S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

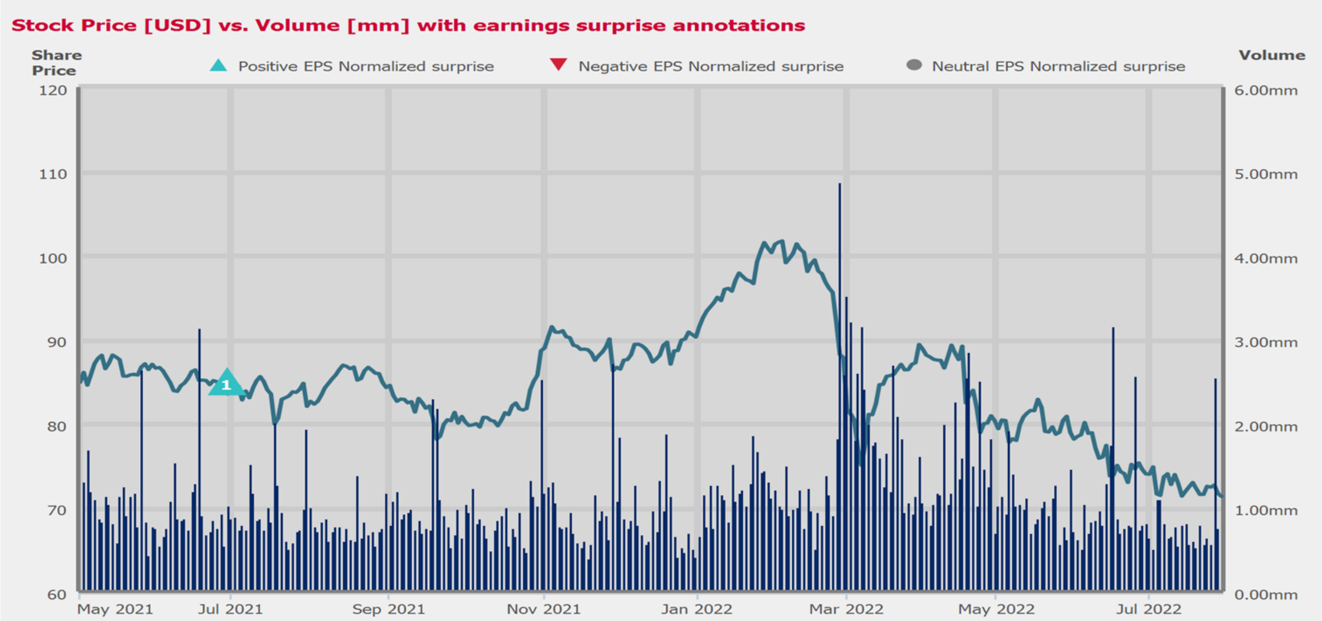
FH1 2022 Earnings Call Transcripts

Friday, July 29, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FH1 2022-			-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	NA	NA	NA	5.73	NA
Revenue (mm)	21733.00	NA	NA	44026.29	NA

Currency: USD
Consensus as of Jul-29-2022 5:17 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FH1 2021	2.60	3.47	1 33.46 %
FH1 2022	NA	NA	NA

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EXECUTIVES

Christian Mumenthaler
Group Chief Executive Officer

John Robert Dacey
Group Chief Financial Officer

Thierry Leger
Group Chief Underwriting Officer

Thomas Bohun
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Societe Generale Cross Asset Research

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Presentation

Operator

Good morning or good afternoon, welcome to Swiss Re Half Year 2022 Results Conference Call. Please note that today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Christian Mumenthaler, Group CEO. Please go ahead, sir.

Christian Mumenthaler
Group Chief Executive Officer

Thank you very much, and good morning, and good afternoon, to everyone from me as well. I'm here with John Dacey, our Group CFO; Thierry Leger, our Group CEO; and Thomas Bohun, our Head of Investor Relations.

Before we go to Q&A, allow me to make a few remarks. I've read a lot of good write-ups. I will not go through the numbers anymore, but rather focus maybe on a few nuances or elements I want to personally talk about, so you get a bit of a better sense and background sense of how we see things.

So the first one to talk about is Life & Health. I think obviously, we're very happy about the result in Q2. I'm pleased to see that the COVID losses drop as much as they did. I think the nuance I'd add here is that in the past, we always had this -- the winter waves and then in summer, basically because people were outside and the social distancing was stronger, there was nothing going around. And clearly, this time it's different.

The BA4 and our BA5 of Omicron are extremely effective, and there's huge waves going on in Europe, in the U.S., and it's just that people are infected for a second, third time. There's a lot of vaccinations. And therefore, most people are not testing. And you see that on the positivity rates of the tests, which, for example, in Switzerland are 50%. So this is very, very high. I mean there's an enormous amount of undetected cases.

I think that's relevant because it strengthens the hypothesis that we're entering an endemic stage. We're not saying there's going to be 0 COVID, obviously. I think I could see -- we could see that in Q3, Q4, you see some increase in excess mortality, but we definitely expect, unless there's a new variation coming out that is much more deadly, which is not that plausible, we would expect this to be significantly lower than it was in the last 3 years. So that's for Life & Health.

P&C, obviously, you've also seen all the numbers, just to repeat the overall budget for the year is $1.9 billion. We had $0.9 billion so far, but this is ahead of the $0.7 billion, which we expect in the first half of the year. So this is sort of the risk-based expected losses we would expect through the year, but the year is still going on. So I think it's too early to draw any conclusions from that. The figures we published included $150 million of reserves related to the French hailstorms. I mentioned that because I think by the time you guys did the -- did the consensus, most of that was not yet known and not yet included. So this is certainly something that is a deviation from consensus in my view -- in our view.

And then there's -- I think this -- the fact that we released the premium rates that we earn through in GAAP, the net cap premiums in a different way to our competitors. We have a scheme, where this is risk-based. So since roughly 1/3 of the risk is in the first half, 2/3s in the second half, that's how we release -- that's how we earn through the nat cat business, which means that the second half structurally has a lower expected combined ratio because the nat cat business has a lower combined ratio than the rest of the book. And this difference is about 3 points. So it's quite significant. And of course, we have to explain that every year, and we'll have to see under IFRS, whether we align to competitors or not. But at this point in time, that's how it works in GAAP. So that's an important fact to know, but I think it's already quite widely known.

[I think] the renewals, I think we are really happy with renewals. The July 1s were 12%. Now of course, you've read that we increased models and loss picks by also 12%. So it washes out, but I think that's something that's the right thing to do also in this environment with inflation, with the uncertainty we are having. But besides that, that's on a like-for-like portfolio, we have some benefit of portfolio shifts of 1% to 1.5% in combined ratio. And then, of course, the higher interest rates are earning through on the asset side. So -- but it's not just that.

I think also the fact that we reduced or started to reduce in January some of the proportional exposure in particular, motor in Europe is now really paying off. I think that was the right thing to do. As you know, we're in a phase, where with high inflation, where some of the primary insurers cannot have price increases -- immediate price increases in some jurisdictions, you need to file for that with the regulator. And we felt that in January, but also through the year, that some of the prices we get on the proportional business do not reflect the full risk of inflation. And therefore, we have seen a shift here.

We're pleased not to have a top line target. As you know, top line is a very weak indicator for the underlying business, but we also indicated that we deployed 10% more capital year-to-date. So that's in contrast to a 3% increase in premium. So we deploy more capital, but it's capital more to the non-proportional business and this is maybe as -- a wider indication of the market hardening. Several of you were there many, many years ago when we were very much so long on the non-proportional side in a hard market that makes sense because you're decoupled from the primary prices, and as the market softens, the differences of profitability becomes smaller. And so now we see a bit of a reversal of all of that. But overall, I think we're very pleased with the quality of the book. We have worked very hard to get where we are.

In that sense, also, obviously very pleased with CorSo. I'm sure we're going to have questions, but hopefully, the -- in the right way, not the way we had a few years ago, I think by now, clearly, a very nice turnaround in CorSo. It's very -- very much established and also growing at good rates and continuing its strategic transformation.

On SST ratio, we communicated we're above the range of 200% to 250%, which is a logical consequence of the higher interest rate environment. As you know, in SST, as interest rates go up, we actually -- the need for capital is going down. And so from a regulatory point of view, we're extremely well capitalized, but there's also a time of stretch because in other measures like U.S. GAAP equity, obviously, that is falling because the liabilities are not mark-to-market in U.S. GAAP.

Here, we have good hopes and good hopes in IFRS, which we will establish IFRS 17, which we'll have by 2024. There -- there's much more matching between the asset and liability side, and we won't see this drop, which we have seen now in U.S. GAAP.

And finally, on the targets. I said it this morning in the media call, and I think you can obviously judge by yourself with everything I said, I think the segmental targets are absolutely within reach. The 10% ROE is very much a question of financial markets in my mind. Also, nat cat, obviously, since we still have $1 billion of budget there, and it depends how things develop, but financial markets has been a real -- really strong deviation this year, have impacted us significantly. And so if you see any recovery there, of course, the 10% are still possible. So it's just important to appreciate the distribution of both potential outcomes and that the 10% is still within this distribution, of course.

So with that, I'll hand over to Thomas to introduce the Q&A session.

Thomas Bohun
Head of Investor Relations

Thank you, Christian, and hello to all of you from my side as well. Before we start, if I could just remind you to limit yourself to 2 questions and then rejoin the queue if you have follow-up questions.
With that, operator, if we could have the first question, please.

Question and Answer

Operator

The first question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

It's not often I'm first in the queue anyway. Could I just follow up on the proportional business, particularly motor. Christian, you mentioned, you pulled back on it, but obviously, there's a lot in the book. I'm just trying to understand the protections that there might be as a reinsurer, particularly on motor proportional business. And I'm thinking things like sliding scale, et cetera, that mean you are, to some degree, insulated from the issues that we're seeing at the primary level. So maybe a bit of color on that would be useful.

Second question on capital and SST. There was quite a lot of increase in drawn down debt in the first half of the year. I can see in the accounts that there's been also some reduction of senior debt. But does the SST number include that additional debt? Or have you netted off debt that you're expecting? I think you've got some maturities in September, maybe early next year? And maybe just talk to us through your sort of debt strategy and what you did in the first half?

Thierry Leger
Group Chief Underwriting Officer

I take the first one, Andrew. So on proportion business, motor in particular, so you're absolutely right that there are protections in place. So we have around -- if you look at proportional and non-proportionals, on the proportional, the protection we have in place are sliding scale. So around 80% of our business has sliding scale. So that from inflation, for example, quite a bit.

And on the non-proportional side, more than 90% of our business has index clauses. Typically, such an index is CPI related, so it's not a perfect match, but it works quite well in current environment. So that also provides us with protection. But it's clear that we see or as Christian said before earlier in the year, but already during last year, we saw different tendencies, not necessarily just inflation. We also saw social inflation kicking in at the degree that would actually go beyond the sliding scale. As an example, our social inflation is also not reflected in the CPI index in non-proportional. So these are all areas to watch for us.

And clearly, our conclusion in the end was to reduce from the motor book that we have. So that's the decision we took despite some of these protections being in place. Of course, we reduce more on those books that actually don't have this protection than where those protections are not all motor quota shares, obviously, have such protections.

Christian Mumenthaler
Group Chief Executive Officer

Maybe Thierry to add, of course, these are not infinite. The sliding scales are just a few points, and they protect you from the worst from the beginning. But obviously, as inflation gets worse, it can hit you.

Thierry Leger
Group Chief Underwriting Officer

Yes. Typically, they -- absolutely right, Christian, there are 5 points, maybe 7 points right? And that's why I said, if you faced with heavy inflation and maybe social inflation on top of it, then a 5% to 10% sliding scale just doesn't protect you anymore enough, right, and which actually led us to reduce that exposure. But that doesn't mean, forever, the market, as Christian said, might turn more attractive again, and we will have a lot of powder dry at that time.

John Robert Dacey
Group Chief Financial Officer

And Andrew, it's John. With respect to the debt financing, you're right, we called on the prefunded facilities early in the quarter. The $1.9 billion was brought on balance sheet, largely as a preemptively funding what are going to be 3 maturing issues in the next 12 months. There's a subordinated note at the end of Q3. There's a senior note maturing at the end of the year, and another senior note maturing in May, I think, of 2023. The amounts of those are similar, a little bit smaller, I think $1.9 billion in total.

But our expectation is that we would not do any additional funding replacing any of these 3 maturing issues. But rather when we saw the market volatility in March and April, drawing on the prefund, it seems to make sense, both economically and just securing the funds on the balance sheet ahead of these maturities.

Think overall, the leverage of Swiss Re cosmetically looks relatively high just because the shareholders' equity has dropped $7.5 billion impact from the increase in interest rates, as of June 30th. Again, this is an accounting reality, not an economic reality. And I think we're entirely comfortable with the overall positions of both debt and economic equity in the balance sheet.

The SST ratio, as Christian mentioned, is above the top end of the range, and we're very comfortable at the moment with that. It's been inflated by the -- this big shift in interest rates. When we come out, I think, in the end of October with our Q3, we will give you detail on the final SST number, as of the 1st of July.

Thomas Bohun
Head of Investor Relations

Thank you, Andrew. Could we have the next question, please?

Operator

The next question comes from Kamran Hossain from JPMorgan.

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

Two questions. The first one is, I guess, on strategy and reinsurance. It looks like you're increasing the level of cat business you're putting on where it seems sensible given what's going on in the market, it seems like it's actually truly getting hard there. Could you maybe talk about how much headroom you actually have to increase cat risk, both on kind of a rate agency basis and then also on an internal risk appetite?

The second question is on CorSo. I mean, the numbers, I think, Christian, you said it's been a very good result, and it has been for some time. The ex kind of combined ratio, underlying combined ratio, [ex the], I guess, the deal you did suggest it's kind of closer to [91%], potentially, you had a little bit of bad luck in the first half as well. Is there any reason that CorSo shouldn't have a kind of [sub-90%] combined ratio in the near term.

Thierry Leger
Group Chief Underwriting Officer

Kamran, I take the first one. On cat and you referred specifically to the headroom, so -- but let me start first with confirming that we do indeed see cat as an attractive area to grow further. We think the market is, as now, as Christian said, arrived to a hard market positioning, and we see further hardening, for example, in the July renewals, and we feel that continued hardening will happen in the next 18 months or so. So we are very optimistic with regard to the market out there.

In terms of headroom, so our headroom goes from very large to maybe less sold or it depends a bit on the perils. As you know, we split our cat book into many different perils. So on some of them, we have a lot of appetite. So we are strongly pushing for those. And they now in this hard market come actually at very attractive rates. One of them was, for example, flood Germany last year, if you could really ride the wave very nicely with deploying more capacity into the market. There are other areas, where the capacity is generally more scarce, but also there, we have some headroom still to play around. And this -- if we feel that the headroom is reducing what we do is we just pull the good business, but maybe it's not as stellar as some of the new business we can get. So some of the actually good business might have to go and make room for even better business.

And that is also why, certainly, you can hear Christian being very positive on cat because what is good is going to get even better. So we can grow both EVM capital allocation, and we can over proportionately grow our economic profit in the space.

Christian Mumenthaler

Group Chief Executive Officer

And I think if I can, together with that, the continued strength of our alternative capital partners gives us the opportunity to manage some of the peak risk by directly accessing retro markets for those risks. The prices that are being demanded are elevated compared to where they might have been a year ago. We understand that. And to-date, we've been able to price the underlying risk that we bring on to our books in a way that there's -- maintains a margin between what we [seed out] in -- with various vehicles to what we've actually been compensated for taking the risk onto our books.

Thierry Leger
Group Chief Underwriting Officer

I'll take the CorSo question, which, of course, I fully understand, and there's clear logic in what you're saying and suggesting. I'd just say that I think really about the long term of this business, and we're still paranoid about the past and where things might go with this market if you project several years out. So it is the top importance for me is that CorSo must be rock solid in every single balance sheet item, and that will be the priority.

We don't want to push results now and then later get into trouble. I think it's super important that we have a sustainable long-term path for CorSo. And we do that through some portfolio shifts and getting into more diversified lines overall, so that even if there was a shock like the last off cycle, which is basically what I always try them to go through in simulations that we can -- that we can sustain. So I'm not making any particular predictions for the future, but just understand what's the mentality we come from and that we want to make sure that it's on a very safe, sustainable path.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from Freya Kong from Bank of America.

Freya Kong
BofA Securities, Research Division

Two questions, please. So your P&C Re current year loss ratio seems to be moving backwards despite your change in business mix over the last year. Is this being driven by motor, proportional or something else? And even adjusting for the war losses and the earn-through timing, H1 versus H2, do you think you are still running a bit behind the 94% normalized combined ratio target for this year?

And secondly, there was some reserve strengthening in Q2 for both P&C Re and CorSo. Could you just give us some color on what's driving this?

Thierry Leger
Group Chief Underwriting Officer

Freya, I'll take the first one on P&C Re, the loss ratio question that you were asking. Indeed, your observation obviously is factual, right and that with regard to where the loss ratios develop. So -- maybe let me go just back a little bit. We have made it very clear, right, that we see an environment of high volatility in which actually we need to drive technical returns first, right? So that explains our very strong focus on combined ratios. And that, of course, includes the loss ratio.

And we have also said that we would shift the portfolio to where it's more attractive. And in this environment, we have explained it now several times, we move from proportional rather to non-proportional business. So all of that obviously then impacts our loss ratio. So what I'd think in this environment, we definitely need to watch that.

So as the Chief Underwriting Officer, I really watch the attritional loss ratio very closely because I do believe that we need more headroom in such a volatile environment. And I think with the continued shift of business with the improved costing that we have seen again in July, it makes me feel very optimistic about continuing to drive this attritional loss ratio down further. There is more into play here and much more details.

With regard to the question, of course, of the 94%, I think we have explained it several times already that we see ourselves still on a good path with regard to P&C Re. We have shown the normalized results, the normalized combined ratios, and we have explained to you the seasonality effect, as an example, but also Christian mentioned the Ukraine impact and so on. So all reasons that if you deduct those, actually, you can see that you are still on a very good path to get below the 94%.

Christian Mumenthaler
Group Chief Executive Officer

And with the -- sorry, with the microphone. With respect to the prior year development, I think overall in the first half, we -- there was positive momentum continuing, although at a much smaller rate than in 2021 for Corporate Solutions. And the net position was about plus [50]. There was some reinforcement of reserves and casualty. There might have been a couple of specific claims were coming from the older years, where we saw a need to make some modest top-ups.

But I think, more importantly, just some precautionary assumption changes for the course of book in casualty, we show that we've got, as Christian indicated sufficient reserves for the uncertainty that's part of the -- well, the casualty liability book of business there. I don't think this is anything to worry about in the context of any trend, but rather just looking forward and being sure that we're well covered.

On P&C Re, a similar orientation, I think, again, some pluses, some minuses. Net-net, for the half year, I think we were -- have a negative $10 million, which is, frankly, trivial with respect to the overall reserve position of P&C Re. I think we're very confident in the reserves. We've continued to evaluate all different dimensions of pressures on these reserves, whether it's social inflation that we've been talking about now for literally years, whether it's the current spike in inflation affecting short-term lines on motor and property in particular and comfortable that we've made the adjustments we need to make the -- to be well positioned.

Thomas Bohun
Head of Investor Relations

Thank you, Freya. Could we have the next question, please?

Operator

The next question comes from Iain Pearce from Credit Suisse.

Iain Pearce
Crédit Suisse AG, Research Division

The first one was just on the intra-group dividends. Just looking at the reporting, it looks like the segmental changes in equity is no longer being shown and holdco equity looks quite low even taking into account sort of market movements that we've seen. So I'm just wondering if you could talk to us about what's happened in terms of dividends from subsidiaries up to Group level in H1?

And the second one is just a point of clarification around P&C Re, particularly with the business mix changes that we've seen and the sort of 1 percentage point, 1.5 percentage point combined ratio that I think you've mentioned, the improvement that you mentioned there. Is that included in the [94%] guidance? Or is that in addition with these changes? Was that part of the budget at the start of the year? Or is this something that actually should be leading us to sort of improve estimates the next year?

Thierry Leger
Group Chief Underwriting Officer

John, would you like to take the first question?

John Robert Dacey
Group Chief Financial Officer

Yes. I mean the -- with respect to internal dividends, we did make a dividend payment out of SRZ, in the SRL in advance of the payment of the external dividend. I think our capital and liquidity in the flagship carrier, SRL remains robust, and we don't see any particular issues with respect to flexibility on dividends, as we go forward. So I'm not sure that there's a particular issue here.

I think that on the disclosure, we can -- I don't know that we've specifically done less. It's part of the restructuring that we described last year with what we call Project Genesis, bringing a series of legal entities in Switzerland together may just not have that inter-company flows that you might have seen in previous years. And I think that's the only thing that's going on here.

On the second question?

Thierry Leger
Group Chief Underwriting Officer

On the second question, so you're absolutely right. So the business mix is included in our [94%] targets already. Improvements that we have achieved, obviously, this year, we will already profit to a certain extent this year, that would actually help to compensate for some of the headwinds, unexpected headwinds we have seen due to the war. But lots of these changes, including, obviously, the very strong July renewals will also or even more so, profit 2023 and further years.

Thomas Bohun
Head of Investor Relations

Thank you, Iain. Could we have the next question, please?

Operator

The next question comes from Vikram Gandhi from Societe Generale.

Vikram Gandhi
Societe Generale Cross Asset Research

Yes. It's Vikram, SocGen. Just a quick one from me. Can you share what the latest IBNR position is on COVID reserves for P&C Re and CorSo? I think the last disclosure we got was at the year-end stage, where the IBNR position was around 52%, 53%. That's really all from my side.

Christian Mumenthaler
Group Chief Executive Officer

Vikram, it's still surprisingly large given the fact that we're 2 years after the incurred event. It's down a bit. But we're continuing to be -- the largest single IBNR position continues to be the property BI, and we continue to be in serious discussions with a number of primary companies looking for resolution for an appropriate determination of final claims. I'd like to tell you it's going to be done this year, but I don't think it will be some of them might, and we'll give you, as we get through December 31st, a more detailed update of what's left out there.

Thomas Bohun
Head of Investor Relations

Thank you, Vikram. Could we have the next question, please?

Operator

The next question comes from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Yesterday, we heard quite a bit about reserve risk and the read across from whether it be reviver statutes or inflation potential. It sounds like, it sounds like you [Technical Difficulty] recognize the higher inflation risk, and you wouldn't assume any more risk than normal assumptions heading into the Q3 reserve review. Is that a fair statement from what you've said so far? And I guess that I'd probably say, it seems quite optimistic given the spike in inflation? Or is that -- is it because you just view it as a short-term spike in nature?

And the second one, just thinking about leverage, you mentioned the headline IFRSs in the correct way because of the unrealized gains, et cetera, I guess we can always strip that out. But even then we'd still be close to 40%, and of course, the peers will be lower in that regard. I guess, other reinsurers -- insurers are happy giving their targets, would you be willing to give an appropriate range for leverage? Or how should we be thinking about it?

Christian Mumenthaler
Group Chief Executive Officer

Sure, Will. On the first one with respect to the reserve risk, the -- I know, the reviver statutes and potential risk on abuse claims is topical. We've been looking at this quarter-by-quarter for probably the last 5 years, at least, maybe longer. We continue to update our view of our own exposures, talk with our clients. We've got -- so the general IBNR reserves set up for the -- our U.S. liabilities, which for better or worse is probably, where most of this -- the dollar loss is likely to come from. But also in some cases, some specific case reserves, and we're comfortable, very comfortable with what we have there.

The reserve adjustments that we made in 2019, 2018, 2020 through the P&C Re and CorSo, I think reflected our view that the social inflation was an issue and our continued view that it's not going away, it's not getting better. It may even be getting worse. And so the updates that we made, and you saw last year that we continue to make contributions to the P&C liability, reserves were reflective of this.

On the shorter tail lines, we evaluate what the exposures are for us. You just heard Thierry talk about some isolation or insulation that we have on some of the motor inflation, but we will still see, especially with large losses, the risk there is certainly in property as well. And we -- in the first case, we've adjusted aggressively our costing models and the pricing related to these lines. But we've also looked at the reserves, and we're comfortable that we've made whatever adjustments are required on a quarter-by-quarter basis to get us to a good place there.

So I think we don't have a particular view that inflation is going to be short-lived. On the contrary, the Swiss Re Institute, I think, has taken a relatively pessimistic view coming into 2022 and through 2022. And we -- while we don't necessarily agree 100% with everything that our economists there have to say that -- that's the basis from which we evaluate what we think might be required for the insurance coverage we write.

With respect to the leverage, we actually have been reducing over the last 10 years, a series of positions for the various components of leverage, the way that we calculate it. We've said that we're looking at the upper end of 35%, and that's a different calculation. I think [when] you're using, but we can put it very easily together, and we've stayed in there. The important thing is we've systematically have been reducing our senior debt, and in some cases, replacing it with subordinated debt along the way.

But I think the point of this momentary increase that you see here at June 30th is what I mentioned to Andrew, right, a prefunding of 3 issues, which are maturing in the next 12 months. We don't expect new issuance, as a result. And we'll go into 2022, I think, in fine shape in comparison with the -- our competitors, I'll leave to you.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from Vinit Malhotra from Mediobanca.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Just -- the first one is on the renewals, and I am just curious about 1 or 2 things there. One is the strong reduction in proportional property, which I presume is ex-cat, and you note that this is more exposed to inflation. Now I understand that the motor topic you just discussed earlier in the call was in the casualty side. But is there a similar thing here, why should proportional property ex-cat have more inflation if we just carry [forward with] some ideas there?

And just linked to that, the -- is it a fair thing to compare these 2 slides, which is at -- as of 1Q and then in the 2Q slides, the one, where we show the renewals walk, and we see new business rather low of only about $100 million in the July renewals, and obviously, that would be consistent with this cut back. But I just wanted to hear your thoughts on this cut back in July renewals. That's the first topic.

Second topic is the midsized man-made losses, which both 1Q and 2Q, and on Slide 23, both 1Q and 2Q were higher year-on-year on the accident, the attritional loss ratios you like to -- if you'd like have to call it that, is there something that we should be thinking about here because this was the topic in the call today, in the morning today.

And if I can ask a half point -- literally [I have] one word clarification. You mentioned CorSo being very cautious of -- reasonably cautious. Is the casualty calls for [123%] combined ratio 2Q, just an example of a cautious approach? Or is it an example, is it something being driven by some external losses or claims or even the reviver statutes just mentioned.

Thierry Leger
Group Chief Underwriting Officer

Vinit, I'll take this, and you might have to repeat one question. I wasn't sure whether I understood it. But I will go with those that believe I understood. So the first is on proportional property, right, why do we use it? And you -- so when you look at inflation, you can see that CPI and, for example, construction prices and elements like this, they have a direct impact on property. And when these spike the way they did, I mean, construction started last year, which is, by the way, also why we already started last year to become very cautious on property because the construction prices are not up only since the war developed already because of supply chain problems before that. So construction prices are high up, now CPI is high up as well. Both have a direct impact on property.

And then these spikes happen relatively fast. And then, of course, it's clear that it's going to take the primary industry at least 12 months to actually get ahead of the curve. So everyone is now behind the curve, increasing prices, you have to file. It takes a while, so 12 months, 18 months delay. And so when you look at it from a reinsurance perspective, and you have different ways to deploy your capital. So that's not necessarily where we, therefore, decided to deploy our capital.

You also had a question around the renewals and $100 million. Maybe Vinit, do you want to just -- and I come to your other questions in a second. But maybe you want to -- did elaborate a little bit on that question of the $100 million because I didn't get it.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Yes, yes, yes. Sorry. So if I see the slides, which show the renewal walk, so for example, what was in the first quarter, Slide 5, and today, it's Slide 6, you see the column new business, YTD, and it's a really small number of only $0.1 billion. So -- and just -- I mean, we [cancelled] a lot, which I can see. It could be your proportional property. But if you only wrote $0.1 billion of new business, is that just a reflection that non-proportional tend to be lower volume, but higher impact on the numbers.

Thierry Leger
Group Chief Underwriting Officer

Yes.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

I can take it offline.

Thierry Leger
Group Chief Underwriting Officer

No, maybe you will have to, but I'm really happy to answer what I think I now understood. So yes, indeed, you're absolutely right. When you -- so non-proportional business for the same amount of capital allocated comes with 5x less premium. So that's what you see, right? So you can really allocate more and more capital.

But when at the same time you shift from prop to non-prop, you reduce your premium that goes with it. So again, you have a $100 million capital with proportional that might create -- that might create $500 million of proportional premium. If you write the same $100 million capital with non-proportional that creates maybe $100 million premium. So when you shift the business mix, then that's exactly how in the end it comes across.

You had a question around the midsized man-made losses. And indeed, we have observed a number of midsized losses. So midsize are below our $20 million threshold for large losses. So we apply that to nat cat and man-made. So we -- there are some differences to some of our competitors that actually try different thresholds for us. It's always $20 million. So midsize is below the $20 million, but still above the $5 million to $10 million. And so we had indeed an unusual increase of number of such losses, mainly related to prior years here. I wouldn't read too much into it, to be honest. I mean, this is the usual change in frequency that one has to expect. So yes, there have been more than we would typically expect. But I really don't see this now as a new trend or anything worrying to come our way.

And you also made reference to the CorSo relatively high combined ratio and whether we should read anything in there. So certainly nothing worrying. Some of it can be explained by the way, by these midsized man-made losses clearly. And also you shouldn't read into it and overly cautious approach to casualty [indiscernible]. We are, as John said, we are cautious. We are generally trying to be very, very technical in our approach to the risks that we see in particular inflation. But again, I would not read too much into this quarter casualty CorSo line of business. It's just too narrow and too volatile.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from Ashik Musaddi from Morgan Stanley.

Ashik Musaddi
Morgan Stanley, Research Division

Just couple of questions I have. I mean John, I guess, you mentioned earlier that some of the benefit of the business mix change will feed into next year as well and given that the cat business has grown really very strongly, I mean 24% versus Group at 3%. I mean is it fair to say that the combined ratio improvement this year versus -- like next year versus this year on a normalized basis could easily be like a percentage point or something? Or would you say that's a bit on the higher side. So that's the first question, I'd say.

The second one would be Life earnings were pretty strong, excluding COVID as well. Any color you can -- you would want to give on what was driving that Life earnings? Is it technical? Is it investment income driven? So that would be very helpful.

Christian Mumenthaler
Group Chief Executive Officer

Ashik, thanks. On your first question, it's a little premature for us to be out with the 2023 guidance on the combined ratio. I think what's important is that we were pleased with the acceleration of pricing in the midyear. And Thierry expressed that he thinks, and frankly, the Group thinks that the hardening market for reinsurance broadly, nat cat specifically will continue. And we'll be able to give you a much more definitive color on what an appropriate combined ratio for P&C Re will be when we've got the January 1st renewals under our belt. It's just too big of a piece of the puzzle to have us speculate before that's actually done.

But yes, the message that you've heard, I think, from everybody here is that we think the pricing is supportive. We think the loss costs are increasing, and we think the price will need to continue to improve for any future uncertainties or deterioration in loss cost caused by inflation or other factors play into the risks here.

On Life earnings, you're right, the -- in a year, where we said the impact of the crossovers of the pre-2004 portfolios was going to put real pressure on us. Year-to-date, the underlying earnings have been strong. And what I can say is in any 1 quarter or [1/2], we normally have a number of geographies performing well, and then one or more geographies, where the Life business is either struggling or needs a bit of a reshaping with respect to some components.

What we saw, especially in the second quarter, was actually the business firing pretty much on all cylinders across all geographies and delivering just a very, very strong result. I can't project that this will be carried forward into future quarters. But what I can say is, we didn't stretch anything to try to show a nice number. The fact that we got a pause or 2 rather than something else is literally the result of an important bottom-up exercise of where the profits landed. And the underlying strength of the business is what gives us a firm belief that we can, in fact, achieve the $300 million for the year in spite of what will be some additional COVID losses, which we would expect in the second half.

Thomas Bohun
Head of Investor Relations

Thank you, Ashik. Could we have the next question, please?

Operator

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

A follow-up question on the Life side. I think that I can remember that the Investor Day at the end of last year, you were pretty bullish on the prospect for growth opportunities in the Life business. Year-to-date premiums are up 2% to 3%. So I was wondering, is that a -- is that the results of more attractive opportunities in the P&C side, which make you allocate more capital to PC versus Life? Or should we expect the momentum in terms of top line on the Life side to pick up in the upcoming quarters?

The second question would be maybe also clarification on COVID-19. Could you talk specifically what your thinking is currently on credit and surety, IBNR? Is it related to COVID-19? Is it something that you are ready to rethink Q3, Q4?

And the last thing would be in the context of a very volatile financial market environment, could you update us on what your latest thinking regarding asset mix, asset allocation, hedges, anything that you would like us to leave with after this call regarding how you're positioning the investment portfolio for Q3?

Christian Mumenthaler
Group Chief Executive Officer

Thomas, I take the first on Life and Health growth. So you're absolutely right, we still see an environment generally of actually attractive opportunities. We see that generally, the desire from people is to get protection that is still kind of coming off from the COVID crisis, and we see that across the board. We see that the growth is generally happening at improved margins. We said that we see ourselves in a payback mode now after COVID. So we continue to push really hard for price increases, and we get not everything we want because you get some of it. So we are quite pleased about these 2. So that -- those 2 are working really well.

I guess, we had a little headwind on the very large transactions, so we still haven't seen that one. But generally, we see 1 or 2 per year of a large ones, that hasn't happened yet. That can come obviously any time. But it's much, much more lumpy than anything else. So that explains some of what you said. And also, you might remember that we have in critical illness also have been very careful in the last 2 years. So we can see now some of that coming through reduced growth in CI. But again, nothing worrying, actually where we want to [grow]. We are growing, and we are growing at nice margins currently. So actually, quite good news in Life and Health.

Thierry Leger
Group Chief Underwriting Officer

So Thomas, on your second question on sort of COVID, credit and surety, IBNRs, look, we're looking at the various components of COVID reserves. And I think we'll give everybody an update probably at year-end with where we stand. If we find that there is redundancies we will act, but we don't necessarily disclose every time we do something here with respect to the overall position. Like I said, we believe our current reserves remain more than adequate for the exposures that we have on the P&C side for COVID remaining.

And I think you squeezed a third question in -- on asset mix. Just quickly, I can say that our investment team remains fairly cautious. We've put in place a series of hedges with respect to listed equities, which protect us from much in the way of downside risk there. We still have exposure to our private equity portfolio, which we've disclosed is about $3.5 billion in the overall mix of assets.

There is some credit exposure, but we continue to trade up into relatively high quality. More than 90% of the credit book is investor grade and it is closely monitored. Christian, I think, this morning identified about $50 million of impairments largely related to Russia, and maybe some China development real estate exposure. But we're very comfortable with the portfolio we have as a fairly defensive position on it.

Thomas Bohun
Head of Investor Relations

Thank you, Thomas. Could we have the next question, please?

Operator

The next question comes from Derald Goh from RBC.

Teik L. Goh
RBC Capital Markets, Research Division

I hope you can hear me okay? Just 2 questions, please. The first one is just going back to topic on inflation. So I'm just trying to get a sense of how you're stress testing your inflation assumptions within reserving. So maybe things like what is the inflation stress that you're assuming under SST capital, as well as anything anecdotally you can share perhaps what is the SST ratio sensitivity to, say, a 1% increase in inflation assumption.

The second one, just going back to the CorSo reserve strengthening. Could you confirm that this was covered under the ADC to a P&C Re? And also, how much of reserves have been ceded to P&C Re to ADC since inception to-date?

John Robert Dacey
Group Chief Financial Officer

[indiscernible] microphone. Let me give it a try. I think with respect to inflation, I don't know if people remember, but we actually made an adjustment in the SST model to inflation more than a year ago, which we had to explain, it created a reduction of the capital ratio that was not necessarily anticipated, but it seemed appropriate at the time, which would, I think, been at year-end 2020, if I'm not mistaken. And we continue to evaluate under SST, what an appropriate inflation risk factor is as we go forward. We've not shared sensitivities on this. And I'm not sure that we will, but I'll at least consider if the people think that this would be a useful point of information for you. The CorSo position, sorry...

Christian Mumenthaler
Group Chief Executive Officer

So I think the PYD, you're referring to, that would be in the combined ratios of CorSo. So that would have been retained within CorSo. Yes, specifically, those combined ratios that we show by line of business, that is a net view.

John Robert Dacey
Group Chief Financial Officer

And more broadly, the specific sort of detailing of the cash flows of the ADC between the 2 we've not disclosed and are unlikely to disclose.

Thomas Bohun
Head of Investor Relations

Thank you, Derald. Could we have the next question, please?

Operator

The next question comes from Darius Satkauskas from KBW.

Darius Satkauskas
Keefe, Bruyette, & Woods, Inc., Research Division

So 2 questions. The first one, you highlighted that year-to-date rate increase was roughly 6% and that will -- this was fully offset by loss cost trend. So when we think about next year's combined ratio, am I right to think that there should be -- there should not be any benefit beyond business mix changes from the pricing you were able to achieve in the recent renewals? That's the question number one.

Second question, during the July renewals, did you see any signs of pushback on rate increases because the investment yields have gone up? And do you expect pressure on the underwriting returns going forward, as the industry should be making much more on the investments?

Thierry Leger
Group Chief Underwriting Officer

Yes. Darius, I can take these. So Yes, at this point in time, you should look at it the way we present it, so that the changes that we foresee will come from a portfolio mix because we think that the price increases that we have seen has been used actually to set them against the different loss trend inflation and so on that we have seen. So indeed, that should be [your] thinking.

The -- on your second point, no, actually, it's very, very important, right, that we do not get pushed back on that point. I have been very clear also at the Investor Day that we need technical result margins. And as a result, that's also how I provide the messages internally to all underwriters in the Company. And I'm very clear that the combined ratio is what has to be top on people's mind, and we will very happily take the higher interest rate, as a windfall.

Thomas Bohun
Head of Investor Relations

Thank you, Darius. We have time for last question. Could we take the last question, please?

Operator

The last question comes from Dominic O'Mahony from BNP Paribas.

Dominic Alexander O'Mahony
BNP Paribas Exane, Research Division

Just 2 small clarifications. One is just on the Life net income target. We might perform very well in the second quarter, you're sticking with the $300 million. Is that because there's something about H2, which you just need to manage through, and so that the sort of the beating those expectations in Q2 doesn't necessarily translate into an upgrade in that $300 million? Or are you essentially being conservative with that $300 million?

And then secondly, just on pricing versus claims. You've suggested that over the next 18 months, you're very confident on the pricing environment, and you all said, you were really happy with the summer renewals. The latest renewals essentially offset claims inflation, which is great. Are you expecting over the next 18 months, pricing ahead of claims inflation, as some of the capacity from your competitors comes out of the market? Or is this really about confidence that you'll match claims inflation and that will lead to sort of strong growth.

Christian Mumenthaler
Group Chief Executive Officer

I'll take the first question, Dominic. The -- with respect to the net income and effectively saying that we'll make $300 million in the second half of the year, as I mentioned, we do expect some COVID claims still in the second half. And again, Q2 was light at a reported [$40 million], but that's a net number. The actual incurrence for the quarter was slightly above [$100 million]. And there were some offsets from reservations that we've put up in previous periods that we could balance off against that. So you shouldn't extrapolate the [$40 million] necessarily into the next 2 quarters. On the other hand, we think it will be contained, as we said before.

And in addition to that, this is a tough year with respect to the crossovers. I mentioned in Q2, especially but in the first half, we had all regions performing very, very well. I think it's unlikely that, that will be the case for the full year. If it is, it will be a nice to have. But I think the $300 million is -- remains a reasonable and certainly achievable target for us.

Thierry Leger
Group Chief Underwriting Officer

On the second question, Dominic, I don't know, at some point, I guess, that pricing will go ahead of the claims trend. But for this, the claims trend somewhat has to turn, right? So inflation has to turn. Other elements have to turn for actually the price trend to get ahead of the claims trend. So it's going to happen at some point. I can honestly not predict when that will be. But it's going to happen, and that's going to then represent an [ex-boost]. So that's going to be the next tailwind, right? Some of the tailwind that we see now is on the interest rate side; and the next tailwind will be that we're actually indeed ahead of the trends.

Thomas Bohun

Head of Investor Relations

Thank you, Dominic. With that, we've come to the end of the session. We'd like to thank you for all your questions. If you do have follow-up questions, please contact us at Investor Relations. So thanks again, and we wish you a nice weekend. Bye-bye, everyone.

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