S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

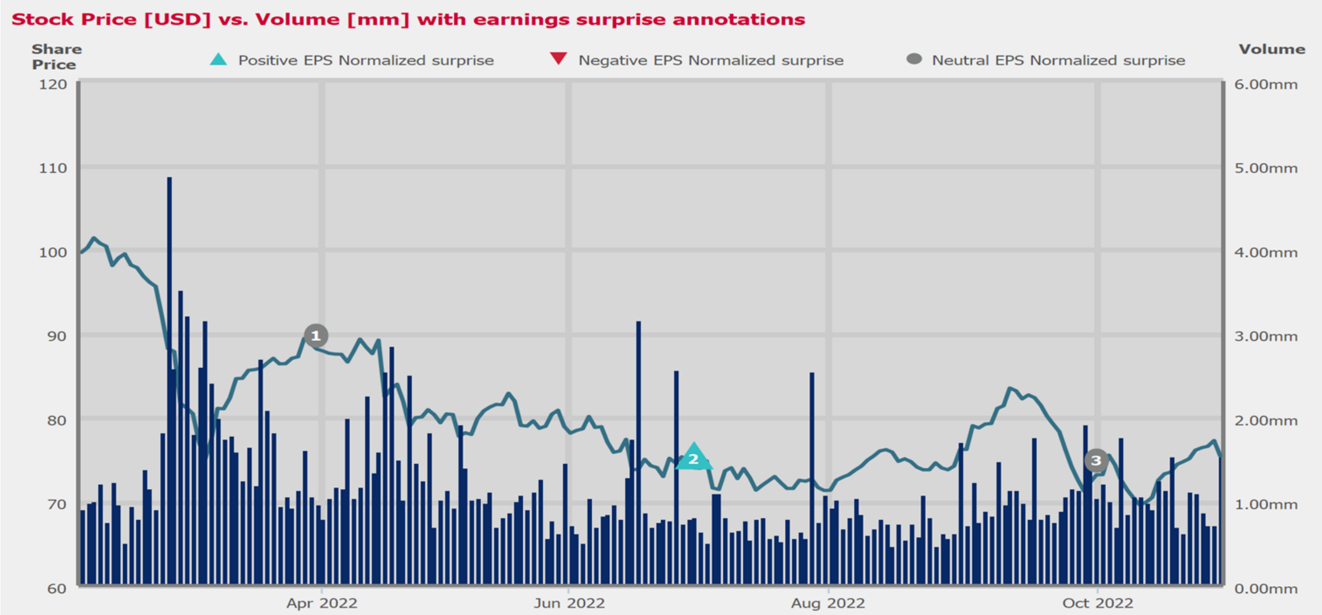
FQ3 2022 Earnings Call Transcripts

Friday, October 28, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.28)	(1.53)	NM	0.72	1.84	NA
Revenue (mm)	10967.83	11107.00	1.27	11175.24	44158.12	NA

Currency: USD
Consensus as of Oct-29-2022 4:25 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	1.90	NA	NA
FQ1 2022	(0.53)	(0.86)	NM
FQ2 2022	0.54	1.40	159.26 %
FQ3 2022	(1.28)	(1.53)	NM

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Call Participants

EXECUTIVES

John Robert Dacey
Group Chief Financial Officer

Thierry Leger
Group Chief Underwriting Officer

Thomas Bohun
Head of Investor Relations

ANALYSTS

Andrew James Ritchie
Bernstein Autonomous LLP

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BofA Securities, Research Division

Iain Pearce
Crédit Suisse AG, Research Division

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Teik L. Goh
RBC Capital Markets, Research Division

Thomas Fossard
HSBC, Research Division

Vikram Gandhi
Societe Generale Cross Asset Research

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

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's 9 Months 2022 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 John Dacey, Group CFO. Please go ahead.

John Robert Dacey
Group Chief Financial Officer

Thank you very much, and good morning or good afternoon to everyone from me as well. I'm here with Thierry Leger, our Group Chief Underwriting Officer; and Thomas Bohun, the Head of our Investor Relations team.

Before we go to Q&A, allow me to make a few quick remarks on the release we put out this morning. The third quarter has been challenging for our P&C reinsurance business. The reported combined ratio was impacted by Hurricane Ian, in particular, as well as prior year impacts. On the latter, Slide 4 of our investor presentation provides a breakdown of our year-to-date technical result from prior years.

We have set up economic inflation IBNRs in our property specialty motor lines to reflect higher actual and expected inflation for both 2022 and 2023. These reserving actions were not new to Q3, but were less visible in the first half of the year due to offsetting releases in other parts of the reserves. We have generally acted to reflect the latest views on economic inflation whenever they have changed.

The main single reason why the group's net year prior technical result turned negative in Q3 is related to a reserving update that we did for a large prior year aviation loss, where new information was received after the quarter end, which we nevertheless decided to include in our Q3 figures.

Moving on from the reported P&C combined ratio to the underlying result. We expect the normalized combined ratio to have been a number of points lower than the 96.9% we posted for the quarter. We had seen higher attritional losses than expected already in the first half of the year and this continued into Q3. On top of that, we also saw a higher amount of midsized claims, some of which we would not expect to repeat in subsequent quarters. Nevertheless, our 9-month results means that we do not expect to achieve the better than 94% normalized combined ratio for the full year on P&C Re.

On the positive side, Life & Health Re and Corporate Solutions had strong third quarters. Life & Health Re's net income of $219 million is above our normal run rate of $200 million per quarter despite some ongoing impacts from COVID-19, albeit at a lower and more manageable level. Life & Health Re is well on track to achieve its full year net income target of $300 million. Corporate Solutions achieved an impressive 92.9% third quarter reported combined ratio despite absorptions from Hurricane Ian and is well on track to achieve its less than 95% reported combined ratio for the full year.

Importantly, the recurring investment yield of the group has started to increase materially. The fixed income and short-term investments book has seen a recurring income increase of more than $100 million in Q3 alone, and this trend will continue to support our earnings power. Our SST ratio was very strong at 274% midyear. The Q3 number is expected to be at -- sorry, to be modestly higher in spite of the loss in the quarter. This provides a very strong basis for our capital management priorities, which focus on profitable new business growth and an ordinary dividend that we aim to increase or at least maintain.

We also include on Slide 8 of the investor presentation to remind you of the positive outlook that we have on our 2024 transition to IFRS. We now expect both a higher shareholder equity and higher earnings compared to where we are today under U.S. GAAP. As a result and despite the challenging third quarter, we have unambiguously -- we have an unambiguously positive outlook for the group. Two of our business segments are already delivering on their targets, while P&C Re is well-positioned to benefit from the significant dislocations in the reinsurance market at upcoming renewals.

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

Thomas Bohun
Head of Investor Relations
Thank you, John, and hello to you from my side as well. [Operator Instructions]. So with that, operator, if we could take the first question, please.

Question and Answer

Operator

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

Andrew James Ritchie
Bernstein Autonomous LLP

Two questions for me. First of all, just on the old topic of catastrophe loss budget. Clearly, you're running ahead of the budget year-to-date. I mean even if it's nothing in Q4, you'll end the year somewhat ahead. The industry sort of insured losses are running at about $100 billion or thereabouts right now. And that seems to be the kind of new expected normal run rate. If that is a sort of new normal, you're well ahead. So can you just help me reconcile those 2? Is this still sort of -- are you still seeing a bit too much from sort of non-peak areas in terms of cat losses? Or is this just simply an inflation effect which you think will correct out with pricing? So that's the first question.

Second question on capital. I mean, we have four ways now of looking at your capital U.S. GAAP, SST, IFRS 17 and then rating agency, which is more of a mystery. It's very hard for us to assess really what the capital flexibility is, particularly with a view to growing exposure potentially in '23. Do we just completely ignore the GAAP performance? I ask it because when I look at what rating agencies are saying, they seem to be vacillating recently this week, they were talking about the impact of lower unrealized gains as having some negative effect on the industry. So how do you view it? Is it -- are you purely focused on the SST? Is that all that matters can we completely ignore the GAAP development?

John Robert Dacey
Group Chief Financial Officer

Andrew, thanks for the questions. Let me try and give a shot on them. I'm guessing Thierry might also want to come in on the first one in particular. But on the cat loss, we have outside of Hurricane Ian taken some losses on what we would refer to as secondary perils during the course of the year. The response, I think, is -- we've reduced our exposure in lower layers and two convection storms, but we haven't eliminated it. I think it's impossible to eliminate it. But I think the world broadly and our clients specifically should expect that we will be looking to continue to move up in the layers on which we take risks, in addition to getting fair prices for the layers which we choose to write, and reduce even further the exposure to secondary perils that seem to continue to be underpriced at least in the current market.

Now some of this may correct, and we'll see how far that correction goes. You referenced also the inflationary impact. I think one of the realities of our -- the loss we booked on Ian, which we do think is a prudential booking based on partial information that we had to -- you had at hand to utilize when we put the $1.3 billion up is that the inflationary impact on rebuilding on the wind damage of the cost of the motor losses is material compared to where we might have been 12 months or 24 months ago. And so these rates will also have to adjust for inflationary impacts on the cost of the damages and also on the asset values of the insured properties. And that's why we expect January 1 renewals, but also further renewals deep into 2023 to be of a material nature in terms of the increase.

With respect to capital, I appreciate your question. I think first and foremost, you're exactly right. The SST basis and the underlying economic capitalization of the group are what's driving our decisions, both for capacity as well as for ultimately the capital measures that we choose vis-a-vis our shareholders. I think the decline of our U.S. GAAP shareholders' equity by about $10 billion during the course of the year is simply a mathematical reaction to the rise in interest rates. Those interest rates economically are beneficial to us unambiguously and will provide a material increase in the earnings of the group on a going-forward basis.

The rating agencies, I think, are, as you say, a little mixed and the importance their placing on the reported GAAP equity, I do believe that they would have their models and run as they see fit. But from our point of view, the U.S. GAAP shareholders' equity is not at all an indication of the resilience or the risk capacity of the group. And we noted, we pay attention, obviously, to the rating agencies and their concerns, but at the end of the day, we will make decisions on to write business or not write business based on underlying economics.

The last piece on IFRS, just to reiterate, we've included a slide in the deck, without numbers, these are modeled, but we actually think our modeling is both accurate and the direction of the relative blocks that you see is clearly indicative of the actual expectations for how shareholders' equity, the CSM and the risk adjustment might play out on our balance sheet when we go live in 5 quarters from now. And so in that context, I'm confident that this better representation of the economic reality of the group will be much more transparent. We can drop the U.S. GAAP view and at least simplify your life a little bit. But maybe, Thierry, anything to add on the first part?

Thierry Leger
Group Chief Underwriting Officer

Actually, maybe one thing because there was a lot of emphasis that you put on inflation and on secondary perils and time change. I think we have been quite consistent in the message that actually most of the increase in our natural peril exposures are coming from urbanization and increase in wealth. And obviously, now the inflation adds to it. And climate change has been a minor driver of that. And as we have repeatedly said, climate changes, however, a bigger driver for the secondary peril. So for example, TCNA, the recent Ian event TCNA is not driven by climate change, but hail in France is partially driven by climate change. So we have to differentiate all this. And the question of the $100 billion is for us, an obvious one, we absolutely believe that just generally, the loss load for the industry is increasing. And what is important to us is, what is climate change driven in that increase, and make sure we have that correctly modeled. So that's what I wanted to add.

Operator

The next question comes from the line of Freya Kong with Bank of America.

Freya Kong
BofA Securities, Research Division

Two questions, please. So first question, at half you indicated that you would have expected the P&C Re attritional loss ratio to step down quite a bit in H2 due to business mix changes. And I think at the time, you said around 3% improvement, H2 versus H1. We've not really seen this play out. And I guess, what's happened between then and now for such a meaningful deterioration? How much of this was inflation driven versus higher frequency that you expect could reverse? Second question is, you've made some IBNR provisions for short-tail lines and property, specialty and motor. But U.S. liability reserve strengthening is of a similar magnitude to prior periods. What's your view on higher economic inflation trickling into longer tail liability lines? Has this happened yet? And what are your expectations here?

Thierry Leger
Group Chief Underwriting Officer

I'll take the first one, Freya; and John the second. So you're absolutely correct. We were expecting for the third quarter lower attritional loss by several percentage points. And this is driven by seasonality in our nat cat budget. So we expect more nat cat business premium to roll into Q3 and accordingly because that business has a lower combined ratio. We also expect a lower combined ratio or the attritional loss ratio for the third quarter. So we had already observed and have been also clear on the fact that in the previous quarters already, we had a higher attritional ratio than we actually wished. So we have also -- I have been very clear that we are not satisfied by this. And clearly, we were very clear that we will not rest in underwriting, improve structures, terms, conditions, price until actually the attritional loss ratio is coming down.

Now the fact that we have missed it by even more in Q4 is, to me, a mixture of that what we have observed in prior quarters not been resolved yet, plus, of course, a higher inflation than we expected. And then we had a higher frequency of losses between $10 million and $20 million that I would see rather as a one-off statistically absolutely possible to have, of course -- where we just have more of those losses. So as a result, what we read into the attritional loss higher than what we want is that we continue to be under pressure to improve the terms, as I said. And as I also said, is that we have dramatically reduced our observation period that before it was like 10 years now, it's 3 to 5 years, so we can now, of course, see in our calculations, these elements of higher attrition as coming into our burning rates as well.

And as a last point, you remember in July, we had this plus 12, minus 12, these two numbers out there. So the price up 12 -- nominal price up 12 and loss costs down or up 12, and I do remember having had some discussions with some of you and you ask me, isn't it a bit conservative. And as we can see now, it turns out it wasn't. Maybe the numbers should rather have been plus 14, minus 14 at hindsight, obviously, we always know better.

John Robert Dacey
Group Chief Financial Officer

Thierry, just for the absence of doubt, I think to be clear, we saw in Q3 this spike in some one-off losses that we wouldn't necessarily expect to continue in Q4. And so while we expect our normalized combined ratio in P&C Re to reduce in the quarter, it's highly unlikely to reduce enough to get us back to the 94% for the full year. So that's a starting point.

I think on the inflation vis-a-vis liability and long-tail lines, our observations to date is that any CPI related inflation is overwhelmed by the social inflation and other factors, which is driving up loss costs for these liabilities portfolios. And what you saw on Slide 4 of the deck we provided was material increases in these reserves over the last 3.5 years to get to a position which says we believe we're well-reserved for the impact. That Q -- or 9 months of 2022 doesn't necessarily have the kind of very specific CPI inflation, but the overall increases we make are related to what we think are ultimate loss costs.

So could there be subsequent impacts, possibly. But I think what's more important is we get it right, vis-a-vis both the existing reserves, but more importantly, the costing for new business. We continue to write liability lines, and we need to be sure that were charging adequate rate to cover what is a challenging environment, especially in the United States liability book where we're not the only ones that are, I think, noting that there's no indication that social inflation is reducing any time soon.

Operator

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

William Fraser Hardcastle
UBS Investment Bank, Research Division

Coming back to a couple of questions as you are already asked, just extrapolating a bit. I guess trying to work out that starting point for our normalized really for the year. Obviously, you're not going to achieve the 94%. You've been very clear on that, but that's cost some one-offs, as you call it, within that. Should that still be the starting point for how we're thinking for beyond '22? Or do you think there has been a structural aspect that means that 94% was a bit too optimistic in light of a lot that's changed this year?

And second, coming back to Andrew's question on the credit rating agency capital. Is it fair to say this is currently the binding constraint for you at present? Or would you be willing to effectively challenge rating agencies, grow exposure significantly, because your economic models differ so much from the rating agency model. And what would be the impact on the business, should you challenging too far, obviously, a downgrade might do, and also presumably seasons would challenge this view, I guess -- I'm trying to understand if that's the binding constraint and how close we are and whether you'd be willing to go against it.

John Robert Dacey
Group Chief Financial Officer

All right. Well, let me give you a shot. On the normalized combined ratio, some of the adjustments that we've made on the APLRs for business written in the second half of last year, this year for '20, but earned in 2022 reflect an inflationary environment, which was not necessarily transparent when we set these initial goals. I do think -- and Thierry mentioned the January 1 renewals of nominal prices up 10%, loss costs -- up 12%, sorry, and loss cost is up 12%, which reflects the reality that we saw at midyear. My sense is pricing across every line of business for reinsurance is going to go up, exposures are going to be structured. Terms and conditions are going to be tightened.

And as a result, I think it's premature to put out a target for 2023, but I don't think it's a valid expectation to say that normalized combined ratios will go up. It may well be the case. The price impacts are sufficiently strong that will give us a higher degree of comfort and capability of achieving something like 94% that we're just going to have to wait until we see the dust settle on these renewals. So that's the direction I can go there.

With respect to capital, we've got no particular interest to challenge the rating agencies. We do have a frustration, I can say that the direction of our regulatory capital moves absolutely in opposition to the direction of our U.S. GAAP shareholders' equity which is the basis for at least one of the rating agencies models when they start assessing available capital. And that frustration is not going to be solved anytime soon as we indicate, we believe that as we migrate from U.S. GAAP to IFRS, the rating agency has got a bit of a helping hand to be on a more economic framework than their starting point is today.

I don't think even with a stronger -- actually, a very strong price movement on many of our lines of business that we're necessarily going to be growing our exposure dramatically. We may be growing some parts of it where the pricing is unambiguously attractive. But I think overall, we will be cautious in going too far out with growth at the beginning of the year. We've seen the losses that have come through. We believe in our models, but we don't see the need to take outside risks in spite of having an SST ratio of 2.74 at midyear. So you can expect us to grow parts of the portfolio, the sort of FX adjusted a 9% growth you saw in CorSo, I think you should expect to continue in the commercial lines and P&C Re.

We'll see where the prices -- our clients are willing to pay, and the terms and conditions and layers, which they're willing to accept. And based on that, we'll see how much capital we actually deploy. But again, it's not a matter of challenging the rating agencies. It's a matter of trying to work with them to be sure that they understand our view is the economic view, and we believe that we are well-managed on that basis.

Operator

Your next question comes from the line of Kamran Hossain with JPMorgan.

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

Two questions. The first one is on, I guess, looking at the -- two questions from me. The first one is on the renewals in January. When you think about those, we're seeing some messages in the press. Can you maybe give us an idea whether you're planning to kind of grow, kind of increase exposure ahead of inflation, also perhaps kind of improve the quality of the portfolio in reinsurance? And the second question is on alternative capital partners, which has become, I guess, an increasingly kind of important part of the business in recent years in terms of the way that it can support the reinsurance business. Can you just an idea of, firstly, how well have investors done that have kind of been in ACP? And what do you think the appetite is for them to continue to support you into '23 and beyond?

Thierry Leger
Group Chief Underwriting Officer

Kamran, I'll take the first one. So with regard to 1/1, I guess everyone recognizes that the reinsurance industry has been through several difficult years. We just have to remind ourselves of the liability losses. John did before, but also on the cat side, secondary perils and so on. So what we have seen this year was that the demand was outstripping the offer. So on the capacity side, we have seen some reduction in capacity. And on the demand side, mainly driven by inflation, yes, seeing the demand going up. What's going to happen, in our view, on 1/1 is that the demand will go up further fueled by even higher inflation, and we see that the offer is even additionally under pressure.

So in my view, I wouldn't be surprised if we went into a gap for, for example, [T&A] of $20 billion to $50 billion for the industry, which would be 10% to 20% for the industry. That will be very, very significant. So for us, that's therefore, an opportunity, as John pointed out already to do three things. So we look at price, we look at structures, so retentions mainly, and we look at the terms under which we ensure these. So it's going to be very clear that we will be more than ever focused on our sweet spots in terms of where we play.

So very generally, we think that the retentions will move up. We will certainly push for that. By moving up the retentions, we will remove ourselves from secondary perils again in an even bigger step than we have done this year, and we will tighten the terms, as I said. And we see, obviously, because of the higher demand, significant improvements on the price side.

Your question with regard to risk adjusted, it's a difficult one to answer ahead of the renewals because the renewals with our clients are still ahead. So we will certainly very, very carefully choose our loss picks and include a net conservative view as we can on loss trends generally, but also inflation, secondary perils and everything. And I'm actually very, very confident that we will be able to achieve price improvements beyond the adjusted loss pick. So we should next year clearly see risk-adjusted price improvements. But again, discussions are ongoing but the first signs are positive.

John Robert Dacey
Group Chief Financial Officer

Would be anecdotal, if I would add to that is I think the primary market understands that there may be a dearth of capacity out there and as opposed to the end of 2017, into the January 1, 2018 renewals where people are willing to wait till the very end on December 31, and in some cases, found capacity from people diving in. I think that there's a clear expectation that moving earlier to secure capacity even at much higher rate is probably in the interest, and that's what we've already seen anecdotally happen. And I think it's just a very different environment than what you saw any time in the last decade vis-a-vis the imbalance between supply and demand.

On your second question, vis-a-vis the alternative capital partners, this team continues to do well and securing capacity. We're not dependent the way some other market participants might be on retrocessions. But what I can say is the alignment of interest between the group and these partners and the transparency, we've been able to provide on losses has served us well. And I believe we've got about USD 3 billion of capacity that's -- or assets under management in this space in addition to another billion or so on matter on Re, bond programs were very comfortable that we've been treating our co-investors well, I think the underweight exposure that we've been able to show on the Florida law suit is an example of that, and we will continue to work with potential investors who are willing to stay with us over time. So it's been a good story for us.

Operator

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

Vikram Gandhi
Societe Generale Cross Asset Research

It's Vik from SocGen. A couple of questions. Firstly, some thoughts on where the group is with the inflation topic after this inflation IBNR and where the group is with this annual reserves review? And why the group's reluctance to invest in inflation linkers over the past 3, 4 quarters when there was quite a bit of foresight that inflation could become an issue? That's question one.

Secondly, I see the encouraging comments on higher recurring income, but it looks as though most of it is coming from yield pickup at the short end of the curve. Now when I look at Slide 14, I still see the liquidity at exactly the same level as at year-end '21, that's $13.5 billion. So the question really is why isn't the group trying to lock in higher yields on the long end?

John Robert Dacey
Group Chief Financial Officer

I'm happy to address both of those. With respect to inflation, we've evaluated both 2022, but also 2023 current expectations, the Swiss Re Institute runs their own. You won't be surprised if they're not too far away from where consensus -- market consensus would be. And we've addressed the positions quarter-by-quarter, as we've indicated when the new information comes out. And at least for the moment, those quarterly updates have resulted in higher expected inflation for longer than what might have been the case at year-end 2021. But even there, we started to put some of the reserves up.

With respect to the inflation linkers, we've never said we don't have any -- they don't flow directly through our P&L the way that they might for some of our competitors. But the concern I think we've got is the basis risk, and frankly, the other somewhat odd performance of these bonds in volatile markets. And so they've not struck as a great hedge necessarily against the kinds of inflation, whether it's CPI, the specific parts to the construction industry or motor market wages of medical that we have exposure to through our claims position. So while directionally, they might be helpful, I'm not sure that they always behave in ways which are going to really solve your problem that we see. But again, it would be wrong to assume we don't have any in the asset portfolio.

On your second question of the liquidity, yes, when you're looking at an inverted yield curve, it's a little tough to say it's the moment to go long because rates are going to be falling and so we should capture in a particular moment where the 10-year is paying before it drops down. I think you're right, we have been taking advantage of a much higher yields on the shorter end. And our team is evaluating constantly how far out to go based on a view of the downside risk of locking in to rates, which might 12 months from now appear to have been 100 basis points, 150 basis points lower than what might be available in the future.

So it's not an easy call, but at least for the moment, I think we're pretty comfortable capturing the yield pickup. And if we have a different view, we'll adjust the positioning appropriately. We do have the constraint of largely matching the duration of assets and liabilities and not being able to go either too short or too long across any of these positions in the curve.

Operator

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

Iain Pearce
Crédit Suisse AG, Research Division

The first one was just thinking about risk-adjusted rates. So knowing what we know now, it sounds like sort of rates up 12%, but claims inflation at 14%. So risk-adjusted rates minus 2%. Is that the right way to think about it? And does that know what we know now, if you've know that at the start of the year, normalized combined ratio guidance would be 96% rather than 94%?

And then second one, on the U.S. GAAP equity. I sort of understand that it's not economic, not what you look at, but surely, at some point, it becomes an issue. If we're at $12 billion now, you've got a dividend cost that brings you closer to 10%. Interest rates up again, equity markets down again. Is there a point that -- I know it's not binding, but it looks that it does become an issue a number that sort of is a threshold level because it's sort of hard to understand why it wouldn't be. So those are my two questions, I'll leave it there.

Thierry Leger
Group Chief Underwriting Officer

Take the first one, Iain. On risk-adjusted, and you referred to should plus 12, minus 12, should you read that as plus 12, minus 14. I think -- what I was trying to do is offer an explanation for Q3. And I don't think you should read too much from Q3 into Q4. John has mentioned a few reasons, for example, renewals that we did in the last year, July, still have an impact, and we did not include at the time a lot of inflation.

You remember, we were one of the first companies really starting to move on inflation, but the fact was at the time to a relatively low still, so we didn't include much. But of course, that has moved up quite a bit. And so we have found the first 2 quarters in the year to be impacted by higher inflation than costed. But we have made that adjustment plus 12, minus 12 that we refer to here, and we actually think that we have made a big step at the time.

The plus 12 whereby is not all just inflation, some of it was due to loss trends. And we, therefore, think that over time, we are actually closing the gap that explains some of the quarters before. So again, I wouldn't read too much into it. There have been one-offs in Q3 that I don't expect to repeat. And we have continuously worked on the inflation adjustment, and therefore, I have not given up on Q4.

John Robert Dacey
Group Chief Financial Officer

Nobody is giving up on Q4. We would expect, as I mentioned, an improvement, how far that improvement to be seen. But I also think that what I said before, the price increases that we anticipate for 2023 will give us a reset on what a normalized combined ratio might be for that calendar year.

Your second question, I understand it. But when you look not Swiss Re competitors, European competitors, but to the American competitors, we're not the most impacted player in the insurance segment vis-a-vis this decrease of shareholders' equity. And so I think the reality is, it really is just the map. It says we went from plus $3 billion of unrealized gains to minus $7 billion of unrealized losses. As long as we're not trading these bonds, and we're not, right, back to my point, we largely have a match asset liability duration play, then it really doesn't make any difference for us economically.

And again, against some of the primary companies that might have shorter duration assets, yes, they haven't seen their shareholders' equity under GAAP fall as much. But some of the live companies with longer durations, I think you won't be surprised to find similar or, in some cases, even larger movements than us. So we're just acknowledging, yes, it's a fact that doesn't have anything to do with the economic substance of the group. Our liability profile is very, very different with this doubling of interest rates -- U.S. interest rates over the last 9 months.

Operator

The next question comes from the line of Derald Goh with RBC.

Teik L. Goh
RBC Capital Markets, Research Division

Two questions, please. The first one is just going back to the topic around your inflation updates. So I understand you're being proactive here. But what is the risk that we might see for the additions, right? Because your cedents will be performing the annual [Indiscernible] reserve reviews. I mean, what are the additional details that you're asking from them on the back of your exercise this time?

The second one, it's a hurricane Ian. So it's around this inflation point again. What reassurance you can get? I understand that, that $1.3 billion estimate you're seeing is very prudent. But can you say that maybe it would have been $1 billion or $1.1 billion accounting for the inflation updates? Because $1.3 billion just the implied loss share of that seems a bit low, maybe there are different reasons like the nature of the loss being more auto and more water, for example.

John Robert Dacey
Group Chief Financial Officer

Thanks very much. Maybe if you want to take the second one, Thierry, and I'll come back on the inflation piece.

Thierry Leger
Group Chief Underwriting Officer

Okay. On Ian, I think the additional challenge of Ian obviously, was it came very late in Q3. And therefore, obviously, we didn't have much time from the occurrence of the loss to today to come up with these estimates. Now as we all know, Ian has been a very slow-moving storm with wind speeds that have increased very rapidly, actually on the point of reaching land. But equally, when it moved away overland, actually, the wind speeds came down quite strongly. So those are elements that obviously we've looked into in the assessment of the claims.

So we look, obviously, at wind-related claims. We look at water flood-related claims. Sometimes it's the same, sometimes you have to separate the two, as you all know, in the market. But I think we have studied this through our models, but also through client indications. And as stated by John, we actually feel confident about it.

So let me just say a few more points than about why we feel confidence. So when we reserve for such losses in Florida, of course, we have to take into account the particular element of claims litigation that we have observed historically in that area in that part of the U.S. So much more important there is actually to understand what we call social inflation as impacting the claims. There is an inflation part that we had already in our costing. So there's no surprise to that one that we observed, and it's going to impact the claims. But much more important forecasting has always been in Florida, the particular litigation that claims actually are litigated to a certain extent. So that's what we have included as well, just to respond to your question.

What we also do, we check. So we said, for us, it's a market loss of $50 billion to $65 billion, and we check where our market share should be. And also that is an indicator. We know we are underweight in that part of the U.S. and the underweight market share that we have in that loss is a good indicator for that. So that also makes us feel comfortable about where we are. And the last bit that I would like to add is that, obviously, since the last 10 days, we have received first client indications, and all of them also make us feel comfortable around our loss pick there. So I would not mention it optimistic or pessimistic, I think we've done it as a real best estimate, but we are comfortable with where it stands.

John Robert Dacey
Group Chief Financial Officer

And Derald, I think that last point is important. There's been no -- from the moment that the team came together with an estimate there's been no negative surprise. We didn't break out a specific loading for inflation nor a specific loading or the unusual legal environment in which some of these homeowners claims, in particular, get transferred from the homeowners in the assignment of benefits, but we've got the direct experience of recent losses that were utilized to build up this position. The one thing I can say is, we don't think there's much in the way of commercial loss directly for us, our CorSo reserve is part of the $1.3 billion is a little under $100 million.

So of course, it has taken a position here in the $1.3 billion, but actually, it was the geography of Florida that was hit makes us believe that the CorSo's exposure is also very much contained. I'm not quite sure I understood your first question on inflation. You suggested that there might be some important year-end positioning that we might have to do?

Teik L. Goh
RBC Capital Markets, Research Division

Yes. I'm just wondering, so my understanding is that most companies, whether it's primary reinsurers, you would typically conduct your reserve reviews at year-end. So I'm just thinking if there are risks to yourself having to make further updates to inflation assumptions as you receive this new information at year-end. And basically, I'm asking is, is that a concern at all, A? And B, are you asking for additional information from your cedents this time?

John Robert Dacey
Group Chief Financial Officer

Yes. So we're very much focused on sort of a rolling analysis of evaluating not only experience, but also the assumptions that we've got. And as we've indicated, the $700 million of inflation is IBNRs, they're not on specific claims, but it's based on some experience and some assumptions of continued requirements for inflated loss cost along the way. We don't expect any particular novelties in the fourth quarter by ourselves or frankly by our external auditors who have been with us in watching the adjustments that we made quarter-by-quarter.

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

My two questions. The first one, probably for Thierry, where you mentioned that the issues on the attritional should also come in 1H have not been resolved yet. Could you comment a bit more on level more and to say where are you taking some of the actions? What might these actions be, just so we get some more comfort about these additional trends?

And last question is on inflation itself, just trying to explore some possibility that the 12%, the famous 12% is also a bit fairly robust and conservative. Just noted that in one of the Scandinavian insurance presentations, I saw that they commented that construction indices, which the market uses tend to have a different ratio of labor and material implying that the insurance claims may be that inflating away as we expect. Are you -- do you really -- I mean, do you believe that the inflation assumptions are a bit over conservative? Or do you think they're just right? Or any thoughts on that insurance?

Thierry Leger
Group Chief Underwriting Officer

I'll start with the second one, whether I think there are -- I mean, if I fill it, it would be over or under, we would obviously adjust them. Now you're absolutely right that we actually don't -- and John mentioned it, we don't just apply CPI inflation to our costing. So we do differentiate per line of business. And so property is very strongly CPI-driven and construction driven. Also for construction, for example, we differentiate between countries. So U.S. has a different loads than China, as an example. Motor is more dependent on used car prices and repair costs and then casualty is much more driven by wages and medical.

And all of these have different assumptions behind for different countries. And so it's a very differentiated approach that we have. So I'm not sure whether I should disagree or agree with what we say, but that's the approach we take.

On the attritional part, you refer to not resolved, and not happy, not satisfied, I think it's the words that are used already in the past. So what we do in -- what we have done this year already and in July, we have continued to do that. So we are looking mainly at secondary perils and continue to adapt structures, costing and so on. And obviously, we have to keep an eye on inflation, which is, again, something I've mentioned today.

And again, just looking ahead at the next year, we see the environment as an opportunity to move on both very clearly. So I said by increasing in a very determined way, the deductibles, the retentions, we can actually really remove ourselves in a much bigger step from secondary perils. So that I see as a step change for next year. We will continue to be best estimate on inflation as we were in the past. But I think much more important than that is my expectation that the price increases that we will achieve next year. It should be well ahead of these adjustments that we do to our costing.

John Robert Dacey
Group Chief Financial Officer

Yes. And just to reinforce, I think it's not that the attritional losses haven't been addressed. They've exactly been addressed, and that's one of the reasons why the normalized combined ratio, the loss ratio of underlying that has increased above where we thought it would be, because we've made the adjustments that were necessary on the pricing to be sure our reserves are well set, as we go forward. I think if you're asking in hindsight, should we've said our January 1, 2022 rates higher, yes, that would have had a direct impact in some of what we see here today. But again, in Q3, in particular, a little bit of this, we believe are one-offs, and we believe that we will be bringing this back down, although we can't estimate by how much in the fourth quarter.

Thomas Bohun
Head of Investor Relations

We have time for two last questions.

Operator

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

Thomas Fossard
HSBC, Research Division

One last question on the inflation IBNR. And really to understand what are the underlying assumptions you have taken for 2023? I mean, are you already able to say or to quote a number on what kind of economic inflation you've taken in the IBNR you reported this morning. Just for us to have a kind of guide to understand where you're setting your expectations for next year? And the second point will be on the group SST of 274, which was significantly ahead of market expectations. I think that this morning, you said 255 was the market expectations and significantly up from the start of the year. So could you give a broad sense of the work from the start of the year to where you are and maybe highlight a couple of the main item?

John Robert Dacey
Group Chief Financial Officer

Sure, Thomas. And let me give you an indication of both with respect to 2023, our starting point would be the SRI forecast for inflation rates, leaving China out of the mix, the numbers between the U.S., Eurozone and U.K. are in a range of between sort of 3.5% and 7%. And I think these are, as I said, very much lined up with consensus numbers as we see them today, maybe a little more optimistic in the U.S. and a little more pessimistic in the Eurozone. But net-net, that's the basis on which we've started and as Thierry said, then it's a fairly complicated walk to think by line, which are the relevant inflationary impacts that we have to worry about for ultimate cost of the claims.

On the group SST of 274, I think there's probably two major implications. One is clearly the macroeconomic environment and the jump in interest rates, the same jump in interest rates, which has been a negative for our reported shareholders' equity under U.S. GAAP has been improving materially the group SST ratio. The other piece, as of the 1st of July and continuing here through the end of the third quarter is that the risk positioning of our investment portfolio continues to be deeply protected. We've got specific hedges on both credit and equities, which continue into the fourth quarter and the resulting reduction in asset risk has been benefiting this rate.

So I think, again, we remain comfortable staying well above the top end of our range, not only because of the macroeconomic and geopolitical uncertainties in the world, but frankly the recognition that some of this benefit is just come to us with interest rates over time. This will normalize a little bit the same way that over time it will normalize in our shareholders' equity as these unrealized losses will disappear on maturing bonds.

Thomas Bohun
Head of Investor Relations

Thank you, Thomas. And with that, we'd like to thank you all for all the questions you have asked. If you have any follow-ups, please reach out to any member of the IR team. Thanks again. We wish you a nice weekend, and speak to you soon. Thank you.

John Robert Dacey
Group Chief Financial Officer
Thanks, everyone.