S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

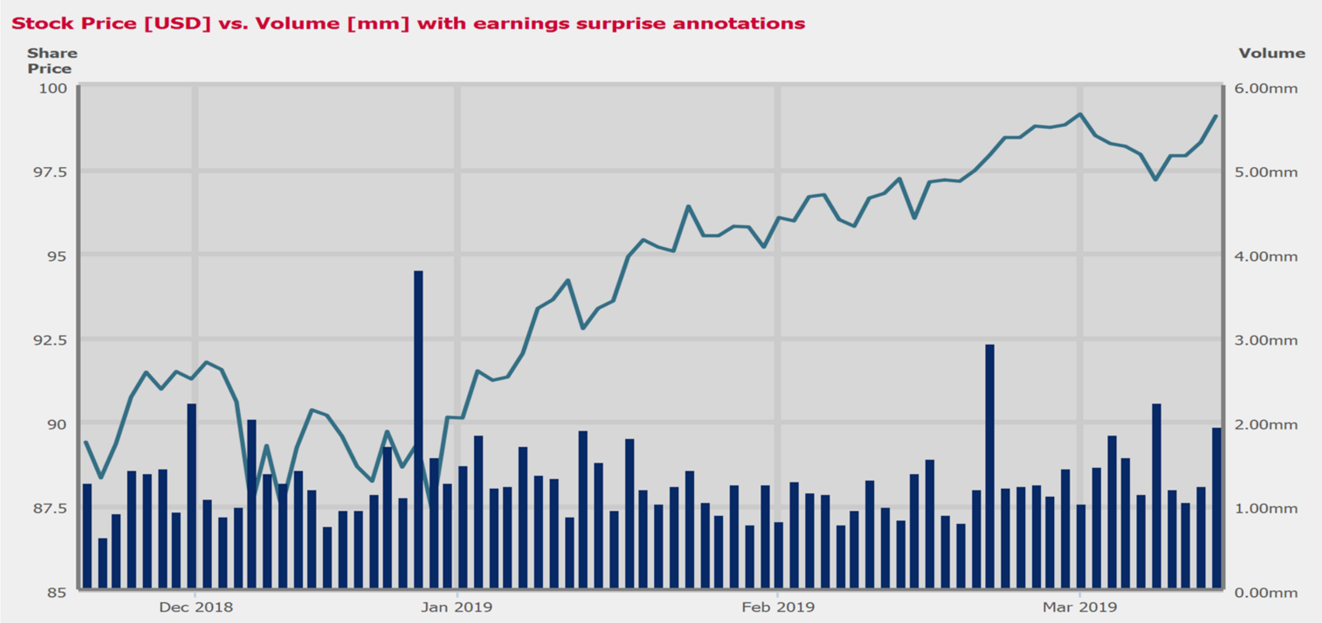
FY 2018 Earnings Call Transcripts

Thursday, March 14, 2019 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-	-FQ1 2019-		-FY 2018-			-FY 2019-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	-	-	-	2.65	2.85	7.55	8.87
Revenue (mm)	6219.19	8772.64	1.39	34188.50	33875.00	(0.92 %)	35786.67

Currency: USD
Consensus as of Mar-14-2019 8:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2018	2.65	2.85	2.85

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John Robert Dacey
Group CFO & Member of Executive Committee

Patrick Raaflaub
Group Chief Risk Officer & Member of Executive Committee

Philippe Brahin
Head of Americas Public Sector Solutions Team

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Frank Kopfinger
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James Austin Shuck
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Sami Taipalus
Goldman Sachs Group, Inc., Research Division

Thomas Fossard
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Vikram Gandhi
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Vinit Malhotra
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William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's 2018 Annual Report Conference Call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to John Dacey, Group CFO. Please go ahead.

John Robert Dacey
Group CFO & Member of Executive Committee

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

Today, we published the 2018 annual report, which includes our corporate responsibility report, providing, overall, more than 500 pages of corporate disclosure. For your convenience, we have prepared a presentation with an extract on our economic results, the group's economic solvency and capital generation and our P&C loss ratio development triangles.

We will not go through today's presentation slide-by-slide but rather highlight the most important elements. Having said that, we're happy to address any questions you might have during the Q&A session.

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

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

If I can take you forward to Slide 8. You have a reiteration of the group's over-the-cycle financial targets and how we have fared against those. After a series of outperformance, 2017 and '18 were 2 challenging years, the costliest and fourth costliest years for the insurance industry with respect to large losses. In 2017, we still met our economic net worth per share growth target. In 2018, the combination of higher-than-expected large losses and the negative impacts stemming from financial market movements led to our performance being below the targeted levels. We remain focused on these targets.

Moving to the group's 2018 EVM results on Slide 11. You can see the key EVM figures. Our economic earnings were USD 2.2 billion despite the impact of the large nat cat and manmade losses, the credit spread is widening [in] negative equity market performance.

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

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

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

On Slide 20, we show the moving parts for the group SST ratio, renewals, the growth in Life & Health Reinsurance and, finally, the impact of our deleveraging and our strong capital repatriation to shareholders.

Slide 21 illustrates our economic earning -- how our economic earnings have driven our strong capital generation over the last 5 years, with $2.6 billion generated annually and ultimately supporting the peer-leading capital repatriation of Swiss Re.

We've also updated the overview of dividend upstreams for the group on Slide 23. The overall capital repatriation for the 5 years 2014 to 2019 now amounts to USD 14 billion. With that quick introduction, I'll pass over to Patrick Raaflaub, our Group CRO, for the remainder of this introduction.

Patrick Raaflaub
Group Chief Risk Officer & Member of Executive Committee

Thank you, John, and good day also from my side. We also published our cost ratio development triangles today, and I will briefly provide you some -- with some remarks on those starting on Slide 24 of the presentation.

As you know, our reserves are set on a best-estimate basis with a robust process and controls, which remain unchanged.

On Slide 25, you can see that the Swiss Re group remains prudently reserved in the upper half of the range of best estimates between the 60th and the 80th percentile. This is true for our group reserves as a whole but also for recent underwriting years and has consistently been the case over more than 15 years now. The reduction in reserve releases for the most recent years is driven by motor and liability lines. In particular, and as previously said, in 2018, we strengthened liability reserves mainly due to a large one-off settlement related to a very old contract, on which we experienced late reported claims. The underwriting years 2015 to 2017 have been strengthened, in some cases, on a preemptive basis and in some regions, partly due to observed increases to claims frequency and due to adverse actual versus expected claims in general.

For such recent underwriting years, the IBNR is still a big portion of the total ultimate loss. We continuously refine and improve our reserve setting approach and have made several adjustments this year. I would limit my remarks to this, but I'm here in the room with our Head of P&C Actuarial Control, Edmond Kartun, and we are happy to address any questions that you may have.

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

Philippe Brahin
Head of Americas Public Sector Solutions Team
Thank you, Patrick and John, and good day to all of you also from my side. [Operator Instructions] So with that, operator, could we please take the first question?

Question and Answer

Operator

The first question is from the line of Vikram Gandhi from Societe General.

Vikram Gandhi
Societe Generale Cross Asset Research

It's Vik from SocGen. Firstly, I see a pretty significant increase in the 200-year PMLs Y-o-Y. And given data from January renewals and potentially higher cat exposures through the midyear renewals, I wondered if the group is contemplating any change to its retro strategy?

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Vikam. So maybe we'll start with Jon, that exposure, retro?

John Robert Dacey
Group CFO & Member of Executive Committee

Yes. So I think you're right that we have been successful in writing some very interesting new business at the beginning of the year. We look to continue to build our nat cat book. If, in fact, we find ourselves on certain peak risks at a level which we would otherwise find somewhat uncomfortable, then we would potentially be prepared to use retro to manage that -- those positions.

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

Operator

Your next question is from the line of Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

2 questions. First of all on Life Capital. Why did the contribution from new business go down when the volumes of new business went up? And maybe if you can differentiate between the front book of Life Capital and any new business associated with the back book. Second question on the reserves. I can see the stronger loss pick or the higher ULRs for motor books, liability books, also I think [A&H] books like getting workers' comp.

I guess what surprises me is having made the decision to strengthen the 3 most recent accident years. Your opening loss pick for 2018 looks very low, much lower than '17 for all of those 3 books. Now is that just a seasoning thing because you haven't earned much of '18 yet? Or the tax refers to mix changes? What is so different about the mix of your '18 book for those losses than the in the previous years?

Philippe Brahin
Head of Americas Public Sector Solutions Team

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

Edmond Kartun

Yes. So on the reserves, I mean you're right. The 2018 loss stake is lower than other adjustment years mainly because in 2016 and '17, those 2 years, we had a large multiyear whole account quota share written with one of our cedents, which was not up to renewal. And that allowed us -- basically, that was quite a large contribution and that allowed us to be able to have a lower loss pick for 2018.

There's also other reasons on motor, for example, where on motor, we had historically, I think, Asia property, for example, reduced the volume of our -- sorry, proportional business in Asia since 2013, slightly reducing the volume of proportion of business, which tend to increase naturally a little bit the size of nonproportional on the motor side. And so there's different reasons for different portfolios.

Philippe Brahin
Head of Americas Public Sector Solutions Team

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

John Robert Dacey
Group CFO & Member of Executive Committee

Is Life Capital, yes. So Andrew, various 2 questions. We got a slightly different treatment between U.S. GAAP and our EVM on the [L&G] transaction. For U.S. GAAP, this was booked in the Q1 of 2018. It actually came in, in the Q4 of 2017 for EVM. And thus inflated those numbers up. And when you do the year-on-year comparison, I think, you're missing the fact that, that was a positive in '17 not replicated in '18.

Philippe Brahin
Head of Americas Public Sector Solutions Team

All right. Thanks, Andrew, for your questions.

Operator

Next question is from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Just trying to understand relationship to your EVM and some of your SST figures, please, particularly for Life Capital. We know that your economic net worth is $3.3 billion. Can you try and help me understand what the SST NAV or risk-bearing capital is for that number? The reason I'm asking is because, as you know, at the group level, there are big differences between economic net worth and SST even though economic net worth is the basis.

So once you've got $36 billion of group BMW, your risk-bearing capital is $40-odd billion, so it's considerably higher. And so can I just prorate that? Or can you help me understand what the solvency capital is for Life Capital? And then secondly, very similar, what is the required capital for Life Capital? And again, we only know the group figure.

Related to that question, could you -- now you've given us the figures, maybe talk a bit more clearly about what would be the impact if you got to deconsolidate that business from your SST ratio. In the back of my mind there, you've emphasized the benefits of deconsolidating Life Capital -- ReAssure. But I'm also sort of trying to understand what will be the offset because I'm assuming the regulators are going to require you to add back some kind of equity charge, and it will be strange if you had too much of a benefit simply from deconsolidating a business.

John Robert Dacey
Group CFO & Member of Executive Committee

So I'm going to defer a little bit the first question. What we have disclosed in relation to the subordinated debt issuance, the SST on SRZ, we did not disclose for the other subsidiaries. In April, we will come back out with a financial condition report with some details around all 3 business units, and if I can ask you to wait for us. I think you'll get most of the answers you're looking for on Life Capital and the SST numbers in that disclosure is the first part.

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

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, William, for your questions.

Operator

Next question is from Vinit Malhotra from Mediobanca.

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

2 questions. One is on SST. The other one is EVM earnings-related, please. So the SST question is relating to the market value margin. So very substantial increase because if we adjust -- I mean if the increase didn't happen, the SST might even have been, say, 10 points lower. But I'm just trying to understand what drove this increase? You have written the growth in Asia, but I mean, in terms of dollar premium, the P&C was flat and Life Re was what? 7% at the group level? Is that what really drives this?

And then, can this now NVM remain where it is? And so that is the NVM topic. And second thing is just on the EVM earnings, and I'm trying to see if you can address Life and P&C, but just [this] one. The P&C Re has a very strong prior year earnings of $698 million on Slide 11. And just the prior year development hasn't been obviously as high in the U.S. that in terms of PYD. Could you help us understand? Is there something more than this? And I do appreciate that even in the past, the U.S. GAAP and EVM hasn't always had a very varied correlation. So I'll stick to these 2.

John Robert Dacey
Group CFO & Member of Executive Committee

Sure, Vinit. Happy to help. On the NVM, you're right. We did refer to our Life & Health Reinsurance business. Actually it was largely driven by a new business written in Asia across multiple markets, not a single market on critical illness, and that's -- is required a -- an adjustment of probably close to the full $1 billion that you see moving up here.

There are some other pieces, pluses and minuses, but the strong growth of what we believe is a long-term valuable business for us in the Asian markets between the transaction and support for some of our core clients across Hong Kong, China, Korea and Japan have all resulted in an increase, as you say, of about $1 billion in the NVM adjustment. With respect to the prior year development, yes, for P&C Re, that was more positive under EVM than it has been under the U.S. GAAP.

The U.S. GAAP numbers have been brought through in the EVM as well, but the main difference there is just the change in the capital requirements for prior years and some adjustments on the payout patterns, which we think have been positive on those prior year reserves. So we're comfortable with those amounts, but it's related to capital and payout patterns, not that we had any specific losses, which came through one and not the other.

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Vinit, for your questions.

Operator

The next question is from Sami Taipalus from Goldman Sachs.

Sami Taipalus
Goldman Sachs Group, Inc., Research Division

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

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Sami. I mean, so with reserves, would you [Foreign Language]?

Patrick Raaflaub
Group Chief Risk Officer & Member of Executive Committee

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

And on SRZ binding?

John Robert Dacey
Group CFO & Member of Executive Committee

SRZ binding. I'd like to say, Sami, that our Reinsurance CEO, Moses, will be happy that you asked the question. So we can clarify, but we don't expect a $14 billion dividend up from the subsidiary. There are other constraints that we pay attention to in the context of both liquidity and capital, the rating agencies' view of that business.

And I think we can safely say that the actual binding constraint is quite some distance from that $14 billion, but we've not disclosed actual numbers. But again, the indication of the dividends to be paid gives you a sense of what we believe to be a healthy balance sheet and a very unencumbered liquidity at this point in time, and we were comfortable expecting continued strong dividends from our reinsurance operations.

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Sami, for your questions.

Operator

The next question is from Frank Kopfinger from Deutsche Bank.

Frank Kopfinger
Deutsche Bank AG, Research Division

I have a follow-up on this question regarding the deconsolidation process of ReAssure. If you described that there is a 2-step approach. At some point, it will change from this look-through to the equity charge. And, however, my question would be also whether we should think at this point, once you only have this equity charge, but it does some sort of offset in terms of additional capital requirements, some sort of, I mean, we really should expect the full relief, so to say.

And then secondly, on the 200th year of nat cat events as Atlantic hurricane increased significantly or so California earthquake increased. And my question would be whether how should we think about your nat cat budget? And what is the current number?

Philippe Brahin
Head of Americas Public Sector Solutions Team

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

John Robert Dacey
Group CFO & Member of Executive Committee

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

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

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

John Robert Dacey
Group CFO & Member of Executive Committee

[I'm thinking]. Help me out, Philippe. I don't -- I mean...

Philippe Brahin
Head of Americas Public Sector Solutions Team

No. I think [Edi] mentioned it, right? We talked about it in February when we came out with our full year results. And yes, of course, our exposure increased and you can see that today with the annual report, we -- in the stress test we are publishing. But we will come back to you, Frank, with the nat cat budget with our Q1 results. That's what we said. So you have to be patient with us, so in a few weeks. Okay? Thank you, Frank, for your question.

Operator

[Operator Instructions] The next question is from James Shuck from Citi.

James Austin Shuck
Citigroup Inc., Research Division

So my 2 questions. Firstly, I'm just looking at the accident year developments proposed in the accounts. So I can see that there's been positive PYD on property and on specialty but I'm seeing negative on casualty and on the Life & Health Re. I think the casualty one, you've kind of largely explained, but I'm just interested to see the negative development on the Life & Health Re given that, that's been a book that you've been growing pretty aggressively in recent times. I think the triangles show me just the long-tail development.

And I was just struggling to see the years that actually is coming from that drives that $249 million of adverse development. Second question. I guess the combined ratio guidance you've given for 2019, 98%, that's about a point better on the original guidance but for 2018. The casualty combined ratio, though, has been consistently above 100%, so I think about 110%, 111% in 2018. Again, that's being driven by some adverse development on the large contracts. But presumably, that number's going to normalize. And I guess if you're expecting casualty PYD to revert to a neutral position, at worst, then I guess just the mix of impact, as that casualty combined ratio gets better would suggest the group combined ratio getting better by more than 1 point. So if you could just help me with my understanding a little bit there, please, that would be great.

Philippe Brahin
Head of Americas Public Sector Solutions Team

All right. Thank you, James. Maybe we start with, Edmond, the accident year.

Edmond Kartun

Yes. Yes. So I mean on the accident year, you have to keep in mind that whatever is reported in the Life & Health Reinsurance, it's not really the same thing as P&C, mainly because on the Life & Health side, the reserves that you have here are mainly disability life reserves, and you will -- the way we report things, you will always be seeing some PYD on this business as the active life reserves basically become disabled. So you will always see that phenomenon.

So the comparison between P&C and Life & Health is not really meaningful in that sense. So you can't compare those 2 things. Yes. The $249 million also is made of various moving pieces, some positive, some negatives offsetting each other marginally. And then the other question was?

Philippe Brahin
Head of Americas Public Sector Solutions Team

Around casualty?

Edmond Kartun

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

John Robert Dacey
Group CFO & Member of Executive Committee

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, James, for your questions.

Operator

The next question is from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

I've got one question for John on the dividend policy of the group. John, when I'm listening to your GAAP earnings call, actually I think you said 12% DPS, and you mentioned the rebasing effort that the group did in '18 and implicitly not encouraging us to expect the same DPS growth going forward. Now when I'm hearing and listening to your EVM disclosure, and the message I'm getting is that the economic earnings is the right benchmark to -- going forward, what's going to be the best proxy to coach the dividend policy of the group as you're steering the company on an economic basis?

So $2.2 billion this year; normalized $2.9 billion; average, $3.4 billion. So I mean, all that is pointing to confidence in growing the economic earnings of the group going forward, so which should lead to better growth and dividend expectation. So maybe I'm wrong, but I'm a bit confused because it seems to be that there is a kind of discrepancy in terms of message. I know you when you're talking about GAAP numbers or when you're talking about economic numbers. So, I mean, anything you can say or explain on how to look at things on these 2 different metrics?

John Robert Dacey
Group CFO & Member of Executive Committee

Sure. So I -- it's not our intention to confuse people about the dividend policy. What I think you're referring to the slide in the deck that we use. Probably the best reference point is Slide 21, where we talk about net solvency capital generation in the middle of the page. It's something like CHF 8 per share on average over the last 5 years. That is an average and it has been above and below that number, and we think over a period of time, that's a reasonable position.

What we said with our dividend increase this year, the 12% increase from CHF 5 to CHF 5.6, which is being recommended to the AGM, is that we're confident that we should be able to continue, from that point, a reasonable dividend policy, which says the dividend is highly unlikely to ever have to go down from there, and from that point, we should be able to manage reasonable increases over time. What I warn people is not to expect a 12% increase year-on-year for the near-term years.

Now if it turns out that we're highly successful in the context of the underwriting of '19 and '20. We'll reevaluate that at this year-end and going forward, but at least for now, I think what the economic results EVM released today shows is that this wasn't false bravado in moving ourselves to CHF 5.60, but supported by strong underlying economics. That's our new base and we'll continue from there.

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Thomas, for your question.

Operator

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

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

So just -- I would say, my question was related to the Life Re and a bit linking it to SST sensitivities. So Slide #13, John says that there was an impact, a negative impact on the EVM investment income from rising interest rates from net long-duration in Life Re. But equally, Slide 19 suggests that the SST benefits from rising interest rates.

So as we go into the year-end, and one reason I'm asking this question is because I'm trying to figure out what the solvency would look like in various scenarios. But as you're going through this year, how should we be thinking about interest rates in Life and SST and these 2 life together?

John Robert Dacey
Group CFO & Member of Executive Committee

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

I think these -- on the credit spreads in particular were demonstrated to be an accurate indication of how far we would go as spreads blew out in the fourth quarter of 2018. I think with interest rates and with credit spreads having changed directions or credit spreads in particular changed directions in the first 2.5 months of this year, you would see a reversal of, maybe not exactly the same size, but a large part of what happened.

So in terms of your objective to find or to estimate our SST ratios going forward, I'd focus you on Slide 19 and understand that on Slide 13, the EVM calculations have a different basis for this. And that's why we separated the 2 segments to try to help you understand those differences. Patrick, I don't know if you wanted to add anything?

Patrick Raaflaub
Group Chief Risk Officer & Member of Executive Committee

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thank you, Vinit, for your question.

Operator

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Sorry to drag the call out. On Slide 11, John, what should we think is the normal EVM profits on investments? I'm not quite familiar about how to think about it. On the one hand, if that figure is, strictly speaking, your alpha against a neutral benchmark, should I just be plugging in as 0, unless I think you guys are sort of brilliant fund managers?

Or is it a figure that is inevitably going to exaggerate just market movements to the extent that you're always low market risk, so in a good year, it's going to be up a lot in, I think it was in '17, in a bad year, it's going to be down a lot. And my question, what -- you would suggest I kind of plug in if I'm thinking about a normal year?

John Robert Dacey
Group CFO & Member of Executive Committee

Well, I'm sure our Chief Investment Officer would like you to think that he's brilliant. But I think in the context of this modeling, aiming toward 0 is a reasonable starting point, is probably the best place to be. The volatility, I think, will be there. It's not obvious to me that it's going to be dramatically more than market moves. And I think you just have to evaluate from which direction performance is moving.

Our -- we've now reduced, at least at the moment, our exposure to equities -- at least at year-end 2018, they were materially down partly from markets themselves, but we've maintained, through the 2018, a fairly conservative positioning on risk assets and I think the fact that these numbers weren't worse reflects that.

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, William, for your follow-up question.

Operator

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

James Austin Shuck
Citigroup Inc., Research Division

I just wanted to get a sense of the SST target range or the target level you have. So the 220% ceiling, John, I think you've been pretty clear that you will look to manage down towards that level in the near term.

So by that, I assume within the next 2 to 3 years, you would manage the SST down towards kind of around 220% level instead of the kind of the 250% level. And I guess within -- when you think about that, as you deconsolidate ReAssure over time and presumably the level of risk and the level of volatility that's needed within that ratio, it also comes down. So is the 220% itself still going to be valid post ReAssure?

John Robert Dacey
Group CFO & Member of Executive Committee

So maybe if I can add a little bit of clarifications. I don't believe that I said we're aiming to bring the group's capital down to 220% in the near term. I think we've said that we reiterate that, that's our long-term target. I think that you've seen that in spite of a modest downward move year-on-year from 269% to 251%. We're continuing fairly shareholder-friendly capital actions, both the increase of the dividend, the commitment to the first tranche of $1 billion and the potential for the second tranche depending on our overall capital positions later this year.

So I think market conditions as well as potential business opportunities will influence our -- the speed with which we come towards 220% at the moment. I think everyone around both the executive committee and the board is comfortable with a robust balance sheet. There are a lot of things going on in the world on a macroeconomic level, which make us believe there's utility in maintaining this balance sheet strength. I'd also say the success we had at the beginning this year, in terms of renewal, leads us to think that there might be some interesting opportunities during the rest of '19 and into '20 for continual underwriting of profitable business. And that if we can deploy capital in that direction, we will, which by itself, would bring us towards 220%, but without any specific capital repatriation.

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, James, for your follow-up question.

Operator

The Next question is from Andrew Ritchie.

Andrew James Ritchie
Autonomous Research LLP

Sorry. 2 very quick follow-ups. This is probably a na?ve question, but I'm going to ask it anyway. Why did your SST requirement sort of normalize, only grow 4% but the PML for 100 and 200 Atlantic, just to pick 1 scenario, grew about 30%? Is that just the magic of diversification? Or I'm just surprised the SST requirement didn't grow more.

And just to clarify, the SST requirement on the PML is a forward-looking number -- I think, it was [flex] already, any growth of nat cat exposure that took place in January '19. And the other question was in your introductory comments, there was a comment that you're constantly refining your approach to reserving. I think those are the words you used. And [do you] -- what would you do? What was any change in broad approach in 2018?

Patrick Raaflaub
Group Chief Risk Officer & Member of Executive Committee

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

Edmond Kartun

Yes. Well, on the reserving, I mean indeed, we constantly refine and revise the way we do reserving. I mean reserving is not something which is fixed. The segmentation we use is not something which is fixed. So what we did mainly last year in terms of reserving enhancement or updates to our model was, on the U.K. PPO where we updated the way we apply the mortality assumption. In the past, we used the multiplicative approach to how to apply the impairment modificator.

And last year, we decided to use an additive approach, whereby it was more accurately reflecting the fact that when somebody has suffered an accident and he was the -- and if he was -- the longer he was living, the longer his life expectancy was getting closer to somebody who has had an unimpaired life, basically.

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

John Robert Dacey
Group CFO & Member of Executive Committee

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

Philippe Brahin
Head of Americas Public Sector Solutions Team

Thanks, Andrew, for your follow-up question. That was actually our last question. So we come to the end of our Q&A. Many thanks to Edmond, Patrick and John. If you have any follow-up questions, don't hesitate to reach out to any member of the IR team. Thank you, again, all of you for joining today. Operator, back to you.

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