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Bloomberg Transcript

Q2 2016 Earnings Call

Company Participants

- Roland Vogel, CFO
- Ulrich Wallin, CEO

Other Participants

- Anasuya Iyer, Analyst
- Frank Kopfinger, Analyst
- In-Yong Hwang, Analyst
- Jochen Schmitt, Analyst
- Jonny Urwin, Analyst
- Kamran Hossain, Analyst
- Michael Huttner, Analyst
- Thomas Fossard, Analyst
- Vikram Gandhi, Analyst
- Vinit Malhotra, Analyst
- William Hawkins, Analyst
- Xinmei Wang, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to today's Hannover Re International conference call on interim results (technical difficulty). For your information, this conference is being recorded. At this time, I would like to hand the call over to your host today Mr. Ulrich Wallin, Chief Executive Officer. Please go ahead, sir.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you. Yes. Good morning, ladies and gentlemen. And thank you for joining the Hannover RE conference call. As usual, I'm joined by our CFO Roland Vogel and we are pleased to present to you the figures for the first half-year 2016. With a net income of EUR486 million, the business development in the first half-year supports the full-year guidance. However, the Second Quarter on a standalone basis did not perform quite as well as expected. In addition to a high level of large losses in the quarter, we also saw a spike in the frequency of the underlying losses and some reserve increases on loss reserves from previous years.

As a result, the combined ratio for the quarter was 96.1%, somewhat higher than expected. Despite the fact that the combined ratio benefited from reserve releases over and above the level of the normally expected run of profit. Roland will dwell on this in more detail.

In addition, the tax rate for the quarter and indeed the half-year has been a little higher than normally because the majority of the losses from the Canadian wildfires impacted the results of our P&C subsidiary in Bermuda.

The premium income developed much in line with expectation considering the soft P&C reinsurance market with a slight reduction of the gross written premiums and some modest growth of the net earned premiums. Despite the fact that we have paid EUR573 million in dividend to our shareholders, the Second Quarter saw the shareholders' equity nonetheless increase by 4.4%. This to a large extent was due to the interest rates dropping even further following the Brexit vote in the UK and thus boosting the unrealized gains on the balance sheet. Naturally, this puts the ROE under some pressure but at 11.8%, it still remains above the minimum target.

Having already commented on the property and casualty reinsurance business, I would like to add something on the life and health results for the first half-year. These results have been quite solid. We have seen growth in particular from our UK longevity business which more than offset the premiums lost from some larger single premium transactions which we have not renewed. As a result, the premiums, both gross and net, saw some growth.

The underlying earnings of the business have developed quite favorable. However, we continue to see some negative claims experience from yearly renewable term business from some older underwriting years of our US mortality business. We deal with this problem by increasing rates where necessary and appropriate.

The results from our investments under management are fully in line with expectations with an ROI of 2.9%. On this note, I will hand over to Roland our CFO who will explain the figures to you in more detail.

Roland Vogel {BIO 16342285 <GO>}

Good morning, thank you, Ulrich. And as usual I will focus on the half-year figures and try to keep my comments as brief as possible. However, I think in some cases further explanations to the quarterly development might be useful this time. The slight decrease in the top line is in line with our expectations for the full year especially in light of the strong growth we recorded in the previous year. Net income increased favorably by 4.5%. As already explained on the occasion of our Q1 conference call, the main reason for this seemingly contradictory development is the change in unearned premium, the retention actually only increased marginally.

Investment income in line with our expectation and excluding the EUR39 million positive on; off effect in life and health reinsurance in Q1 2015, investment income from assets under own management is on the level of the previous year, which can be seen I think as a success in the current yield environment.

Other income and expenses decreased mainly due to less positive effects -- currency effects -- in the life and health reinsurance. However, we are still in positive territory here.

At 27.5% the tax ratio was slightly higher than in the previous year. Ulrich mentioned that mainly due to a less positive result from our subsidiaries in Bermuda. Even if we assume that large losses will exhaust the budget also by year-end, we expect that to level out to some extent for the full year.

Shareholders' equity increased by 4.4% despite paying dividends of (EUR573 million) (corrected by company after the call) in the Second Quarter. And on the right-hand side of this slide you can see that especially the capital contribution from valuation reserves in our investments increased by nearly EUR600 million as a result of interest rates declining even further and thereby overcompensating the dividend payment.

With realized gains only slightly above last year's, we did not harvest from such extraordinary gains and this unforeseeable effects here in the first half. On the one hand, of course improves the capital strength of the Company even more. On the other hand, it had diluted the ROE by nearly 50 basis points. Of course, this development should also have a positive effect on our already high solvency ratio going forward.

Cash flow continues to be very positive in the first half year. You might remember that some EUR500 million received from the Chinese financial solution treaty inflated last year's cash flow. And EUR300 million from that amount have now been forwarded to Re concessionaires in the First Quarter of this yea hence depressing the formally reported number for operating cash flow. Excluding this effect and as demonstrated on this slide, cash flow for the first half of 2016 was again over and above EUR1 billion positive and with that fully in line with expectations.

Assets under own management increased by 1% to a level close to EUR50 billion -- EUR40 billion, sorry. Increased valuation reserves had a positive effect of around EUR850 million while there was a negative impact from the currency exchange rates effect on the hand and that was around EUR550 million.

As a result of our strict margin-oriented underwriting approach, P&C gross premium decreased by 5.6% on an FX-adjusted basis. Please bear in mind that we have been growing strongly in 2015 and that the previous year's premium was additionally influenced by a non-recurring effect associated with the accounting of our facultative business where we booked almost EUR100 million in premium -- in additional premium last year. Moreover, we scaled back our involvement in Chinese motor business as well as in our specialty lines., particularly in aviation where rates no longer justify a continued participation.

Nevertheless, net earned premium was stable on an FX adjusted basis as mentioned but is not the result of a higher retention, which actually decreased slightly. But it is due to the change in unearned premium driven by the strong growth in 2015.

As you all know, following a very benign First Quarter, the loss activity increased remarkably at 9.2% of net premium income. The budget for the first half year was almost entirely exhausted. And in the standalone Second Quarter we actually recorded the highest net loss -- large loss expenditures for an individual quarter since the First Quarter of 2011. The budget was therefore clearly exceeded on a standalone basis; however, this was compensated for by the unused portion of the large loss budget from the First Quarter.

Moreover, also the frequency of various smaller claims was higher than expected in various lines of business around the world. This development was mitigated by an overall higher-than-usual positive run-off result. Here we, on the one hand saw some negative run-offs from single claims also but these were more than offset by positive reserve developments, particularly in marine. Some cases developed very favorably and also the expected ultimate loss ratios could be taken down.

And as you will remember, the expected regular positive run-off result is around EUR50 million plus per quarter in the first half-year. This amount was exceeded by around EUR150 million and with that more than mitigating the negative developments I've mentioned before.

Over the course of the year, of course, we do not have a fully-fledged reserve analysis available. But we should expect that the positive run-off result has slightly affected the confidence level of loss reserves downwards as compared to year-end 2015. We will publish the final numbers of the reserve study for 2015 at the occasion of our Investors Day in October as usual. But with the increase of redundant reserves we have experienced by the end of 2015, it is fair to say that even with the potential reduction of this year, we should still be remarkably above the level we had published last year. You might remember these were EUR1.56 billion and again we should still be remarkably over that number.

Ordinary investment income was in line with expectations. Total net investment income decreased only slightly. I will explain the reason for this development when it comes to the details of the investment income in a few minutes.

The tax rate increased compared to last year mainly as a result of less positive results from Bermuda. As already mentioned, this should not come as a surprise considering the significant cat losses in Q2. Altogether, with an EBIT margin of more than 14.6%, the P&C segment performed still satisfactorily in the light of a still changing market environment.

As already mentioned, the large loss situation was exactly in line with budget for the first half year even though the loss occurrence is distributed quite unevenly between the first and the Second Quarter. The important message after the extraordinarily high large losses in the Second Quarter is that our budget for the second half year of 2016, which amounts to EUR472 million, is fully available, which is somewhat reassuring given that the Atlantic hurricane season has just begun.

After six months, 11 major losses are showing up on the large loss list. They include significant events. Also on the nat cat as well as on the manmade side -- sorry. With a net loss of EUR132 million, the wildfires in Canada were by far the largest loss in the first half year and at our Q1 results we had already flagged the fact that Hannover RE has a particularly high market share in Ecuador and accordingly the net loss from the earthquake there is EUR57 million for our own account.

Looking at the overall numbers, it's good to see that our retrocession protection is working well, resulting in a relief of around EUR140 million.

Looking at the technical profitability of our P&C book by lines of business, the combined ratio in marine is, as already mentioned, outstanding. Here I already mentioned the positive ru; off of reserves at roughly EUR50 million in total in the Second Quarter. Combined with an overall favorable loss situation this led to this remarkable combined ratio of just 12%.

So our business for North American in particular contributes favorably very -- or very positively to our results. The cat XL combined ratio is now over and above the MtCR having been especially hit hard by the wildfires in Canada.

The earthquake loss in Ecuador on the other hand is mainly accounted under worldwide treaty business hence explaining the rather high combined ratio in this segment.

Credit and surety was mainly affected by one large claim and it's still good to see that with all these effects, the P&C portfolio as a whole remains to perform lower than maximum tolerable combined ratio overall.

With currency-adjusted growth of 4.6% in the top line, development of our life and health business is even a bit above expectations for the -- for the first half year. Q4 and -- Q3 and Q4 2015 have been particularly strong in last year. So this increase might be slightly lower by the year-end.

The growth is mainly driven by continued demand in UK longevity. Net premium earned increased remarkably by almost 10% adjusted for currency effects. The increased retention is reflecting first and foremost, the reduced gross premium volume from a large contract in Australia for which we had previously bought significant retrocession protection.

Adjusted for the EUR39 million positive one-off effect in the previous year, the EBIT for the first half-year 2016 would have increased compared to 2015 and, well, this is still in line with our overall expectations for 2016.

Really already -- as Ulrich already mentioned the result from our US mortality business is again somewhat below our expectation with mortality higher than anticipated. Apart from that, the measures we had implemented with regards to a reduction in collateral costs and in rate increases for selected underperforming treaties, well, these measures have materialized as expected.

Our financial solution business continues to show excellent profitability with an EBIT margin of more than 16%. Longevity is satisfactory with an EBIT margin slightly above the 2% target. And as explained, the somewhat unfavorable development in the US mortality experience is the main reason for the miss in mortality and morbidity. Nevertheless, the 4.3% figure is still an improvement as compared to 2015.

Ordinary investment income also here was in line with our expectation. The net effect from our ModCo derivative was a negative EUR1.6 billion -- million of course -- sorry million -- in the first half year.

Looking at the investments, the development is very satisfactory. Investment income exactly in line with our expectation. A decrease in ordinary investment income is due to the last year's one-off effect from the termination fee in life and health. Realization, I mentioned that before, only slightly above last year's level with the majority driven by structural changes within our private equity portfolio. In line with our investment strategy as a hold-to-maturity fixed income investor, we did not harvest sharply increased unrealized gains on our fixed income portfolio which is up by more than EUR850 million since the beginning of the year.

As a result of the volatility of the equity market of the volatile -- sorry, the volatile equity markets following the Brexit referendum, we had some impairments on individual stocks within our equity portfolio. In total, that amounts to EUR25 million. As you know, we had made a moderate start into building up a diversified equity portfolio in 2015. And we continued this in January -- in 2016. Looking at our equity portfolio as a whole also including the write-downs, the development is actually positive. So also here, we have built up valuation reserves as a buffer for future volatility.

Overall investment return was 2.9%, exactly the return we are targeting for the full year, even in light of the reduced investment yields we have to face right now.

The next slide shows an overview of how the different asset classes contributed to the ordinary investment income compared to where we are invested. On the right-hand side, you can see that we have kept our asset allocation rather stable. When it comes to new investments, we are still following a strategy of investing in highly liquid government bonds in combination with some higher yielding bonds while maintaining an overall stable risk appetite as we think that an increased liquidity overall is helpful in the volatile market environment.

At 39%, corporates have still by far the highest share in our investment income. Real estate and private equity are contributing significantly more than their respective share in the asset allocation.

I think this should conclude my remarks and I leave the target matrix as always to you Ulrich.

Ulrich Wallin {BIO 4863401 <GO>}

Thank you, Roland. Well the target matrix you can see that beside the prevailing difficult trading conditions, we continue to see ticks on almost all of our profitability targets. The premium income, however, developed short of our growth targets, particular in property and casualty reinsurance business because of our selective underwriting approach during the current soft market.

This slide -- this shows you the renewals throughout the year of our P&C book excluding our facultative business, our structured reinsurance business as well as our ILS business. You can see during the Second Quarter 16% of the traditional P&C reinsurance business is up for renewal. In absolute terms, it's (EUR1.5 billion) (corrected by company after the call).

You may recall that for January 1 renewals we saw a decline of our premiums of 1.5% followed by a rise of our premiums in the Second Quarter -- Third Quarter renewals of 9.1%. And as you will see on the next slide, the Second Quarter renewals saw a growth of 8% meaning that on a year-to-date basis and on -- based on constant exchange rate -- we saw renewal premiums increase by EUR101 million equal to 1.6%.

This slide shows you the details of the Second Quarter renewals and as you can see -- I mean there is that 8% increase despite the fact that the market in general has continued to be soft. This in fact is for this business the fourth consecutive year where these renewals were subject to soft market conditions. As a result, the rate reductions slowed down considerably which one may take as indication of a bottoming out of the reinsurance rates.

Based on our longstanding good relationships with our existing clients we nevertheless managed to increase our premium volume at terms and conditions which in our judgment still fulfill our marginal requirements. We achieved this growth without writing single large transactions from a larger number of new business opportunities and to some extent from increased shares of existing business.

The growth came mainly from North America, here from the shorter tail classes as well as some growth on credit and surety. And on the agricultural business we saw a good growth of our Chinese portfolio.

Our guidance for 2016 remains unchanged as we feel that the business development so far this year as I already mentioned fully supports that guidance.

Considering the development of our IFRS capital, it is likely that we will again be in the position at year-end to pay an extraordinary dividend like last year provided that the large losses remain within budget and there are no contortions on the capital market.

Looking at the individual areas of our P&C reinsurance portfolio, you can see that the profitability overall is still expected to continue to be above cost of capital. Due to the soft market, this however is not true for classes like aviation or property and catastrophe excess of loss, where based on the expected loss levels, the cost of capital will not be fully earned. On the other hand, we continue to see good profitability on our North American business as well as on our marine business due to the high quality of those portfolios.

Furthermore, we have seen some premium growth, for example, in North America. But on the other hand, a steep decline of volume on classes like aviation where we have to restructure the book of business to be a soft market book of business.

On structured reinsurance and ILS business, we believe that the volume will be stable to slightly up for the full year. The results -- this is -- will be the result of some new (service relief) transactions or capital management transactions from Eastern Europe as well as from the US which are effective July 1. And these should more than offset the lost transactions on service relief motor treaties from China where we saw on premium incomes last year in excess of EUR200 million.

On our life and health business, we expect to continue to see very attractive profits from our financial solutions business even without the positive one-off effects that we saw last year. Our mortality business continued to show good underlying profitability so that despite the fact that we have to assume that some of the older underwriting years of our US mortality business will continue to develop adversely, we overall expect to earn the cost of capital on our mortality business.

From a volume point of view, we continue to see good growth on our longevity business, particularly from the UK. Whilst this business has become significantly more competitive, we still are in the position to proactively write transactions which fulfill our profit requirements.

In line with our strategy, we are confident that we will be able to safeguard a successful development of our business even in the current difficult trading environment. We continue to see an underlying increase in profitability of our life and health business. On the P&C side, we are benefiting from our longstanding relationships with our clients which allow us to protect the quality of our portfolio. In addition, also due to the very good year that we enjoyed in 2015 and at the current year even higher reserve buffers than we ever had in the past.

With our continued positive cash flow we expect that the assets under management will continue to grow and will allow us to achieve in absolute terms a net investment income which is in line with the previous years.

As we saw a decrease -- actually a welcome decrease of our admin expenses in the first half year of 2016, we are confident that we will be able to maintain our competitive advantage regarding the level of admin expenses.

This concludes the remarks on the first half year of 2016, ladies and gentlemen. And we would be more than happy to answer your questions.

Questions And Answers

Operator

(Operator Instructions) Xinmei Wang, Morgan Stanley.

Q - Xinmei Wang {BIO 17860767 <GO>}

Hi. Good morning, Xinmei Wang from Morgan Stanley. I have two questions please. First is just a bit more clarity on the reserving please. Could you give some detail on the single claims in Q2 so the one-off recurring, maybe some color as well on the years and geographies? Then also on the higher frequency basic losses again which years, which regions. I just wanted to -- which geographies. I just want to understand a bit better where the reserve charges are coming from.

Then secondly, is how you think about the large loss budget for the next year. I guess you don't have the same effect as you had in 2015 in terms of the FX impact on the budget. But in light of the comment on increased frequency would you increase your large loss budget on the back of that? Then maybe some commentary on the severity side of things as well. Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well yes, thank you for your questions. I mean on the large loss budget it's a little bit early to say. I doubt if we will increase it significantly. But certainly on the catastrophe loss side it's basically the result of an actuarial analysis that we look at our cat-exposed business and calculate simply the expected losses based on the natural catastrophe models.

For the manmade losses, it's more an estimate based on the average of the previous year. So I mean -- and that can go either way. But I mean the pressure that might increase a little bit on the manmade losses purely because the business has grown in the last couple of years and our lines have grown a little bit as well.

If I comment on the frequency of losses that we saw in the Second Quarter and also the -- some of the loss reserves development, if you -- if I look at the loss reserve, I mean versus actually not paid off, it's just individual losses, for example, some Argentinean business and some business -- some casualty losses from Asia. But we have new information and so we actually then increased the reserves partly as a matter of caution. Whether or not we will actually need that, we have to wait and see. But it is in line with our cautious results -- cautious approach to reserving individual losses. And is not only the case on newly occurring losses but also on -- as we get new information on existing losses we take that into account as well naturally.

Otherwise the underlying frequency clearly has been higher this -- in Second Quarter. If you look at the first half overall it's not so remarkable. First half overall is probably quite in line with expectation. But Second Quarter was clearly a spike there. And it happens that if you look at the business on a quarterly basis, that you might have some quarters which are very benign and others which are seeing -- more activity. On the reserving releases I will hand that over to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

So I think we -- the one thing I'd like to add is that as Ulrich mentioned what we have been seeing came from various lines of business all around the world there was no accumulation up to now. We have not at all any indication that this is not just a coincidence accumulation, that there is any underlying trend or whatever.

On the other hand, when it comes to the redundant reserves we already mentioned that in 2015 we have increased redundant reserves remarkably. You will hear about the numbers in October. So the last year we had published was I think EUR1.56 billion for the end of 2014. That number has increased over the course of 2015 remarkably. We might have a slight downwards effect this year but we will still be remarkably above the EUR1.56 billion which was the last number we had published. So in this regard, I would echo what Ulrich mentioned.

It is something which we are expecting. We have mentioned for quite some time that we do no longer expect to add to redundant reserves in this respect. 2016 was a very extraordinary year -- 2015 sorry was an extraordinary year and now we are there at -- fully in line with expectations.

Q - Xinmei Wang {BIO 17860767 <GO>}

Okay. Great. Thanks very much.

Operator

Anasuya Iyer, Jefferies.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Hi, thanks for taking my question. My first question was just on Life Re. I just wonder given the mortality losses is there anything you might do differently from here to manage the losses on these books and what the challenges might be particularly in asking cedants to recapture some of that business.

My second question also on life re on the longevity EBIT margin, which was around 2.1%. And I think in several of the previous quarters I've seen it higher than that, maybe close to 4% or higher than 3% at least. Just wondered if there's a change in the market there that we should note? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you for those questions. If I look on the -- on our US mortality business the only area where we have problems is the large ING block that we acquired at the end of 2008. And here we have two parts of the business. One is so-called modified co-insurance business where we just -- and I mean get the premiums and reserves off our feeding companies. Here the XXX reserving and AXXX reserving means that we have to post rather high letters of credit. We have reduced the letters of credit cost so much this part of the block is -- it's a -- actually with reduced collateral cost pretty much developing in line with expectation.

So that leaves then the yearly renewable term business where the reinsurer sets the rate on its own, somewhat dislocated of the rates of the feeding company. That of course means that the rates would increase then with age and also the rates are increasing with the expected payout so that the reserving and therefore the requirements of LCs on this business is significantly less.

Here, therefore the, say savings on the collateral cost have limited effect and we have to say that some of these treaties develop adversely. But we have seen the opportunity of those to increase rates. And in case that -- this is in line with the terms and conditions of the treaty which it normally is and it is justified by the development of the claims like other reinsurers we are actually doing that. Of course, there is a time lag because you have to have the evidence first and we are not doing that lightheartedly. Therefore, only after a very thorough actual analysis we would approach our clients with rate increases. That's why I say only where appropriate and necessary.

And -- that of course means that if your claims move -- more adversely than expected so will the rate increases from a client point of view. But as I said, it has a lag of 18 months to two years and therefore it is -- and in the mid-term we expect that we would be able to compensate that problem but it has a short-term negative effect.

A - Roland Vogel {BIO 16342285 <GO>}

Longevity.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes, on the longevity -- on the longevity business, most of that business, if you look at the large longevity blocks which is the majority of the business -- other part of the business is the single premium enhanced annuity business. But if you look at the block business, the initial margins that we book here is around just the 2% mark. Because I would say all of these transactions are still rather new. Maybe with the -- or rather green with the exception of the very old ones which are not many. Because what we are really doing, we are guaranteeing the pension payouts -- inflation adjusted -- for fixed premium.

And of course in the initial years, as I mentioned on previous calls, you are not expecting that your pensioners you are paying the pension for will reduce in number to a larger extent. And therefore , the opportunities that the actual payout and expected payouts will deviate I would say in the first five years is extremely limited. And that of course increases in the later years and should earn our margin accordingly. But none of the -- but maybe bar one -- of those treaties are in the phase where according to our (inaudible) and margins they earn the full margin as yet.

So we put -- the best part of the margin in reserve at this point in time. That's the reason why on the longevity unless there is a development on the enhanced annuity you will see for the next couple of years that the margin will be around, say 2% mark. The deviation comes from the enhanced annuities.

Q - Anasuya Iyer {BIO 18981555 <GO>}

Okay. Great, thank you.

Operator

Vinit Malhotra, Mediobanca Securities

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry, yes can you hear me please?

Operator

Okay, we can hear you now.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay.

Operator

Can you please go ahead with your question?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you very much. So just a few clarifications please. On the frequency losses where you have said there is no pattern and you also mentioned that some of these were not new losses but more new information on existing losses and there you are reserving conservatively, could you please give us some more clarity or some more numbers to use here or some idea of how much is new losses how much is just reserve conservatism?

Then secondly on, Ulrich, your comments on you know the usual disclaimer on the extraordinary dividend is large loss within budget and no distortion on capital markets. Can we assume that what we have seen in the recent few weeks does not count as distortion in capital market? Just a very quick clarification.

And I have one or two more questions. If you'd like I can follow up later or if you allow me I can ask now.

A - Ulrich Wallin {BIO 4863401 <GO>}

You may as well go ahead actually.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Okay. Thank you. So profitability on the cost of capital metric on the worldwide treaty seems to have fallen between 1Q and 2Q. Is it just because the budgets have been just met. Is that the driver of this?

And lastly on the life, it's a little confusing, is the underlying versus last year still expected to increase as was written on your slide? Or as from your comments just now, it's likely to be flattish? If you can just please clarify that. Thank you very much, Ulrich.

A - Ulrich Wallin {BIO 4863401 <GO>}

As far as the development on the life goes, Vinit, we expect that the underlying profitability is still going to increase but only when you exclude, of course, the one-off effect from last year. You can see that we had about EUR180 million in the first half. If we have a similar result in the second half that would be in line. Because we are never quite sure on individual loss claims, you're never quite sure on how the problem business on -- of US mortality actually develops on a quarter-by-quarter basis. But the mid-term trend we are very confident that it's fully intact.

I mean what we have recently seen distortion of the capital market, well, I might say so but certainly not that it will have a negative effect on this year's results. Because, yes, there is some new money that we have to invest also in the second half and it will, of course, be not all that easy to find low-risk, high-yield investment opportunities here. But that's the smaller part of it.

And at the same time, of course, to the extent that if movement in the portfolio with the increase valuation reserves, of course, there is a possibility that we will see some further realized gains. It's, of course, for us our business model not good is that the interest rates are so low. But that is more a medium-term rather than a 2016 problem.

If you look at the worldwide treaty why the combined ratio has increased in the Second Quarter. What we report on the property catastrophe excessive loss is what we write and (inaudible) to be written in our Bermuda subsidiary. The Ecuador loss has been absorbed in the worldwide treaty reinsurance business. And also, some of the reserves that we put up say in Asia where we had an increase in the loss reserve and also in Latin America on some of the business, we just put further prudence in the reserves in the Second Quarter. That also has been done in the worldwide treaty reinsurance

We do expect that by yearend this number, if the large losses behave -- will improve again. But if you look, for example at Ecuador, yes, we had some losses but, of course, we have seen quite significant rate increases on that business as well.

Then on the frequency of losses, it's difficult to give you more color on that, because it just has been, as Roland said, from a rather wide variety of individual lines of business. We had, for example, if you look at some of our German business we had a large, very large treaty which is (inaudible) not too far from home. We had a great result in the First

Quarter. We had a very bad result in the Second Quarter. But the half year is absolutely fine. So it's these kind of movements that we have seen in the Second Quarter.

And as far as -- the question should we have dipped even a little bit deeper in our loss reserve? Well of course, we could have but on a quarter-by-quarter basis, we are relatively protective of our position there. And therefore, we did improve the combined ratio to some extent but maybe not quite to the level of expectation.

A - Roland Vogel {BIO 16342285 <GO>}

Maybe, Vinit, if I can add here. So if we look at the number I did mention the extraordinary one-off positive of EUR150 million with the large loss but it fully exhausted. This gives you a little bit of an indication of the overall amount of developments below expectations.

And your question how is this distributed when it comes to negative run-off or higher frequency. If you -- so we are looking at an overall number of EUR100 million plus. But you could divide that by two. But to put that into perspective we are looking at a reserve portfolio of more than EUR22 billion so in this regard we are not overly excited.

A - Ulrich Wallin {BIO 4863401 <GO>}

I can also add that, of course, under IFRS we book our IBNR what we call segment reverse. And they are actually up, after the first half year this year if you compared with the first half year last year. So the IBNR reserves compared to the same period last year has actually increased rather than decreased.

I'm not fully alarmed even though I think it also has to be said that with the continued soft market the business does not, at least our business, does not have the margins to absorb a lot of negative development without resorting to the -- what we've done with the loss reserves. I think we have to accept that. We don't have to (press) it but it's a fact.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yes. The reason -- the market is obviously worried as you can see in the share price is that, they are worried that -- whether this is the pattern from previous low prices or low terms and conditions. But you have said there is no pattern. And equally just probably just to conclude you have said that half of this negative effect was reserving and half was actual loss. Is that correct understanding?

A - Roland Vogel {BIO 16342285 <GO>}

I don't have the number with me. But if I look at what we know today I think this should give you a guidance. And again, it's distributed around the world in lines of business so this is a little bit the indication that we do not see a real pattern here.

A - Ulrich Wallin {BIO 4863401 <GO>}

And it is largely reserves that you can see from the cash flow. It hasn't impacted the cash flow you might say as yet. But it definitely has -- it is pretty much in the reserves rather than in extra paid losses.

Q - Vinit Malhotra {BIO 16184491 <GO>}

All right. Thank you for clarification. Thank you, sir.

Operator

Jonny Urwin, UBS.

Q - Jonny Urwin {BIO 17445508 <GO>}

Morning all. Thanks for taking my questions. Just two from me please. So firstly just thinking about how the retro program is working. You've obviously made some recoveries in the quarter. I just wondered given peak hurricane season is ahead of us starting mid-August time. How well covered are you? Have you burned through a lot of retentions on some lines? I know that the (k-session) kicks in from the first dollar loss. But on reinsurance programs elsewhere, how much is still to go before you make material recoveries after a Q2 spike in losses.

Secondly on pricing, there are lots of comments around bottoming out here as we've seen from peers earlier in the Q2 reporting period. I'd be interested to get a bit more color on where you think we are in the pricing cycle. Do you think we are about to turn? It seems to me that we need a real loss to turn the market and if we don't get that we'll just sort of bump along on the bottom. So I'd be interested to get your comments there. Thank you very much.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you. If I look at our retro program, the recoveries are largely from the k-session. The vertical programs that we buy is un-impacted. Of course, the vertical program puts a ceiling on the Canadian situation so that will -- this is contained I would say from that.

But pretty much, most of it if you look at k it's not a negative territory as a result of the losses. So we have eaten in and part of the premium but overall I think the k-session is still pretty fine. Of course, it has less room now if it wants to be profitable for some major hurricane losses or something like that. So no concern here.

If you look at the pricing, I would say overall the -- well, we haven't seen a change in the sentiment I would say. Of course, there is increasing concerns with the reinsurer told to reduce their prices further because we all have predictive modeling and of course, the rating models and rating tools, even if you tweak them, would probably say that the prices are rather slim that we are currently charge. And therefore, these rate reductions are slowing. I would expect that that will continue to happen if the trend of reported results from the reinsurance business and the reinsurance continues as is currently being seen.

But I don't see a change, a fundamental change in the cycle at this point in time I must say. And of course, again I couldn't mention it often enough. The business that came for renewal in the Second Quarter this year had, in some cases, seen rate reductions already in three times consecutively in previous renewals. So it's not great.

Additional, if you look at the primary business that also sees some pressure on rates particularly on the specialty lines, a little bit more than say one or two years ago. And of course, as there is more proportionate reinsurance premium being seeded at this point in time rather than excessive loss and facultative, those rating pressures on the primary business will eventually also filter through to the reinsurance business even though -- even if we don't change say terms and conditions from the reinsurance.

So I would say we have a reinsurance market that's reasonably concerned with the low pricing but there is no fundamental turn at this point in time. That's an observation. And from -- that's why I say we are safeguarding to the extent we can our loss reserve buffers, because it is quite comfortable in the current market to have that.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

Operator

Kamran Hossain, RBC.

Q - Kamran Hossain {BIO 17666412 <GO>}

It's Kamran Hossain from RBC. Can you hear me?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. I've one clarification and two questions. The first one is just to cover some of Roland's points as a clarification. I'm not sure whether I heard it correctly or whether I missed something. But did you said that in terms of how we should think about the reserve for redundancy we should expect 2015 to go up and 2016 in absolute levels come down. So that's the clarification.

The second question, again so I'm going to probably stick on this reserve redundancy point, what was the thought process behind using the redundancy at this point in the year? So you take EUR150 million out of the redundancy versus doing it later in the year. We still have -- you said you have EUR472 million of budget left for the year. We don't know what happens for the remainder of the year. So not just the opportunity to true this up at the year end.

And I guess the second part of that question is if we have a light hurricane season will you look to build that redundant cat reserve back into the overall redundancy?

Then the third part I wanted to talk about is, given your -- you've been willing to use reserve surplus to produce earnings or you will be looking to that going forward. What's your overall confidence on forward earnings from here as a result of using quite a large chunk of overall redundancy? Sorry to stick on the one subject but it's kind of my highlight for this morning. Thanks.

A - Ulrich Wallin {BIO 4863401 <GO>}

No. That's fine. First of all, I would say the development of the reserve redundancies in 2015 was quite unexpected from us. And the reason for that was not that -- the rating quality of the business in 2015 was great. The reason was that we saw on our books losses develop significantly below expectation. And that is the reason why we saw this development.

I would say from that point of view we also reached a point where on the -- even with our auditors under IFRS we would be hard pressed and probably be not possible for us to further increase the redundancies here anyhow. And therefore, we were willing to use a little bit of that.

Also, where we used this has rather been from older underwriting years on shorter tail lines where it would have been difficult to defend some at year end anyhow. A good example for that is our marine business where we have seen a remarkable 12% combined ratio in the first half. This is all underwriting here. So 2011 and prior where we had reserves just sitting there.

But the tail, marine is mid tail and therefore clearly because it was also pretty much taken from excess of loss rather than proportionate. Clearly, at one point in time these loss reserves have to be released anyhow because the losses are simply not there. And yes, we could have done that at year end but considering the spike in losses that we have seen in the Second Quarter in line with what we said for some while now we used that for -- really even out that a little bit in the Second Quarter.

If you look at the overall redundancy level in 2016, it's a little bit too early to comment. And because that -- its dependant also on the losses as we develop on the current year. And that will be taken into account in the loss reserves study at year end.

But one thing I should mention that on the new underwriting years 2016 and underwriting year 2015 we kept the loss ratio PEGs entirely unchanged. And they would still -- there we still book combined ratios excess of 100. So there if expectations in the end come to fruition we would probably have to set some further prudence in our reserves on the new underwriting years.

Q - Kamran Hossain {BIO 17666412 <GO>}

And in terms of what this means for looking forwards and confidence on earnings are we still in the position -- I got the feeling at year-end and in Q1, you were still fairly confident not just about 2016 but about the medium-term based on the balance sheet buffers. Is that still the position internally?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. On the P&C underwriting result we feel that that is for the coming years pretty well safeguarded, as long as the losses are not over the large loss budget.

Of course, from a strategic point of view, we believe that eventually the market will turn and we will see better rates again, which allow lower underlying combined ratios. Of course, we think that this will happen at a time, at least that's the plan, when we still have some reserve buffers left.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. That's really --

A - Ulrich Wallin {BIO 4863401 <GO>}

But I think you should also be very clear, the current pricing level that we see in the reinsurance market, does not necessarily support combined ratios at the expected loss levels in the low 90s. We just don't see that.

Q - Kamran Hossain {BIO 17666412 <GO>}

Perfect. Thanks very much for the answer. I think you've put a lot of my concerns to rest. Thank you.

Operator

Michael Huttner, JPMorgan Cazenove.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. So much. I probably missed it. And apologies, I'm sure I did. What is the underlying combined ratios. So if you stripped out these reserve movements on the nat cat in Q1, in Q2 and the first half?

Then are you also tempted, like your peers, to move to quarterly accounting, which I guess would iron out some this (move).

Then on the solvency, I wonder if you can -- you said it would be likely up. I wonder if you can give a feel for how much up?

Then on the reserving, just to go back a little bit. And I'm sure you gave the number. But I missed it. What is the amount of reserve additions within the total reserve movement? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well if I start with the Solvency II ratio, as you know, we had to report it based on year-end numbers that 120% -- sorry, 221%. This is due to the increase in capital up to 227 now. So this refers to the increased bid.

If you look at the underlying combined ratio, in our books that would be based on expected cat losses and based on the loss ratio PEGs that we have on the newer underwriting years, would be, I would say, around 98%, 99%. However, if you then take into account to the high initial loss ratio PEG (C) normally expected run of profit, we are still, I would say, in the region I would say of around 96%.

Q - Michael Huttner {BIO 1556863 <GO>}

This is half-year, right?

A - Roland Vogel {BIO 16342285 <GO>}

Yes.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Does that answer all the questions then or is it more?

Q - Michael Huttner {BIO 1556863 <GO>}

Was there a number -- yes, it was just a number, because you were talking about adding to reserves for Argentina and casualty in Asia. Do you have -- is there a figure? Is the EUR150 million net of these? And how much are these?

A - Ulrich Wallin {BIO 4863401 <GO>}

I don't think we have a concrete figure there.

A - Roland Vogel {BIO 16342285 <GO>}

(No), I think we tried to explain that quite some time. And Ulrich mentioned the loss ratio fixed for the current year. So what I'd mention is that again in 2015 the redundant reserves went up remarkably. We now see an extraordinary run-off which I have quantified with EUR150 million.

So now it depends as to whether we have built up new redundancies for the current years in the amount of EUR150 million, then the confidence level would remain exactly where it was. Or as to whether we have built up a lower or a higher number. We will only know that for sure after the next reserve analysis, which is by year-end. I did mention that our assumption right now is that the redundancy level as compared to the end of 2015 has decreased slightly.

A - Ulrich Wallin {BIO 4863401 <GO>}

And of course, on quarterly accounting, yes, we will be required to set up the Pillar 3 reporting, including the economic balance sheet on a quarterly basis. And we will of course do that.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay, brilliant. Thank you.

Operator

William Hawkins, KBW.

Q - William Hawkins {BIO 1822411 <GO>}

Hello, thank you very much. Just one question, sort of following up to the earlier)one. I'm trying to just be clear about what your message is for the US mortality business. We know it's already been a problem area. Your margin's been bouncing around a bit. It was low in the Second Quarter. But it wasn't really disastrously low. And if you hadn't actually mentioned US mortality, I at least wouldn't really have focused on it as much of a point.

So are you trying to tell us that US mortality has started to deviate again from your expectations. And it may require further remedial action? Or can you just be clear about whether there really is a problem here and whether -- what's going on. Because to me, the headline numbers, unless there's something offsetting US mortality within your 4.3%, doesn't actually seem to be too bad a result.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well the US mortality on the new business that we write since 2009, which we call organic business is actually performing head of expectation. This is a growing part of the book and the same is true for some of the smaller blocks that we acquired. So that's why the overall number is not looking all that bad.

The large block that we bought, there again, it's the YRT business where we continue to see some loss emergence which is above our revised view on the most likely outcome. That's the reason why we will impose further rate increases in order to combat that problem.

In the actual numbers, it's not always easy to define, because of course it's in one line with all the rest of the mortality business and there the development is actually positive. But when I look for the difference in the EBIT on the first and Second Quarter, that is exactly from this YRT business I just mentioned.

Q - William Hawkins {BIO 1822411 <GO>}

Might it be fair to say then that there could be further remedial action that could hurt the (multiple speakers).

A - Ulrich Wallin {BIO 4863401 <GO>}

There will be. There will be further rate increases. There's no question about that.

Q - William Hawkins {BIO 1822411 <GO>}

Okay. Great. Thank you.

Operator

In-Yong Hwang, Goldman Sachs.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Hello, thank you for taking my questions. Just two very quick ones, hopefully. Firstly, just could you update us on what your reinvestment yield is?

Secondly on the July renewals, most of the growth seems to have come from the new business, I think, from your existing clients in the US. Just a quick word on what's driving growth there. And is it just increased demand on some of your specifics or are there common themes behind this? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. If I take the first one -- the second one first and then Roland take the other one.

Yes. Where we grow in the US, as I said, it's more the short-tail lines, it's increased demand from existing clients, which we are able to write some business which we feel is very attractive. That's where the growth in the US comes from. It's not a large US excess casualty quota shares, because we still are shying away from them, mainly because of the experience that we had in the last soft market.

So we are not, despite the overall soft market, we are not unhappy with that growth. We think it's proper growth.

A - Roland Vogel {BIO 16342285 <GO>}

With regard to the reinvestment yield, you know that we usually do comment on two numbers, one of which is very easy to calculate, which is why I have it very concrete. This is exactly what is the reinvestments yield on the portfolio, which I have today, if I would reinvest an additional euro or dollar exactly in the portfolio composition as it is today. That amount is on at least for the time of my responsibility on an all-time low of 1.37%. You also know that we do not exactly reinvest into the composition where we are today. So the real investment yield, or reinvestment yield should be a little bit higher than that, I would assume, it's a little bit above 1.5%.

Let me give you some additional remarks to that. So right now, I would have to expect that the dilution of the ROI is a little bit higher than it was before. So I usually say it's 10 to 15 basis points but maybe it is right now 15 to 20 basis points.

On the other hand, you should also still bear in mind that with the barbell strategy we have been entertaining for a good year now, we see that a portion of our government bonds has gone up, which of course also means that with the rate decreases we have been seeing, this is where valuation reserves come from. So the value of these investments, the relative value of these investments, have increased.

Moreover, it was also interesting to see the sterling going down. Also with the sterling -- the euro going down slightly as well, at least after the Brexit and in this regard we saw some positive developments from the US dollar and the Aussie)dollar and whatever.

So overall the message is -- yes, the reinvestment yield has gone down slightly again. Also again the valuation reserves have gone up drastically. We have not harvested any of that and the buffer has increased to EUR2.5 million in variation reserves right now.

Q - In-Yong Hwang {BIO 18784369 <GO>}

Great, thank you.

Operator

Frank Kopfinger, Deutsche Bank.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Thank you, everybody. I have two questions. My first question is on the investment income, there specifically on the realized gains also on a net level, if you take realized gains and realized losses into account then yes, they are on a similar level. However, if you only look into the realized gains, I think they are quite high in Q2. You mentioned that this is coming from private equity. However, could you comment again on where this high level of realized gains if you only focused on these come from? What the drivers were to have these specifically in Q2?

Then my second question is on your portfolio, also on the renewals. Do you see some pressure on your combined ratio from a shift mix within your portfolios (say) higher proportional share. But also a shift mix in other lines?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well I'll take the second one first. I would say to some extent the portfolio shifts a little bit towards some higher combined ratios because a proportion of pro rata business is increasing and the proportion of excess of loss is slightly going down, even though it's relatively large.

In addition, of course, on the excess of loss, it depends on the way the losses are actually -- develop and happen. But if you just purely take the expected loss values that are calculated from the rating tools, then of course also on the excess of loss business, take lower pricing, the combined ratios would increase at a level of expected losses. It would still be even at a level of expected losses, the combined ratio would still be lower on excess of loss than on pro rata, because of the higher volatility of the results there.

There is a tendency in our book. And I would say overall in the market, with the shift to the pro rata book that there will also be a shift that the underlying combined ratios will probably increase.

A - Roland Vogel {BIO 16342285 <GO>}

Let me comment on the realized gains losses. We had realized losses of around EUR5 million. So the realized gains against it were then EUR85 million and the balance was EUR80 million. The contribution from the private equity side is before the background that we are a long-term private equity investor. So we also always have some old, no longer really actively investing funds in our portfolio. We put them together to a portfolio sold to prepare that last year and this deal was closed this year.

So this was all private equity funds which then resulted in an extraordinary profit of EUR31 million in the first half year. So a good EUR30 million out of the EUR80 million came from that transaction.

Apart from that I think realizations were just normal course of business in the portfolio. You sometimes have to sell something because you have to pay dividends or claims or whatsoever. Right now, everything is -- every sale is -- or nearly every sale is associated with the realization. If you indicate that we had increased the realized losses to mitigate a little bit the lower income in Q2, this is not the case.

So for instance, in my equity portfolio right now, I'm up 6%. We have depreciations on equities of EUR24 million. So including these EUR24 million, the portfolio is still up by 6%. So it would have been easy to mitigate that by just selling some of the equities and thereby mitigating the write-offs. We didn't do that. We still have these valuation reserves in the portfolio.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thanks.

Operator

Vikram Gandhi, Societe Generale.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Hi. Good morning, everyone. I've got two questions and a couple of clarifications. Firstly, can you shed some light on which lines and geographies led to the year-on-year decline in the P&C premiums, apart from the facultative and Chinese motor quota share business that you already mentioned?

Secondly, on slide 17, I see the volume there of the financial solutions business now points to a flattish growth. I just wanted to get your thoughts around that. And if that relates to the finalization of principle-based reserving in the US?

Lastly, if you can clarify if the EUR150 million number that you mentioned as the usage of the redundancy relates to the first-half or the Second Quarter standalone? The 227percentage solvency ratio, is that the solvency at the end of first half?

A - Ulrich Wallin {BIO 4863401 <GO>}

Well the solvency ratio -- thank you for the questions -- is based on the number at the end of the First Quarter. At the end of the Second Quarter, it's expected to be quite stable, because we saw an increase in capital due to the significant increase in valuation reserves.

At the same time that would have meant some of the discounting values would go the other way because of the low interest rate. The capital requirement is probably slightly down because business is slightly down. So I would say on average I expect that to stay stable at the end of this year. But we are just in the process of running all the models and then calculating that.

You've said the financial solutions business premium would be rather flat because of principal-based reserving. Well the premium on the financial solutions is not a very telling line, because a number of the businesses that are deposit accounted. And as we saw last year, some of this is even accounted as a swap. The principal-based reserving, of course, reduces the opportunities to finance Triple-X and AXXX reserving.

However, (that's) only for new business and not for the i; force business. And as far as the transactions that we have on the books, the average duration is something like 20 years. So it's a -- they we will continue to be there and we will be adding new ones because transactions are a little bit more diverse now than financing a Triple-X and AXXX reserves. We have a broader scale of transactions there, particularly in the US.

So on the financial solutions in the US, premium, as I said, is not so important but we expect it with the profits will further increase.

Then you are asking on the P&C business, where we are -- where we have lost some income. Yes. We have, as you rightly say, the lost income on the Chinese motor quota share because of C-Ross, they are not quite sufficient any longer. But that is booked in the end, the financial solution segment, because these were surplus relief treaties with financial reinsurance bells and whistles to it.

But we have made up for this by 1/7 because we had another kind of service release transaction in a different country, this time in the US which was newly written at 1/7 which together with some Eastern European business that we wrote in the first half should actually even out that.

Other areas where we see premium dropping, for example, is available where we had the largest dropp, this is just because we have reduced our involvement in the proportionate treaties, in particular covering a (inaudible) airline book, because most of them, their declines would require higher commissions. We just don't feel that considering the airline ratings that that is justified. Well at least it's not what we would like to support. It doesn't mean that those higher commissions are not supported in the market. Quite to the contrary, they are.

So other lines, also on our non-German, continental European business, we have also seen some reduced volumes, again because of very competitive pricing. So selective underwriting dictates that we would reduce our volume. But other areas, as I said, like North America, like the Far East, we still see growth opportunities and also in lines like agriculture has continued to grow.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Right.

A - Ulrich Wallin {BIO 4863401 <GO>}

The EUR150 million, I would hand over to Roland.

A - Roland Vogel {BIO 16342285 <GO>}

I can only reiterate, I think, this is what we usually do. We make a comment as to whether our run-off result was in the normal region of EUR50 million plus per quarter or as to whether we are higher than that. Technically we are EUR150 million higher than that.

As to what that exactly means for the redundant reserves and redundancy level, I mentioned before we will only find that out after a new in-depth analysis. Our assumption right now is that it has gone slightly down. But only slightly down. I mention one more time it will -- or it should still be remarkably higher. The overall level or the absolute level of redundancies, then the EUR1.5 billion, which we mentioned October last year for year-end 2014. So we are still over and above that, which leaves us with a remarkable buffer even after -- we didn't increase and we have slightly decreased.

Q - Vikram Gandhi {BIO 18019785 <GO>}

Okay. Thank you very much.

Operator

Jochen Schmitt, Metzler.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you. Good afternoon. I have two questions. First of all, Mr. Wallin, you've touched already a bit on this topic. What are your expectations for the impact from the major claims which we saw in Q2 on the future price development in reinsurance?

Secondly, on investment income, ordinary investment income in (distinct) Q2 increased year over year and my question is were there any non-recurring items included in that line? For example, dividends from private equity? Or what's the driver behind that? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well the claims have a positive effect on pricing. But pretty much only where they occur. So we see very significant increases in Ecuador and in Canada for CAT business or for CAT-exposed business. This is purely a reaction on the losses.

The panels of reinsurers largely remain unchanged, because as all three insurers that currently write that business, like, for example, us, we are happy to write the business at higher rates. But there is no -- none of the market players exiting that -- those lines. So there's no opportunity for new players to get in.

That has been the case all along, I would say, also in the losses in 2010 and some of the losses we saw 2011 outside the Taiwanese flood. The overall market still sees rate increases as an opportunity, not as a threat. Therefore, their losses are rate increases but they are normally taken by those reinsured that also took the losses.

A - Roland Vogel {BIO 16342285 <GO>}

When it comes to the ordinary investment result you mentioned, why this has gone up in this competitive)or in this low-yield environment. No. There are, apart from one a little bit complicated effect, there are no extraordinary effects. The one a little bit more complicated effect as compared to the first half last year, it is in the private equity portfolio we had a conservative approach to accrue for running profits up to the sale of the portfolio we mentioned, in line with this conservative approach which is associated with distribution, has been in line with accounting requirements being changed.

This will also happen going forward so there is no -- not a recurring item in the ordinary investment income this year. I think it was good; it was okay, the volumes especially in the higher yielding areas had been growing. We had pursued our barbell strategy and also invested into lower quality regions and that has had a positive impact.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Okay. Thank you.

Operator

Thomas Fossard, HSBC.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes. Good morning. Two remaining questions, more questions on the life re slide again and the US mortality book. Roland, could you please quantify the negative impact on the EBIT in the quarter two? Could you -- I'm still a bit confused on what we should expect Q3/Q4. Should we expect the same magnitude of drag to be repeated in Q3/Q4, until you're putting higher rates? Or what you will quantify for Q2 is really a one-off? Thank you.

A - Ulrich Wallin {BIO 4863401 <GO>}

Well I would say the effect in Q2 was around $25 million to $30 million. We see the same thing in Q3? Possibly. Of course, we don't know as yet, it would also depend. We didn't see as much in Q1 because one of the ceding companies where we increased rates have just recaptured the business. So we had a positive effect from that recapture.

I would say from a -- from trend, I wouldn't be surprised if you see some further negative development in Q3 and Q4 built from those particular portfolios. But again, this is -- will be to some extent you won't see it that clearly in the figures, because the rest of the business is trending pretty positively.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

(Operator Instructions) Mr. Wallin, as there are no further questions, may I please pass the call back to you?

A - Ulrich Wallin {BIO 4863401 <GO>}

Yes. Thank you very much. And I'd like to thank everybody for participating in the call and, well, have a nice day wherever you are and all the best. Bye bye.