. And then once we have the proceeds, we can think what's the most appropriate way to use them. M&A, generally, I think within reinsurance, it's hard to see anything strategic. So you could only do something if the prices are extremely low. And it would -- typically, you have some significant dis-synergies, right, on the business side. You would have huge synergies on the capital side and on the cost side. But it's not the -- certainly, in the current environment with the prices where they are, it doesn't seem like an attractive proposition.

Corporate Solutions, we have done bolt-on acquisitions all the way through. It's hard to see something big and exciting that will completely fit and add something strategic to Corporate Solutions. There's just a limited number of available targets at this stage. But if there's ever something that completely makes sense, we'd consider that. Then in Life Capital, I think if we find something that makes sense, that adds to the digital businesses, we would absolutely consider that. But again, I don't think you need to think in terms of automatic redeployment into something, yes?

A - Philippe Brahin {BIO 19081619 <GO>}

Maybe Heather, if you pass the microphone to Sami behind you. Thank you.

Q - Sami Taipalus {BIO 17452234 <GO>}

Sami Taipalus from Goldman Sachs. My first question is on capital management. All your communication around capital management is based effectively on the economic view of capital. But if you look at that, you're still in a very strong position both on stock with significant excess capital and flow. So above $4 billion of annual capital generation on average. So it's very difficult to reconcile that with the fact that you couldn't execute on the second buyback this year. And I appreciate there was obviously some specific things you would link to that. But it's still hard to see why not. So I'm interested to know what is actually the binding -- or sorry, the constraining factor on your capital management. Is it rating agent capital? Is it debt leverage? I guess it must be something else.

Then the second question is on R&D and underwriting culture. I read a very interesting paper recently from your APAC colleagues about typhoon risk and the fact that the market models on the typhoon risk significantly underestimate the risk versus historical averages, which surprised me a little bit given that you're the largest writer of cat reinsurance in Japan and that you've grown this peril quite a lot in the last couple of years. So I'm wondering, are you fully integrating what you're generating in terms of your research into the business? And are you giving your local underwriters enough sort of, I guess, authority to take their own decisions?

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

So let me answer the first one. And then we'll figure out the response for the second. I'd actually probably change your question. It wasn't that we couldn't do the second tranche. We chose not to. And I think that's an important difference. What we saw was an environment where. And the first slide that I presented, the macroeconomic conditions remain uncertain. I think there's an election coming up in this country. There's an election coming up in the United States. There's a trade war, which is either going to go ballistic or moderate. But I don't think anybody has a good view of which of those 2 is more likely. And in that context, moving into the second half of this year and early next year with a very powerful capital position seem to be in our relative interest. And that's where we are.

There are multiple dimensions which we look at. Regulatory capital is one of them. The rating agencies is a second. Overall liquidity, a third. I've mentioned how far we've deleveraged the balance sheet, the access that we have for contingent capital at our call. So I'd say our goal is, over time, to maintain this very robust balance sheet and evaluate on a -- at any point of time, how much true excess we have that we're prepared to redeliver to the shareholders. So I'm not -- I don't think you should view that there's some secret hidden we don't tell you, constraint on us. So I think we've been reasonably transparent when we say our target is 220%. We've got a glide path in that direction. We remained at July 1 well above it. And the economic earnings are massively important to us. We think they will derive GAAP earnings over time, especially out of the Life & Health portfolio but not only. And so the value we're building up there, we'll earn out in our GAAP results.

A - Christian Mumenthaler {BIO 6479864 <GO>}

I think we have been extremely clear and consistent, right, on this second buyback. We were last year looking at towards end-year of 280% in the SST ratio, which -- that was Q3, I think, which is definitely too high. And when we projected going forward, it could have gone above 300%, right? So that's where I asked the Board we need a second buyback just in case some of these conditions are fulfilled. And I think they clearly were not fulfilled. I already see that were going down towards this gliding path that John said. So to me, the second buyback was, I think, was very clear what kind of conditionality we had around that. But as John said, it's not that we can't do it. It's just we chose not to. Yes.

I think on the typhoon risk, it makes much more sense to have Edi, right, to -- I mean, if you can pass the mic maybe, our Chief Underwriting Officer, Edi Schmid.

A - Edouard Schmid {BIO 18942809 <GO>}

Oops. Hard to get out of these seats. So on typhoon Japanese risk. First one, you kind of hinted that the local team may not have done a proper job and to say the nat cat business is written in a very, let's say, robust framework. So the models have to be used on the ground there that are calibrated on the group level. And also, when it comes to the authority levels, all the bigger transactions, they would be referred up to a very senior level. There's a lot of controls around how we write that business.

Then obviously, it's important to point out that nat cat models, we have significant expertise over many decades. But these models are not perfect. And whenever we have significant events, we obviously take all the learnings and adjust the models. And that's what we're doing right now. So reviewing viewing all the evidence from a scientific perspective, including things like climate change. But also the claims strengths, we then calibrate these models. And not just for the last few years. But we also go back many decades. And clearly, we think, at this point, it's fair to say that the Japanese typhoon risk has been rather underestimated.

I would not say that we see something like a significant climate change impact. If you look at typhoon frequency over maybe 100 years, you don't see a trend. You see certain cycles of increased activity. And we're maybe now again in a phase where you see a bit more typhoons going to Japan. But it's important to point out, every year, there's 10 to 15 typhoons reaching the Japanese mainland. And some of them obviously hit densely populated areas, like last year, Jebi in Osaka.

And now this year in Tokyo. But clearly, the markets, also with the competitive pressure and how some of the players use the models, they obviously tend to present a bit of an optimistic view of risk and really try to step back and look at all the scientific evidence, all the last experience. And at any point in time, come up with the best view of this risk. And all we can see at this point, there -- clearly, there's underestimation. And we'll push a lot obviously then to make sure that we get compensated for the appropriate level of risk also in Japan.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Edi. James, in the back.

Q - James Austin Shuck {BIO 3680082 <GO>}

So James Shuck from Citi. Both of my questions are really around the capital generation. So the EVM, you gave us a slide that showed an average across the period of $4 billion or so. Obviously, that's been impacted by a high level of nat cats in that period and various other things. You have an expected generation that you would think one year in advance will come through. And it's really that number I want to get at. Are you saying $4 billion is the expected EVM generation under normal environment scenarios?

Then secondly, kind of linked to that, what's the cash conversion on the EVM that you expect? Life and Health Re, in particular, it looks like only a dividend of about $500 million is paid up. But the EVM is obviously much stronger than that.

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

Yes. So on the -- I think if you reach back into the 2018 full year annual report documentation, we gave a fairly explicit discussion about EVM generation. And the number that was there, I believe, is $3.4 billion of something that looks to be a, with the current book of business, a sustainable number for this business. And so while we didn't make a prediction or forecast, I think that's the number that we have explicitly said is a relevant starting point when you think about capital generation for us.

The economic earnings we've gotten today is the -- includes a number of very good years for us. And we've got no reason to think that we don't rebound to that. But the -- there will be some variations because of our nat cat portfolio over to what, in any one year, we actually deliver. One of the things I tried to explain in the chart I showed was the unlocking of the capital in the existing book of business will continue a pace. And so it's the new business component which will show some variations.

The other thing that was not on that slide was a -- over that period, we're talking about from '13 to the first half of '19, Guido and his team actually delivered another $400 million per annum outperformance on the investment side. And that will get to, if you went through and added the numbers, you get to $3.8 billion across the top. And the $4.2 billion is the number that we've shown for the average for the period. So I think net-net, we're comfortable with a very strong economic performance of the business that we have. And again, we won't make a forecast. But that, I think, triangulates in.

Your second question is, well, when does that show up in U.S. GAAP earnings and cash? It depends dramatically by line of business and by the activities, where we are growing. But I think you do see, because of the nature of the risks in the Life & Health business we write on morbidity and mortality, some of the contracts are long-dated contracts. But the savings risks are not there and you would expect profit recognition on the U.S. GAAP basis with some certainty and timeliness. So I think the Life & Health businesses needed new capital for its expansion. That's affected the dividend capacity. But I'm confident of the earnings that we've got embedded in this business. And we'll continue to deliver a strong performance over the next years.

Q - James Austin Shuck {BIO 3680082 <GO>}

If you don't mind me just following up on that. So the -- if $3.4 billion is the expected EVM in one period, leaving aside investment outperformance or underperformance, the special dividend cost $1 billion, the ordinary dividend $1.7 billion. So that's $2.7 billion. Of that $3.4 billion, not all of that can be cash upstreams. I mean Life Capital looks like it's about 50% of the EVM. So on free cash flow, it looks like you're distributing nearly everything. Would you disagree with that?

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

I think in the context of 2017, which was, as Christian mentioned, the largest nat cat year ever. And '18 to a lesser degree, we've been distributing a considerable amount of it. I think in a normal year, we believe we've got a very comfortable cover.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Thank you. Jonny from UBS.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Jonny Urwin, UBS. Just one question around volatility. So obviously, we've had 3 choppy years driven by losses. But my main question, has there been any change in your appetite for the net risk that you take relative to peers? It doesn't sound like -- it sounds like you're more interested in rebalancing away from peak to nonpeak. But any comments there would be great.

A - Christian Mumenthaler {BIO 6479864 <GO>}

No. I think -- well, we get a section with Edi Schmid. But our belief is that this is a field that makes sense, that is understood by our shareholder, that has delivered good returns overall over time. And so we're not afraid of the volatility. I mean the returns can only come if you're able and willing to take some of that volatility. So clearly, volatility is increasing with the amount of nat cat we're taking. If you look at our share price reaction -- or the reaction by investors with large nat cat losses, I think that would strengthen my view that this is a good line of business. Generally, people understand that every event is NPV-positive more or less for Swiss Re if you stay in, right? And you get compensated over time. So I think clearly, compared to other lines of business, this is one of the most compelling ones. Yes.

A - Philippe Brahin {BIO 19081619 <GO>}

Ed, you're next.

Q - Edward Morris {BIO 16274236 <GO>}

Two questions. Firstly, just interested in your view on where you think we are in the point in the cycle. So your 2 central group targets are on an over-the-cycle basis. Obviously, you've had quite a difficult few years. I remember the Swiss Re Institute. Just over a year ago, I think, it was saying that you didn't think the industry was meeting its cost of capital. Clearly, pricing has been improving in some business lines. Do you think, based on where we are today at the current point in the cycle, you can hit these 2 group targets?

The second question relates to some press articles a few weeks ago regarding a potential banker shareholder taking a stake in Swiss Re. Just wondering how you think about things like that. Are there anything that you sort of -- do you see it as being something that potentially could be positive for Swiss Re? And how do you make sure existing shareholders are not disadvantaged by anything like that?

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

So the -- I'll take the second one.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yes. Okay.

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

The -- look, I think the Bloomberg article you referred to talked specifically about a potential investment in and around the Chinese company, CPIC. We put out our own press release saying, yes, there have been some preliminary discussions about us potentially making an investment into this company, preliminary and not in any way confirmed. There was a second part of the Bloomberg article which we didn't comment on because frankly, it's not our business to comment on, that suggested that CPIC might be interested in investing in Swiss Re shares as well. I think for anybody that wants to invest in Swiss Re shares, in general, we welcome. We think it's good value for -- at current price levels. And what I would say is we don't -- we haven't been in any specific strategic discussions as a core shareholder and our stock that would require any special treatment or behavior. So I don't think we're disadvantaging in any way the existing shareholders.

And we would be very cautious before engaging in any sorts of agreements with outside investors to do that. You'd be keenly aware that 1.5 years ago, we were in certain discussions with SoftBank, where the nature of shareholding might have looked a little different. And there, the leadership of the company decided it was not in our interest to have any -- to have SoftBank as a major shareholder at whatever conditions they might have been looking for.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Yes. On the targets, right, it's a question of probability. Can we reach a certain probability? Because there's so much volatility, you can, although it's a bad year, reach it. But just with a lower probability. So I think we can currently if we look at 2020. But the tightest one is clearly the ROE one, which is more challenging. Reinsurance has no problem at all, right, to achieve that. So it's more a question of all the other things, which you, I guess, you see us very proactive on other fronts.

So one front is the excess capital, which I think we have been successful in deploying. But that makes it harder. And the other one is ReAssure, a big block with low ROE, more or less locked in, in a low-interest rate environment. That's 2 very big blocks. I think CorSo is a smaller block of equity and it can be fixed within this 2-year framework. And that is less than two years now. So I think the overall makes it harder. And you need to work on these 2 pieces, right?

A - Philippe Brahin {BIO 19081619 <GO>}

So next question? Sure, Michael.

Q - Unidentified Participant

Two questions on ACP. First question, you sourced $900 million alternative capital, you mentioned in the presentation. Can you give us an overall or comprehensive overview of your alternative capital? So how much you have in cat bonds, how much is capital you have in sidecars, maybe it's part of Edi's presentation, then forget about the question. And also the structure of your retro protection.

Second question, on your motivation to buy retro protection. Apparently, your P&L seems to be more volatile than the P&L of peers. Maybe this goes along with your philosophy of being the ultimate risk -- the residual risk taker. But do you buy retro for limiting your overall risk exposure or just for steering? Or do you also see a component of arbitrage in buying retro protection?

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

So to your last question, I think we can safely say that over the years, the purchasing of retro protection has systematically been a positive event for us, that our ability to generate adequate pricing on the front end has been able to allow us to make these placements at reasonable covers. I can take you on the slide deck, on Page 89, in the appendix, we've got a little bit of additional information with respect to the sidecar platform. And there, you can see the relative growth of the sidecar between 2018 and 2019.

Which explains the majority of that $900 million increase but not all of it. And when Edi comes back, he'll be able to talk a little bit more about it, if that's okay.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Maybe we'll take the last question?

A - Christian Mumenthaler {BIO 6479864 <GO>}

Sure. Andrew.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

It's Andrew Ritchie from Autonomous. Firstly, for John, in your leverage calculations, you always include the subordinated debt that has been funded but not drawn down but that's now included in your SST ratio. But I guess it's a bit harsh if that's how -- you include it as leverage even though it's not actually being used. What -- under what circumstances would you use it or draw it down in SST? I guess I'm asking, would it be used for sort of funding general growth? Or is this a really sort of last resort kind of facility? And obviously, you could actually issue new debt cheaper than that facility because I think it was issued when spreads were a lot higher. So I'm just curious as to why -- how you would like us to think about that facility and why you treat it in leverage. But you don't actually use it.

The second question for Christian, when do you think about reviewing the risk-free -- this is the ROE target. Because I think one could argue -- I mean you have met it over 20 years. I think, Swiss Re has done about 700, 670 basis points over 10-year risk-free ROE. It's been challenging recently. But you -- the business is becoming a bit less capital-intensive by your own admission. You're saying capital is less relevant. ReAssure, you don't want to own all of. You're happy to use more third-party capital. You're also flagging more volatility. So 700 basis points, frankly, enough as a compensation for that. When would you review that target?

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

So I'll answer the first one. The CHF 2.7 billion is not last resort funding. It's there precisely to make it relatively simple for us to achieve it. I do think where there's some other contingent capital positions with other triggers, which are not included in that number, I'd also say that we do have ability, as we've shown this year, to access the market in ways that is well received by the debt investors.

So the fact that we don't include this in the SST calculation probably has some historical roots to it. It doesn't mean that it's not secure. It just means that it's in addition to the in-place accessed funding. And whether we should rethink that or not, fair comment. I don't see any necessary trigger to change the categorization. But one of the reasons we put it out there explicitly is to let everyone know that we do have that access.

What it would take to utilize it, I think, in the context of either something specific within business units in terms of important new opportunities for organic growth, in the first case, where the pricing environment makes us believe that upping the leverage modestly could be justified in supporting that growth. Then frankly, if the 100 -- and 200-year storm really does hit and we see an environment where pricing would become massively different than it is today, we're prepared to move into it, I think, with a certain level of controlled aggression, if that's the right word. And take advantage of those situations. And here's CHF 2.7 billion sitting on the sideline that we can deploy.

A - Christian Mumenthaler {BIO 6479864 <GO>}

On the ROE target, I guess, this is the first time I hear that question in the last few years. So it's refreshing because most of the time, people ask me how we're going to reach the current targets. So thank you for looking past the last three years over the longer period, because I think it makes a lot of -- your question makes a lot of sense if you think about the longer term. Clearly, the current target is challenging. We also have the U.S. risk-free rate, right, not the average or something. We have half of our business not the U.S.. And we have some significantly lower interest rates in some other parts.

I think the question will come on the -- I mean the question will come up on our table once we achieve it, right? I think you should set targets where we have a plan. I don't want to set the target where we don't have visibility through that. So I guess, the first goal will be to achieve comfortably, hopefully, the 700 plus. And then we can discuss about that. So I hope you're right that we will start to discuss that at some stage. But it's not imminent.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. So we've come to the end of our first Q&A session. Thank you very much. I know we had some questions online. So I think the IR team will follow up, if we have not actually answered these questions. Right now, we will be back at 1:30 for lunch. And lunch is right behind us in the room where -- when you arrive there today. Thank you. Thank you, John, Chris and Guido.

Break

Visit some of the booth we organized for you today. It's my pleasure to introduce Moses for the Reinsurance session. Thank you. Thank you, Moses.

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

Thanks, Philippe. Good afternoon. So together with Edi, we'll cover Reinsurance for this segment. I'll take a little time to cover the context in which the business operates and some of the things we're trying to do in Reinsurance to ensure that we're the winners in this space, while Edi covers in greater detail portfolio steering, with a focus on nat cats as well as the casualty business.

So similar slide to what Christian showed all of you, the 3 key assets in terms of how we look at it. For us in Reinsurance, we look at them as what drives the differentiation that we're able to generate as a business. So if I take client access, our footprint is extensive. But beyond just the issue of the footprint is the access to that

(technical difficulty)

information about their needs. And you're then able to try and find a way to match those needs. So it's a critical part of what we do.

On the risk knowledge side, focus clearly on what we apply, making sure that the knowledge that we have, we convert that into what we do in the underlying portfolio but also apply that in terms of trying to serve the needs of our clients.

I think enough has been said about capital. I just want to underline from our standpoint, capital still remains relevant because in a number of the transactions that we have to deal with, while others may have capital, the scale of the capital or the size of your balance sheet still matters and gives you access to

(technical difficulty)

still a real factor. And I think applying those things over the last five years within the Reinsurance franchise, we saw a look at our return for the reinsurance business alone, measuring it in terms of the ROE as well as the capital that's repatriated. When you look at capital repatriation in John's slide, you could see Reinsurance has repatriated over $11 billion to Group and ROE is also market-leading from a reinsurance standpoint in the midst of 2 of the worst nat cat years that the P&C market has experienced.

And on the Life & Health side, most of the outperformance comes from the underwriting side and not from the investment side, driven again by knowledge and the discipline that we exercise when we prosecute business on the Life & Health side of our business.

But the industry is clearly changing. In side bars during launch, one of you also raised this point up around access cycle management and the ability to deploy capital. Advantages came from those 2 things, primarily if you take the last 10 years. But the reality of the matter is we're in an environment that's changing. And I think the chart on the left-hand side simply shows that to you. You look at the amount of capital that come in over the last 25 years, especially the

(technical difficulty)

change. Now 2 things to say about that. One, I don't think the capital has come in only because it's seeking returns. I think part of the capital has come in also because exposure continues to grow. So I think that's something that we should keep in mind when we look at the Reinsurance business. And in that environment, buyers are much more cost-conscious in terms of what they are willing to pay for reinsurance. And also an environment where you see technology beginning to have a more prominent role in the entire value chain and how you deploy that.

And our view is that for the future, the winners will be who are able to actually deploy technology much better and in a very innovative way and come up with alternate sources of income rather than just providing capacity alone. And in the core of the business, which is much more competitive, clearly, efficiency becomes much more important as well. And there, scale clearly gives you also an element of advantage.

So taking the prevailing business environment into consideration, we've sort of like developed, we showed this to you last year, our strategic framework, which has 3 main pillars around it. The core of the business, which is the most competitive part. And you'd say even certain parts of it are commoditized, where in our view, the main thing that matters in this space is your ability to actually have presence and have the right scale. I mean selecting the right risk and pricing is important. But scale and presence is important as well as the brand that you develop.

But also in the transaction space, we spent some time talking about transactions, the way you structure the risk or tailor them in multiple ways. The number of competitors you face in this space is different, a different set of competitors altogether. And what makes you win is your ability to actually execute in this particular space as well as the size of your balance sheet. The execution piece, I'll come back to you a little bit later because that's an important point to point out on transactions.

And on solutions, which is where we try to come alongside our clients and help them in their -- in the actual business, the original business, as we will refer to it. You face competition that are traditional and also nontraditional competitors as well. So the professional services firms, some of the technology firms, some of the consulting firms, you compete against them. And in our view, your ability to actually take part of the risk. So joint risk sharing stands us apart as well as the significant amount of work we do on the knowledge side and applying technology -- technological advancements.

So when we take all of that and we have a view of where we want to take the portfolio for Reinsurance over the midterm, our clear expectation and clear view is that we can grow the portfolio. And growing the portfolio also includes growing the profits in the business in a way that rebalances the entire portfolio. If you look at it across those 3 strategic pillars, the clear goal is we want to grow all 3 of them. But more growth will come from solutions and from transactions but also growing the core part of the portfolio

(technical difficulty)

different lines of business. We also seek to have balance in that portfolio over the midterm. So this is the road map that we are working towards as a business unit.

But the growth that we're trying to grow is not just growth for the sake of growing only. We have a fairly tight framework that we work within. I present a simplistic version here. Edi will go into far greater detail on 2 components of it. But we look at the portfolio and look at where -- which parts of the portfolio do we want to grow, which parts we're trying to seek far greater profitability in and where do we want to also reduce potentially exposure.

Here, we map the main 8 sublines that we have. But in reality and in practice, there's far greater granularity to what we handle. So if you take for example, the specialty line. Within specialty, you'll have aviation, you have marine, you have engineering, you have agriculture, you have credit and surety. Or if you take a motor, you have commercial motor, you have personal auto. Or you take liability, there's general liability, there's products liability, whether it's primary or whether it's excess and across all lines of business, whether you're writing on a proportional basis or non-proportional. Then you also overlay on top of that the geographical component.

So it's not exactly the same thing for each geography. And within geographies itself, you have countries that have significant weightage. So agriculture in France versus agriculture in Brazil. So while the main line maybe grow our profits, sublines may have completely different indications in terms of where we want to take the portfolio. So that's the level of granularity that we apply to try and determine exactly where we should be deploying capital within the Reinsurance business.

And when we look at the short to midterm, the table to the left-hand side just gives you a sense of where we expect our portfolio to move towards. So the 8 main lines, looking at pricing and our view of what we're trying to achieve from a pricing standpoint and exposure in certain areas we're looking to reduce exposure, which then gives you an overall sense of what will happen with the premiums by the period of time that we're talking about and implied also what happens to profitability.

And you can look at a line like motor, where we expect pricing to go up but we are looking to reduce exposure. But premium increases. And the reason premium increases is the underlying pricing that we expect to generate is far higher than what you expect to shrink in terms of the exposure. That's why you still see a situation where premium rises in the line of business where you are reducing exposure.

And now coming to the 3 pillars and looking at the core of our business. Generally, I think as Christian mentioned, we tend to look at this from an EVM standpoint. But we also look at it from a U.S. GAAP standpoint and a measure of profitability for us is a combined ratio. And when we look at the P&C portfolio over a certain period of time, we've spent most of our time focusing on the risk selection side as well as making sure that we have the right pricing relative to the risk that we actually take. That's been where we focused on for the most part.

But more recently, we begin to also look at the other component of your combined ratio, which is the expense ratio. And focusing on how we reduce the expense ratio through 2 levels primarily. One, simply reducing the expenses that we allocate to business, looking at resources and figuring out whether the resources are generating the right returns or not. And the other is growing the portfolio as well. And we gave 2 examples by growing the P&C portfolio by 10percentage points, we reduced the combined ratio by 0.5percentage point. If we grow the nat cat portfolio by 10percentage points, we reduced the combined ratio by 30 basis points. Most of that's driven by the lower loss ratio that you see in nat cat.

But you see clearly an improved combined ratio trend over the last three years for the P&C portfolio. And our plans moving forward is claim to also continue to see that combined ratio decrease. We'll give you the numbers for 2018, I think, usually in February, when we have -- we've gone through our January 1 renewals.

Then going to Life & Health, where we've continued to grow. And we've continued to diversify that portfolio nicely. And the chart shows mostly the value of new business that we've generated in the Life & Health business. And you can see across all geographies, okay, Asia shows clearly a more prominent growth over the last five years. But you also see that we continue to generate new business, EVM profit from new business in EMEA as well as in the Americas as well, which leads to a situation where you see the value of new business almost double over the last five years in terms of what we've been able to generate with still the majority of that coming from Life and not Health.

Health clearly beginning to grow as we grow the portfolio in Asia far more. But mostly still on the Life side. And in John's slide, he showed you something similar, where we saw --

like look at the release of capital cost from the in-force portfolio, which helps grow the balance sheet of the Life & Health business. And the combination of that as well as what we do on the new business ultimately creates a far greater economic net worth in the Life & Health portfolio. And our expectation is we will continue to grow that moving forward as well.

Then on the transaction side, demand drivers for us from everything that we can see into the midterm continue to be in place. So we don't see any reason for demands to abate.

Some of those main drivers are what's happening on the accounting standard side as well as from the regulatory standpoint, what statutorily most regulators are expecting life companies to do. And also what other stakeholders, primarily shareholders, are expecting in terms of the efficiency of utilization of capital as well as trying to find ways to reduce volatility ultimately in earnings. But beyond that, we also have management teams generally who are trying to change the profile of earnings that they have in their portfolio. And that's another major reason why we see transactions coming through.

And our experience in this space puts us in a really good position. I think the access we have again to the C-suite because most of the decisions around transactions for most companies comes from the C-suite. And the access we have gives us access to the C-suite. They give us a good sense of what they want to be able to do. And we find a way to partner with them, utilizing, again, the strength of the balance sheet that we have as well as the knowledge.

Execution certainty is very important when you deal with large transactions because most of your counterparties want to know whether you've done it before. They want to know whether you've gone to the regulator. And the regulator knows the structure that you're trying to put in place and will approve it or not approve it. So all these things matter when you're trying to do a large transaction.

And I think the last five years, the track record also shows it's a bit lumpy. But unmistakably, you see that the revenues that we generate in terms of the cost value of new business that we see is actually increasing in the last transaction space with a large proportion of that coming from Life & Health because they are much larger in terms of the size of the transactions that we see on the Life & Health side.

I think -- while not on this slide, I think another point I should make is if we just look at the last 10 years, since 2010, the number of large transactions that we've written, we look at what we expected. So what we costed versus what actually happened. The gap between those 2 is negligible from our standpoint in terms of the portfolio separately for Life & Health as well as for P&C. Even though each particular transaction may not be exactly as you expected. But across the portfolio, they're incredibly close in terms of what happened versus what we actually expected.

When we look at 2018 and we deconstruct that, as I mentioned, Life & Health sort of dominates about 60% of the value of new business profits that we see and about 40%

from P&C. And within P&C, the majority of the transactions that we do both in terms of volume as well as in terms of value comes from property and actually not from casualty.

The number of transactions we did in 2018, roughly 200 is probably typical for any single year that we effect transactions. So that's around what we would expect yearly. But I think the main point is we see demand. The drivers are still there, they are not changing. And we will continue to see opportunities for transactions moving forward.

And I come to solutions, which is the newest of the pillars in terms of how we organize them. With us, again, coming back to our clients and trying to help them in the original business and trying to find ways to create long-term partnerships, the nature of the solutions that we put in place, most of them are tech-enabled by major platforms you embed in the processes of the primary company's business, which means they're extremely sticky because you embed them in the process, not so easy to take out. And the nature in which payment that we take being reinsurance, which means we're willing to eat our own cooking, it's not just that we give you the advice and we walk away.

What we say is we actually take the risk alongside you makes us a really strong partner because that alignment of interest is extremely strong. And a number of our -- most of our clients see value in the solutions that we've put in place. And we now see at least 1 in 4 clients using at least 1 of the solutions that we have put in place. And we expect that, that proportion will continue to grow.

The main reasons for stuff like coming to us to try and put in place solutions are driven by basic things: trying to improve growth, trying to improve profitability of existing portfolios. And I will go through the 2 live examples on the profitability piece. But on the growth piece, it's simply new products, new distribution. If we look at metrics, for instance, whether it's flawed in the U.S. in terms of the products we've developed, the rating engines, which we embed in our client system. Or if we look at earthquake in China, we continue to develop solutions that help our clients. Or telematics, trying to access a group of drivers who are uninsurable [ph] today.

But they want to be able to insure them in a way that does not destroy the loss ratio, we partner with them to bring telematics solutions in place. Then iptiQ, working with our sister company. Thierry will spend a lot of time talking about iptiQ.

But the end-to-end platform that they've developed, digital platform, a lot of our customers, clients, see this of tremendous value because they have either legacy systems or they don't quite have the knowledge or they don't have the investments to be able to put in place to create that sort of product for themselves. They partner with us to be able to gain the capabilities. And in return, we generate new business profit as well as premiums from our clients.

The efficiency piece, Magnum, you're familiar with as well as Swiss Re. It's probably the equivalent of Magnum on the single-risk P&C side where we help our clients in terms of underwriting risk on an automated basis. And you can almost say even though I put it on the efficiency. I mean it's much broader than that. It's sort of like modernizing some of their business and in a lot of cases, also helping them grow as well as helping them improve profitability as well.

Behavioral economics. We probably have the -- one of the largest teams in the insurance industry of behavioral economics. And over at last count that I looked at, about 160 use cases, where we try to change the experience of the end consumer using the resources that we have in-house. Whether that's in trying to improve lapse rates or trying to improve take-up rates or trying to improve cross-sell capabilities within an organization, behavioral economies come alongside primary clients.

In the first example, real-life example I give you, which is -- relates to Life & Health customer retention is a real-life example of our client where it's a post-level term. So that gives the geography away to the U.S. where post-level term, the premium increases significantly. And because the premium increases significantly, most clients lapse the policy. In the case of this particular client, the lapse rate was 86%. So within two years, the entire cohort of clients lapse. We came alongside them to look at, one, the risk premiums, define the risk premiums and then we define the curve of premiums in post-level term. And on the basis of that redefinition, we're able to improve the lapse rate from 81% down to 26%. So 55percentage point improvement, which generates $36 million for the client in this case. And because we reinsure a large proportion of that treaty, the value to Swiss Re is $29 million.

On the P&C data analytics side, the client with a nonperforming portfolio, loss ratio way too high. Using their data, using our own proprietary data, using models that exist with the data and smart analytics team within Swiss Re, coming up with a combination of risk selection -- new risk selection rules plus changes in the pricing, we're able to improve the loss ratio by 6percentage points. Sales declined $9 million. In this particular case, we were not the reinsurer on that portfolio. But for the work that we did, they ceded a portion of that portfolio to us and it generates $2 million in EVM value to Swiss Re. So those are examples. And we'll continue to do much more of that. It becomes a more important part of the revenues that we generate at Swiss Re.

But I think in conclusion, I think the franchise from a reinsurance standpoint has a strong track record of delivering results. To Andrew's point a little bit earlier, while we haven't changed the 700 basis points, we still commit to the targets that we have for both Life & Health and P&C. Even though risk-free is clearly less and will not necessarily arrive at those numbers, we still arrive by the 10 to 15 for P&C and 10 to 12 for Life & Health. And we recognize clearly that the environment is changing. We've retold our strategy to ensure that we succeed in this particular environment with the respective pillars. That then allows us to grow. And in growing P&C, we get a scaling effect, which improves our combined ratio. And for Life & Health, we just -- we expect it to continue to deliver the exact way that is delivered until now.

And so I'll invite Edi to come up and spend a little bit more time talking about steering the portfolio itself and also greater detail in nat cat and casualty. Edi?

A - Edouard Schmid {BIO 18942809 <GO>}

Thank you, Moses. Good afternoon. Welcome also from my side. As Moses already explained, we run a quite decisive portfolio management approach actually across the group, also within Reinsurance. I will dig deeper into 2 key portfolios. On the one hand side, natural catastrophe, a business where we have demonstrated a strong track record and where we believe we can actually continue to grow the contribution to sustainable earnings. And on the other hand side, I will dig into U.S. Casualty, clearly a business that has been more challenged over the last couple of years, which we have put on what we call kind of an exposure management priority already two years ago. So I will show a bit more of what we're doing there.

This kind of triangle, where we actually put every portfolio on a clear priority, whether it's sustainable growth, enhancing profitability margin or addressing risk concerns, we use a lot these days throughout the company, not just in reinsurance, also actually in Corporate Solution. Andreas will later show a bit more of what we're doing in these regards in the Corporate Solutions segment.

But now let's dig into the nat cat business. I mean first, it's important to describe the nat cat risk pool. The Swiss Re Institute estimates we have about $30 billion of reinsurance premium in that space. Obviously, a significant part is North America. But it's spread quite well around the world. If you look back, this has actually been a big growth business. Nat cat business has been growing above GDP, 6% to 6.5% over the last 20 years. And we also think it will continue to grow at significant rates going forward, still above GDP.

And I think there's quite some obvious underlying trends that explain this growth. You have continuous urbanization, you have more dense assets and people in nat cat-exposed areas along the coastlines. You have -- in emerging markets, you have more prosperity. So insurance penetration will go up. I think these are all the reasons why this risk pool is going to grow in the future.

And on the right-hand side, as we have pointed out many times, it has still a huge protection yet out there. Again in '18, 3 quarters of the losses were not insured. And the institute estimates that in total per year, on an expected basis, more than $200 billion of nat cat losses are actually not insured. So that's why we think this is a growing pool where we want to play a leading role in.

This slide show that we have been and are a leading player in this business. It shows our market share on the reinsurance side. We had some 12% on the global business back in 2012, '13, a little bit less for Hurricane North Atlantic because this is a clear peak risk. Then obviously in a very softening market, we reduced our market share to some extent. But again, more recently, '18, '19, we -- we are back at similar levels, close to 12% on the global average and about 11% in Hurricane North Atlantic. On the right-hand side, you also see our portfolio is quite diversified, obviously, 40% in North America. But then we have significant businesses also in the other continents.

I would point out in Hurricane North Atlantic, still in Florida, we are a bit underweight compared to the rest of the U.S. Where we are more overweight is in Japan and in Australia. These are very concentrated markets with both markets dominated by 3 strong ceding companies where we're very well positioned. So that's why we have quite a significant market share there. Obviously, there have been some losses over the last years. But over time, we are also confident in these markets, we can make a decent margin.

Now I think that's a very important slide. So it really compares to the nat cat loss burden we anticipate we cost before we put the business on our balance sheet and then compare to what actually has happened in terms of loss activities. On the left-hand side. So the loss levels per year and the premium and our expected losses and obviously there's significant year-on-year volatility. 2005 Katrina, Rita, Wilma -- 2011 were the earthquakes in Tohoku, Japan. And then Christchurch. Then '17 was the big hurricanes. So a lot of volatility.

But what is important, if we look over a period of time, whether we go 20 years back or 10 years back, the losses we actually anticipate in our cat portfolio match very closely what we actually see. So we think we have a very strong skill to anticipate the loss burden in this business. And that's what we call costing accuracy and it's very important to give us the confidence to grow further in this business.

Now why do we have this strong track record? And I think it's mainly based on a substantial R&D effort we have been putting in for more than 30 years to have the best possible views on the nat cat risk. We have 190-plus models in place. And so different perils, which also shows the broad diversification of this portfolio. We have more than 40 scientists in-house that work on these perils. But we also work with leading scientific institutions outside to make sure we always have the latest scientific evidence. But then of course, we always need to look into what new insights we get from the latest claim events.

We think it's an important competitive advantage to always update these models as quickly as possible. So for example, after the hurricanes in '17, we quickly had some learnings around vulnerability for some occupancies. And already for next renewals, we are ready then with an updated model. And already as we speak, with all the typhoon activity in Japan, we're reviewing also all the evidence, the scientific state-of-the-art plus what we now learned from the claims to again update these models. So we have the best possible view of risk. So these rapid feedback loops are very important to make sure we really reflect the latest state of the art.

Maybe to a question asked earlier. What we have implemented is a very robust framework based on technology across the whole company. So any policy in Corporate Solution, any reinsurance treaty somewhere is run through the same platforms. So these nat cat models are on the cloud these days. Then it will be quite online aggregating up. So we can also manage the capacity and ultimately put it into our group risk model. So we can again determine the capital allocation to these different risks. So this gives us a lot of control and also transparency on the book of business we have in place.

And also linking a bit to the solutions piece, Moses explained more real so use our nat cat proprietary expertise to help our clients. So out of the cloud via an API service, clients can access our cat modeling and write the original policies on that basis and then obviously cede a quota share back to us. So that's really what we think is our competitive advantage in terms of the proprietary knowledge on nat cat.

Now this slide explains a bit why nat cat is such an attractive business for us, for the shareholder. It has a lot to do with diversification. On the left-hand side, we show the return on economic capital of the nat cat business over the last couple of years. And the first thing to point out even at, let's say, a low point in the pricing cycle, '16, '17, this business was still at an attractive level. It has improved again a little bit '18, '19 with increasing prices.

And what we also show here to compare the attractiveness of this business on our balance sheet versus an undiversified player. So let's take a collateralized reinsurer writing the same business as we have. The return on capital would be much lower. And obviously, that has to do with the diversification our balance sheet brings to bear. And the explanation is really given on the right-hand side. We show the individual perils as we call them, Hurricane North Atlantic, California Quake and so forth. And their tail risks.

Now if you put these tail risks together and diversify the contribution of each factor gets much lower. That's what you see with the blue chart. Then obviously, you can add the diversification with other underwriting risks, particularly the Life & Health side, which further reduces the contribution of nat cat. Then in, let's say, as we saw on the test view, you can even then bring in the diversification with financial market risks. And that's what's shown at the bottom there. So there, the nat cat risk actually becomes quite a small contribution to the total risk.

So to give an example, if you look at our peak exposure, Hurricane North Atlantic, if we deploy $1 billion of tail risk capacity, we would only have to back this up with some $100 million. So it shows we have a multiple of 10 in terms of capital efficiency versus an undiversified or under reserved player. I think that's really our efficiency and to bring cat business on our book. Then in addition, I would also point out the strong franchise vis-ï¿½-vis the ceding companies that actually like to have their risk with a reliable partner. And also from a regulatory perspective, I think it's an advantage to have a very solid balance sheet to take on these risks.

Obviously, with the growth in nat cat, also our, what we call the budget, is increasing. So we expect more losses to happen. That's only natural. So last year, we had a budget disclosed about $1.15 billion. For this year, we received more than $1.3 billion. Actually, the budget has grown a bit less than what we call the tail risk or the capital allocation. We have grown quite a bit in what we call the peak perils, particularly Hurricane North Atlantic. So these allocate more capital. So the growth there was even above that level. I think what's important to point out that obviously with the growth in exposure, we grow the premium. And we have grown and will grow the business at, at least the same, I think, even better margins or the absolute level of earnings will continue to grow with this exposure of growth.

Then the question is asked, well, what does this do to our earnings volatility? I think it depends a bit on how you measure volatility. But if you look at the absolute earnings, which will grow versus the volatility of these earnings, the ratio should be about the same. And what I will explain later again is the use of alternative capital partners. It will actually lead to somewhat more diversified portfolio as we grow the whole book. But we cede a bit more to our sort of third-party capital providers for the peak risk. So the overall portfolio will become a bit more diversified. For this year, we actually think the growth in nat cat business will add some $150 million of pretax earnings to our GAAP bottom line.

Now Alternative Capital Partners. As John already alluded to you, we have always been a leading player. We have created insurance-linked securities more than 20 years ago. We may have not been as outspoken as others. But we have used it in the past. But clearly, with the growth, we think it's better to be ready and also have third-party capital to share with them some of our particularly peak risks.

So if you look at a session ratio in terms of tail risk session on the chart, on the left-hand upper side. So last year, we ceded about 13% of this tail risk. This year, it has increased to about 20%. What is very important. And John also mentioned it, we still write most of the business on our own balance sheet. And we want to have close alignment of interest. So we write this business using our client franchise, using our proprietary knowledge and make sure this business is attractive for our own shareholders. But it also is an attractive long-term business for our third-party capital providers. As mentioned before, we cede a bit more of the tail risk that it makes more sense. And we have obviously set some risk tolerance limits. We don't want too much concentration just in one risk factor. So it makes sense for this really outstanding peaks like Hurricane North Atlantic to share a bit more with Alternative Capital Partners.

Then maybe also some comments on what does our hedging portfolio look like. At this point, a significant part is via sidecars. So over many years, we have established relationships with long-term investors, pension funds who have been with us for a long period of time and also continue to be with us after some losses because they also had very good years, obviously, before that.

And the whole hedging portfolio is really designed for quality and sustainability. So we make sure it comes with little basis risk. So it matches closely our incoming business, which is the case with sidecar because it's basically a quota share. But also the other instruments are with little basis risk. And also most of the coverage is collateralized. So we don't want to really replace the underwriting risk with credit risk. So we make sure this is, to a large extent, collateralized. And we will continue to grow this platform with quality and long-term third-party capital. And obviously, in addition to the risk-taking, there will be then some commission. So our partners will pay us a commission to use our franchise and our risk knowledge to bring this business in.

So that's really the nat cat story. And I'll switch now to a more challenged business, to be frank, on the U.S. Casualty market. What I would say at the highest level, the challenges really come from 2 factors. The first one, a very soft market the last few years. And the other one is much more aggressive tort environment in the United States. So on the left-hand side is the commercial rate development in the U.S. The blue line at the bottom is the large commercial risks. And what you can actually see the price level, the rate level '18, '19 is actually close to 1999, which was the worst soft market ever. It just shows that we are at a very low rate level in the commercial -- in the large commercial business.

Then on the right-hand side is really what happened in terms of a more aggressive tort system. So what we show here is the average median verdict value of the 50 largest tort verdicts. And there was a significant increase in these settlements over the last few years. If you really try to understand the underlying factors, there's a lot to do with much more litigation funding. So more aggressive plaintiff lawyers fund it with money going after these cases.

Then on the other hand side, you have a much more, let's say, negative perception of the corporates in the U.S., in the general public, which also influences standard insurers who are very much inclined to decide in favor of the plaintiff and against the corporate. So these are really the underlying factors that explain this increase. And that's really what we call then together social inflation and clearly, something the industry has underestimated over the last couple of years.

As I said, Swiss Re has put U.S. Casualty already on what we call an exposure management priority and improving profitability priority since two years. And we took several actions across the various casualty portfolios. We started to lose appetite for U.S. liability and commercial motor. We also pushed a lot for commission increases. You can actually see that the economic combined ratio improved over the last two years. We also introduced a load in the costing to reflect the increased social inflation when we write the business.

And we started also to monitor the large corporate risk much more closely because that's really the segment most affected by the social inflation. We request detailed policy-level board role from the clients. And we get that in most cases. And we also have developed analytics tools where we can identify large corporate risks. So we understand really what are the most effective pockets of business in our ceding companies portfolios and then we can work actively with them to address these problematic areas. Last but not least, also over the last couple of years, we have reflected these trends in our reserves. So we added close to $1 billion into our U.S. cash reserves over the last couple of years.

Now if you look at our total casualty reinsurance portfolio, it's important to point out that this is quite a diverse pool of businesses, both in terms of geography but also in terms of lines of business. So we write more than $9 billion of casualty business and about $4 billion of that is really U.S. casualty. The rest is Europe, is EMEA. And these are businesses that actually are performing quite well in line with our expectations.

Then if you zoom in a bit more into the U.S. Casualty business. And there is about 1/3 is really U.S. liability but then also you have workers' comp. Under Accident & Health, you have a motor business. So the liability is about 1/3. Then with this analytics tool in the client portal we're also looking at all the limits, we estimate that only about 3% of the business is really exposed to what we call large corporate risks. And that's why we think the most affected business is quite a manageable portion of the total U.S. liability business.

This is obviously the picture on the incoming new business sites. I would also point out maybe to complete that picture, you may have noted and we also disclosed earlier in the year, we grew the liability or the U.S. Casualty business quite a bit into 2019. But it's important that this was very much targeted. So it was regional business with no ancillary exposure. And also it was some transactions mainly around small and medium-sized enterprises. Very low limits, first dollar coverage, which is very much a short duration and then much more predictable. So we clearly have kept a very careful stance on the large corporate liability risk.

So now turning more to the reserve side. So we have, again, also on the reserve side, quite a diversified pool of reserves. For Casualty business and Reinsurance in totality, year-end '18, it's $28 billion of reserves. And about $14 billion of that relates to U.S. casualty. Again, then you can break this down to different lines of business. Accident & Health actually has performed rather favorably. More recently, motor, we had some issues a couple of years ago, which we took decisive actions on. Then if you look more closely into U.S. liability, the $8 billion reserve base, within that, we estimate that about $1.5 billion is exposed to what we call the large corporate risk business. So also in that respect, the business most exposed to social inflation is quite a manageable part of our total reserve book.

Now we explained our reserving approach. In many occasions in the past, it's really robust bottom-up around all the reserving portfolios. There's very close feedback loops with underwriting with the claims teams. So we really make sure we always reflect the latest trends we see in the various portfolios. What I show on the left-hand side here is a chart on our initial loss picks on the reserving side for U.S. liability basis. And what we can see that our loss picks, compared to what the industry reserve, that has always been a little bit higher, which shows that we have been proactive in reflecting some of these trends. In some of the liability portfolios in the U.S., the reserving actuaries actually put the loss peak some 10 points ahead of the initial costing peak, again, to reflect some of these developments.

Now on the right-hand side, again, what we show is the total casual reserves where still from an actuarial control perspective, is this additional view on the reserves from a group basis. We are confident that the reserves are set at a prudent level. So obviously, if you look at U.S. liability more specifically, clearly, there's uncertainty. But if you put that into the overall U.S. cash reserves also assessed by our independent actual control assessment, we are still confident that the reserves are set at an adequate level.

Then I'm running out of time. So I will finish with just 1 or 2 more slides. Actually, more recently, there's been much more dramatic actions by many carriers in the United States. On the right-hand side, you see the rate development charts. So if you look at general liability umbrella, pricing has increased since '18. But it's now going up quite significantly. Excess liability, you see many carriers taking down limits, increasing attachment points. So the market is reacting now much more decisively.

So the good news of this is that our book in the U.S. is, to a large extent, proportional. So we'll benefit from all these improvements. But I would still point out that U.S. casualty and particularly liability piece will, in our portfolio management approach, stay on a strict exposure management and profitability improvement focus as clearly in this environment of elevated social inflation, we need to take a cautious stance.

And to close off, again, our portfolio management triangle. So nat cat, clearly, a portfolio where we're confident we can grow earnings further, now enhanced with alternative capital partners to manage our peak exposures in a risk controlled way. And on the other hand, U.S. Casualty, where clearly we'll keep a focus on exposure management and push for further rate increases. And when it comes to these most exposed large corporate risks, we'll clearly also not hesitate to reduce exposure further. And in addition, as was also mentioned earlier, we have lower interest rates. So it's an additional reason to push even more for price increases as you need a better nominal margin if you lose on the discounting factor.

So that's on these 2 key portfolios. And I think with this, we'll switch now again to Q&A. And I think Moses will join me on stage for that one.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Edi. So we have, I believe, 15, 20 minutes for the Q&A. And I will also, again, this time, ask you to restrict yourself to 2 questions each. So maybe, Paris, do you want to start.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes. It's Paris Hadjiantonis from Exane. I have a question for each one of you. So the first one will be on U.S. casualty. You seem to suggest that when it comes to social inflation, the trends you are seeing are mainly on large corporate risks. What we have been seeing from several other players in the past quarters is a trickle-down effect or a spillover effect into more SME business. Are these trends that you are also seeing or not really? And if not, why? Is there a difference versus the others?

Then the other question will be for Moses. When it comes to the need to leverage technology to generate alternative sources of income, as you've said it, we are seeing basically your biggest competitor taking a different approach from you, which is cooperate with insurtechs, try to find partners. You seem to be taking a slightly different approach, which is developing a lot of the things in-house or trying to partner with industry players. Why do you think your approach is better than your competitors?

A - Edouard Schmid {BIO 18942809 <GO>}

I'll take the first one on social inflation, also, let's say, affecting SME type of business. We clearly don't see that trend going down into these smaller businesses. I think there was one carrier that announced some issues with some SME portfolios. But I think these are specific factors. So typical SME businesses that are not part of this, let's say, social sentiment against large corporates. And I'm not aware of, let's say, any big worries against these smaller types of companies, the SME businesses. We have written, this year, they performed actually quite well in line with expectations.

So it may not be limited to the largest corporates. There may be other corporates that have deep pockets. But I would really not see this go down to the SME level. But still, I think the issue is big enough at the large corporate risk level to -- for the industry now to take a really serious action there to improve the pricing situation but also the terms and conditions massively on this segment. We actually have serious concerns that liability for large corporates will get to sustainable levels anytime soon. And that's also high on the Corporate Solutions side. We take very dramatic reductions of this exposure. And we also keep it very controlled on the Reinsurance side. But SME, I cannot see a similar pattern.

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

The only other thing to maybe add to Edi's comments is if -- I think if you also look at the limits profile for the SME customers that we see, the typical limits that they purchase versus the limits that you see in the large corporate segment, that's the other reason why you'd be far more worried about the large Corporate Risk segment rather than the SME segment.

Coming back to your question on tech investments versus sort of like building, I think Christian showed the chart which talks about our approach to technology and the 4 main areas where we choose to focus. If I go back to 2012, 2013, we also started -- we had a tech investment fund. We invested in a number of companies. And I think we quickly came to the view that this -- in order to be able to serve like cover the entire universe and pick the right risk, you needed a ton of money to say you were going to invest.

And it was far better in our own view to actually do 2 things. One is we partnered with a number of our VC firms globally. They have portfolio companies. Then we take use cases to those portfolio companies. In that way, we get exposure to the best and emerging technology that comes through. The second is we sort of like look at our own selves to say, Okay, what are the things that we need to do? And working on our own selves, we come up with technological advancements, which we then know our clients also need. And then we partner with them as a way to try and generate income. Yes. It's a different model. But we have greater conviction about what we are doing in this space in terms of the hit rate and the return versus yourself -- like making investment and not really knowing which one's going to succeed or which one will not succeed.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Next question, Andrew? Yes.

Q - Unidentified Participant

A question for each. But it's mostly Edi, sorry. Edi, just trying to relate. On the large corporate risks, the implied premium is about $120 million based on Slide 56. The implied reserves you say are $1.5 billion. That's actually quite a big difference. I mean obviously, I would expect reserves behind the premium. But it's a lot of large corporate business -- excess business. Hence, there's going to be a much higher -- I'm just trying to understand. Is that large corporate business, is the premium you show actually any useful -- is it useful as a guide at all because it's all excess business?

And on the topic of excess, just tell us again, how do you get comfortable with the underlying trend before your attachment, if you understand what I mean? And on nat cat, one risk model that says that the worldwide 1-in-200 tail is about $300 billion. And the expected sort of annual cat loss, whatever the average is, is about $85 billion. You say you've got a 10% market share. But your cap budget is obviously a lot less than that would imply. Is that purely the diversification effect? Would you recognize those numbers and say, well, it's just because we're so diversified, we'd end up with a fraction of that? And what work have you done to further assess the nat cat budget sort of realism, given some of the underlying trends?

A - Edouard Schmid {BIO 18942809 <GO>}

Yes. Thanks, Andrew, for these 2 questions. On the first one, let's say, the exposure in the reserves versus the exposure on the premium side. Actually, when we estimated this 3%, we not only looked at the premium. But we really looked at the limit profile. So in the policy board roles of the clients, we look at all the limits and which part is really exposed to LCR and not -- and as explained, obviously the reserves are much bigger because it's the accumulated exposure over a number of years. So I think the ratio sounds about right to me.

How can we get comfortable with this risk? I mean it's fair to say the tort system is quite aggressive. And we don't know when this is going to end. It's just what we have done. We have really tried to reflect all the things we have seen. So all these larger worries are reflected in the cost. We added a loading to the costing for liability business. We reflected it on the reserves. But it's clear there is more uncertainty at this point in time.

And that's also, as I said, particularly for large corporate risks, where it's the strong sentiment against corporates where these limits out there. It's really very hard to make this business sustainable. And that's why we really take a very cautious stance. And we'll work with clients to reduce that exposure. And on the corporate solutions side, also shy very much away from these very exposed limit. So this is going to be a challenge for the industry over the next couple of years.

Q - Unidentified Participant

Maybe can I add -- is there bias to the LCR business?

A - Edouard Schmid {BIO 18942809 <GO>}

Sorry?

Q - Unidentified Participant

Is there an excess versus -- excess of loss bias to the LCR business?

A - Edouard Schmid {BIO 18942809 <GO>}

So there was in Corporate Solutions. Yes. There was a lot of excess business. In the Reinsurance business, it's a broad mix because we have participations with different companies, some excess, some also primaries there. It's clearly much less exposed to the excess. But it was the case on the Corporate Solutions side. And it's the nature of LCR there.

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

Yes. I think the only thing I just wanted to add, Andrew, real quick is, I mean, where we tend to write excess as in excess in the primary world, where you put a treaty on top of that, we also tend to have the proportional treaty in place as well.

Q - Unidentified Participant

As well?

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

Yes. I mean it's rare that we'll just go and write excess on and excess as well and then excess policy.

A - Edouard Schmid {BIO 18942809 <GO>}

Then the second question was more around the cat budget and how we get comfortable that this is the, let's say, good estimate for the mean losses we expect. As I said, we do the spec testing on a very regular basis. It shows a very good picture on a global basis. But we obviously do it also on a regional, on a perils and also on a different layer basis to make sure we always take appropriate actions if we see too much deviation.

The $85 billion. And your calculation was the 10% share, I think it's very important that it really depends on how these cat markets are structured. So the $85 billion referred to is the total insured loss. So reinsured that's ceded and what's kept with the insurance company. And you would really have to dig into each of the markets, how the losses are split between the primary market and the reinsurance market. And this can go from 50-50 in some markets to some, whatever -- Chile, you would have 90% reinsured and 10% retained by the primary market. So it's very hard to give one number.

Then obviously, our market share, as I pointed out, can be quite different. So it is an average 12%, 11%. But it can easily be below that. But it can also go up to 20% in some of the markets. So it's not so easy to get from this $85 billion, which is not an unreasonable number, to what is our share. So we feel confident with our models, which also goes into the budget. So on wildfire, we make the models move. And as we speak, we are updating the typhoon Japanese models that will also add to that budget and in the next year.

A - Philippe Brahin {BIO 19081619 <GO>}

Heather. You're next.

Q - Heather Takahashi {BIO 17304791 <GO>}

Heather Takahashi. Two questions. Do you have a view on opioids exposure? So if you follow people that cover the health care industry, there seems to be a range that people throw around for approximate industry economic exposure to the issue. So do you guys have your own view? Then within that, how much is the industry insured exposure? Then below that, do you have a view on what Swiss Re's exposure would be?

Then second question, you talked about litigation financing. So one of these firms has recently had some issues, one of the publicly traded firms. And I'm wondering if you have seen any impact from the other investor appetite for the asset class. Or do you expect there to be any impact from that?

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

Edi, you want to take the first? I can take the second.

A - Edouard Schmid {BIO 18942809 <GO>}

Yes. Let's split like this. I was kind of expecting questions on opioids since we talk about the U.S. liability market. I mean first, I would start with this opiate thing is a very sad story for the U.S. society. 40,000 people killed every year. But I think it's far too early to talk about the numbers.

So we have all these lawsuits now in the courts. There's thousands of municipalities, of counties, of states that have 5 lawsuits. There have been some verdicts that are under appeal now. But it's really far from having a real view where this may end up. What is very important to point out at this point in time, that all these lawsuits, they are for what you call economic losses. So it's these municipalities, these counties just having increased social costs due to policing costs to take care of this problem. And the other lawsuits are what you refer to as injunctive relief or relief for actually known events.

And the other lawsuits are what you refer to as injunctive relief or it is for actually known events. And none of these things that are now in the courts and where there may be actually quite significant settlements with the big manufacturers and the big distributors, none of these things that are being discussed is actually covered on the reliability policy. So it's -- there's no coverage for an economic loss. There needs to be a bodily injury.

So I don't say there's no exposure. But it's far too early to see the total impact this will have on the company's accused and then what may come to the insurance industry. But from what we see today, the big numbers talked about, that's for issues that are not covered on the reliability policy. Obviously, there will be attempts from those who have to then pay big clients to recover some of that from the insurance company. But this will take quite some time to unfold. But at this point, we don't see real coverage for what is discussed in the courts.

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

And on the topic of litigation funding, I mean, I think you know it's been around forever. It's not new. It's just taking different forms. And I think more recently, it's become far more organized. And from what we can track, we've seen increased investment in this space because it's been presented as a slightly different asset class. The U.K. company that you're speaking about and the issues, I think it's too early to tell whether that dents the amount of flow of money that goes into this space or not. I mean we haven't seen any impact yet.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Next question. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq Hanif from Credit Suisse. Just a quick question on the -- on Slide 58, where you show that 2percentage point gap in your initial loss picks. One way of looking at it is that 2% is not a lot because you could argue that maybe some other players in the industry are just catching up recently. That's why we've had a lot of headlines. So how should we think about this? Should we think about it as sort of the cumulative effect? Should we be thinking about pre-2014, where there's a bigger gap? How can you sort of give us a bit more comfort around that for people who are really sort of negative on this issue?

And the second question, more on the solutions business. So to what extent is the solutions business going to depend on new digital players, primary insurers that you support rather like one of your big peers that we talked about earlier? To what extent is your vision that, that's really enabling competitive primary assurance is going to be your strategy?

A - Edouard Schmid {BIO 18942809 <GO>}

Yes. So actually, part of the answer is that this is cumulative. So in each of these years, our reserving actuaries have set an initial loss pick 2% higher than the industry average. So the reserves are built across all these years.

Then in addition to these points, more recently, as also indicated on the slide on some pockets in the U.S. liability portfolio, actuaries have actually set a loss peak, a loss ratio of 10% above the initial costing just to reflect the more recent trends we have seen as I explained on the increased verdicts and the social inflation topic.

So it's cumulative over these years. So which means we have built in quite a bit of additional reserves to reflect the recent trends. I think on one other chart, I showed that if you add it up over the last few years, it's close to $1 billion that we put into U.S. liability reserves in addition. So that just shows we have taken significant measures to bring the reserves to a level where we feel comfortable.

A - Moses I. Ojeisekhoba {BIO 17934789 <GO>}

Okay. And on solutions, I mean, I think if I take the midterm, at least, I think we still continue to see the traditional players as, by far, the largest source of revenues for us, I mean, because that installed base, the in-force space that they have and the ability to do things like managing labs within it and the value it generates is so much more significant than anything that you start to do newly.

But on the new side, it's why I was talking about iptiQ. I think there, we serve like -- use the iptiQ model to partner both on the life as well as in the non-life side to work with new players, pipelines, distribution pipelines, OEMs, different people who can give us different source of access to risk. And we serve as the insurer or reinsurer behind them. So from Swiss Re's perspective, those are the 2 ways in which we look at it.

A - Philippe Brahin {BIO 19081619 <GO>}

Maybe we take the last question. Jonny?

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Jonny Urwin, UBS. So just 2 on the U.S. casualty. I guess the essence of the question is, how much worse can the 2014 to '17 underwriting is -- gets and how do you think about the most recent underwriting years? So on '14 to '17, you've obviously strengthened significantly already. Can you give us an indication of where that's taking you to and -- from and to in the range of the 60th to 80th? Then on the most recent underwriting years, can you give us an indication of where you are? I mean it sounds like you're opening up very conservatively. So presumably at the top end or even above.

A - Edouard Schmid {BIO 18942809 <GO>}

Sorry, in the end -- just to reiterate some of the explanations I've already given. If you look at just the U.S. liability more narrowly, particularly the LCR business, clearly, there is risk. So if we look at the U.S. casualty overall, there, we are very comfortable that the reserves are still within the 60 to 80 range because this is assessed from an independent actuarial control level at higher portfolio aggregation, looking at all the experience, the triangles over the last 30 years. So the total reserves, we are very comfortable that they are prudently reserved at the 60 to 80.

If you zoom in into U.S. casualty and then more narrowly into U.S. liability, clearly, there is risk. We have taken these measures, we increased the loss picks, we added close to $1 billion. So we see these reserves at what we call a best estimate. So that means there is 50-50 chance. It can go either way. So I would not deny that there is more risk around this.

But if you put it into the total pool of casualty reserves, which are $28 billion, we think within that, there is room to absorb volatility. And that's why we feel comfortable that the total reserve basis is reserved very prudently. But on the U.S. liability, specifically, there is clearly more uncertainty at this point in time.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Thank you, Moses. Thank you, Edi. We'll take a very short break. Let's try to be back in 10 minutes. And then we'll finish the day. Thank you.

Okay. Welcome back, everyone. It was a short break. Apologies for that. But thanks for being back on time. Just FYI, we put a little survey on your seat. If you could think about filling out at the end of the day, that will be fantastic. With that, I give the floor to Andreas Berger for Corporate Solution update. Thank you, Andreas.

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Yes. Thanks, Philippe. Good afternoon, everybody. The last time I was speaking, that was on the 31st of July. And I said the good news is more than 65% of the portfolio is healthy, very good. The bad news is we're going to address the other bit. And then we came up with our management actions.

Now I'm glad to say, today, the good news is we're really addressing it. And I would like to give you an update today, the progress update, where we stand because I think that's the most critical question that needs to be answered. Where do we stand? Are we really on track? Do we restore profitability and how are we achieving our target that we set out very clearly for 2021 on a 98% combined ratio?

Coming back to Christian's slide, the 3 differentiating aspects of Swiss Re also apply to Swiss Re Corporate Solutions. And I will go through my little presentations along those 3 elements, Christian already mentioned those. And I'd like to really highlight that the implementing management actions piece is the key focus. That's a key priority. Then you shouldn't see it as sequential, you should see it really working in parallel on all the other aspects of those changes.

We work in a very large premium pool, risk pool. The commercial insurance market is estimated at USD 800 billion. And the Swiss Re Institute still estimated it to grow at 6percentage points and I think that's quite interesting. So it is a very large and growing premium or risk pool, as you can see. You see here the segmentation, we looked at the excess layers, the international programs and the primary lead. And that's exactly the segmentation that we mentioned because this is relevant for our business.

We then broke it down to the addressable target market. So we took out everything that we don't look at, the motor, for instance. And other parts of the business. Then we come to a USD 300 billion roughly that is really the addressable target market for a corporate solutions.

And if you go then further to the right, you see that the excess layer, the international program business and the primary lead were the key terminologies, the keywords that you were listening in the past and this is still valid. This is still where we play. The SME and the workers' comp, commercial auto, this is not an area where we play.

So I think that's very important for you to know that workers' comp for us is not a market that we don't feel that we have a differentiating aspect to offer here. And also, on the motor market, that's not in commercial auto, it's not the market that we're in.

SME, it requires specific DNA. It's a scale game. And it's a process-driven game, automation game for very small businesses, a distribution game. And that's not our DNA. We come actually from a very large corporate end and now dropping down to the mid-market. And now we introduced the new terminology here, large corporates as the top end of the market and then the mid corporate.

And we are much more aligning to the market terminology, brokers are using this terminology. Other insurance companies are using the terminology. And the cut-off, the segmentation criteria, $500 million upwards, that is sort of a market definition, you will see that with other pieces as well.

So that makes us a bit more comparable. So when we talk about market segmentation, we're focusing -- internally, we're focusing -- we're all using the same language.

When it comes to SMEs, we only do it where we have access to markets via, for instance, bancassurance channels, we have bank distribution channels like Bradesco. So in high-growth markets like Bradesco in Brazil, our joint venture partner, they offer us a whole distribution chain, their whole banking -- branch network. And through that network, we have access to those customer segments. And here, purely by default, we go on automated platforms. So no bespoke or manual underwriting. And that's the game that we are on in these markets.

I'd like to talk today about those elements here, four strategic priorities or pillars. #1 is the key focus, is the implementation of the management actions. It's about pruning, it's about expense savings, it's about creating a more effective organization and obviously, it's about protecting our downside risk, our balance sheet.

Secondly, I would like to look at after pruning, at the decommoditized core of our business. So after we have sort of exited or re-underwritten the types of business that we were not happy with, then the remaining bit, that's the healthy part. And we actually did a backward simulation, we said if we had applied those management actions before, how would that healthier core look like in the -- in hindsight. And I think we would have outperformed the market. Obviously, in hindsight, everybody's smarter. But I think it gives us so much credibility and confidence internally also to go down that route going forward.

So we look at the decommoditized core where we look at differentiating assets and that differentiation, I think, we will continue with differentiating assets that support the core. And here, I'll give you a few examples. Christian already mentioned the international business platform as one example. And I'm sure, during the lunch break, you could have a chance to look at the booth to see it real life and also maybe have some questions answered by our experts.

And the last element is expanding through tech-driven solutions. Obviously, this is sort of the wider shot. But we have some very promising proof points already. And we can talk about this along this presentation.

So coming to the first bit, it is about rebalancing our portfolio. And if you look at the left-hand side, we were very heavily North American driven, basically U.S.-driven. And EMEA, in comparison, was completely underweight. Then if you then go to the lower part, you will see that casualty was also an element that was, in my view, overweight. And we're going to reduce it.

This is only showing you the 9-month figures. But if you go through then the walk at the pruning activities. And we'll discuss that a bit later, you will see that this element will reduce significantly as well as the North American bit. So if you look at the pruning activities overall, they're obviously pretty much spread around the globe.

But the hot spot, the focus, is North America. And within North America, very clearly, U.S. If you take out Canada, U.S. is really the hot spot. Canada is one of our most profitable markets. It's actually the number fifth -- #5 country premium size wise. And I think we're quite happy with the development in Canada.

On the right-hand side, you see the walk, the development of the premium, the pruning and the price increases and then, obviously, also some exposure growth, which bring us to the $3.6 billion at 9-month 2019 numbers. It's fair to say that the pruning does only reflect those businesses that we exited this year in May or prior May. The rest will obviously be earned later. And you will see it on the next slide.

The price increases, we're going to have a separate slide on this one. I think we're quite happy with the price increases so far. We still think there's more to come. And I think we're going to push in now for the year-end for additional price increase because I think now is the moment to do it. Now is the opportunity in the market that brokers and customers will look for capacity and will accept certain price increases. And I think we're going to push towards that.

The exposure growth, this is desired growth. The market is turning at the moment. So you will see definitely much more submission flow coming through. And we see that customers and brokers, they look for new opportunities, they look for new offerings and they look for new capacity.

Capacity is scarce and it has its price. So we see more and more differential pricing. So for the same risk, we can push through higher rating -- rates for the same price in comparison to some of our peers. Apparently, customers value the brand but also the expertise, the claims handling, et cetera, that comes with it.

Now this is a critical slide. And you might remember, on the 31st of July, we showed this slide. We walked you through all aspects until the 2021 target combined ratio of 98%. Today, I can -- I think we can give you an update on the portfolio pruning. All the activities that we laid out in playbooks, very detailed activities under what, meaning what portfolios are we going to address, how does it play out over the quarters, that's all done in playbooks for each executive committee member with a personal signature and a personal commitment that gives us the confidence that everybody stands behind those activities and behind those measures and implements it.

So far this year, 25% of all actions will be seen in U.S. GAAP. Very clearly, this is what has been done before, in particular, on the U.S. casualty side. We were early in addressing those elements, E&S casualty exit, excess U.S. liability umbrella. Those were the works that we communicated in May this year. And this has been shown partially already this year.

If you go into next year, you will see that all the other activities we introduced now will be shown by 2020. So 90% of all actions should be seen by 2020. The rest are long-term agreements, multiyear contracts. And those will be seen then by 2021. So very clearly, there's a walk. There's not any surprise or so. There's no miracle. It's hard work, very quick and very painful initial activities. And that goes, obviously, also for the expense ratio.

The expense savings are going to be addressed along the portfolio pruning. So you've probably heard and seen the news in, yes, the newspapers or also in the publications. Consecutively, we were addressing those portfolios. And every time then, the news came up and then teams were affected by this. We were lucky the Reinsurance BU, business unit, could also absorb some of those individuals that were impacted. But other than that, the market was absorbing it.

We also have seen some portfolios that we could sell. We could sell portfolios to some of our competitors, in particular, on the general aviation side but also on the FinPro, health care side. The 1% on the adjusted reinsurance structure, this is the ADC that we concluded. But in addition, we have had a tactical reinsurance solution for the remainder of 2019 for the second half. And then we're entering into a more systematic, also strategic reinsurance approach going forward.

So we significantly reduced our net exposure, our net on property, for instance. But also most lines of businesses, we dropped down to $35 million net versus $75 million before. On the nat cat side, we dropped from the $300 million to $200 million. So we're quite confident that with all these actions and with the walk that we can see will happen, we'll come to the 98% combined ratio. So that's the good news on our side.

As far as the rate increases are concerned, you can see on the left-hand side the market figures. The right bar, this is 8%, represents 8% of rate increases. In comparison to the market, we look very, very good. 9-month figures showed a 10% rate increase. Now partially, it's because the market 8% is basically across all market segments. And as we had the discussion around large corporates before, we are very much at the top end of the market. And this is obviously a market that reacts more heavily as far as rate increases are concerned. And on the casualty side, as you can read here, this is a bit more modest because actually, we're exiting this element in North America.

Property is a driver and in particular, loss-prone accounts are the driver and naturally, also nat cat. In comparison to peers, we still believe that we're pushing through more rate increases. We see it now as we get more inquiries around quoting businesses. And brokers and clients insist that our quote shows up on their list.

And in at least nat cat, we can see that our quote is used as a reference point to, at this point, the very technical approach, very data-driven approach and the robustness over consecutive years of underwriting, technical underwriting in nat cat. And property also gives the market a confidence that this is a reference.

We might not get the business because we're still too high in rate increases. But we're not compromising here. So either there's a differential pricing so we get it or not. We think the markets will come back. If others are writing it at a lower rate increase, I think that's their decision. We believe that still today, you see rate increases that are not sufficient.

After our pruning activities and addressing the underperforming portfolios, we have a remaining core of the portfolio that is healthy. That's the business that I was talking about and we try to decommoditize it. We -- in certain areas, we're following a me-too strategy. So we were following big risk pools with basically everybody in the market being present in that pool. So competitiveness was fierce. And we couldn't add any additional value to that market.

So we will basically address a pure commodity provider, capacity provider. We said to our markets, we don't want to be just a pure capacity provider. If you look for capacity purely, there are enough markets for that. If you want to play and work with Swiss Re and Swiss Re CorSo then there's more to offer here.

So if we can't offer anything in addition, we stay out of it. That's the kind of discipline that we really will apply in these days. And here, you will see some examples where we could demonstrate over the years that we had differentiating assets to offer.

Property, energy, in particular, engineering is a very, very nice line of business where we still have room for growth. And FinPro, interestingly enough, we were making money all those years. In comparison to our peers, that's an area where we stayed away from very, very difficult areas in FinPro financial lines.

Aviation, after we have now proven the general aviation bit, that's a line of business, the remaining part, where we feel comfortable, we have had individual hits. Yes. That's what we're there for. But overall, I think we have had a very good risk selection. And we could outperform the market over the years.

Now the differentiating assets that we want to focus on are here, the following: international program leads -- innovative risk solutions -- joint venture plays in high-growth markets rather than individual organic growth, planting the flags and organically lowering -- and last but not least, we have the very -- weather derivative business as well.

On the international program business, we decided not to purely compete on the underwriting side because we felt there's not enough differentiation that you can show on the underwriting side. We're not better than a Zurich, an XL, an Allianz on the underwriting side. But to deliver the project -- rather the product, that was the problem. And that's what we're going to address. And that's why we developed a state-of-the-art platform.

And through that platform, by simplifying the process, we influence the underwriting. So that's a new product that we came up with. And I'll talk about that in a second, that ONE Form, we call it. It's a simplified product for property with master cover international business plus the local policies that mirror the international business.

What is different? We take away all the complications, all the differentiation that underwriters add to a product just to show differentiation. But those differentiations that they add to the product caused a lot of complication and workaround in the process and the delivery. So through the platform, we try to address the simplification and underwriting.

So innovative risk solution, that's -- those are the typical parametric solutions that Moses was mentioning in his reinsurance part. That's something we're really proud of. We are market leaders in the primary insurance space and we'd like to grow this business. Currently, we sit at $325 million to $350 million. And we'd like to grow it with additional business cases that we're going to sign off very soon, in particular, in structured solutions for fronting for captives.

We think that as the market is hardening, in particular, the complex underwriting purchase community, they will go away from -- slightly away from risk transfer and will focus more on structured solutions and captive solutions. I think that's something that we're going to see going forward. And that's an area where we're going to be more than happy to explore.

This slide here is the future. But the future happens already today. We'd like to use technology and data. And we'd like to address the inefficiencies in the industry. We have addressed it with the international business platform. But we'd like to go a step further and to offer it as an open platform to white-label it.

So we've got the first example with Brokerslink. Brokerslink is the fifth largest broker network in the world. And they were struggling because they try to build the platform themselves twice, they failed. Then they try to team up with a Silicon Valley start-up company to build that platform. It didn't work. They sold the platform and now, as we speak, we're customizing it. So this is purely a fee-based business where Brokerslink put all the cross-border business on that platform and use our fee, it's a white-label platform. And on top of it, they offer us a share of the business that is sitting on that platform.

I think it can be a solution going forward towards a more standardized approach in that industry because the problem is really the fragmentation. And everybody tries to work with different systems and platforms and portals. I think we have to address it. We get a lot of requests from other broker networks, even the larger ones. But also from insurance carriers. And here, we can work together with the solutions entity from the business unit reinsurance to see whether or not that could be another offering like iptiQ that is quite interesting for the scenes. That's something we're working on.

And the second one is marine. Marine, as you have read, marine cargo insurance marine, we exited because we believe we can't influence that market to bring the expense ratio down to a meaningful level.

So we say the problem is still there. And here, we're trying to team up with ecosystems, with corporate partners to offer digital propositions on the marine side. Again, it's a bet. So let's see if that works. So we have reduced the number of staff in the marine team because we're not actively writing anymore. And the small core of the staff, composed of traditional, very experienced underwriters plus data scientists, data experts, they're working now in an agile form, agile way to come up with a digital solution. And we have got already some use cases in place. So let's see what that brings.

So all in all, with the focus on the improvement actions, we feel very comfortable that we'll get to a 98% combined ratio. And this will translate into about 10% ROE. That's the lower end of our range. Obviously, going forward, I personally expect the combined ratio to improve, to be comfortably within the range of 10% to 15% ROE. Thank you very much.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andreas. Thank you. So let's start the Q&A and take the time for at least a good 10 minutes of Q&A. So who wants to start? So maybe James in the back?

Q - James Austin Shuck {BIO 3680082 <GO>}

James Shuck from Citi. So on Corporate Solutions. So you talk about the solutions side of things and the technology and the platforms that you're developing. There's obviously quite a lot of overlap with the P&C Re side. We heard earlier about the solutions side. And that's going to grow quite significantly. Is it fully loaded within Corporate Solutions? Or what's the degree of sharing of information and digital costs within those, please?

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Yes. So it's fair to say the Reinsurance business unit, they're further advanced, obviously, because they're working on solutions for quite some time. We have focused on areas where we already have assets that we could use. So the international platform is there.

So we don't want to wait until we develop something. It's there. We have underutilized it. So that's why we said the strategic focus should be to look at our assets that are there already and see, is there a market, is there a pain point to be addressed. And that -- can that be monetized? I think consistently, we should really see whether we could use that.

In addition, we're working together with Anette Bronder, our Chief Operating Officer of the group. And we would like to leverage the group much more on the data side and on the technology side. So you shouldn't see it as a stand-alone Corporate Solutions unit or effort. You should really see it as a group effort. And Corporate Solutions has the access to their corporate customer base and then can offer those solutions leveraging the group.

On the Reinsurance side, wherever there is an overlap on customers. And we have some very clear examples, that's where we then work together. We -- because those are common customers. And those are customers where a Chinese wall is not required because it's not a treaty business, et cetera. So those are services. So they will then sort of coordinate much better those customer accesses.

A - Philippe Brahin {BIO 19081619 <GO>}

Do you have a follow-up question or...

Q - James Austin Shuck {BIO 3680082 <GO>}

My second question is on -- would you allow us 2 questions?

A - Philippe Brahin {BIO 19081619 <GO>}

Sure. Go ahead, James.

Q - James Austin Shuck {BIO 3680082 <GO>}

So just on the -- so the reserve addition that was taken in CorSo at H1, that seemed to be mostly due to man-made losses. I wasn't entirely clear where the extent to which that includes some of the casualty reserving trends that we've seen. Then kind of linked to that, obviously, things had moved on since July. To what extent are your loss picks and your reserving situation within CorSo reflecting the new norm on casualty in particular?

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Yes. As you can imagine, we went through a comprehensive review. We looked at old portfolios. But with a specific focus, obviously, on the most distressed portfolios. We were using also group support from the group Chief Underwriting Officer unit. We have done what we saw.

Obviously, we stay very closely to the markets and monitor. So you've seen, obviously, in the course of the year then also news coming up and then trends being identified. So we were not immune of -- to that. So we looked at it and together with the group colleagues and then with the actuaries, we're looking at it on a consistent basis and continuous basis every quarter. We look into it. And if there's a need, we'll act. And that's the situation. So we were pretty comprehensive at the Second Quarter. But I think we're observing the market continuously.

That's probably one of the reasons why we said, as Edi correctly said before, we exited this business because we felt we were not big enough to be anytime influential in this business to make it work. We believe this is a bigger problem of the U.S. market. And we believe that the incumbents, the market leaders, should actually take the lead. We were too small in that market. We could not influence it. And why deploy capacity into a market that is not healthy and where you can't influence it as a Corporate Solutions entity?

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Next question. I saw Andrew on the front.

Q - Andrew James Ritchie {BIO 18731996 <GO>}

It's Andrew Ritchie from Autonomous. Andreas, I mean since you came up with the half year, the famous walk in the combined ratio, I guess, the pricing environment has got even better. But I'm wondering, has your view of the normalized starting point changed as well? I think you were handed the 110% by kind of your predecessor, I suppose.

What's your view of what the actual starting point is for the normalized combined ratio as of today based on -- you've still got some current loss trends on the casualty book. I know the reserves belong to the reinsurance business. But you still got some current. So what's the normalized starting point?

I guess the other thing just to address, when you talk to your competitors who are international program, large corporate insurers, they all sort of dismiss CorSo as ever likely to make an impact in the international program business partly because you've been concentrated at excess layers, less familiarity with the nitty-gritty of boring stuff like claims payments, regulation, all that kind of stuff. And you don't have the infrastructure to do the captive solutions business that they've been doing for years. What do you say when you hear that criticism as an observer, also having worked for one of those large competitors?

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Yes. I mean coming to your first question, normalized 110%. Look, that's the number we worked off. We looked at the 2018 numbers. You can argue -- changing the numbers always. That was the base where we started from. Then we did the walk and we looked at all the aspects that I went through. We looked at reserving obviously, yes. And this is continuous work.

So what we did is we intensified the loops between claims, actuarial, finance and underwriting, in particular in underwriting. So we were much closer in addressing the costing, the calibration of the costing tools because you could argue, are the costing tools fit for purpose in that environment? So what we did was be much faster and much more accurate in bringing the rating levels up and be -- that being reflected in the costing tools.

And as we speak, Ashley Hirst, he's sitting in the back, he's our Chief Underwriting Officer for standard and digital. And he's overlooking that aspect of pricing actuaries and then also costing tool calibration. And this is a very important message. It's not that we've done -- haven't done it before. But we saw that we were too slow in reacting. And if we -- and when we reacted, it was not decisive enough. So people -- like the whole market, we're still hoping that maybe that market is turning and then we get that rate increase. But it didn't happen. And I think that's something that we're quite proud of to make that much more robust and much more decisive and quicker going forward.

As far as the second question is concerned on international programs and the competitive landscape, this is a market where you probably have 5 to maximum -- absolute maximum 8 players who can provide lead solutions for international insurance programs, in particular, for the large corporate space. But also for the mid corporate space.

The argument was always that you have to have an international network to issue local policies. But the reality was. And that's something that I already saw in my old job. But also in my new job, is the performance of a network, it doesn't matter if it's your own network or not. So the property network does not always perform better than a partner network.

And I think at Swiss Re, we have the beauty to use not network partners that are also reinsurance clients. So we know them, we have a face to them. And we have very clear KPIs. And the beauty is, there's no workarounds, no Excel sheets that are sent around. They work on our platform. And I think that's the beauty. So it's painless and that's the difference. So that's the network aspect.

All the other aspects, I would argue, there's no reason why we shouldn't compete. We have capacity. We have limits that we can offer that others can offer. We have underwriters who can handle the business. We've got claims management and we've got a very nice operations team. So overall, I think the times are changing. We might actually be the forward-thinking carrier using modern tools, technology plus simplified underwriting. And I think that's the future.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Maybe one last question. Maybe Simon?

Q - Simon Fassmeier

Simon from Vontobel. I'm just wondering how much can you provide when -- until the reinsurance clients will complain about you competing with them? And could you elaborate a little bit on the reinsurance policy that you will implement in '21 and beyond?

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Okay. On the first one, I think we've got very clear policies internally. The market needs capacity. So at the moment, I don't -- I think nobody should complain because it's a nice market for insurance companies if they do their homework.

So what we see now is we're actually being approached by markets through brokers or directly through customers to team up combined capacity and expertise. I think that's a normal way of doing things at the moment. So I haven't heard any complaints so far. If there are complaints, we try to avoid it. I can tell you, there was one specific one in an area where we were even as Corporate Solutions subscale and we were playing in a market -- a specific market where we felt we can't differentiate, again, to that point. But our sister company, Reinsurance, had a very strong relationship with a player in that market. So we said, Look, choose your battles. Discontinue that business. Hand it over to Reinsurance. It's in a better place, and I think that was a good solution.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you, Andreas. Thank you very much for the Q&A session.

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

There was a second question?

Q - Simon Fassmeier

Reinsurance program.

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Yes. There was a second question.

A - Philippe Brahin {BIO 19081619 <GO>}

Reinsurance, it's beyond 2020.

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Okay. Yes. Just very briefly, I think what we set in place now, the parameters that I mentioned are in place now. What we do is we observed consistently now are net and what we're writing. So I wouldn't rule out that there will be slight changes there. But I think we feel very comfortable with the solution we have in place now. We also look at fac [ph] reinsurance. But again, technical underwriting, a risk doesn't get better if you fac it out. So again, that should be our philosophy.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thanks, again.

A - Alexander Andreas M. Berger {BIO 3962013 <GO>}

Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

I give the floor to Thierry for Life Capital. Thank you.

A - Thierry Leger {BIO 16674977 <GO>}

Thank you, Philippe. Good afternoon, everyone. Last but not least, I hope, Life Capital. So Life Capital was created in 2016 and basically, it consisted of all the primary life and health businesses of Swiss Re.

We have since sharpened the profile of those businesses and created 3 businesses with 3 brands. The first is ReAssure. ReAssure is a leading player in the consolidation market in the U.K. The second is elipsLife, an international player in the employee benefits business. And the third is iptiQ, a global leader in the B2B2C space.

Whilst these businesses all have their distinct leadership, their distinct cultures and targets, they actually all build on the 3 Swiss Re strengths. So they all live from the client access of Swiss Re, its risk knowledge and its capital strength.

Let me start with ReAssure, still with Life Capital and still its largest business. Obviously, the management team has gone through a lot of work early in the year in the months before the planned IPO. And when the IPO actually was suspended, obviously, the disappointment in the team was big. So it was even more a pleasure that just a few weeks later, they were able to announce a new deal with the acquisition of the Quilter UK Heritage business.

So for a consideration of GBP 425 million, we got 200,000 policies more and GBP 12 billion of assets under management. The surplus that we expect to be generated, to emerge over the lifetime of this deal is more than GBP 500 million. This is based on synergies of more than GBP 200 million. Now GBP 200 million of synergies for a deal with a consideration of GBP 425 million is very considerable. And it actually is the metric behind this deal. So all of this leads to an IRR of above -- well above 11%. It's actually even well above 15% for this deal.

When you look at public figures and you look at the price to adjusted UT1, you will get a ratio of 120%. I'm sure you have made those calculations. But if you adjust the UT1 for the new costs that we apply to this business and if you adjust it for the transitionals on the technical provisions that we apply to this business, the ratio actually goes down to 80%, which actually brings the deal very much in line with other deals in the market.

And last but not least, the payback period, the cash payback period with four years is extremely short on this deal. So overall, an excellent deal, excellent addition to ReAssure's book and obviously, as I said, a motivational boost for the team.

As from 2020, we have decided on Life Capital level to not communicate or report on cost cash generation anymore. We will, however, instead, focus on surplus generation at the ReAssure level. And there, the target is a surplus generation of GBP 2.1 billion in the years '19 to '23.

If we look at many other KPIs. But mainly at 2 other ones, one is customer satisfaction, currently very high at 88.6%, that's market-leading. And we will also measure the Solvency II ratio that is strong at 148% currently. The teams are very busy currently with the LNG integration that is going well under the circumstances and also busy to adjust the asset portfolio to actually move it to a state where the risk return of that asset portfolio is better than what it is today.

Let me move to elipsLife. As I said, elipsLife is an international player in the employee benefit market that is around $160 billion premium on a global basis. elipsLife is active in a few countries in Europe and in the U.S. since this year. Their strategic pillars are built around 3 elements: the first, they're entirely and only biometric risk focused -- they are broker distributed only. So there is no channel conflict for elipsLife -- and thirdly, they are in the market leading with service and costs. And this is actually enabled by their state-of-the-art platform.

So on this basis, elipsLife has been able to grow very successfully into this market and generate a premium today of almost $0.5 billion. And this deal at the loss ratio below 18%. And why do I say this? 18% is still a market-leading loss ratio. But it does actually include the costs of expansion into countries such as Italy, Germany and the U.S. Obviously, without those countries, the loss ratio would be below -- well below 15%.

In terms of access to risk pools, which is so important when we talk about the elipsLife, you can look at the 2 core markets of elipsLife, Switzerland and the Netherlands. And you can see that the market share has grown by now to 5% and 6% for those 2 countries. This is considerable considering that so far, Swiss Re's access to this risk pool in those 2 countries has been well below 1%. It is actually well below 1% for this risk pool as a whole. So we think that with elipsLife, we have a very good business in place to access the employee benefit market.

Let me move to the third business, iptiQ, as I said, a leading global B2B2C player. Again, just to remind people, it's always the same speech. B2B is the access to our distribution partners, brands and corporates -- and B2C means together with that brand, together with that distribution partner, sell policies, individual life and health or P&C policies to their customer base. So that's what we mean with this model.

iptiQ's success is based on 3 things. As you would expect, the most important one first is the B2B access to all these customers' distribution partners. The combination of Swiss Re and iptiQ together actually is a very powerful combination there.

The second element is the leading-edge digital platform, operating platform of iptiQ, which is really market-leading and provides us with the flexibility and capability to connect to any partner and any consumer out there.

The third is really the combination of 150 years of Swiss Re's underwriting knowledge, together with the new data, new capabilities that we acquire in iptiQ around data, that we get data analytics, which allows us together to provide best-in-class customer journeys, better underwriting, faster underwriting as well and also allows us to automate claims in a way that has not been possible before.

Underwriting knowledge, together with the new data, new capabilities that we acquire in iptiQ around data that you get, data analytics, which allows us together to provide best-in-class customer journeys, better underwriting, faster underwriting as well and also allows us to automate claims in a way that has not been possible before.

It has allowed us today to be live with 28 partners. Each time I speak to this community. There are obviously many more partners. Now we had 28. Through these 28 partners, we access almost 100 million consumers. We now have an in-force portfolio of 360,000 policies with an average policy premium of $700.

Now Swiss iptiQ is still growing at a very rapid pace. So as I speak, we sell about 5,000 policies per week. So that corresponds to 250,000 policies run rate a year. And this explains as well why this unit is developing so fast, right? So we have an in-force customer base of 360,000 and sell actually 250,000 of new policies a year. And obviously, debt growth, again, is expected to accelerate next year.

What we sell are individual, as I said, Life & Health and P&C policies. These are simple products and transparent products that are adding value to the consumers. And we sell them in a fair, transparent way as well. And this explains why already today, the NPS score is 10 points above the market average for similar companies.

And we continue to invest $40 million every year in innovation. So I have given here a few examples of what we are adding, just again, to make the customer journey even more engaging. But also to learn more about our consumers. And again, improve our underwriting.

I get 2 questions constantly with iptiQ. The first I get is, is it even possible to have such a tech start-up growing so dynamically within Swiss Re? And this is trying to answer this question. So as you can see, we have obviously anonymized some famous InsurTechs to the right. But as you can see here, we have invested $475 million capital in iptiQ so far. With this, we have generated $225 million of premium. So for $2 of capital, we have created $1 of premium. And if you compare this with other so-called dynamic insurer start-ups, you can actually see that iptiQ compares really well and really shows that we do actually have this ability to -- with iptiQ to grow very dynamically into this market.

If you look at absolute size that we have achieved. And it's not on this slide. So in absolute terms, if we compare ourselves to major U.K. players or U.S. players, just for the biometric risk. They have an APN about of $250 million to $350 million. And we expect iptiQ at the end of this year to be at $150 million of APN for their business. So that's just about half of some of the largest players in the U.S. and in the U.K. So it shows not only is it growing dynamically, it also, in terms of APN, not in force yet. But in terms of APN, has reached a considerable size.

And last but not least, the concern that this could be all bad business and that we get this growth only because we sell these products cheaply. Every policy we sell is, let's say, in the mix price at an ROE of at least 12%. So the chance for us is not to get higher margins. For us, it's actually to sell as many policies as we can at those margins. And when somebody sells a policy, that person cannot deviate individually, for an individual, from the price. So all these prices are set. So the more we sell, the more we have profits.

So here comes the second question, when will this be U.S. GAAP profit making? And I hope that this is going to be helpful for all those who have this question. So you see in the graph 2 lines, the green line and the red line. So the green line shows emergence of EVM profit. And the red line shows the emergence of U.S. GAAP profit. So you can see on this chart that the expected EVM breakeven for the iptiQs we create is between 3 and five years. And you can also see that the estimated breakeven for U.S. GAAP actually happens several years later, typically 5 to eight years after the creation of an iptiQ.

So if you go one level below, you can see different iptiQs that we have put there. And you can see that iptiQ ANZ, for example, has been created, obviously, first and is already in the profitable zone.

You can also see that the 2 Life & Health businesses, iptiQs, in the U.S. and EMEA, are around EVM breakeven this year. Actually, we expect them next year to be well beyond breakeven in EVM terms. So really, to march towards the U.S. get breakeven. But in the meantime, generating very nice EVM profits.

But you can also see, to the left, the iptiQ, the new iptiQ, joiner iptiQ P&C and any other iptiQ that we will create, where we see opportunities for iptiQ will actually be a drag through the iptiQ overall. So as we exactly monitor and know where the individual iptiQs are. And we held management accountable for reaching breakeven and all financial targets individually for the individual, iptiQ as the overall picture will be always a mixture of all the different iptiQs. So every new iptiQ we create will help back profits. But will be an investment into an even brighter future.

In terms of valuation, we look at it in 2 different ways. So I'm here just focused on iptiQ. We look at 2 ways. One is how Life & Health companies in high-growth markets are being valued. So typically, as a multiple of their value of new business. And the second way is a multiple of premium. This is how many InsurTech start-ups are being valued. So if you apply average medium values to -- or multiples to our numbers on the iptiQ side, you can see that today already, we get to a valuation of iptiQ of between $1 billion and $1.5 billion. And this is without adding elipsLife, obviously, that we value also at something between $0.5 billion and $1 billion. So we think that today, we have already created north of $2 billion of value with these 2 businesses together.

With this, in conclusion, Life Capital remains on the journey from a closed book provider to an open book provider. We remain fully committed to ReAssure whilst also actually looking for a different shareholding and looking to deconsolidate that business. The target for ReAssure is set at surplus generation of $2.1 billion from '19 to '23. And we remain fully focused on growing our elips and iptiQ Life businesses and in the attempt to create billions of economic value for Swiss Re and for its shareholders. Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you, Thierry. Let's go through the last Q&A the next 10 minutes or so. There we go. So please, Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Farooq from Credit Suisse. I just had 2 clarification questions on ReAssure, if I may. So the 148% Solvency II ratio, that does not presumably include the uplift from LNG. Is that correct?

Then, secondly, when you talk about a 4-year payback on the Quilter deal. So is that basically the GBP 425 million that you paid, essentially, you get that back over four years?

A - Thierry Leger {BIO 16674977 <GO>}

Yes. So the 148% does actually include the LNG, plus some transitionals that we have to recalculate, if we do such deals. But then I won't go into the details. It does actually include it.

The quilter payback, the four years, it's a very attractive deal because actually, around 3/4 of the cash you were referring to, the GBP 425 million, comes already back on the day of closing. So the cash flow is back extremely fast. So the remainder of just 1/4 of that cash is then flowing through a few years only. So that's how this payback works. Quite an extreme payback that we see.

A - Philippe Brahin {BIO 19081619 <GO>}

Another question. James in the back.

Q - James Austin Shuck {BIO 3680082 <GO>}

It's James Shuck from Citi, again. So just on iptiQ. So the -- you showed us $400 million of capital has been invested in that, the EVMs around $600 million. I think one of the previous slides showed that you had $300 million of kind of tech spend, of which half of that goes to iptiQ. So if I kind of -- you launched iptiQ around 2015. You're spending that kind of run rate on the tax spend and you've got that much of capital in that business. It doesn't seem like there's a lot of value creation. But maybe I'm missing something.

A - Thierry Leger {BIO 16674977 <GO>}

Yes. Maybe we have to go into the UMS more in detail. But I -- you refer particularly to the 600 billion economic networks that we've created?

Q - James Austin Shuck {BIO 3680082 <GO>}

Yes. Tell me just basically what you've spent on iptiQ so far versus what you -- how much new business value you're generating now relative to what the book value is. It doesn't seem like there's been a big uplift.

A - Thierry Leger {BIO 16674977 <GO>}

So the chart, for example, say, $425 million of -- or $475 million of capital for $225 million of premium. Is that not -- I mean, it's one measure, right? I mean, there are many other measures to look at.

Q - James Austin Shuck {BIO 3680082 <GO>}

Well presume it's $425 million of capital and there's $300 million of tech spend, of which about half has gone into iptiQ across multiple years. So it's that bridge towards -- or even towards the $1 billion or so that you're kind of harnessing as additional value there?

A - Thierry Leger {BIO 16674977 <GO>}

Yes. I mean -- okay. Yes. You can look at it. When you look at the evolution of businesses, that's at least my view, particularly the first years requiring a particular push in terms of capital, right? Then the more mature your business gets, the less actually you need capital to provide that additional value generation.

So one iptiQ here is just about 4, five years old. The other one is about three years old. And the other one even younger. So I think 4 businesses of that age. I view this as actually very attractive value generation. And I would wonder which insurer start-up out there really would have better numbers.

If you can show me examples of others that are much better, I'd be interested, because we actually always keen to learn to have benchmarks.

A - Philippe Brahin {BIO 19081619 <GO>}

Any other question in the room? Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Vinit from Mediobanca. Just on the change of the target communication from Life Capital GCG to just ReAssure surplus generation. I mean, given the chart you showed us that iptiQ seems to have some breakeven entities or very close. Wouldn't -- I mean, I'm just wondering the motivation to narrow down this target to just the ReAssure? Because on the one hand, you want the market to pay $1 billion to $1.5 billion on that. And obviously, we can't see the full math on the -- I mean, we can see today more clarity. But if the target has been narrowed down, that may or may not help this cause. I'm just curious to know your thinking on that.

A - Thierry Leger {BIO 16674977 <GO>}

Yes. I understand your questioning and concern. Obviously, we feel that the whole business model, isn't it, of ReAssure, is geared towards surplus generation or cash generation. So it was always the starting point for Life Capital to measure this metric, right? And we really feel that for the iptiQ and elipsLife, where they are today, they're actually consuming, obviously, cash. They are consuming surplus. It actually makes little sense to communicate a number that is negative.

One day, in many years, we think it's going to make sense. But right now, we would prefer to focus on other metrics that are more relevant to these open book businesses.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Next question. Andrew?

Q - Andrew James Ritchie {BIO 18731996 <GO>}

I think it was last year, Thierry, you talked about iptiQ and you were asked about adverse selection. And you said there was an adverse selection problem for the underwriting. Are you experiencing a bit of adverse selection? It sounds like you've changed your mind on that. Is that correct?

A - Thierry Leger {BIO 16674977 <GO>}

Yes. So we are acutely aware that the distribution channels that are more digital for iptiQ are very prone to anti-selection. Much, much more so than, obviously, an agent that would -- or a doctor assessment, for example, of a person that would detect anti-selection. So you can anti-select digital distribution in many different ways, obviously. And we are acutely aware so we are monitoring this very, very closely. And we have detected or we do detect that on a very regular basis and take immediate action.

So given the monitoring system we have, you should not forget that we do have distribution data. We have all the data. So we can look at distribution of age, can look at regional distribution, male, female distribution and all of that. And it tells you or us very fast whether there is something strange. We can go down to agent level where when we see a sudden uptick with a particular agent on a particular product. It already signals us that there's maybe, maybe something wrong going on.

So I think we have, again, thanks to the platform and our analytics, created a very tight network around it. So we are actually forced to overprice our businesses. Every -- every insurance company in the world, when they go into these highly anti-selective products sold digitally, they have to ask for a higher price because they know they will be anti-selected against. And there will be higher lapses as well.

So we can go lower than those because we have a tighter monitoring. And as we learn. And as we move. And as we can actually detect forward earlier, we can then, again, lower the price and become even more competitive in the market.

So we are in no way comfortable around this. We are just comfortable with our monitoring. But we are very aware of the risk.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. Thank you, Thierry. I think we can close the Q&A. Thank you very much. And I give the floor to Christian for the closing remarks and wrap-up.

A - Christian Mumenthaler {BIO 6479864 <GO>}

Thank you. So I mean, I don't want to hold you up. I know that was a long day for everybody. I'd like to thank you very much for coming here, taking the time in your busy schedule in December.

I hope it was useful. We tried to give you an overview of the business and how we see it. And in particular, the 3 strategic assets we think Swiss Re is built on and the businesses we currently have, which all are in transition in different phases.

We tried to adapt a little bit to the concerns we heard the last few weeks in investor communities. So we had a bit of a special around casualty and nat cat. I hope that was useful. And in any case, again, thanks a lot for joining us and see you next year at Investor Day. Thank you.