Business Update Call

Company Participants

- Edmond Kartun, Head-P&C Actuarial Control
- John Robert Dacey, Group Chief Financial Officer
- Patrick Raaflaub, Group Chief Risk Officer
- Philippe Brahin, Head-Investor Relations

Other Participants

- Andrew J. Ritchie, Analyst
- Frank Kopfinger, Analyst
- James A. Shuck, Analyst
- Sami Taipalus, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning or good afternoon. Welcome to Swiss Re's 2018 Annual Report Conference Call. Please note that today's conference call is being recorded.

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

John Robert Dacey {BIO 4437051 <GO>}

Thank you, and good afternoon or again good morning to those of you dialing in from the Americas, and welcome to today's Q&A call. I'm here with Patrick Raaflaub, our Group Chief Risk Officer; and Edmond Kartun, the Head of Actuarial P&C Control; and of course Philippe Brahin is here, who's the Head of Investor Relations.

Today, we published the 2018 Annual Report, which includes our Corporate Responsibility Report providing overall more than 500 pages of corporate disclosure. For your convenience, we've prepared a presentation with an extract on our economic results, the group's economic solvency and capital generation and our P&C loss ratio development triangles. We will not go through today's presentation slide by slide, but rather highlight the most important elements. Having said that, we're happy to address any questions you might have during the Q&A session.

So if I can bring you to the extract report. Starting with slide 3, we reiterate the importance and relevance of EVM at Swiss Re. This is our proprietary integrated economic valuation framework which forms the basis for our business steering and allows consistent measurement of our performance on an economic basis. It also forms the basis for deciding on our capital actions. We've developed and used EVM for the last 15 years.

Slide 5 shows our track record of economic earnings calculated as the sum of EVM profit and capital cost released to shareholders, the cost of debt and additional taxes. Within the EVM profit, you see the strong contribution of EVM new business profit, mainly driven by our Life & Health and P&C Reinsurance businesses. The EVM investment profits are evaluated on a risk-adjusted basis after taxes and capital cost. They are inherently more volatile as they reflect market movements. EVM explicitly recognizes opportunity cost for shareholder capital. That is why the total contribution to economic net worth is a total return generated for shareholders or what we call our economic earnings. It's a key element of our capital generation. Over the last five years, the average economic earnings of the group have been $3.4 billion supporting the capital generation and capital actions of Swiss Re.

If I can take you forward to slide 8. You have a reiteration of the group's over-the-cycle financial targets and how we have fared against those. After a series of outperformance, 2017 and 2018 were two challenging years, the costliest and fourth costliest years for the insurance industry with respect to large losses.

In 2017, we still met our economic net worth per share growth target. In 2018, the combination of higher than expected large losses and the negative impact stemming from financial market movements led to our performance being below the targeted levels. We remain focused on these targets.

Moving to the group's 2018 EVM results on slide 11. You can see the key EVM figures. Our economic earnings were $2.2 billion, despite the impact of the large nat cat and man-made losses, the credit spreads widening and negative equity market performance.

I would like now to move to the next section of the presentation and speak about our group SST ratio, which we published today as well as our capital generation.

On slide 17, you see that our 2019 group SST ratio stands at 251%, which reflects our attractive capital repatriation including the 2019 regular dividend and 90% of the first tranche of the proposed share buyback program. We remain comfortably above the 220% target.

Slide 19 is another slide I'd like to highlight in this introduction. As it illustrates the resilience and strength of our capital position on the various market stress scenarios, we remain above our group target ratio level under any of these considered scenarios.

On slide 20, we show the moving parts for the group SST ratio. You can see the impact of our economic earnings, the capital we deployed in the business through our P&C renewals, the growth in Life & Health Reinsurance, and finally the impact of our deleveraging and our strong capital repatriation to shareholders.

Slide 21 illustrates our economic earnings - how our economic earnings have driven our strong capital generation over the last five years. With $2.6 billion generated annually and ultimately supporting the peer-leading capital repatriation of Swiss Re.

We have also updated the overview of dividend upstreams for the group on slide 23. The overall capital repatriation for the five years, 2014 to 2019, now amounts to $14 billion.

With that quick introduction, I'll pass over to Patrick Raaflaub, our Group CRO for the remainder of this introduction.

Patrick Raaflaub {BIO 16381419 <GO>}

Thank you, John, and good day also from my side. We also published our loss ratio development triangles today and I will briefly provide you some - with some remarks on those starting on slide 24 of the presentation. As you know, our reserves are set on a best estimate basis for the robust process and controls which remain unchanged.

On slide 25, you can see that the Swiss Re Group remains prudently reserved, in the upper half of the range of best estimates, between the 60th and the 80th percentile. This is true for our group reserves as a whole, but also for recent underwriting years and has consistently been the case over more than 15 years now. The reduction in reserve releases for the most recent years is driven by motor and liability lines.

In particular and as previously said in 2018, we strengthen liability reserves mainly due to a large one-offsettlement related to a very old contract on which we experienced late reported claims. The underwriting years, 2015 to 2017, have been strengthened in some cases on a preemptive basis and in some regions partly due to observed increases to claims frequency and due to adverse actual versus expected claims in general. For such recent underwriting years, the IBNR is still a big portion of the total ultimate loss.

We continuously refine and improve our reserve setting approach and have made several adjustments this year. I would limit my remarks to this. But I am here in the room with our Head of P&C Actuarial Control, Edmond Kartun, and we are happy to address any questions that you may have.

With that, I will hand over to Philippe Brahin, Head of Investors Relations, who will guide us through Q&A.

Philippe Brahin {BIO 19081619 <GO>}

Thank you, Patrick and John, and good day to all of you also from my side. So as usual before we start our Q&A session, I would like to remind you to please restrict yourselves to two questions each and register again if you have follow-up questions.

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

Q&A

Operator

The first question is from the line of Vikram Gandhi from Société Générale. Please go ahead.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. It's Vikram, SocGen. Thank you very much for the opportunity. Firstly, I see a pretty significant increase in the 200-year PMLs Y-o-Y and given data from January renewals and potentially higher cat exposures through the mid-year renewals. I wondered if the group is contemplating any change to its retro strategy?

Secondly, can you just give us a sense of how much the excess PAT at the reinsurance unit in terms of the capital? The reason is P&C Re has upstreamed quite a lot over the past couple of years, but literally very little earnings. And today we see another $1.7 billion tabled for approval, although I appreciate that's a combination of both P&C and Life & Health units. So, that's all from my side. Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Vikram. So, maybe we'll start with John. PAT exposure, retro.

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

Yeah. So, I think you're right that we have been successful in writing this very interesting new business at the beginning of the year. We look to continue to build our nat cat book, if in fact we find ourselves on certain peak risks at a level which we would otherwise find somewhat uncomfortable, then we would potentially be prepared to use retro to manage that – those positions. So, I can say at this moment that what we have on our books today is comfortable for us to maintain.

On your second question with respect to SRZ, I think we've disclosed actually conveniently in the context of a debt issue which went out today. Our SST ratio for 2019 for SRZ at 218%, that's down on the year as you indicated partly because of strong dividends up, but it remains very, very strong over any actual requirement. I think the total, if you did the math, you'd find it probably something like $14 billion above 100% requirement. So, as a unlisted 100% owned subsidiary, we're very comfortable with the continuing capital level of SRZ.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

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

Hi, there. Two questions. First of all, on Life Capital. Why did the contribution from new business go down when the volumes of new business went up, and maybe if you could differentiate between front book of Life Capital and any new business that you share with the PAT book?

Second question on reserves. I can see the stronger loss picks or the higher ULRs for motor books, liability books, also I think A&H books including workers' comp. I guess what surprises me is having made the decision to strengthen the three most recent action years, your opening loss pick for 2018 looks very low, much lower than 2017 for all those three books. Now, is that just a seasoning thing because you haven't earning much of 2018 yet or the text refers to mix changes? What is so different about the mix of your 2018 book for those losses than the previous years?

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andrew. Why don't we start with reserves? Maybe Edmond is with us in the room as Patrick mentioned.

A - Edmond Kartun

Yeah. So on the reserves, I mean, you're right. The 2018 loss pick is lower than other years - other adjustment years, mainly because 2016 and 2017, those two years, we had a large multi-year whole account quota share written with one of our (00:12:38), which was not up to renewal. And that allowed us - basically, that was quite a large contribution and that allowed us to be able to have a lower loss pick for 2018. There is also the reasons on motor for example, where on motor we had historically I think Asia property for example, reduced the volume of a - proportion of business in Asia since 2013 slightly reducing the volume of proportion of business, which then increased naturally a little bit the size of non-proportional on the motor sites. So, there is different reasons for different portfolios.

A - Philippe Brahin {BIO 19081619 <GO>}

Okay. And then on your first question, I'd ask John maybe to...

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

Swiss Re Life Capital, yeah. So Andrew, very astute question. We've got a slightly different treatment between U.S. GAAP and our EVM on the LNG transaction. For U.S. GAAP, this is booked in the Q1 of 2018. It actually came into Q4 of 2017 for EVM. And thus inflated those numbers up, and when you do the year-on-year comparison, I think you're missing the fact that that was a positive in 2017 not replicated in 2018.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thanks, Andrew, for your questions. Can we have the next question, please?

Operator

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

Q - William Hawkins {BIO 1822411 <GO>}

Hello. Thank you very much. Just trying to understand the relationship between your EVM and some of your SST figures, please, particularly for Life Capital. We know that your economic net worth was $3.3 billion. Can you try and help me understand what the SST NAV or risk-bearing capital is for that number? The reason I'm asking is because as you know at the group level, there're big differences between economic net worth and SST even though economic net worth is the basis, so whilst you've got $36 billion of group ENW, your risk-bearing capital is $40-odd billion, so that's considerably higher. So, can I just pro-rate that or can you help me understand what the solvency capital is for Life Capital?

And then secondly very similar, what is the required capital for Life Capital? And again, we only know the group figure. So if - related to that question, could you, now you've given us the figures, maybe talk a bit more clearly about what would be the impact if you got to deconsolidate that business from your SST ratio? And in the back of my mind that there, you've emphasized the benefits of deconsolidating Life Cap ReAssure. But I'm also sort of trying to understand what will be the offset, because I'm assuming the regulator is going to require you to add back some kind of equity charge and it will be strange if you had too much of a benefit simply from deconsolidating a business? Thank you.

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

So, William I'm going to defer a little bit the first question. While we have disclosed in relation to the subordinated debt issue into the SST on SRZ, we did not disclose for the other subsidiaries. And in April, we will come back out in the financial condition report with some details around all three business units. And if I can ask you to wait for us, I think you'll get most of the answers you're looking for on Life Capital and the SST numbers in that disclosure is the first part.

And the second part with respect to the potential benefit on the deconsolidation, our expectation is were we to drop our ownership of ReAssure down just below 50%, call it 49%, we're likely to have a look-through treatment for the risks of ReAssure and the calculation of our Swiss solvency. And so instead of what now is a 75% ownership of that business, we would have a 49% ownership of the business, but the asset risks and other risks associated with ReAssure would still come through into the calculation.

There will be some point, and I don't know exactly what that point is because FINMA is being as a good regulator a little less than perfectly transparent about where it triggers that this would transform from a look-through approach to a simple equity charge, and we would have a position in liquid debt equity group with the well understood charges that the SST framework places on that. It would be a big swing and we'll be subject to the volatility of that share price over time.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. Good afternoon, everybody. Thank you. There are two questions. One is on SST, the other one is EVM earnings-related fees. So, the SST question is relating to the market value margin. So very substantial increase because if we had just, I mean, if this increase didn't happen, the SST might even have been say 10 points lower. But I'm just trying to understand what drove this increase. You have written the growth in Asia, but I mean in terms of dollar premiums, the P&C was flat and Life Re was 7% at the group level, is that what really drives this? And then can this now MVM remain where it is? So, that is the MVM topic.

And then, second thing is just on the EVM earnings and I'm trying to see if you can address Life and P&C, but let's try at least once. The P&C Re has a very strong prior-year earnings of $698 million on slide 11. And just the prior-year development hasn't been obviously as high in the U.S. GAAP terms in terms of PYD. Could you help us understand, is there something more in this, and I do appreciate that there is, I mean even in the past, the U.S. GAAP and EVM hasn't always had a very, very correlation? So, I'll stick with these two. Thank you.

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

Sure, Vinit. Happy to help. On the MVM, you're right, we did refer to our Life & Health Reinsurance business. Actually, it was largely driven by a new business written in Asia as multiple markets, not a single market on critical illness. And that has required an adjustment of probably close to the $4 billion that you see (00:20:01) up here. There were some other pieces, plus and minuses, but the strong growth of what we believe is a long-term valuable business for us in the Asian markets between a transaction and support for some of our core clients across Hong Kong, China, Korea and Japan have all resulted in a increase as you say of about $1 billion in the MVM adjustment.

With respect to the prior-year development, yes, for P&C Re, that was more positive under EVM than it has been under the U.S. GAAP. The U.S. GAAP numbers have been brought through into EVM as well. But the main difference there is just the change in the capital requirements for prior years and some adjustments on the payout patterns, which we think have been positive on those prior-year reserves.

So, we're comfortable with those amounts, but it's related to capital and payout patterns, not that we had any specific losses which came through one and not the other.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

Q - Sami Taipalus {BIO 17452234 <GO>}

Yeah. Hi. Thanks for taking my question. The first one just on the reserving side. In the reinsurance liability proportional book, you've had I think some additional adverse development both from some recent years and then a little bit on some of the older years as well. Could you just talk through what was new in 2018 on that? I know these have been developing adversely in previous years as well, but just what was the new element there?

And then, the second question I have is going back to the financial strength in SRZ, I think you mentioned a $14 billion surplus, but what are the binding constraints here? I guess that's again on the regulatory view, but what is actually the binding constraint for that business, and much – how much surplus do you think you have on that view? Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Sami. We'll start with reserves with you, Edmond, yeah?

A - Edmond Kartun

Yeah. There's nothing really new to the previous trends that we've observed in 2018, what we've started to see already in 2017 basically continued. We've seen a little bit more increase in the frequency of some claims. We also had on the liability side several man-made losses. So, it is really a combination of the previous trends we've seen plus individual large losses, which resulted in an adverse development on the prior year's liability.

A - Philippe Brahin {BIO 19081619 <GO>}

And on SRZ binding.

A - Edmond Kartun

SRZ binding. I'd like to say, Sami, that our Reinsurance CEO, Moses, will be happy that you asked the question, so we can clarify that we don't expect the $14 billion dividend up from the subsidiary. There are other constraints that we pay attention to in the context of both liquidity and capital the rating agency's view of that business, and I think we can safely say that the actual binding constraint is quite some distance from that $14 billion, but we've not disclosed actual numbers. But again, the indication of the dividends to be paid gives you a sense of what we believe to be a healthy balance sheet and very unencumbered liquidity at this point in time and we're comfortable expecting continued strong dividends from our reinsurance operations.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes, good afternoon, everybody. I have a follow-up on Will's question regarding the deconsolidation process of ReAssure. As you described that there is a two-step approach at some point, it will change from this look-through to the equity charge. However, my question would be also whether we should think at this point once you only have this equity charge, but that there is some sort of offset in terms of additional capital requirements some sort or that we really should expect the full release so to say. And then secondly on the 200-year nat cat events as Atlantic hurricane increased significantly, also California earthquake increased, so my question will be whether - how should we think about your nat cat budget, and what is the current number?

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Frank. So, maybe John, on the deconsolidation...

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

Yeah. So again, I think while it might be useful mentally to think about this in multiple steps. We're not predicting the outcome of the IPO, and anyway we simply said that our - it's our objective to be able to deconsolidate. We'll see what market demand is at the point in time that we decide to announce. But you could imagine a range of outcomes in the first case.

In the second case, yes, there will be this point where we get to a level that's low enough for it to be treated as equity. But there will be a capital charge for equity. So, while we won't have a look-through anymore, that equity charge will be there. Given the nature of the balance sheet of ReAssure and given the relative importance at the moment of financial market risk and credit risk and our calculations, I would expect us to have a better treatment and a lower capital under an equity investment than a look-through position at the same ownership level. And so, that will be a benefit for us, the amount of which is probably premature to quantify.

A - Philippe Brahin {BIO 19081619 <GO>}

And then on the nat cat exposure and nat cat budget, John.

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

Help me out, Philippe. I don't really...

A - Philippe Brahin {BIO 19081619 <GO>}

If you don't know, I think Eddie mentioned it, where we talked about it in February when we came out with our full-year results saying, yes, of course, our exposure increased, and you can see that today with the annual report in the stress tests we are publishing. But we will come back to you, Frank, with the nat cat budget with our Q1 results. That's what we said, so you have to be a bit patient with us, so in few weeks.

Okay. Thank you, Frank, for your question. Can we have the next question, please?

Operator

The next question is from James Shuck from Citi. Please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Hello. Good afternoon, everybody. So, my two questions. Firstly, I'm just looking at the accident year developments were posted in the accounts. So, I can see that there's been positives PYD around property and on specialty that has been negative on casualty on the Life & Health Re. I think the casualty one, you've kind of largely explained, but I'm just interested to see the negative development on Life & Health Re given that that's been a book that you've been growing pretty aggressively in recent times. I think the triangle is showing me just the long tail development and I'm struggling to see the years it actually is coming from that drives that $249 million of adverse development.

Second question, I guess the combined ratio the guidance you've given for 2019, 98%, that's about 1 point better on the original guidance for 2018. The casualty combined ratio though has been consistently above 100%, so I think you did about 110%, 111% in 2018. And again, that's being driven by some adverse development on the large contracts. But presumably that number is going to normalize, and I guess, if you're expecting casualty PYD to revert to a neutral position at worst, then I guess just the mix of impact, so as that casualty combined ratio gets better would suggest a group's combined ratio getting better by more than 1 point. So, if you just help me with my understanding a little bit there please, that'll be great. Thank you.

A - Philippe Brahin {BIO 19081619 <GO>}

All right. Thank you, James. Maybe we'll start with the Edmond on the accident year?

A - Edmond Kartun

Yeah, yeah. So, I mean on the accident year, you have to keep in mind that whatever is reported on the Life & Health Reinsurance, it's not really the same thing as P&C, mainly because on the Life & Health side, the reserves that you have here are mainly disability life reserves, and you will – the way we report things, you will always be seeing some PYD on this business as the active life reserves basically become disabled. So, you will always see that phenomenon. So, the comparison between P&C and Life & Health is not really meaningful in that sense, so you can't compare those two things. Yeah? But $249 million also is made up for various moving pieces, some positive, some negatives offsetting each other marginally.

Then the other question was...

A - Philippe Brahin {BIO 19081619 <GO>}

Casualty.

A - Edmond Kartun

Around the casualty, yes. I mean, yes. I mean, casualty, you're right. There might be at some point some normalization of the loss ratio, but what we can say as of now is we're prudently reserved. We don't expects – we don't plan for any positive development in the reserves or negative development in the reserves, and we reserve at the best estimates. So, the view that we have now is what we call as best estimate and that's what we call our view of the reserves.

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

James, maybe to go a little further, I think bringing that estimate of the underline or normalized rate down to 98% reflected both the strong renewals on nat cat, but also recognition that we also increased our casualty book on January 1. The nature of the casualty that we wrote and particularly where the large transaction was different in kind I think than our average book, it's a shorter duration. And so, it's reasonable to expect that if we brought that on thinking it's creating value for us, it will have a lower combined ratio than the average casualty book that we have, which tends to be fairly long. So, I think again we're comfortable that in spite of that $1 billion transaction, we're heading in the right direction on the combined ratio estimate for 2019, and we'll see how the year plays out.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

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

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good afternoon, everyone. I have good one question for – probably for John on the dividend policy of the group. John, when I'm listening to your GAAP earnings call, actually you said 12% DPS and you mentioned the rebasing effort that the group did in 2018, and implicitly not encouraging us to expect the same DPS growth going forward. Now, I'm hearing and listening to your EVM disclosure and the message I'm getting is that the economic earnings is the right benchmark to gauge (00:32:50) going forward or what's going to be the best proxy to gauge the dividend policy of the group as you're steering the company on an economic basis.

So, $2.2 million this year, normalized $2.9 million, average $3.4 million. So, I mean all that is pointing to confidence in growing the economic earnings of the group going forward. So, which should lead to better gross and – in dividend expectations. So, maybe I'm wrong, but I'm a bit confused because it seems to me that there is a kind of discrepancy in terms of message either you – when you're talking about GAAP numbers or when you're talking about economic numbers. So, I mean, anything you can say or explain on how to look at things on these two different metrics? Thank you.

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

Sure. So, it's not our intention to confuse people about the dividend policy. What I think you're referring to the slide in the deck that we used, probably the best reference point is slide 21 where we talk about net solvency capital generation in the middle of the page. It's something like CHF 8 per share on average over the last five years. That is an average and it has been both above and below that number. We think over a period of time that that's a reasonable position.

What we said with our dividend increase this year, the 12% increase from CHF 5 to CHF 5.6, which has been recommended to the AGM is that we're confident that we should be able to continue from that point, a reasonable dividend policy which says the dividend is highly unlikely to ever have to go down from there, and from that point we should be able to manage reasonable increases over time.

What I warn people is not to expect a 12% increase year-on-year for the near-term years. Now, if it turns out that we're highly successful in the context of the underwriting of 2019 and 2020, we'll reevaluate that this year and then going forward. But at least for now, I think what the economic results, EVM release today shows is that this wasn't false bravado and moving ourselves to CHF 5.60, but supported by strong underlying economics, that's our new base and we'll continue from there.

A - Philippe Brahin {BIO 19081619 <GO>}

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

Operator

The next question is a follow-up from Vinit Malhotra. Please go ahead.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Well, thanks for the opportunity. So, just a thing. My question was related to the Life Re and a bit linking it to SST sensitivities. So slide number 13, John, says that there was an impact, a negative impact on the investment – EVM investment income from rising interest rates from net long duration in Life Re. But equally slide 19 suggests that the SST benefits from rising interest rates. So, as we go into the year and one reason I'm asking this question is because I'm trying to figure out what the solvency would look like in various areas. But as we go into this year, how should we be thinking about interest rates and Life and SST, and these two slides together? Thank you.

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

Yeah. So, I think if we come back to 13, you do see in fact that there was an investment loss due to the rising interest rates, so the net long position. The sensitivities, so this is our EVM framework. There are some differences in the treatment between EVM and SST for changes in interest rates. And so, the best way for you to think about what might be happening and what might have already happened frankly in 2019 would be the go to slide 19 on the SST, and that will show the sensitivities for our SST positions.

I think these on the credit spreads in particular were demonstrated to be an accurate indication of how far we would go as spreads blew out in the fourth quarter of 2018, I think with interest rates and with credit spreads having changed directions or in credit spreads in particular changed directions in the first two-and-a-half months of this year, you would see a reversal of maybe not exactly the same size, but a large part of what happens. So, in terms of your objective to find or to estimate our SST ratios going forward, I'd focus you on 19 and understand that on 13, the EVM calculations have a different basis for this and that's why we've separated the two segments to try to help you understand those differences.

Patrick, I don't know if you wanted to add anything?

A - Patrick Raaflaub {BIO 16381419 <GO>}

Just to add, so the main reason for interest rate sensitivity of the SST ratio is the market value margin, especially - as MVM, especially in the long tail and all the other components are actually fairly well matched from an interest rate sensitivity perspective.

A - Philippe Brahin {BIO 19081619 <GO>}

Thank you, Vinit, for your question. Can we have the next question, please?

Operator

The next question is a follow-up from William Hawkins. Please go ahead.

Q - William Hawkins {BIO 1822411 <GO>}

Hi. Thank you very much. Sorry to drag the call out. On slide 11, John, what should we think is a normal EVM profits on investments? I'm not quite familiar about how to think about it. On the one hand, if that figure is strictly speaking your alpha against a neutral benchmark, should I just be plugging in as zero unless I think you guys are sort of brilliant fund managers? Or is it a figure that is inevitably going to exaggerate just market movements to the extent that you're always at low market risk? So in a good year, it's going to be up a lot and I think it was in 2017, and in about year it's going to be down a lot. I'm not quite sure what you would suggest like kind of plug-in if I'm thinking about a normal year? Thank you.

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

Well, I'm sure our Chief Investment Officer would like you to think that he's brilliant. But I think in the context of this modeling, aiming towards zero is a reasonable starting point is probably the best place to be. The volatility I think will be there, it's not obvious to me that it's going to be dramatically more than market moves. And I think you just have to evaluate from which direction performance is moving. We've now reduced at least at the moment our exposure to equities at least at year-end 2018, they were materially down partly from market themselves. But we're – we've maintained through the 2018 a fairly conservative positioning on risk assets, and I think the fact that these numbers weren't worse reflects that.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, William, for your follow-up question. Can we have the next question, please?

Operator

The next question is a follow-up from James Shuck. Please go ahead.

Q - James A. Shuck {BIO 3680082 <GO>}

Oh, hi, there. Thanks for taking my follow-up. I just want to return to the SST target range or the target level you have, so the 220% ceiling, John, I think you've been pretty clear that you will look to manage down towards that level in the near term. So, by that I assume within the next two to three years, you would manage that SST down towards kind of around the 20% – 220% level, and so the kind of the 250% level. And I guess within – when you think about that, as you deconsolidate ReAssure over time and presumably the level of risk and the level of volatility that's needed within that ratio also comes down. So, is the 220% itself still going to be valid post-ReAssure? Thank you.

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

So, maybe if I can add a little bit of clarifications. I don't believe that I said we're aiming to bring the group's capital down to 220% in the near term. I think we said and we reiterated that that's our long-term target. I think that you've seen that in spite of a modest downward move year-on-year from 269% to 251%, we're continuing fairly shareholder-friendly capital actions both the increase of the dividend, the commitment to the first tranche of $1 billion and the potential for the second tranche depending on our overall capital positions later this year. So, I think market conditions as well as potential business opportunities will influence our – the speed with which we come towards 220% at the moment. I think everyone around both the executive committee and the board is comfortable with a robust balance sheet.

There are a lot of things going on in the world on a macroeconomic level which make us believe that there's utility in maintaining this balance sheet strength. I'd also say the success we had at the beginning of this year in terms of renewal leads us to think that there might be some interesting opportunities during the rest of 2019 and into 2020 for continual underwriting of profitable business. And if we can deploy capital in that direction, we will, which by itself would bring us towards 220% but without any specific capital repatriation.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, James, for your follow-up question. Can we have the next question, please?

Operator

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

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

Hi, there. So, sorry. Two very quick follow-ups. This is probably a naïve question, but I'm just going to ask it anyway. Why did your SST requirement for non-Life only grow 4%, but the PML for 100 and 200 Atlantic, just a big one scenario grew about 30%. Is that the magic of diversification or I'm just surprised the SST requirement didn't grow more? And just to clarify, the SST requirement and the PML is a forward-looking number. I think it reflects already any growth of nat cat exposure that took place in January 2019.

And the other question was in your introductory comments, there was a comment that you're constantly refining your approach to reserving, I think those are the words you used, and you would – what did you do, was any change in broad approach in 2018? Thanks.

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

Yeah. So Andrew, I can take your first question. So, indeed it is the effect of diversification, especially the nat cat peak risks diversify very well. And that's really the long and the short of the explanation.

Edmond?

A - Edmond Kartun

Yeah. Well, on the reserving, I mean indeed we constantly refine and revise the way we do reserving. I mean, reserving is not something which is fixed, the segmentation we use is not something which is fixed. So, what we did mainly last year in terms of reserving enhancement or updates to our model was on the UK PPO, where we updated the way we apply the mortality assumption, in the past we used the multiplicative approach to how to apply the impairment modificator. And last year we decided to use an additive approach whereby it was more accurately reflecting the fact that when somebody has suffered an accident, and he was – and if he was – the longer he was living, the longer his life expectancy was getting closer to somebody who was an unimpaired life basically.

We did also other modifications on the workers' comp in the U.S. We also started to use Life & Health techniques in order to assess the tail factor for these portfolios. Some other enhancements were for example on credit maturity, where we also enhanced the way that we do reserving by having a re-costing of the initial expected loss ratio using the costing tools. So, we're combining a bit more the costing experience – the costing tools together with the reserving. I can go on with different techniques. But I think that's enough. Yeah.

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

Andrew, I think the overriding important message is you've been constantly looking at specific technical approaches for specific sub-portfolios. But in the general reserving orientation, absolutely no change. Complete stability in both, our objective to be correctly and prudently reserved.

A - Philippe Brahin {BIO 19081619 <GO>}

Thanks, Andrew, for your follow-up question. That was actually our last question. So, we've come to the end of our Q&A.

Many thanks to Edmond, Patrick and John. If you have any follow-up questions, don't hesitate to reach out to any member of the IR team. Thank you, again, all of you for joining today.

Operator, back to you.

Operator

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