S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

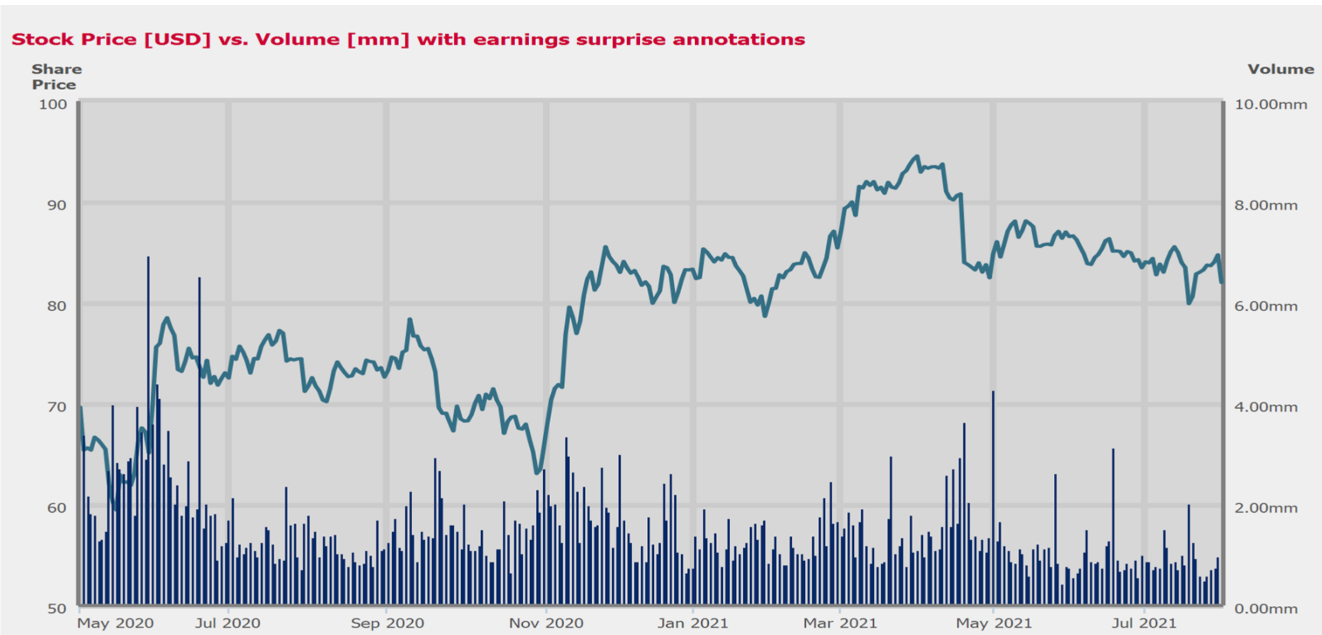
FH1 2021 Earnings Call Transcripts

Friday, July 30, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FH1 2021-			-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	2.60	NA	NA	6.80	NA
Revenue (mm)	NA	NA	NA	41450.90	NA

Currency: USD
Consensus as of Jul-30-2021 9:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FH1 2020	NA	NA	NA
FH1 2021	2.60	3.47	33.46 %

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Iain Pearce
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Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's Half Year 2021 Results Conference Call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to Mr. Christian Mumenthaler, Group CEO. Please go ahead.

Christian Mumenthaler
Group Chief Executive Officer

Thank you very much, and good morning and good afternoon to everyone. I hope you're all safe and well no matter where you are. I'm here with John Dacey, our Group CFO. I'm together with Thierry Leger, our Group Chief Underwriting Officer; and Thomas Bohun, our Head of Investor Relations, to talk you through the half year results. I'll just say a few remarks from my side before going into the Q&A session, so that you get a bit of my perspective on this first half year. So I would say that overall, as you can imagine, we're quite happy or very happy about the results because we see a lot of hard work that went into the businesses over the last 2 years finally paying off and being visible. The results were -- the underlying results last year were already quite a bit better, but overshadowed by COVID, where, this year, I think it's in the open and extremely visible.

If I quickly go through the different businesses, I look at P&C Re with 94.4% combined ratio. I think that's an excellent result. Also normalized 94.4%. So it's below the target we have set of 95% combined ratio. On top, I remember the skepticism in this circle in January when we took some quite radical actions on the underwriting side to cut some of the casualty business and some of the aggregates in nat cat. I think you could see that we could catch up with the volume by year-to-date, where 85% of the renewal is now done, and we're flat, but with a significantly better portfolio and further price increases despite the fact that, with our scale, the efficiency and the Life & Health diversification, with a combined ratio of 94.4%, we have a very high ROE already. So I'm very pleased with P&C Re and the trajectory it is in.

Life & Health Re obviously heavily impacted by COVID. I think everybody has been surprised by the huge amount of deaths, unfortunately, in the U.S., but also in India, South Africa. So we pay for that, whereas all the underwriting measures we took on the wording side at the 1/1 renewal actually are in full effect, and you can see that very little losses are left in CorSo and P&C Re. The underlying in Life & Health is also looking very good. I'd just be a little bit cautious here because it's not an exact time to separate COVID from non-COVID losses. As you know, there's different methodologies. You can try to estimate that. So a bit cautious around the underlying here. But overall, Life & Health's technical side has worked very well also in this first half year.

And in CorSo, I'm very pleased. In my eyes, the turnaround is finished, successfully completed. As you can see the results here now. They continue to have price increases. They had year-to-date 13%, which is quite something, I would say, and that's, as you know, will be earned over about 2 years. So the momentum is very strong, continues to be strong. You've noticed that the normalized one is still above -- the normalized combined ratio is still above the target we have. But CorSo is in a trajectory. So we're very confident to be able to hit that when you look at the full year figures. And so yes, very pleased with the overall direction, where they stand and the position they have in the market.

And then finally, on the COVID losses. We continue, I think, to have a good estimate. We're comfortable about the overall estimate. There's still a big portion of IBNR, as you have seen in the slides. I think it's 43%. So time will tell how much we need it, but at this stage, we feel that's the best guess we can have at the final losses.

And as I said before, it's tapering off on the CorSo and P&C side. we gave a figure of less than $200 million on these 2 business lines until the rest of the year. And then on the Life & Health side, it will obviously very much depend on how many deaths we have in the markets we are active in. The -- I think there's encouraging signs looking at the U.K., in particular, with the Delta variant and number of cases now going down and for all this fourth wave, a very, very significant reduction in hospitalization and death. So vaccines are working against all variants at this stage. And if that's the case, then I think that bodes well for the rest of the year and beyond.
So that's just a few remarks. I'm sure you have more questions, and therefore, I'd like to hand over to Thomas Bohun, who will lead into this Q&A.

Question and Answer

Thomas Bohun
Head of Investor Relations

Thank you very much, Christian, and hello to all of you from my side as well. [Operator Instructions] With that, operator, could we have the first question, please?

Operator

The first question comes from the line of Andrew Ritchie with Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I'm not normally the first to ask, 2 questions. Both relating to comments that John made this morning. First of all, you used the term protecting the yield of the fixed income portfolio. Hence, there was much lower fixed income realized gains. I mean, over the last 5 years, 70% of Swiss Re's realized gains have come from fixed income. So I'm not quite sure how to take that sort of guidance, I suppose. You're expecting non-fixed income returns, I guess, returns on alternatives in particular, to make up for the loss of fixed income realized gains? Or maybe you could just guide as to where we should think the running yield on your new definition should go to? I noticed the underlying fixed income, recurring income has dropped quite materially -- very materially year-on-year. So just -- I'm just trying to interpret what you're saying about this protecting yield. It seems like it's a new element.

The second question is, again, John, you made a comment. It's on Bloomberg, it's a headline. I can't see the detail. You say that insurers need to be "more realistic on weather losses." Who are you referring to there? You've [indiscernible] or with the industry in general. And I guess in that context, does that signal that you need to think again about where you're positioning in terms of nat cat versus frequency? Or who are you aiming that comment at I guess I'll answer these 2 questions.

John Robert Dacey
Group Chief Financial Officer

Andrew, thanks for asking them. With the first 1 on the -- you're right. I was quoted protecting the yield. I think in the first half of the year, we just wanted to point out that the relatively solid investment result, 3.2%, got delivered without having to move on the fixed income portfolios in a point where the outlook on future interest rates is unclear. And so I think we're comfortable at the moment or we're comfortable during the first half of the year that one; the continued caution around credit, we managed to avoid any impairments whatsoever on the credit side and the positive marks we got on the private equity portfolio, in particular, were more than sufficient for us to go through the quarter.

I don't think you should interpret this as us giving up intelligent moves in the fixed income portfolio when we see opportunities to realize a reasonable level of gains. But we're not going to squeeze the portfolio down to nothing when reinvestment rates are where they are. As you said, the recurring investment yield is down to 2.3% from 2.5% a year ago.

That's not surprising given where interest rates are. The 10-year was climbing back up at 1.7%. But when last I checked this morning, I think we're back at 1.25%. So we're just going to have to manage through this. The most important thing is that we're pricing our business to reflect the current yield environment and not some hopeful reversion scenario, and that's what's going on.

So I think we're fine. I don't think you should interpret this as a -- any material change in strategy, just a recognition that, during the first half of the year, we were able to move forward and achieve this without any significant realization of gains out of credit and/or other fixed income instruments.

On the second one, the Bloomberg quote, to the degree that I was aiming at anyone, I think it is both for the primary industry, and frankly, people that buy retail insurance. The reality is the -- what we've priced into our rates for secondary parallels is what we think needs to flow down into homeowners in Florida or in California to commercial enterprises around the world to be able to deal with the losses that we see from more extreme weather events. It doesn't mean that we need to do another round of improvements in our models.

Our models, we think, are already reflecting the current reality. But not everyone agrees with us on where some of these prices have been. We've -- the classic example was in the state of Florida, where we've continued to be underweight because we think the prices that start at the very beginning of this chain are not reflecting the risks that are there. And so, over time, we hope to be able to demonstrate that our picks, which seem to be relatively high, are the right picks for people to go with. And if that cascades down into underlying policies, that's the right answer.

A great example of where that did happen for us was, frankly, in Japan property after the typhoons of 2018 and '19, where the primary companies fundamentally changed their rates as a result of the pressure that we put on them in our reinsurance side.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Will Hardcastle with UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

Two questions. The first 1 is I guess a comparator this week suggested it would be looking to increase its catastrophe budget expectations in light of recent track record. I guess in that regard, are you still confident that your catastrophe budget is struck sufficiently robustly? Or could this be something that Swiss Re looks at as well?

And then the second one is, within prior year development, it's a very small number. It's nice to see that the adverse development on casualty lines has come down a long way. Is it possible to break this out perhaps in quantum between the adverse development on North America liability and cyber versus that favorable workers' compensation development? And what drove it -- the adverse? Is it just specific cases? Or are there any assumption changes within that?

Thomas Bohun
Head of Investor Relations

John, would you like to take those questions?

John Robert Dacey
Group Chief Financial Officer

Sorry, microphone. Well, the first one -- our belief is that we -- we've got -- and we frankly look at every year and during the course of the year, the expected losses we've got on nat cats. We allocate that during the course of the year with an overweight in Q3. So we've got a larger expected budget on Q3 than any other quarter. And it served us well. And frankly, with the exception of the 2017 and the HIM losses, I don't know that we've been particularly far off and over any longer period of time.

We've actually been very, very close to budget on average. Now any particular year is going to be up or down given the good or bad luck. So I think you should expect that we do review this constantly. And we're comfortable where we've got the picks for this year. And that has nat cat alone probably $700 million expected losses between Reinsurance and CorSo for the third quarter and that doesn't include the large man-made events.

On the prior year development, you're asking for a level of specificity, which I don't think we're going to provide. What I can say is, in any 1 quarter, we evaluate different lines of business. And if there are places where we think it would be prudent to reinforce certain reserves, we'll do that. But on a net basis, the reality for P&C Re has been very clear. It's been positive for the year-to-date. We don't believe we've got any holes in the reserving positions. We'll continue to evaluate.

If we've got new information or new events that make us think that we should do that, we'll reinforce where we need to. But the good news is we found redundancies in many other parts of the book. Whether it's in the property side, some of the accident in health business' other places, and we've been able to fully cover the funding of some minor adjustments during -- actually for the last 4 quarters now.

Thomas Bohun

Head of Investor Relations

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

Operator

The next question comes from the line of Kamran Hossain with RBC.

Kamran Hossain
RBC Capital Markets, Research Division

The first question is just following on from Will's, one about cat budget. Could you just talk a bit about how you actually calculate the cat budget. I guess based on my understanding and conversations with other kind of companies and people in the sector, a lot of cat budgets are calculated on a backward dating basis. So it's on historical data kind of overlaid onto your portfolio. And the issues that these models have is that they don't tend to factor in changing climate. So just a few words on kind of how you calculate the cat budget and kind of factor climate change, which seems like it is happening into models.

And the second question is just on the, I guess, the level of prudence in your COVID reserves. Obviously, the kind of 43% IBNR reflects kind of event cancellation and mortality losses. But if I look at the kind of business interruption block, it looks like you've got $1 billion plus of IBNR for events that really happened more than a year ago. So just interested in how those reserves have moved year-on-year and whether actually you expect to get more clarity whether these claims will develop or not in the coming quarters?

Thomas Bohun
Head of Investor Relations

Thierry, do you want to take the first question and then John the second.

Thierry Leger

Happy to. So on the net cat budget, so the starting point is always with the expected loss. So you have to imagine that in our costing, we price in an expected loss for a given year for the business we write. So that's the starting position for defining the budget. And then we do several adjustments with regard to profit-sharing agreements, reinsurance premium. Of course, retro comes into play as well because the expected losses on growth, late reporting and things like that, and that's how we get to the budget that we disclose.

And more specifically to your question around climate change, of course, that is part of our expected loss we start with. So as we actually change our views on our loss pick, we -- for example, for climate change, that would impact expected loss and, accordingly, also the budget over time.

Christian Mumenthaler
Group Chief Executive Officer

Maybe if I could jump in, Terry, because it could be that some reinsurers are really using just historical loss data over the last 10, 20 years. And I think it's important to stress that we have a team of dozens of nat cat experts who program forward-looking models, physical models for hurricanes, for example, et cetera. And of course, their ambition is to capture all trends and have a forward-looking view and model, and that's the figure we use here. So -- of course, that gets calibrated indirectly when you do models, you always calibrate to the back, but it includes all information we have about climate change, for example. So there should be definitely a forward-looking element in the cat budget you see.

John Robert Dacey
Group Chief Financial Officer

And, Kamran, on your second question with respect to the COVID reserves. You correctly identified that the level of IBNR for the business interruption claims around the property book remain strongly in IBNRs. And this, frankly, reflects a current market dynamic where the presentation of claims has been very slow from the primary markets. And here, we're -- in some cases, they themselves are trying to come to a final conclusion of what their losses are and then thinking through the specific issues of event definition and accumulation, where, in some cases, I'm guessing we'll have a pretty coherent view ourselves of the way they're thinking about it.

In other cases, we may have a seriously different view of the way that they're looking to pull together a potential claim of recovery. So what I can say is there's been relatively little movement on this specific bucket in the property side over the last 2 quarters. I would expect probably around year-end, as we look again to the renewal season, that we might sort out some of the uncertainty, but this is probably going to continue into next year at some level.

So I wish we were in a different state as an industry, we're not. There's not much we can do until the primary markets come to us with a clear proposal about what they are expecting, and we can either agree or disagree with that. So the discussions have been occurring. I don't want to say that there's been no discussions or nobody is thinking about this. But it remains, as you say, a big chunk of this $1.4 billion that we've got in this bucket to be resolved. We continue to believe that we are well reserved.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of James Shuck with Citi.

James Austin Shuck
Citigroup Inc., Research Division

So my 2 questions, firstly, on the fixed income running yield in the -- I think in the appendix, I mean maybe [8.6%] for the first half of the year, which looks like a yield of about 2.1%. And I think you're saying that new money at the moment is about 1.25% at least based on the treasuries. Can you just remind me about your strategic asset allocation, and where you are versus that? And how we should think about the scope for derisking? I think your market risk has shown in the SCR is actually quite low by historical standards. So if I just annualize that fixed income yield of sort of around [1,800, 1,900] or so. Is that a number directionally going to go up as you change the asset allocation? That's my first question.

Secondly, on CorSo, I hear the comments that you say, Christian, about very confident with the outlook and the trajectory. Just a bit positive about the first half results because it's 97.7% normalized, but that's not normalized for man-made losses and man-made losses were about a 2-point benefit. So excluding that, we're sort of closer to 99% or closer to 100%. So when you make your comments around on track below 97% that's getting the benefit from a low level of man-made losses. So just comment about why you're so confident you're on track versus plan would be helpful.

Thomas Bohun
Head of Investor Relations

John, do you want to take the first question? And then Christian, the second?

John Robert Dacey
Group Chief Financial Officer

Yes, sure. So James, with respect to the current investment portfolio, I think on the slide deck in the appendix we had on Page 25 or 26. I am having trouble reading this with this light, 26, 40% in government bonds, 30% in credit, another 10% in equities and mortgages and other loans -- some policy loans. So I think the -- to give you a sense, we have increased modestly the risk from the beginning of the year. We've reduced our cash position from 17% down to 14%.

We continue to have some runway if we want to bring in additional risk onto the balance sheet at this point of time. I think the asset management team is reasonably comfortable with where they are. So yes, the underlying point you have, which says, will this -- with current interest rates, will this return and the recurring investment yield continue to trend down? The answer is probably yes.

I don't think anything dramatically. We don't see an inflection point on this. We'll look to continue to see what's available on the alternative side. And we've got teams that have done a very nice job, frankly, in private equity and other alternatives to support a strong yield. But the core fixed income side of this is not just for Swiss Re, but for the industry going to be under some modest pressure with reinvestments. And that's why the kind of price increases we see in Corporate Solutions, we need to continue the underlying primary industry, getting those rate increases helps us directly in that side, but also, frankly, as a spillover effect to our reinsurance portfolio as well.

Christian Mumenthaler
Group Chief Executive Officer

And of course, I think you're right. If you add Manmade, we come to a slightly lower number. So our team would say 98-point-something. But if you look at the trajectory of the price increases and as it gets earned through over 2 years, I think mathematically, I have quite some confidence that we get there by the end of the year. Just looking at the progress of quarter-by-quarter and how it gets earned through. But yes, clearly, we pushed them down. We gave them tough targets. They now have also elipsLife, which is a different type of business and so on. But I'm confident we will get to 97% at this stage.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Iain Pearce with Crédit Suisse.

Iain Pearce
Crédit Suisse AG, Research Division

The first 1 was on the dividend upstreaming from the different segments. I know the P&C Re didn't upstream any cash to group this half year. Are there are any cash remittances from Life & Health? Is there anything to sort of flag there? Is it due to the cash inflows you've had from some of the divestments or the sort of restructuring that happened to the different operating entities and/or should we be expecting a sort of normal remittance pattern in the second half of the year? And then just following up on the Corporate Solutions point, yes, I was a bit surprised to see the underlying development worse in this year on the combined ratio. So just if there's anything to flag there as to why that has worsened. And if you look at Slide 4, does the historics include elipsLife, and we're looking at that underlying combined ratio.

Thomas Bohun
Head of Investor Relations

John, do you want to take the first question?

John Robert Dacey
Group Chief Financial Officer

Yes. So with respect to dividends, I mean, you're right, Iain, to flag that we have done this restructuring of the legal entities in Switzerland effective the 1st of July. I don't think I would read anything into the -- what you saw in the first half. We continue to be highly liquid, both at overall the group, but also more broadly in the consolidated businesses. We'll think through what dividends we might want to see either in the second half of this year or next year between the legal entities. But I don't think that there's any particular cause for concern about our ability to manage both liquidity and capital between the subsidiary and the parent company.

Christian Mumenthaler
Group Chief Executive Officer

Yes. Maybe the question on the normalized combined ratio, I think the issue here is we don't normalize for man-made to make it comparable to P&C reinsurance. So if you did, the normalized with manmade last year would be higher the combined ratio than it is now. So I don't know -- I can't remember the exact figure, but Investor Relations can provide that to you.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Vinit Malhotra with Mediobanca.

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

So my first question is on the kind of the flood and the weather we talked about. And earlier in the year, we've been talking about the reduction in secondary perils. Are you able to give us some kind of direction or indication or some kind of quantification that, okay, because of all those underwriting measures, there was a slightly lower loss to be expected from these floods or anything to that effect would be very helpful? That's the first question.

Second thing is, John, there was a very strange remark in the Bloomberg headlines, again, might not be fully accurate, but just to see what -- just to read out what I see. It says that you said there's still some more mortality, so continue to see major mortality losses. And just to understand, I mean, I would have assumed that -- from your comments as well that mortality should trend down loss-wise from -- in second half. But if you could just reiterate that or clarify that would be very helpful.

Thomas Bohun
Head of Investor Relations

Thierry, if you could take the first question and then John the second.

Thierry Leger

Yes, I'll take the first one on the flood and the weather, as you called it. So indeed, we reduced our exposure to these secondary perils. And we were actually assuming at the time, you will remember, we also talked about it over at the Investor Day. We were assuming that the trend of the secondary perils, the volatility that we have seen emerge over the last years is not going to go away suddenly. So we viewed this as a real trend.

So what we did were actually 2 things. One is one that John mentioned already was the adjustment of models, for example, in Japan that we've also adjusted the models in other areas. And obviously, we continue -- as we learn from new claims, we continue to adjust the -- our model. So that's the one thing we did, which leads over time to an increasing loss pick.

The other thing we did is we looked at structures that we don't like. And in this regard, we very closely looked at these cat aggregates that can actually pick up these secondary perils quite easily. And in a way, we didn't like as much anymore. So we did indeed addressed those and reduced our exposure, not only to these aggregate coverage, we also had top and drop structure. So everything in that frequency area we did reduce.

And our own estimation is that it would certainly be a triple-digit amount of losses. It was certainly a triple-digit amount of loss that we have avoided with those actions.

John Robert Dacey
Group Chief Financial Officer

And Vinit, thanks for bringing it up. I'm not quite sure exactly where the headline came from. What I did say is the mortality losses were the only significant COVID loss that we had in the first half of the year. And I'm not sure if that's somehow misunderstood of my point. What I can say very clearly is, obviously, our biggest exposure for Life & Health losses in COVID are mortality losses in the United States. We've had some losses in other countries in the past. The U.K., not much on Continental Europe, but the U.S. has been dominant.

What we saw was, on Q1, our biggest single quarter because of the number of deaths in January and February, in particular, that has tailed down considerably. The Life & Health losses overall reduced by 60% quarter 2 over quarter 1. And given the trends of vaccination and the continued success of the vaccines against the variants to date, we would, all things being equal, expect that to continue to trend down.

What we did see in the second quarter was some losses that were booked from geographies other than the U.S. About half of that number that we've booked, the $240 million, was U.S. related. The other half came from some other countries where losses were established or reported, India, South Africa and some small numbers out of certain Latin American countries.

We do not expect that those numbers will be substantial going forward. What was booked in the second quarter was losses actually in the second quarter and probably a little bit of catch up from previous quarter deaths that were reported to us after considerable interactions with the primary companies. So I think we would expect the run rate with what we know today and the current trends of both the functionality, efficacy of the vaccines vis-a-vis the different variants and the slowing, but still increasing levels of vaccination to reduce these losses in future quarters. I hope that helps.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Thomas Fossard with HSBC.

Thomas Fossard
HSBC, Research Division

Two questions on my side. The first 1 will be related to CorSo. So I think that you're flagging the end of the turnaround program at CorSo and potentially you're flagging more or return to more normal growth. So could you help us to understand what we should expect now in terms of top line growth for CorSo? Opportunities you're seeing, you're currently contemplating in the market, and on top of what you're getting in terms of rate increases, we should start thinking about growing exposures?

And the second question will be related to the renewals. So year-to-date, you're coming with 4% nominal price change. Can you update us on what the impact of those on a combined ratio basis on net profit basis? And at the end of the day, I'm guessing that it's -- net of everything, it's 2% higher. So just was wondering if you could put some qualitative comment on this and say if, in your view, this is enough? Or I mean, actually, it needs to be further improved going forward.

Thomas Bohun
Head of Investor Relations

John, would you like to take the first question?

John Robert Dacey
Group Chief Financial Officer

Yes. So with respect to CorSo, I think, it's important to remember that Andreas Berger came in, in 2019, took responsibility. The pruning was severe. 1/3 of the portfolio was jettisoned. Teams were shut down, disbanded and picked up in some cases by some competitors, but we were consequent in removing ourselves from certain lines of business, whether it's excess and surplus liability in the U.S., umbrella liabilities. We just decided that we would be better off not in these lines of business. And to be -- for the absence of doubt, there is no reconsideration of those lines that we did exit from. We're very comfortable that we can move forward without necessarily being players in what we considered to be more challenging lines, at least over any reasonable period of time.

What we have reached is the inflection point, and that's what you see actually here in the first half. Where premiums earned are starting to grow again, not by much, but as a result of these price increases coming through on the book of business and the potential expansion in certain lines. So the European property book of CorSo is growing. We're adding new risks, but we're also getting good pricing. We would expect then to see an increase in premiums or at the very least, from these price increases. They may not be 13% in the next quarter. We're not making a prediction of what they are, but there is momentum carrying the commercial rates forward.

So even if the book doesn't necessarily grow very much, this momentum on earned we should see. And to the degree that the CorSo does see valuable opportunities for writing new business in lines where they are already present. They've got our support and we've encouraged them to put that capital to work. So there's -- we're not making a prediction on where they're going to end the year, but I'd be very surprised if you wouldn't see some acceleration of the growth from where we are today.

Thomas Bohun
Head of Investor Relations

Thierry, on renewals?

Thierry Leger

I'll start on the renewal and quality question, Thomas, at U.S. So indeed, you're right, there is this nominal price increase that we disclose. And against it, we have the yield increase that we observed earlier in the year, and we have the loss picks that we mentioned already that you have to set against it. And of course, if you deduct them from the nominal price increase and what's left is not as much as we promised the result improvement will be.

So the difference is actually -- and the difference is significant, is coming from the improved portfolio mix. So we've said that -- and we have disclosed it as well. So we are, on the one side, addressing our underperforming treaties in the casualty space and in the property space. So one, we reduced exposure to social inflation LCR. Those are typically treated with a high combined ratio, and you're addressing the lower layers on in, for example, cat and property, and those are equally businesses with typically higher combined ratios. So as we move more and grow more, and by that, I mean also exposure into businesses with lower -- relatively lower combined and actually reduce business with relatively high combined ratios, overall, we quite strongly improve, as a result, the combined ratio of the portfolio through an improved mix.

Thomas Bohun
Head of Investor Relations

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

Operator

[Operator Instructions] The next question comes from the line of Ashik Musaddi with JPMorgan.

Ashik Musaddi
JPMorgan Chase & Co, Research Division

Just a couple of questions I have, if I may. So first of all, you mentioned that the expected losses from the recent floods, et cetera, is about a mid-triple-digit million. And then if I heard it correctly, you mentioned that the third quarter budget for cat losses is $700 million. So I mean, that leaves a gap of just $200 million. How confident you are that the hurricane season would not, more or less, exceed those extra $200 million net? I mean we are still left with the whole hurricane season. So that's 1 question I would ask.

The second thing is, if I think about the growth, I mean, at the moment, you are trying to make sure that the portfolio is more profitable, especially in the P&C Re business. Pricing is the main focus whereas volumes is not. But what needs to happen for the volume to start picking up as well? I mean when do you think that the volume can start moving higher as well in P&C Re. I mean CorSo is pretty clear. I mean pricing is driving volume, total premium as well. But in P&C Re, the premiums are still kind of flattish.

And the third one is, you mentioned there is $200 million of remaining losses from COVID in P&C and CorSo. But like this quarter, you have booked almost nothing. So what is the reason for that $200 million? Just because there just no visibility and uncertainty? Or is it that you have some line of sight, which makes you put that $200 million?

Thomas Bohun
Head of Investor Relations

John, do you want to start on those?

John Robert Dacey
Group Chief Financial Officer

Yes. So maybe I can. With respect to the floods, what we said is the combination of what is a man-made event, the social unrest in South Africa and the floods in Germany are likely to be a mid-3-digit loss. We'll clearly be working on this in the next weeks to try to get more precision on this. And as long as it's consistent with what these preliminary estimates are, we will just move forward. But I think with respect to the nat cat budget, you should not expect that all of this is going to land in the nat cat, the part in South Africa will be outside of that calculation for us. So I think we've probably got a little more room than you might indicate. If we are -- our preliminary guesses are there. We do have some expectations for man-made losses, which would take the number over $800 million when you combine it with the nat cat budget.

The third question, I think I'll answer as well with respect to future P&C losses on COVID. What we said at the beginning of the year is we still saw 3 potential opportunities for us to take losses. One is the very constrained exposure we now have on property. Treaties that are multiyears or otherwise might pick up some losses if there were to be a new set of lockdowns. Obviously, that's not happened in any material way in the first half of the year.

The second was on the event cancellation. What I can say there is, one good news. Lots of events are occurring, including the Tokyo Olympics. Very pleased to see. But also even some of the other ones that were canceled, what we saw was the ultimate cost of that cancellation was lower than we might have had reserved, especially in the CorSo book. And so what you saw in the second quarter was actually a bit of a positive on event cancellation, which covered some modest losses at other places.

And last, on the credit and surety side, the reality is, the governmental support and fiscal stimulation continues to keep companies in pretty good shape. And so we didn't see any things -- any material losses that we would have linked to COVID activity in the first half of the year on credit and surety are very small.

The $200 million that we take for what's left in the year is basically a maximum amount if things were to go relatively poorly in those categories for the second half of the year. If they go well, it will be a lot less than $200 million, but we're not prepared to predict that at this point of time. But I think we specifically use the phrase less than $200 million to give you a maximum that we would expect, and it may well be materially less than $200 million given the experience we've had in the first half of this year. There's nothing we see on the horizon, which says we're going to be close to that number to date.

Thomas Bohun
Head of Investor Relations

Thierry, on the growth opportunities?

Thierry Leger

Yes. On the volume pickup. So I mentioned, I think, and John mentioned the same. There are underlying lines of business that we are growing, that CorSo has been growing, that P&C Re has been growing through the whole transformation and turnaround they have been through. So nat cat has been an area where we have always found spots of nice growth, and that's also what we have seen in the first half this year.

I mentioned specialty across CorSo and P&C Re. We've seen very attractive growth there. Life for example, in credit and surety, where we are still a bit on the brakes currently, but that could potentially, if the markets become attractive, become another area of growth for us. Casualty has been much more careful because social inflation is here to stay very clearly. And there are no signs or indications that this would go way. To the contrary, we think this social inflation impact could also move into other lines, and therefore, uncertain on casualty, we will remain careful.

The other element that is difficult to predict how it's going to evolve is that we've seen the trend generally to nonproportional, which, in my view, is a very good trend. It's usually a trend to quality portfolio when we move because we have a very, very good understanding of nonproportional costing. So that's usually a sign of confidence and very positive, but we have seen a decline in the first half on the proportional business. And that's very difficult to predict. How the commissions behave with our customers, what actions do our customer take on their portfolios, all of that is more difficult to predict. But equally there, if opportunities present themselves, we will try and find opportunities to grow there too.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Vikram Gandhi with Societe Generale.

Vikram Gandhi
Societe Generale Cross Asset Research

I hope all of you are doing well. I've just got 1 question. We've seen some settlements in the U.S. with regards to the opioid crisis. I know the group has been fairly cautious on the casualty side over the past year, 1.5 years. But if you can just share some of your thoughts as to your level of comfort with the historical pharma sector exposure, that would be great.

Christian Mumenthaler
Group Chief Executive Officer

Yes. Vikram. Thanks for this. So we have had historically, I mean we were among the first movers early 2000s with regard to pharma exposures, with pharma exclusion that we have implemented in across our businesses since. So I think I can say with confidence that we have been adopting a very cautious approach to pharma exposures in particular. So -- however, we do find still exposures, but certainly, it's a very measured approach we take still today. And the settlements that we -- you see, you read in the news, all of those were ongoing settlements. We've been observing, monitoring, but none of them has been a surprise to us and is in line with our expectations, I would say. So no particular bad news or good news to us.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question is a follow-up from Mr. Thomas Fossard with HSBC.

Thomas Fossard
HSBC, Research Division

Just wondering if you wanted to make any comments on your capital position at midyear direction. And actually, you disposed also a couple of stakes since the start of the year. So any hints on what could be the use of them and if you got some ideas and clear plans already.

John Robert Dacey
Group Chief Financial Officer

Thomas, it's John. Look, what we've indicated is that our SST ratio is above the midpoint as of June 30. We'll go through the work we have to go through to get a more precise answer and share that with the market with the third quarter results. So the robustness of our capital, I don't think anybody questions.

Your question, I think, is going further than that, which says, are there going to be any additional capital measures? I think it's premature to discuss those. We'll obviously look to complete the year. We are very much pleased with the first half performance. And with the underlying economic earnings as well as the U.S. GAAP earnings that are coming through. And so we'll see how this plays itself out in the second half of the year. But our overall capital framework remains intact.

We looked at; one, make sure that we've got a very strong position check that box; two, we support important growth. That's what you see doing. The premiums are up -- earned 8%. Life & Health Re, I think, is a franchise that you should not ignore in terms of the relatively strong growth that we continue to see there in terms of value creation.

And frankly, even if it remains a very small business, our iptiQ business is another place where we're continuing to invest in as it grows very, very strongly year-on-year. If we find ourselves in a great position, with more capital than we know what to do with, we'll come back to you with some of those ideas.

Thomas Bohun
Head of Investor Relations

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

Operator

The next question comes from the line of Ivan Bokhmat with Barclays.

Ivan Bokhmat
Barclays Bank PLC, Research Division

I've got a couple of questions. The first 1 is on Life & Health Re. Just wondering the underlying performance, excluding COVID has obviously been very strong for a couple of quarters running now. I was just wondering if you could share some views on the drivers. Some of the stuff we're reading is that the flu pandemic has actually been very benign. So just wondering if there is any one-off effects that you could flag within those numbers.

And secondly, just on some of the earlier comments you've made on the -- on increasing the nat cat exposure. Obviously, you said that you're still being very selective on the regions and then the types of coverage you take. But I was wondering if you could just suggest which geographic areas have you been growing into, if it's, let's say, not Florida? And how is the portfolio changing?

Thierry Leger

Okay. So on the Life & Health underlying drivers, we -- Christian mentioned, I think it's an important point that the allocation between the COVID losses and non-COVID losses is somewhat -- sometimes a bit of an intellectual debate and not straightforward. So there could be some element or noise coming from that allocation. We have seen, however, positive mortality developments, for example, across the board. We've seen good developments in disability, for example, in Australia, which was positive after some more difficult quarters. And we have also seen some positive developments in China. So generally, a positive underlying technical result. But I -- we say that we shouldn't take this, obviously, as an indicator for the second half of the year.

On the nat cat side, we grow -- you use the word selectively. I think selectively has more to do with structures and with specifically frequency-related layers. But otherwise, we model 185 different perils, and we're actually very, very keen to grow every single one of those. So there is no particular preference. There are areas where we are indeed very cautious. Though we have been historically cautious -- historically is a big word, but cautious over the last year in Florida, for example, but that is no news. And other than that, as I just said, we have actually quite a balanced appetite across the board. And yes, I think there's not much more I can say.

John Robert Dacey
Group Chief Financial Officer

Maybe if I could just add on the first point on the Life & Health underlying performance. As Thierry said, the technical performance has been strong universally across geographies and products. We're pleased with that. It's a little unusual. Normally, there's 1 or 2 places where you might see some temporary relapse to a less good situation. The other thing -- the current return on equity is being flattered by a relatively low level compared to where we set the targets at 10% to 12%. The business was supported by a notional USD 8 billion of equity capital. The reduction of the unrealized gains in supporting that business has reduced that below $6 billion, I think, right now, and we've got a situation where the ROE looks good in part because there is more constraint. But the earnings themselves at over $500 million for the first half of the year are probably better than anticipated and no matter how you owned it at the high end of what we might have expected.

Thomas Bohun
Head of Investor Relations

Thank you, Ivan. We probably have time for 1 more if there's someone waiting in the queue.

Operator

Yes, we have a follow-up question from Mr. Andrew Ritchie with Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I think a few fairly short ones. Apologies if this is a simplistic question. I'm curious as to why the loss cost assumption in the pricing disclosure -- So it was -- you gave us the nominal price in January and you knocked off 1.5% for loss cost, and that's become minus 1%. I guess I'm just setting it in the context of generally, there's been an increase in loss cost expectation across the industry year-to-date given the inflationary backdrop. How come that's not the case for you, assuming it has something to do with the mix of the type of renewal, but if you could just clarify that.

And the second question, I think, is also for Thierry. On the nat cat growth, I'm thinking specifically U.S. Obviously, we are in hurricane season. When I think about your exposures, have they grown across all return intervals? Or is it more h and return to below that. Is there anything unusual about the growth across the return intervals?

Thierry Leger

So on the loss cost assumption that you've mentioned, indeed, we have reduced that slightly. When you look at the numbers we disclosed, in reality, it indeed has to do with the mix of business that, obviously, has an impact as well on this number. So [indiscernible] been growing more in specialty and property. The adjustment on the loss pick side has just been much smaller compared to what we actually think we need on, for example, casualty. So that explains that relatively, in my view anyway, small change between the earlier part of the year and the later part.

The second point on nat cat U.S. So we have indeed changed somewhat the exposure to the different -- you called it, I think, return periods. So we have clearly moved away from the higher return periods, but those are the 5-, 10-year return period we are talking about and moved into what we call the belly, so more in the middle part. So not necessarily to the 150 years plus that you mentioned.

John Robert Dacey
Group Chief Financial Officer

And Andrew, I might just add on Thierry's first answer. Even on the January 1 renewals, we took a position on coming inflation related to not just social inflation, but also the risk -- a broader base inflation that was in the pricing model. So I think while it became a bit fashionable for people to talk about cost of goods and other loss inflation. In the middle of that half year, we'd already made some moves earlier on for those inflation assumptions. So you might not have seen that delta increase in our own costing models that you're thinking about.

Thomas Bohun
Head of Investor Relations

So with that, we've come to the end of the call. We'd like to thank you all for attending. Thank you for your questions. If you have any additional questions, please reach out to the Investor Relations team. Have a nice weekend, and thank you again. Operator, back to you.

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