S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

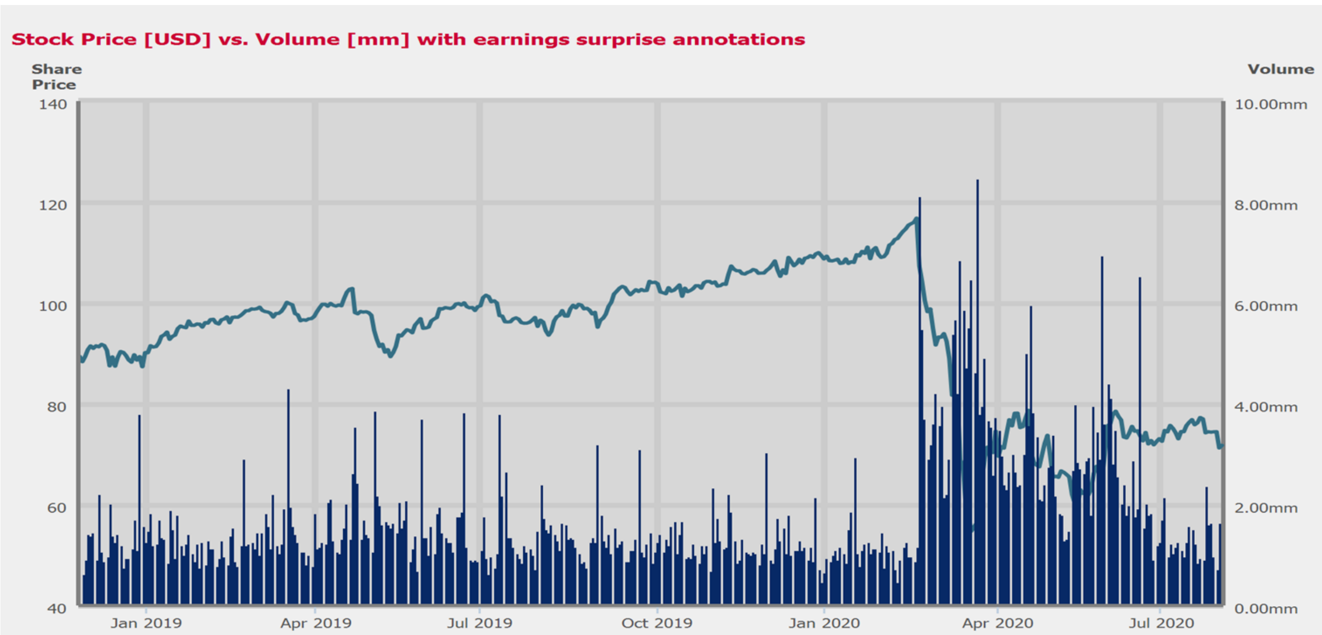
FH1 2020 Earnings Call Transcripts

Friday, July 31, 2020 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FH1 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	2.93	8.02
Revenue (mm)	20052.41	40876.26	42024.64

Currency: USD
Consensus as of Jul-31-2020 9:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FH2 2018	(1.29)	(0.77)	NM
FH1 2019	-	3.09	-
FH1 2020	-	-	-

Table of Contents

Call Participants

EXECUTIVES

Christian Mumenthaler
Group CEO & Member of Executive Committee

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

John Robert Dacey
Group CFO & Member of Executive Committee

Philippe Brahin
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Exane BNP Paribas, Research Division

Simon Fössmeier
Bank Vontobel AG, Research Division

Thomas Fossard
HSBC, Research Division

Vikram Gandhi
Societe Generale Cross Asset Research

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

Presentation

Operator

Welcome to Swiss Re Half Year 2020 Results Conference Call. Please note that today's conference is being recorded. At this time, I would like to turn the conference over to Christian Mumenthaler, Group CEO. Please go ahead, sir.

Christian Mumenthaler
Group CEO & Member of Executive Committee

Hello. Good morning. Good afternoon, everyone. Thanks for joining this call. I hope you're all safe and well in these challenging times. I will make a few introductory remarks to questions that are particularly important to me, and then we will open up for Q&A.

So I intended to have 3 quick topics. One is around COVID, obviously; second one around the underlying business; and third one around ReAssure. So first, around COVID, right? We entered the crisis with a lot of capital. We were able to manage from an operational point of view without any problems and flaws. We could do renewals, we could pay claims, all of that. And we protected the balance sheet in a very early stage in the year, which helped us a lot. So I'm -- personally, I'm overall very happy of how Swiss Re was able to get through this crisis so far.

Loss estimates on COVID, obviously a big topic for discussion. It's an extremely challenging thing to do, so let me just go a little bit into that, since I'm sure we're going to have a lot of questions around that. So the challenge our teams had is, obviously we need an estimate for GAAP, and GAAP asks for everything that we think has incurred in Q2, whether reported or not, to be booked. SST is even more challenging because SST needs to be not just what we book in Q2 but all further losses during a 1-year time horizon we can see or we expect. And therefore, we had to do a second estimate for SST, which is in our SST number that includes -- that is above 220%.

But we don't talk about SST here, I talk about GAAP. So what did we do in GAAP on the, I guess, the 3 biggest category, just to have a sense of what we tried to do? On event cancellation, obviously, we know a lot of the policies, the underlying policies. We tried to actually go on the Internet side of the organizers and find out which events have been canceled, which have not been canceled, so that even if things that have not been reported to us can be booked in Q2, so there's some sense of higher certainty around this booking.

On the mortality side, we had to decide the methodology of how to define COVID losses. If you just go by the death certificates, only about 100 million of claims came in with the notion that people died from COVID-19. But we have all seen the elevated mortality in the U.K., in the U.S., in particular. And therefore, we have gone the -- another route by saying we define the COVID losses as excess losses over the average of the last 3 years. So basically from a baseline, assuming that a lot of people died without an explicit mention of COVID-19 on their certificates, which is 300 million. So it's a higher number.

And then based on that and what we know about delays in reporting claims, which always exist, we set up an IBNR on top of that, to cover all the people who have died in Q2 but who have not been reported to us. So the mortality side, by the way, we feel very fine about. It's also uncertain. The estimate -- the IBNR is also uncertain. But on the mortality side, at least, that's the risk we knew, we have costed for. It's priced. We've got money for it. It's in our capital model. It is the expected type of event. So a pandemic is basically the nat cat for mortality. We're probably #1 or #2 in the world in terms of mortality rider, so this is entirely expected and costed and signed, and what clients expect us to do.

The biggest uncertainty, I guess, or one of the biggest uncertainty is business interruption, so non-damage business interruption. Here, we did a huge amount of work, which doesn't mean that our assessment is exact. I'm sure all my experts would ask me to make sure I mention how uncertain this is. But what we try to do is mostly reinsurance. We try to approach all clients which make up the bulk of our exposure in the -- for the -- mostly it's CapEx sales. We ask them for their own exposure underlying it because there is a general practice in the corporate world, in the SME space to give some sublimits for non-damage BI. And so we had to ask our clients how much exposure we think they have. Many of them responded to us. It's also a challenge for them because they have to go through all their legal entities for all the countries, for all the products. And even within products, sometimes there have been periods where they had a certain wording and other periods had a different wording.

So based on all of that, we then looked at the wording of our cat XL treaties, so how this then translates to us. And based on all of that, we had to make an estimate, which is nearly 1 billion and seems to be the biggest difference between our estimates and what other people are putting up with. And obviously, we could be wrong. We try our best to have more than 30 experts working on that but it's very hard to say what it will ultimately cost. And as you could see in the slides I showed this morning, only a tiny fraction of that has actually been claimed so far. So we will see what this ends up with.

I think the most important thing to say here is that for all of our search, we couldn't find any place where we will be more exposed than others or have any outsized exposure, so it's the same market. Some of it or a lot of it is Europe. It's a standard wording. So one way or the other, I guess, the loss estimates will converge as we know more through Q3.

But if I take a step back and look at 2.5 billion for our loss, on the market loss, which we estimate 50 billion to 80 billion, that's entirely in line with what one would expect and what we had in hurricanes or nat cats of similar magnitude. So that's, I would say, sort of a sense check for it from top down. We also said that we think that Q2, H1 constitute the majority of the ultimate losses. What I mean with ultimate losses, if in 3 years' time, when we make the final calculation of how much we had to pay for COVID-19, that's the ultimate loss, so we think it's a majority. Obviously, there's some uncertainty around that. But also in the slide deck this morning, I think Page 6, you could see some of the underlying statistics around the business closures, for example, or mortality which, in our view, personally, right, I think it's extremely unlikely that we get into a copy-paste situation of what we went through in the first half year in terms of lockdowns.

And there's now ample evidence that a lot of countries in Asia, but also in Europe, can manage that. It's going to be a management. It's not going to be an easy walk, but you don't have to close down your whole economy to get COVID-19 under control. There's much more knowledge at this stage. And so I think it's highly likely that this outburst all the time that you need to manage it more locally. But we don't think that there's going to be a huge lockdown comparable to Q2, which means that for some lines of business like BI, it's really a Q2 event, mostly.

So that's what's behind this, I think, relatively high probability statement of we believe that this is -- that the majority is behind, but I believe you can make your own scenario and make your own judgment.

The second point I wanted to talk to is the underlying business. So P&C, Life & Health, once you take these COVID claims out or are performing according to expectations, so P&C Re, as many noticed, is about 97% combined ratio underlying normalized, which is what we had expected for this year. So the upside surprise, I guess, for all of us was in CorSo, where we see better results than expected at this stage of our transformation program. The transformation program is going on, on plan, so we have 60% of the pruning done, which is what we had expected at this stage. We have 2/3 of the cost cuts done, which is also according to plan. The price increases are higher than we had originally planned, they were 12% the full last year and 15% year-to-date. So that compounds, obviously.

And the maths are obviously quite complicated because last year, the 12% started 5% at the beginning of the year and then went to higher than 12%. You have a delay of how this is recognized in GAAP. And then we had last year, as you might remember, in CorSo, we increased basically these APLRs, A-priori loss ratios, by about 10 points. So that makes you go backwards from the 12% we had last year, but we believe that we start to see these price increases come through at this stage. And as time passes, that's what we expected. So we had hoped or planned a 105 normalized combined ratio for CorSo, the current normalized is 101. There might be an effect from COVID-19, which nobody can say, so there might be a lower frequency of claims or less reported claims. We'll see as time goes by. But I think it's fair to say that we're all quite optimistic, seeing these numbers and these developments, that we're seeing the light at the end of the tunnel.

Renewals, when signed, obviously, 6% nominal is actually quite a big number when you think that a lot of the business is proportional. And there, sometimes we might -- it's a bit difficult for us to judge the quality increase underneath that. But it's also needed because of the interest rate situation. Interest rates fell down quite significantly, which means that from an economic basis, these increases are needed and more are needed in our views. I should add that on the COVID front, on the renewals, since April all contracts renewed in April and July have clauses that excludes the COVID-19 and pandemic. So this is a cleanup that's being done. That's not just us, that's the whole industry is working towards that. It's obvious that we couldn't renew cap XL treaties, including COVID, that's clear to the whole market. So that means that basically, the exposure has gone from these treaties, in the U.S., for example, since July.

Last point on ReAssure. I guess there's a bit of risk that it's just a tick in the box now and gone. I think a lot of you have been here for several years and remember the long journey of this project. We decided a few years ago that we were probably not the right owner for this kind of assets. And we looked at the most -- the best possible way for our shareholders to transfer that asset to somebody else. Obviously, we could have sold it at a steep discount at the time. So we're really, really pleased about this final outcome where we went through some ups and downs as you know, with an IPO that didn't work last year. But now I think we have found an ideal home for these assets. Actually think Phoenix will also profit from this transaction, it's a true win-win transaction. I think policyholders will also profit from that because these are 2 companies who have really focused on policyholder interest and treating customers fairly. And so I think it's a very positive transaction from all aspects.

You have probably seen that the SST benefit from it is higher than what we saw at the beginning of the year. We had a figure which we have never updated of 12%, which was true at the beginning of the year. But what happens from a risk perspective with this asset is, you basically have 100% of this asset, which is mostly credit risk in the U.K., where volatility has gone up enormously over the year. And so it has become a much bigger part of our risk -- of our overall risk for the group. And this is now traded by half -- roughly half of that is now cash, so complete derisk, and the other half is an equity risk at this stage and treated as equity risk, which is a smaller part of our risk profile and diversifying better. And that explains why in this particular situation, doing this transaction is a 19% versus a 12% benefit for us.

All of that obviously is very positive for us. The SST is above 220%, and we feel extremely well positioned for whatever will come now. And hopefully, what will come now is some further increase in prices. We see no change in the trend in CorSo, and we don't feel any change in the trend in reinsurance, really only the future will tell. And with that, I guess, I hand over to Philippe Brahin, our Head of Investor Relations.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability
Thank you very much, Christian, and good day also from my side to all of you. For our Q&A session, we will have with us John Dacey, our Group CFO; and Edi Schmid, our Group Chief Underwriting Officer. [Operator Instructions] So with that, operator, could we please take the first question?

Question and Answer

Operator

The first question comes from Paris Hadjiantonis with Exane BNP Paribas.

Paris Hadjiantonis
Exane BNP Paribas, Research Division

I hope you are doing well. A couple of questions from me. Firstly, Christian, in your introduction, you have mentioned that on the SST front, COVID losses assumptions are higher than the 2.5 billion that you have disclosed on a U.S. GAAP basis. I was just wondering if you can give us a bit more details on what is Swiss Re's current assumption about the ultimate cost of COVID on a forward-looking basis.

And then secondly, I mean, on the pricing side for Reinsurance, nominal price increase is up 6%, but more or less, those completely offset by the lower interest rate environment and changes to your loss assumptions. At the same time, obviously, 2020 is not going to be a particularly profitable year because of COVID. So I was wondering what are your expectations for pricing going forwards, especially given that you're starting negotiations with clients about January [nonstriction].

Christian Mumenthaler
Group CEO & Member of Executive Committee

Thanks, Paris. Maybe, John?

John Robert Dacey
Group CFO & Member of Executive Committee

So the first one, Paris, I understand your keen interest in understanding or knowing what we've got in the SST. We've chosen not to actually disclose the additional losses which we've put there. You can imagine, we've gone through a series of scenarios trying to get some reasonable estimates of what losses might be coming through in future quarters and that's effectively what we've included. That's also consistent with what we've suggested, that we're past the worst, that the majority of the losses that we expect coming from COVID-19 have been booked in the first half of the year.

So I think Christian alluded to the places where we have put up what we think would be reserves which might have some modest subsequent charges, but are largely done. I think that's the business interruption and property, in particular. I think on event cancellation, it's very straightforward. We've booked what we can. There are probably some events which might get canceled in Qs 3 and 4 but have not been canceled yet. Because they're still on at the moment, we've not booked them in the first half year. If they do get canceled or postponed, we'll halve those charges.

I think if you go through the slide on credit and surety, to the degree that there are significant defaults and those defaults end up not being managed by some of the government interventions, which has been targeted towards trade credit, in particular, they might come through. So that's a source of potential claims in the future quarters.

On mortality, again, if you look at the slides where we show the peaks in the second quarter for the U.S. and the U.K., which are the 2 relevant markets for our mortality charges, they seem to be coming down. Obviously, the U.S. case load has increased recently. The mortality associated with that case load is lower than it was in April, and we'll see how that XL plays out. But as Christian said, at least in the calculation as of Q2, we've got IBNRs for later reported deaths that occurred in the second quarter. But I don't think you should assume that, that will be all the deaths related to the pandemic.

And the last box of others, again, large IBNRs in the second quarter. There could be some casualty losses related to COVID that show up and incur in future quarters. To be seen. So the -- we're going to leave you, unfortunately, I think, with some work to do to try to make some reasonable estimates of what those numbers could look like. And as we have more clarity in future quarters, we'll obviously provide the information at Q3 and for the full year results.

Christian Mumenthaler
Group CEO & Member of Executive Committee

Edi, you take the P&C pricing outlook?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes, thank you for the question on P&C pricing. As you correctly summarized, we see nominal price increase of 6%, but this largely eroded by the lower interest rates and by the more conservative loss models, we [indiscernible] 6% may sound a bit moderate, given some noise in the market, but it has to be understood that we have a huge book, 16 billion, 17 billion, which is 2/3 proportional. And obviously, you see these little pockets like Florida cat business, where we have achieved, let's say, nominal 15% to 30%. But obviously, that's a small proportion in terms of premium contribution to the total book. U.S. cat nationwide, also nominal, maybe 7% to 15%.

But to get a huge increase on a total book, which is dominated by 2/3 of apportional, obviously, it needs more. And I would just reiterate the importance of this lower interest rate, which I think it's important to look at the business. In economic terms, our P&C liabilities have a duration of 6, 7 years. So if interest rates drop to the extent we have seen, and they're going to stay likely that low, it's very important to factor this in, and this is also the reason why the industry and also we need to drive underwriting margins up quite a bit further.

Also, we increased our loss cost to reflect some trends, as we have explained earlier, in U.S. liability. We updated some of our models in Japan, where clearly, typhoon risk was underestimated. So we really factored all of these in. And then I think what is another dimension that, clearly at this point, from an online perspective, we focus a lot on improving the quality of the business. And this is not just the price but it's also terms and conditions. Christian explained, it was very important to really get our Property Commercial business clean from virus exposure, also in other lines. Similar things happening now on the original side, so you ought to see a lot of rate increases but also tightening of terms and conditions. Obviously, these things are more hard to quantify. But over time, they will also flow through in terms of better profit.

And we see no reason why the momentum is going to change. It started on the commercial side first. Reinsurance was a bit lagging, but now we see the momentum also accelerating on the Reinsurance side. So we will look into next year with a positive outlook, but obviously always need to be a bit cautious with making predictions about the future.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

2 questions. First of all, you described throughout the presentation and Christian's comments about how strong the underlying business is performing. I guess I'm just slightly concerned that there's an underestimation of the COVID benefit. Clearly, we focused on the COVID negatives, but you have a substantial motor book for example. Even in Life & Health, there could be positive utilization rates on some of the health products because of lockdown. So have you have a stab at what the COVID benefits are in the ex COVID performance, if that isn't too convoluted?

And the second question, I was a bit surprised at the speed of the decline in running yield and investment income, especially in the P&C business. I note also that your cash balances are very high at the end of the half year. I don't know if that includes the cash from Phoenix. I don't think it does because it's at the half year position. So what -- has there been -- I mean, I appreciate interest rates have gone down. I've seen that, but still the speed of decline in running yield seems excessive. So has there been a deliberate kind of derisking? Is this an effect because there was quite a lot of realized gains in fixed income, so you've almost accelerated the decline? And maybe just clarify, what is your reinvestment rate, do you think today, roughly, across the book?

Christian Mumenthaler
Group CEO & Member of Executive Committee

So Edi, on the underlying business, and John, the running yield, yes?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes. Thanks, Andrew, on the question regarding potential COVID positives. Obviously, we also had a [sober] look at our business, where there are other changes than the 2.5 billion losses we booked for the first half of the year. What you would expect that, particularly on motor, workers' comp and aviation are kind of the places where on the one hand side, obviously, has an impact first on premium. So due to lower economic activity, lower driving, all of that, the premium is coming down, which is actually a negative to your bottom line, as the premium has some margin attached, which you would lose.

But then given the lower economic activity, you would expect lower frequency of certain claims, which should be a positive. So we looked at that. In Corporate Solutions it was really not a significant thing, so nothing coming through. On the Reinsurance side, a very moderate positive actually showed up, but it was not much at this point.

Also important that in many of our treaties, particularly motor, it is not so straightforward. Sometimes you have sliding scale, so you do not immediately see the benefit coming through also to us. So we looked at all these things, and we had a bit of positives overall in P&C Re, but it was not that significant yet. But we will see. Maybe some more to come.

John Robert Dacey
Group CFO & Member of Executive Committee

And Andrew, this is John. On the running yield, yes, it is down for the group. In the first half of 2019, it was at 2.9%, 2.5% for the first half of 2020. For the full year of '19, it moved down to 2.8%, which I think shows you that some of this was already heading in place. You mentioned specifically P&C Re. The respective numbers there, half year '19 -- or first half '19 at 2.4%, full year '19 at 2.3% and the half year 2020, 2.0%.

So I think part of this is a reduced new money rate on reinvestments. We're currently looking at about 1.6%. Don't forget the -- not just the numerator but also the denominator adjusted a little bit. We have, at the group level, I think, about 1.8 billion of additional unrealized gains in the portfolio, which blows up a little bit the denominator in these calculations, just because of those unrealized gains that are there.

Sitting on the cash, you mentioned, there were some maneuvers that we took in the latter part of the quarter. I think you've heard Guido in the past and I'd reiterate, we remain cautious in our outlook for financial market risk and we'll continue to be fairly defensive. We'll undoubtedly redeploy some of that cash into other assets over the quarter, and it's probably already happened. But I don't think you should expect us to go risk-on in any material way here for the next periods.

Operator

The next question comes from Jonny Urwin from UBS.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Hope everyone's doing well. 2 quick ones for me, please. So firstly, the normalized combined ratio that you've reported in P&C Re is slightly better than the 97% guidance, albeit it's boosted a bit by benign manmade. So if we adjust for manmade, then I think year-on-year, we're a little worse. I guess is that the higher casualty loss picks which are starting to earn through? Any comments, that would be great. And are you satisfied with that result, given the manmade benefit?

And then secondly, how should we think about the normalized development from here? Because obviously, prices are rising but they're still getting absorbed to some extent by higher loss assumptions and lower yields. I guess what is possible for the normalized next year? When do we think your view of the underlying risk will stabilize and those loss assumptions will stop kind of creeping higher?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes. Thanks, Jonny, for the 2 questions on the combined ratio. So as you correctly pointed out, the normalized in our [way when we release] is coming out slightly below the 97%. There was a big [XL] loss on the manmade side and actually the explanation you gave on the casualty side is correct. So as explained last year, we did a lot of work around this liability on the underwriting side but also adjusting not just reserves but also APLRs. So what is now flowing through is coming at a bit higher combined ratio than what we originally saw. So that is a correct explanation.

In terms of what is really realistic to assume into the future -- I would obviously not go into speculation what our combined ratio outlook may be for 2021 -- but clearly, as I already mentioned before, there's a lot of positive momentum now in the marketplace. And I particularly would point to the underlying businesses. So in our Reinsurance book, 2/3, 3/4 is underlying commercial business, which now since 18 months, is seeing significant original rate increases and tightening of terms and conditions. To some extent, we try to reflect this in what this means on the Reinsurance account, but it's really hard to quantify. So I clearly see some of these will start to earn through into the future.

As I explained before, the Reinsurance marketplace has lagged behind the original market. Last year, it was only moderate increases, only in pockets where there were clear loss trends or cat events, loss going up. Now you see it a bit more broad [bend]. So also on business that has not seen actual losses, you can reduce commissions and you can increase nonproportional rate. So this momentum is continuing.

And then again, what bring into the equation is challenge of the much lower interest rate. So the industry overall has no other answer than to drive underwriting margins to a higher level. Otherwise, it's just not possible to get to a decent ROE. So I think this momentum in the industry has to continue and this will come through also to us. And that's why we think it's really important to put the focus on the quality of the business. We have grown the book, but only 6% because clearly quality needs to come first. Then over time, we clearly see we can deploy more capital at even better rates. Clients may come with increased needs if situation are getting tighter. So I think there will be opportunity also then to deploy more at more attractive terms than they are at this point in time.

Operator

The next question comes from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, Research Division

First question is just, I guess it's a big picture one on strategy. First of all, kind of congratulations on ReAssure. I know it's been a very long time coming. Do you anticipate much major change to the structure of the business to come? Or are you happy now with the makeup and composition of the group, perhaps with a greater focus on improving what you've got now? So that's the first question.

And the second question is coming back to the last point from Edi. I guess what's your message to clients ahead of 1/1? You've got a 2.5 billion-plus loss this year. You've had 3 difficult years before that. Are you giving away your capital too cheaply? And are you confident that future claims from pandemics, the second wave could be going into the beginning of next year? Will they now be excluded from the first of January?

Christian Mumenthaler
Group CEO & Member of Executive Committee

Thanks, Kamran. So strategy, obviously, always -- is always a good trap in calls like that because if I say anything definite and then in 2 years, we do something different. So I think the group needs to hold all options open all the time because you never know how things will develop. But I think broadly, I'm happy where we are. We clearly stick with our CorSo business. Anything else wouldn't make sense now at this stage. Also, in my view, you need to focus on quality, both in P&C Re and CorSo, so this is the top priority right now. I don't know whether we're going to see some M&A opportunities later in the year. It depends a bit how things develop. As you know, our philosophy is that in P&C Re, it's hard to see anything strategic. There could be some financial deals possible, maybe?

And then in CorSo, although there, there's a limited choice of strategic transactions but there could be transactions which add to it, but I'm obviously totally aware of the skepticism that investors have towards CorSo. And we would take that into account, and we are very aware we need to first fix this and show good results. So the transaction would have to be very attractive to be done.

And then obviously, on iptiQ and the digital field, we remain open. There's nothing particularly right now, but I think it's important to state that if we find something that makes sense there and we can explain it to shareholders, again, that could be interesting. I think on CorSo, right, obviously, we went through a lot of reflections, although I think something I wouldn't underestimate is the option value of having access to these corporate clients. Corporate clients are very important. More of the risk will shift towards them. You see more and more huge companies with more complex needs.

So having that option maybe is not that well explained and not that much used at this stage, but we think there's going to be some definite value. And you can see the cross-sell to iptiQ, for example, and things like that, so I think for the future of the group, having access to that risk pool is important. And obviously, we're going to hope to persuade [everybody] that this is the case. How we do it and which lines, et cetera, I think this is going to be a constant review process, right? So I don't think it's going to be done in a totally me-too fashion. It will have to change quite substantially over time. So -- but I think broadly, with where we are now, I'm happy with where we are now.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Edi, on the second question?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes. Second question, the message with the Re clients. Obviously, the message with the Re clients has been quite tough since quite a while, since we have seen a few tough years for us, but also we need to see that the situation is tough for the clients as well. So ultimately, we are in the same boat when it comes to the P&C business. It's just this need to deliver better underwriting margins going forward, and this can only be achieved even on the original side and then also on the reinsurance side, ensure that conditions keep improving. So if you look at U.S. liabilities, and it's now 2 years of working with clients to fix this. We have reduced shares. We have reduced our exposure quite a bit to larger corporate risk, exposed to social inflation. So we could do this with our clients without damaging relationships too much because still, there's a lot they need from us, and we deliver the solutions that really also make sense within our appetite.

And then you refer to the pandemic situation. Clearly, as Christian explained, on the Life & Health side, the pandemic has been a part of the offering. We always knew we would provide coverage to life policies for also pandemic events. So it was cost that we factored in. But clearly, on the P&C side, this has never been the intention to provide significant capacity for pandemics. So over the last years, there was some slippage, a bit too much generosity to include non-damage business interruption. It was also a bit underestimated on the event cancellation, that a big pandemic would create such a broad lockdown leading to cancellation, postponement of so many large events.

So clearly, this whole business's exposure to the pandemic need to be reviewed. And to a large extent, I think there's only 1 answer, that on the P&C side, pandemic needs to be excluded. And that's what we've been working on already since April. In all the renewal rounds, we were successful to exclude pandemic, infectious disease more broadly, in -- for on the underlying business that have a commercial business interruption exposure. And this needs to continue also into the next year.

And as we mentioned in other calls already, the only really solution on the P&C side is to set up public-private partnerships, where the government, together with the industry, finds ways, the government needs to provide some backstop and the insurance industry can then help with the risk assessment, with the policy distribution and the claims settlement. And these discussions are going quite well in many markets and Swiss Re is part of that.

Operator

The next question comes from Vinit Malhotra from Mediobanca.

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

My 2 questions, please. First 1 is just picking up again on Kamran's question, please, the -- from a slightly different angle, the first one. The fact that if you just look at the GAAP net income, and I know it's not the perfect measure, but just the GAAP net income the last 3 years. And then this 1H, we are not very -- I mean, we are slightly in the surplus but not too much. And then obviously, Swiss Re has been paying dividends and buybacks and what have you. So how is this situation on the net income being this kind of level, how should investors look at it from future dividends or buybacks? And if you could -- I mean, I'm sure the answer might be somewhere linked to the economic capital generation. But if you could remind us your thoughts on that, it would be very good.

And second thing is just already, just looking at the Slide 9, the fact that, I mean, the impacts of lower interest rate is 4%, impact of loss assumption is 2%. The state -- these numbers are not terribly different from what we saw in the January renewals. But then we've had Japanese business. We've had Florida business where at least in Japan, there was a much more pickup in loss assumptions. Could you just comment on whether -- is anything going to change on this kind of flat margin impact? Do you think clients are willing to talk about low interest rates as something they should compensate you for, for example? So just any idea on this economic impact going forward, from what you're hearing from your clients.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Maybe John on the first?

John Robert Dacey
Group CFO & Member of Executive Committee

So sure. So Vinit, the -- yes, I mean, obviously, the group's GAAP income has been lower than our targets and has been a problem for multiple years. The COVID crisis is not helping us here in 2020. That's one of the reasons why we think about the underlying and our view that, in fact, our businesses are performing and capable of performing when we don't get one of these left-field very large balls thrown at us. So I think the underlying question about our capacity to pay dividends, eventually to do share buybacks is, as you correctly point out, related to our EVM results rather than the U.S. GAAP results. And over time, those have been better than GAAP but still have been impacted by some of the significant losses that we've had in these years. So we need to get back on track.

The good news is the capital situation, the starting point both at the beginning of the year and again, here at midyear, remains very robust. We've taken some steps to protect the balance sheet and make sure that, that's the case. We have suspended this year's buyback. And just -- it's great the ReAssure transaction completed, the cash has come in. The capital charges have reduced. That doesn't change our view for share buybacks for 2020. But it also, I think, reinforces the view that our dividend is secure, and we shouldn't have to worry about at least maintaining the dividend on a going-forward basis as the second leg of our 4 legs of capital policy.

So we'll evaluate, together with the Board, after the year-end where we stand for other capital actions. But right now, I'm not concerned. The group has the liquidity. We've got the capital. We've got the underlying earnings, and we just need to, as you say correctly, show the GAAP income to come through in future quarters, future years, and we expect that to happen.

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

I think on your second question, again, the lower interest rate and what should we expect in terms of improvement in the price quality of the P&C business. I mean the topic is not new. We've started to address this since quite a while because interest rates were already lower in the last couple of years. Now we just see another level driven by COVID. It was in the past a bit of uphill battle. But clearly, more there is recognition that these lower rates need to be reflected in much better underwriting margin for P&C Insurance businesses.

I would again, as already commented earlier, put into perspective that the nat cat business that you may have in mind, that's an important business for us in terms of [net] margin production but it is a little bit more than 3 billion out of a total of 20 billion P&C pool. So there's a whole lot of proportional business, of casualty business. We also fight hard to reduce commissions and we are getting successful. But it's not that easy to see a massive price improvement coming through. So clearly, that journey needs to continue and would again point to what's really happening on the underlying businesses.

I mean, there, if you look at what CorSo can achieve across their book, last year, 12%. Now in the first half, another 15% across the business that they wrote, so that tells you that the increases are getting much more substantial. And obviously, that's driven by losses incurred in the past, but clearly, lower interest rates is a factor that carriers need to start to factor in, in underwriting these perils. So clearly more needs to come but it is not [the factor], but the momentum is only accelerating.

Operator

The next question comes from Ivan Bokhmat from Barclays.

Ivan Bokhmat
Barclays Bank PLC, Research Division

I've got 2 questions. The first one, just to follow up on the COVID losses. I'm wondering, your current 2.5 billion claims booked, that provision, what end of the 50 billion to 80 billion range would you think that best corresponds to? And what do you think could push the overall loss higher? I mean I'm referring to some of the comments you've made to journalists regarding the business interruption and the past court cases. Maybe you could elaborate on that for us, please, if possible.

And then the second question, just on the Life & Health business. I guess should I read from your comments that pandemics is a normal risk that was costed? Should I read that we shouldn't really be expecting a substantial change of the economics of that business going forward, i.e. no hardening to the same degree that we should see -- that we are seeing right now in the P&C market, I should say?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

So maybe Edi, that go to you.

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

On the COVID losses at 2.5 billion, we booked them at the 50 billion to 80 billion range we ceded. So somewhere in the middle of this range, would be the simple answer. I don't think there's really much more than I can say that John already alluded to. I think what I would reiterate, that if you look at this 50 billion to 80 billion, we don't see any reason why the Swiss Re loss should be out of proportion.

If you look at a bit at our market shares in different parts that are COVID affected, on P&C business overall, we have some 10% to 12% also on cat XL business, which may pick up some of these [end BI] losses that can be aggregated, also 10% to 12%. And it's also important to point out that on the CorSo side, these are market placements, so CorSo is on the same policy conditions as other carriers. And also on the Reinsurance side, we are largely having the same COVID conditions as other reinsurers may have. So we see that our exposure is in line with our normal market share. In CorSo, it is a very low single-digit market share, and on P&C Re, it's in the 10%, 12% range.

The only area where we are a bit heavily exposed is event cancellation because there we wrote that business in CorSo but we exited in the middle of last year, but still some runoff exposures there. And we also had some in reinsurance. So as we explained earlier, we have about a 15% combined market share. But across the board, also, if you look at credit insurer, we are at 10%. We are only #3 behind 2 other more bigger players. So we don't think we're out of proportion. And where so more losses could come, and John explained, credit and surety some defaults are likely. A few more events may come up [in 10] on the mortality side.

Christian Mumenthaler
Group CEO & Member of Executive Committee

I think maybe if I can just intervene a bit, it's not out of line with anything the market knows about Swiss Re. But the U.S. mortality book is designed in a way that large dollar policies tend to be reinsured, and there's a finite number of reinsurers that participate in that market. And in that space, we're one of the larger players, the usual suspects that you know well are also there. So while the primary companies may not show much in the way of mortality losses related to COVID, I think the reinsurers in the U.S., the ones active in the U.S. are likely to bear the brunt of the mortality experience.

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes. This is linked then to your second question, as Christian explained, and you also point out, pandemic risk is the nat cat element in the mortality business, equivalent to the nat cat on our property book. So for 20 years, we had a pandemic model and then we write mortality business. Obviously, that's part of the assessment so it's costed into the cash flows. And we allocate appropriate capital to assuming pandemic risk as part of our mortality book. And that in the past was done adequately.

Obviously, we'd also try on the Life & Health side to achieve better margins, given the pressures and that the capital cost has increased. So that's all the reasons also to be more demanding in terms of margins to be achieved on Life & Health side. For pandemic overall, as it kind of unfolds now, as it was anticipated earlier in our cost and in our risk management, there's not a need to fundamentally change the way we underwrite mortality business with exposure to pandemics. The real correction needs to happen on the P&C side. As I already explained before there, we, to a large extent, need to exclude it or find ways in public-private partnerships to have the government take a seat and provide a backstop and the Insurance Re can then facilitate to distribute the risk and settle the claims.

Operator

[Operator Instructions]

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

2 questions for Edi, I'm afraid. The first question will be related to BI again. Actually, I understand that there is a quiet but tough discussions currently between primary insurers and their insurers regarding how cat programs will react to BI? And maybe that, I don't know, but maybe reinsurers have a different view on this regarding aggregation or regarding [OR] clauses or anything that you can mention to better understand how your -- or what is your scenario lying behind your USD 950 million BI expected losses?

And the second question will be related to U.S. social claims inflation. I think that in the past, you mentioned that you put in place a large corporate risk tracker. Actually, you had a gain in H1, [327 million] of reserve strengthening which is a net number, net of a positive [few IDs] on hurricanes. So just was wondering if you could update us on where you stand currently regarding your confidence level of your U.S. liability reserving position? And if you're starting to be closer to the 60th or 80th percentile of best estimate?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Yes. Thanks, Thomas, for these 2 questions. On the first one, is really the question, to what extent is -- actually not -- yes, also, it's mainly what we call non-damage BI losses. So in quite a number of markets, cedents have given some sublimits for nondamage business interruption exposure, and then how it is translated into the reinsurance coverage really has to be looked at case by case. So in our exposure assessment process, we actually went through over 100 of the largest covers that made up more than 80% of our exposure, looked at what the cedents had in their original book in terms of nondamage BI sublimits and how many of those may likely be affected. And then we applied the reinsurance coverage conditions.

And in some cases, you would have covers with no cover because it's a named peril, it would just keep cover for earthquakes, storms, things like this. In some cases, it would even have explicit pandemic exclusion already in the past. But in many cases, the reinsurance contract would follow the underlying policies, and then you need to apply the correct degradation interpretation as that's worded. And that's what we have applied also, including advice from our legal counsels. And that's how we have gone through, so contract by contract, and came up with our estimate. So that's how we look at it. So as usual, we say we will pay what is covered in the original policy and what is really covered according to the language, including our current language in the reinsurance contract.

And your second question around social inflation in the U.S. Clearly, that's an ongoing important topic on our radar. I've been talking about it now since a couple of years. You now have in addition the COVID situation, which adds, I think, even more color to that development. But we would, for example, see that given the low economic activity, the frequency of some large verdicts, large settlements may be even a bit lower due to lower economic activity, some lower commercial truck driving, but really aggressive tort environment and the social inflation factor like inequality and really trying to get money from large corporates. We don't think that's going to change in the midterm. I mean we still are convinced that there needs to be tort reform to bring U.S. liability business on a sustainable footing. And that's why we continue to manage it very carefully. We continue to reduce exposure, particularly on larger corporates, where we push a lot for commission reductions and other improvements. And also on the reserving side, we stay very close to it.

And you pointed to some adverse development, which we would summarize for the first half like that in the first quarter. We already mentioned that we had some adverse, but this was mainly driven by premium developments or less premium than initially anticipated came through in Q2. Actually, the PYD was about flat. But this was 2 components: one, as you point to, there was some reserve strengthening for some U.S. liability business, but this was compensated by favorable development in the property space and specialized space. So we will continue to manage this very carefully, and we continue to take a very prudent stance towards U.S. liability also.

Operator

The next question comes from Vikram Gandhi from Societe General.

Vikram Gandhi

Societe Generale Cross Asset Research

It's Vik from SocGen. I hope everyone is well and you can hear me all right. I've got 2 questions. Firstly, should we expect some more capital flowing into CorSo from the group once elipsLife comes into the fold? And second question would be, would it be fair to say that the roughly 19 percentage point impact from the sale of ReAssure is more or less balanced out by the COVID impact within the SST ratio?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

These are for you, John.

John Robert Dacey
Group CFO & Member of Executive Committee

Vik, you get a prize for one of the cleverest questions I think I could imagine on the second one, but let me answer the first one. We -- elipsLife will come with a balance sheet. So certainly, on a statutory basis as we migrated that into the CorSo carrier, we're sorting through exactly how and when to do that, and we'll give you an update in time. But I think that the -- it's not a giant balance sheet, but it will make a modest difference at least on -- especially on the statutory side.

With respect to your question -- second question, yes, there was an offset of COVID losses to the gain that we received in the closure of ReAssure. I'm not at liberty to say how close of a match that actually was.

Operator

The next question come from Simon Fössmeier from Vontobel.

Simon Fössmeier
Bank Vontobel AG, Research Division

It's Simon from Vontobel. I'm just wondering, 2 rating agencies, if I'm not mistaken, currently have a negative outlook on Swiss Re. And I'm sure you don't want to comment on the likelihood of a downgrade. But maybe you could give us an estimate how that would influence your pricing power in the upcoming renewal seasons?

Edouard Schmid
Group Chief Underwriting Officer & Member of Executive Committee

Simon, I'll take that. I think you're right, the -- there's actually a negative outlook on the industry coming out of Standard & Poor's and Moody's reaffirmed the current rating and status and A.M. Best as you say, is interested. I think this goes back to the question we had earlier on the GAAP earnings. The rating agencies want to see clear evidence of the underlying earnings capability. And ultimately, they want to see those earnings coming through.

I think we've had good discussions. I don't expect anything imminent, and I also don't expect any implications for the renewals. I believe we've got top ratings across the board. There are competitors that are able to operate with lesser ratings without a lot of trouble. It's not our goal or desire to see our ratings adjusted, but I think it's also not catastrophic in any sense should they be. But right now, we're looking to improve the earnings capability, the value creation of the business we write, reaffirm the current ratings in the course of the next 4 quarters. I think once COVID gets cleaned out and we move forward into 2021, we should be able to do that.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. Thank you, Simon, for your questions. And we have come to the end of our Q&A session. So if you have follow-up questions, please reach out to any member of the IR team. Thank you again for joining today. Stay safe, everyone. Have a good day or good weekend, and operator, back to you.

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