S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

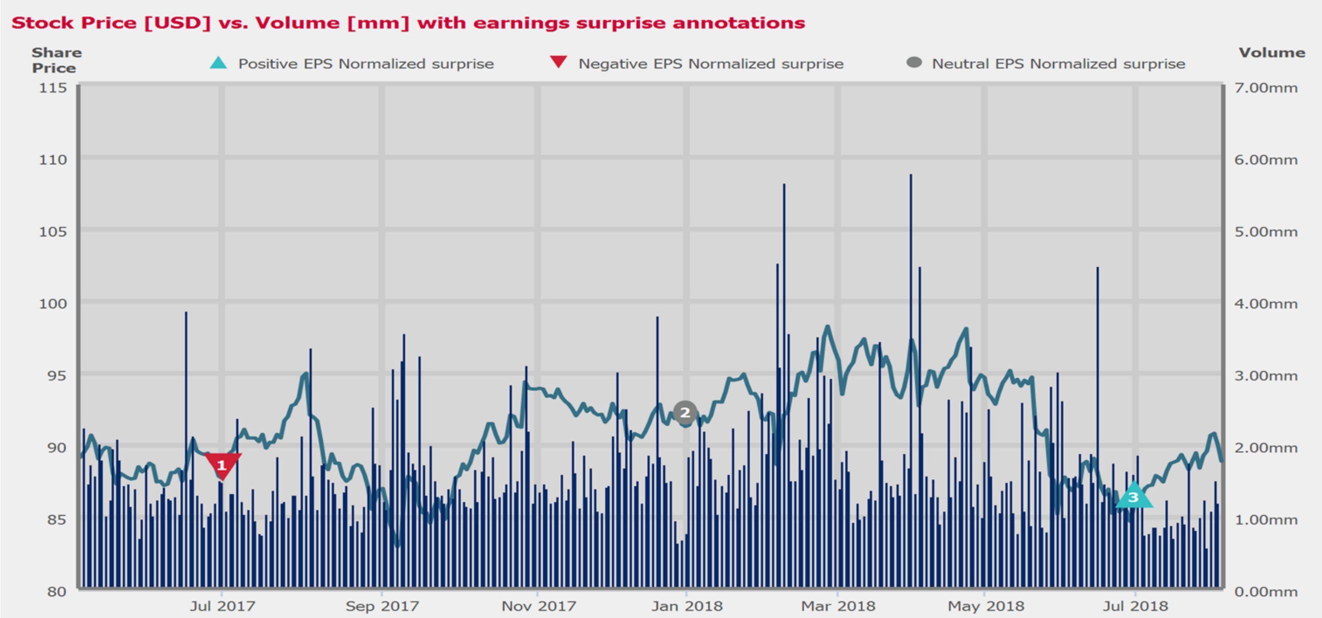
FH1 2018 Earnings Call Transcripts

Friday, August 03, 2018 11:30 AM GMT

S&P Global Market Intelligence Estimates

	-FH1 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.57	8.10	9.41
Revenue (mm)	17147.50	35288.25	36513.75

Currency: USD
Consensus as of Aug-03-2018 11:58 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FH1 2017	4.24	3.47	1 (18.16 %)
FH2 2017	(3.98)	(2.73)	NM
FH1 2018	3.57	3.62	2 1.40 %

Table of Contents

Call Participants

EXECUTIVES

Christian Mumenthaler
Group Chief Executive Officer

Edouard Schmid
Group Chief Underwriting Officer

John Robert Dacey
Group Chief Financial Officer

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Edward Morris
JP Morgan Chase & Co, Research Division

Frank Kopfinger
Deutsche Bank AG, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Paris Hadjiantonis
Crédit Suisse AG, Research Division

Sami Taipalus
Goldman Sachs Group Inc., Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Thomas Fossard
HSBC, Research Division

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

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's First Half 2018 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 Christian Mumenthaler, the Group CEO. Please go ahead.

Christian Mumenthaler
Group Chief Executive Officer

Thank you very much.

Good morning, and good afternoon, everybody, and welcome to our first half 2018 results conference call. I'm here with John Dacey, our Group CFO; and Edi Schmid, our Group Chief Underwriting Officer; and Philippe Brahin, our Head of Investor Relations.

Let me start with few brief remarks on the results we published this morning.

The group delivered a solid set of results in the first half of 2018 with group net income of USD 1 billion. We saw material improvement in earning quality with strong underwriting performance. As in Q1, our results are impacted by U.S. GAAP accounting changes. Excluding this impact, our group net income would have matched last year's first half results.

We also report growth in the first half as premiums increased by 8%, particularly driven by our Life & Health business and Corporate Solutions, which is operating in a moderately improving market environment. In terms of our P&C Re renewals, volume is up 9% and price quality improved 2% year-to-date.

Finally, and as you will have seen, we are also exploring a potential IPO of our U.K. closed book business, ReAssure, in 2019. We believe that the U.K. closed book market offers significant opportunities and remains a growth area for Swiss Re. However, the business is subject to significant asset risk charges under the SST capital regime. Given the size of future potential opportunities, it is important for ReAssure to have access to substantial new capital. We expect to remain a significant investor in ReAssure in the context of a potential IPO.

With that, I will hand over to our Head of Investor Relations, Philippe Brahin, who will introduce the Q&A session.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Many thanks, Christian. And good day also from my side to all of you. [Operator Instructions]
So with that, operator, [can we] please take the first question?

Question and Answer

Operator

The first question is from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question. Thanks for the disclosure on Slide 23 on Corporate Solutions. I guess I'm just curious, would you not have expected the attritional underlying loss ratio to have improved given better pricing? Maybe clarify what's going on there. Would you expect it to improve in the second half? Is it that we haven't seen any earn-through yet of the Re underwriting or the better pricing? That's first question. Second question, just to clarify on ReAssure, I'm assuming -- sorry, this is a question on mechanics. In order to free up your need to consolidate the capital requirement, you will be looking to end up at less than 50%. You have to deconsolidate it. Is that the aim?

Christian Mumenthaler
Group Chief Executive Officer

Thanks, Andrew. Why don't we start with Edi on Slide 23 and maybe, John, on the ReAssure question?

Edouard Schmid
Group Chief Underwriting Officer

Sure. Yes, thanks, Andrew for the question on CorSo, yes. And so with the underlying combined ratio in the quarter, the loss ratio on attritional is a little bit up as you may have losses contributing to that. And the main reason, I think you already stated this has to do with the time lag. CorSo started to improve the portfolio, pruning some of the underperforming businesses quite a while ago. But with the time lag on renewables and the time lag on earnings, this always takes 1 to 2 years until this comes through on a U.S. GAAP earnings basis. I think that's really all to say about that. But over time, as we announced, CorSo is operating in a moderately improving market. It could achieve some growth through the Primary Lead initiative. But we still keep improving the quality, particularly on U.S. liability, as we have explained in the past, on large corporate segments where we still see a need to drive prices further up. So we continue to drive it up, but it will take a bit of time until everything earns through into a better combined ratio.

Andrew James Ritchie
Autonomous Research LLP

What the written rate change is for the first half of the earned?

Edouard Schmid
Group Chief Underwriting Officer

Well, we set a target of 5%. We're working towards that target. So we're not quite there yet. So we still have more work to do. That's how I would describe it.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Edi. John, want to...

John Robert Dacey
Group Chief Financial Officer

With respect to ReAssure, it's John Dacey, yes, right, to deconsolidate, we at least have to go down to 49% in terms of ownership. The other important dimension will be to give up direct management control, descend to the -- and then -- and a board of directors will be put in place where the company management would be reporting to that board.

Operator

The next question is from Paris Hadjiantonis from Crédit Suisse.

Paris Hadjiantonis
Crédit Suisse AG, Research Division

First question again on ReAssure. I think you are saying that capital is one of the big issues for you in exploring further acquisitions. Can we interpret that you are actually looking to raise substantial capital as part of the IPO and then get diluted a bit? Or do you hope to basically actually sell part of the business during the IPO process and, therefore, get process on it? The second question would be on P&C Re CAGRs. See, motor seems, especially in the U.S., seems to be a place where there has been adverse development, and it's also a place where we have seen adverse development in the past. And also, you have been saying that prices have been going up. When do you think we're going to see some improvement in motor U.S. business?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Paris. Maybe, John, on the first question?

John Robert Dacey
Group Chief Financial Officer

On the first, Paris, if I can just be sure that we're all clear. When you talk about capital needed for acquisitions as within the reinsure (sic) [ReAssure] business, acquisitions of closed life blocks requires additional capital in the U.K. market for the execution of ReAssure's business. That's what we're speaking about. And yes, that's true, we are obviously committed from a group real capital when we did the Guardian transaction a few years ago. Some smaller deals with HSBC and most recently last year with Legal & General, where most of the equity capital was provided by MS&AD as they came in for a 15% shareholding in the ReAssure business. On a going forward basis, we undoubtedly see that there is a pipeline of potential opportunities. For the absence of doubt, ReAssure is open for business, and we'll continue pursuing those opportunities while we prepare simultaneously for the IPO to be ready in 2019. It's premature to suggest the nature of the IPO, whether it will be entirely secondary or a dimension of primary. That would depend on what happens with those opportunities for the business in the U.K. market in 2019 or even the second half of 2018. But for now, again, the objective of this transaction is, in the first case, to provide another source of capital for the continuation of this business and the potential growth of this business that would not necessarily be on Swiss Re's balance sheet.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Edi, on U.S. casualty?

Edouard Schmid
Group Chief Underwriting Officer

Correct. On U.S. casualty but more specifically on U.S. motor, I think as you correctly pointed out, motor has seen quite adverse for the whole industry. The whole industry underestimated motor loss ratios a couple of years ago, various factors contributing to that. But I would say both actually on the direct side as well as on the Reinsurance side now for 2 [series], we have seen significant corrections. Original rates are picking up, and also reinsurance terms, commissions, we could improve. We continue to see improvements on U.S. motor, and I think this has to continue for the longer, yes. I think particularly focus is the U.S. commercial motor market, which has been even under more pressure where we also have seen some, let's say, large verdicts. So we clearly see a need to further improve pricing there. But I think there is traction in the market, both original and on the Reinsurance sides. But I've commented earlier on the CorSo question it takes a bit of time until these improvements really earn through under U.S. GAAP as well.

Philippe Brahin

Head Investor Relations and Head Governmental Affairs & Sustainability

All right. Thank you, Paris, for your questions.

Operator

The next question is from Edward Morris from JPMorgan.

Edward Morris
JP Morgan Chase & Co, Research Division

Two questions, please. First, just going back to ReAssure then. I just wonder if you could talk through the rationale behind why you'd like -- you're considering an IPO and whether this is the only real outcome now. Has there been a consideration to also look at more minority or potentially majority investors as in a sort of trade sale-type scenario? And secondly, just looking at the growth in the open book, it would appear from your slide on Slide 11 that the open book seems to have written double in Life Capital, double the premium in the first half than it did in the entirety of last year. So clearly, of course, it's coming through extremely strongly there. Is that indicative of the -- of an ongoing run rate? And how close are we in terms of the business turning a profit? Should we expect more into profit contribution from the open book side?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Great thanks. Maybe Christian on the first one and John on the second one.

Christian Mumenthaler
Group Chief Executive Officer

So yes, sure. Yes, thanks. So it's funny, right. You go through the years, and you can see investor appetite shift from BU to BU and come back at it again. ReAssure has really been the unloved child for quite some while. We obviously worked hard on it, but I remember 2 years ago everybody was saying sell it, and I said this is a -- this will be a huge waste of shareholder funds because you would dump it to somebody who has a very, very small -- who will pay a very small price. It's actually an interesting business. I really think there's an investor base that would really love it. And I actually -- I personally would love it if I didn't have the SST and then the risk factors in SST and in our own risk model which we say it just creates a too high concentration in asset grades for the Swiss Re group overall. And if you look where we have grown, clearly ReAssure has been more interested in unit-linked product, in mortality product with profits. I think we struggle more than others when we look at annuities, for example. And yet if you look into the business, the small deals have gone. There are still some deals around, but some of the big ones will come eventually. So if you think about all of that, it's quite clear to me, and I think it has been clear to this community for the last 2 years, that Swiss Re is a great business, but Swiss Re is not the best holder of this business economically. I think it's -- to me, it's crystal clear. And so the question is more, what's the path towards this end stage which creates the highest amount of shareholder value? And we have discussed that internally, obviously, in great length, in great detail going through all the scenarios. And our view was -- is that first step was to bring in a good shareholder who shows the value of the business, and that we have done with a client of ours, who's a client of ours for more than 100 years. And obviously, you could start to have now #2, 3, 4 in, but their relative value for our shareholders shrinks because we have already 1 who sets the value. And at this stage, looking at the comparables in the market, the overall market situation, I think there's a relatively good time window, which might close before we are there, but it's a good time window to create significant shareholder value, in my view, through an IPO. Now we are driven by creating shareholder value. So if anybody jumps in with a huge offer or whatever, we will always consider that and see whether that's a better path. But at this stage, things -- we need to have preparation. And the leakage risks, we want to be up front to investors, announce it today and start working on it more or less immediately. There's no real pressure or anything. We're not a desperate seller. If the issue is Brexit, if there's any issue that will prevent us from creating maximum value for shareholders, we simply keep it by that time. But I think there's an interesting opportunity at this stage. That's our own assessment.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Christian. John, on the open book...

John Robert Dacey
Group Chief Financial Officer

On the open book, look, just 2 observations. One, yes, there is a strong growth in both the iptiQ and the elipsLife businesses, which are part of our Life Capital. This was probably given an extra boost in iptiQ EMEA by one large medex transaction that was booked and is unlikely to recur. So we won't see that level of growth. And lastly, there is a positive impact in these numbers from an internal group record session of -- that came through. It's part of our capital management policies across the group, but it flatters the actual growth rate. So I think it'd be wrong to extrapolate this in a sort of geometric fashion, but the growth is strong, and we are very optimistic about the opportunities for the open books in Life Capital.

Operator

The next question is from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Three questions. Firstly on P&C. I guess exposure in wind season. Your comments on the site this morning talking about most hurricanes in one year being a decades rather -- event rather than hundreds of years event. Can I assume on that basis that your retro program has changed ahead of -- well, I guess now that we're in wind season, any comments on that? And the second question just basically in Life & Health. The -- I guess the uptick in seasonal claims, are you sure this isn't -- are you sure this is just a blip? Any comments or reassurance around that?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks. Edi can you take them both?

Edouard Schmid
Group Chief Underwriting Officer

So on P&C Re and retro into this season, we didn't make any material change to our retro policy. As we explained, we actually like the nat cat business a lot, and we understand it. We can cost it accurately over time. We see our loss levels [emerging] as we -- as a cost for them. And as long as we can, well, diversify the risk, we want to keep it on our balance sheet. So what we have in place for the upcoming hurricane season is similar to what we had last year. We paid a bit last year. It was a unique year because you didn't have 1 or 2 very large serious events. So we had 3 medium-sized hurricanes. Most of it were small ones. And that explains why our recovery was lower than you would have expected. Well, actually, we did make some changes on the Corporate Solution side, where in the past we were running quite large net retentions also for nat cat because our thinking of this is still part of the group balance sheet. But obviously, in comparison to commercial peers, the losses looked a bit out of proportion. And into this year, we have strengthened IGR, the internal cover around Corporate Solutions, with a bit lower attachment point and in particular we also have a negative cover in place. So CorSo would be much less affected by another series of events. But from a total perspective, what we see out of the group balance sheet is pretty much in line with what we had in place last year.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

And the follow-up question maybe on the Life & Health mortality claims, the seasonal effect we saw in H1?

Edouard Schmid
Group Chief Underwriting Officer

Yes, it's correct, our mortality experience was adverse in the first half year, and we have seen an increased frequency of claims, which is seasonal. Flu is a contributor to that, but we also had an above average number of [indiscernible] claims. I mean, that's the natural volatility in the mortality book. On a global basis, we can well absorb these. And more importantly, we don't see any material adverse development around U.S. mortality that would change our overall view how we approach this business.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Okay. Thanks, Kamran, for your questions.

Operator

The next question is from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

In the P&C business, I've been hearing from many players about a softening of momentum for renewal rates increases. You've actually shown a 104% price adequacy compared with 103% in January. So is all of this just down to sort of mix effect in your book and sort of more technical things? Or is Swiss Re believing that it's more optimistic on the direction of renewals than, I guess, I've been hearing from the market in general? And then secondly, this large internal reinsurance contract between Life Re and Life Capital that's boosted the premiums, has that had an impact on capital and earnings allocation between the 2 entities? And if so, how much? Or is it just purely something that boosts the top line of Life Re but is irrelevant to earnings and capital?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

To you, Edi, on the first one and then, John, on the IGR.

Edouard Schmid
Group Chief Underwriting Officer

Well then on the first one, the P&C Re quality, let's say what we wrote at midyear versus year-to-date, this is largely explained by the composition of the business that renews in the middle of the year. It's a bit more property and U.S. focused than at [long run], where it's a bit more European and casualty focused. I wouldn't say we are more bullish than other players in the market. Clearly, we're also disappointed by, let's say, the rather moderate reaction to the large nat cat losses in 2017. But what we [had hoped], that we could drive through quality improvements in our portfolio actually in various segments and, at the same time, we could grow with the P&C Re business. So the improvements is a bit stronger in [loss iptiQ] accounts. But also, in other portfolios, we could drive some quality improvements. At the moment, it's not as huge, so I would not hide the fact it is competitive out there. But at least there's a -- I would describe it a change in tide. Also, in terms of pressure on terms and conditions, this has eased quite a bit. So my outlook is more positive. But clearly, it stays competitive, and we need to do more work.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Edi. The IGR?

John Robert Dacey
Group Chief Financial Officer

With respect to the IGR, again this has been driven by our attempts to have capital efficiency at the subsidiary levels and across the group. There are no material impact, I think, on the relative earnings of the different businesses. If you want a little more detail on those IGRs in the longer presentation, Note IV for the half year 2018 report gives you some details for the flows.

Philippe Brahin

Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, William, for your questions.

Operator

The next question is from Sami Taipalus from Goldman Sachs.

Sami Taipalus
Goldman Sachs Group Inc., Research Division

So first one is on P&C Re large losses. I note that there's no sort of man-made losses that made it above your limit in the half. But if you can just comment on whether there was sort of below -- significant amount of losses below that limit that would affect the results in the half year, that'd be great. And then the second question is just tidying up a couple of things on ReAssure. And the first one is, when -- if you were to sell down, would that have an impact on your capital planning? Because it kind of sounds like you're probably not going to have to plan for as much potential M&A in the future. And will that increase your capital flexibility essentially? And also, related to that, it wasn't quite clear to me what was going to happen to the debt that -- in ReAssure at the moment, so if you could just clarify that.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Sami. And maybe, Edi, on the first one, and John on the second.

Edouard Schmid
Group Chief Underwriting Officer

Yes, thanks for the question on P&C large losses. As you've correctly stated, we have nothing to report above the $20 million threshold. There are a few smaller large losses, but I would say that the man-made loss experience is a bit below expectation. But maybe a bit surprising is that on the CorSo side, we reported a very large claim, $51 million from this engineering loss in Colombia, $51 million. And we don't show anything on that loss on the Reinsurance side. Also, in Reinsurance, there is a little bit, but it's below this $20 million. And unlike in other situations, we generally see, as explained before, rather big retrocession outside. But as it happens, that we offer significant capacity sometimes, both on the CorSo direct side as well as behind some cedents. We can have significant shares on large single-risk policies or on large construction policies. And for that situation, we actually have a risk cover in place to avoid, let's say, out-of-proportion accumulation of large single risks. And in this engineering loss in Colombia, actually the external cover was [bigger]. And that explains why we only show this $51 million in CorSo. That's the intention of the IGR. But we don't show anything on Reinsurance because a large part of this loss actually is ceded externally.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Great. John?

John Robert Dacey
Group Chief Financial Officer

With respect on the potential ReAssure IPO, yes, if we find ourselves in a position where we're selling down our stake from the current 85% to something that's 49% or potentially even slightly below 49%, and in the meantime the pipeline has not resulted in any additional transactions, you should expect that, that would free up additional capital. We're pretty far away from that moment. We've got a lot of preparation to do. And as we've said, we hope to be ready to execute in 2019. When we get closer to that, we can, I think, have a -- we'll reengage on what that might actually mean for capital.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

And then also, the point on debt, I mean, you want to comment on the...

John Robert Dacey
Group Chief Financial Officer

Yes. So we, in 2016, issued a debt. It was a replacement. There were some bank financing that had been in place for ReAssure. It's at the level above ReAssure business, so it would not -- the holding company where the debt was issued would not be part of the transaction. And we would, I think, look, as we would approach the IPO, what would be the appropriate level of debt and equity for the entity which goes out into the market. In the meantime, we've stated exclusively in the press release today that should Swiss Re group no longer be the majority owner of this business, we will be sure to indemnify the bondholders.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. Thank you, John. And thank you, Sami, for your questions.

Operator

The next question is from Vinit Malhotra, Mediobanca.

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

So I wanted to come back to ReAssure. Just a very simple point from my side. What is the trigger for doing this now? So it's not like SST has changed for you or it's not like -- is there a pipeline that you had imagined before? And then the board if it is to decide that you will [indiscernible] in 2 years, but in the meanwhile, you also got a new investor. So obviously, I'm just curious as to what is the trigger for really strong earnings. And just on the Life Re book, are you able to quantify a little bit this flu seasonal impact, if anything? Or you said a bit more frequency came in, but if you could just quantify into that.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Vinit, we couldn't hear your second question. Do you mind repeating it? First one we got. The second one ...

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

Sorry. Sorry. The second one is the Life Re mortality pickup in seasonal claims. Are we able to quantify that? Is there some lag effect even for further quarters that we should be aware of?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Okay, thanks. Maybe -- so John on the first one?

John Robert Dacey
Group Chief Financial Officer

Yes, this is -- it's kind of -- I mean, I think part of the issue, frankly, has been the success of ReAssure in recent years. And capturing the Guardian transaction, which is relatively large, the HSBC and, most recently, Legal & General, we see the opportunity in this business for continued accumulation of assets underneath the ReAssure business model. And the challenge for us is the relative size of those assets to the rest of the group has gotten relatively large. There's a, if you will, a finite amount of asset risk that we would be comfortable with, I think, over time. We're not at that point today, but at some point in the future, especially if we -- if ReAssure engages in some of the larger transactions that we see are potentially out there in the U.K. market, this could become a constraint for us. And we'd rather build today the operational freedom for the business to continue to grow, to continue to transact. And doing that outside of the SST framework, I think, is good not only for that business but potentially for the remaining businesses inside Swiss Re group who benefit from a reasonable level of asset risk in running their operations. Christian, I don't know...

Christian Mumenthaler
Group Chief Executive Officer

Yes, I think -- I mean, to add to that, that is not something we have decided a week ago and we just do it. These things need the right level of strategic thinking, consensus building and then the time. So when I took over 2 years ago, relatively clear, we created a consensus around the overall direction, and we started to implement it. And this is just the next logical step in that point. So it maybe comes as a surprise to you, but hopefully there were enough signals that would make this less of a surprise. I think there's a complete logic in our communication over the last 2 years if you go back in the path we intend to take. And so this is just the next step.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. So Edi, on the mortality claims?

Edouard Schmid
Group Chief Underwriting Officer

Yes, on the adverse mortality experience in the first half, I mean, there's not much more I can say. As I mentioned previously, part is clearly seasonal, so we don't expect that to repeat. Flu is a factor. The other component I mentioned is an average number of severe claims that is random. Nothing to do with seasonality, so could occur at any point in time. But the key point I would repeat from before, we don't see anything material systematically that would make us to believe we have to change our view on U.S. mortality risk.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you, Vinit, for your questions.

Operator

The next question is from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

And just 2 questions. And first one comes back to the open book close. Can you maybe just quantify how much basically was the growth into your Life Capital earnings, I think it was quite substantial, and it cost you some upfront, obviously, acquisition costs? And the second one, on prior year developments. You show 1.5 percentage points in that. How much was related to basically the hidden claims last year, so the hurricane claims you reserved for last year? If there was any positive development here, I guess?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Okay. Let's start with John on the open book.

John Robert Dacey
Group Chief Financial Officer

So the open books, elipsLife is a little more mature business than iptiQ, which is obviously effectively a tech-enabled startup within the group. These are both primary life companies. And because -- precisely because they are able to capture the fast growth that you see in the premium line, it will be some time for breakeven of iptiQ in particular. elipsLife, I think, is there, but the contribution to earnings is modest. And we continue to expand that business in new geographies. As we expand the business in new geographies, we're going to have to invest in those new geographies. So I don't think you should expect the open businesses of Life Capital to have any material impact to earnings in the near to midterm. As long as we see that investing continues to grow value for us, we will think potentially, as the IPO of ReAssure approaches, for being able to provide more information on value of new business or some other metric, which will give you better sense of how we see the value creation in the open book businesses.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you. Maybe Edi on the PYD?

Edouard Schmid
Group Chief Underwriting Officer

Yes. And on your question regarding the 1.5% favorable prior year development in P&C Re, actually we saw [indiscernible], we only had very moderate releases. We think we are adequately reserved for the big hurricanes. Actually, there were some adverse developments this time for property overall, but that is mainly driven by some losses out of Japan. There was another typhoon in 2017, name of Lan, and there were some late reporting on this event. And that explains the negative prior year development on property for once. But overall, as you say, it's property, so both casualty overall but also special lines continue to deliver positive prior year development. That's the whole picture.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Stefan, for your questions.

Operator

The next question is from Thomas Seidl from Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

First on ReAssure again. Good thing to say it's in the direct segment, but you know that there's [indiscernible]. I mean, what we do know is that it's a low ROE segment. And given management is paid for ROE, I wonder why you think it's so attractive and why you shouldn't sell down closer to 0 rather than staying at the [49%] mark you're indicating today. That's my first question. What keeps you from selling down really close to 0? Second question, investment income. Stripping out the $265 million from mark-to-market stuff here, you have got $40 million realized gains in H1 compared -- it's very low to the previous years. So question is, why this abrupt change on realized gains? And is sort of the $40 million you see in H1 the new normal run rate?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Maybe we'll start with Christian.

Christian Mumenthaler
Group Chief Executive Officer

Yes. So yes, I mean, I have to qualify attractive, right? By attractive, I mean, there's tons of people knocking on our door who would love to have a piece of that, who find this attractive. I think that there's a lot of people that see some -- there's all kinds of people in the market who find that attractive. There's a shareholder who is interested in a high dividend yield. They find it very attractive. You can see the other big company who does that in the U.K., Phoenix, and their valuation. And so from all of that, it's clear that this type of business is attractive from a -- for a whole set of shareholders and not necessarily for Swiss Re, you're right, and so -- but for -- I can definitely see shareholders for whom this will be very attractive business, including the growth prospect and all of that. Swiss Re, the -- once we go down, once we don't own it, deconsolidate it and all of that. But then it's -- you have other aspects of the business that are attractive. The cash profile, for example, is attractive. The cash ROI is attractive. The dividend [cable] is attractive. So at this stage, we certainly would like to stay a shareholder of this but on a much smaller share, on a share that is not consolidated and doesn't create the SST-type issues. So you also look at it differently from an SST perspective once you have a smaller share. So it really looks different once you're a smaller shareholder. And to stay in and have the people we know, the business we trust, all of that to me makes sense.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

John, maybe on the realized gains?

John Robert Dacey
Group Chief Financial Officer

On realized gains, Thomas, you're right that even if you adjust the -- for the change in the U.S. GAAP guidance, you get a return on investment of 3%. That compares to 3.5% a year ago for the first half of 2017. I don't think it's correct to assume that the $40 million or the 10 basis points above the running yield is a -- the new normal for our investment portfolio. I think the Asset Management team already took a look at where markets were, where the portfolio was and felt that, that was an appropriate set of actions in the first half of this year. I will say overall, with rising interest rates on the fixed income portfolio, obviously the unrealized gains are shrinking, but I think it's pretty clear that we would have the opportunity both -- in some parts of the equity portfolio, the private equity portfolio, the real estate portfolio as well as the fixed income a little bit if the Asset Management team felt it would be appropriate time to harvest some of those gains that they would be doing so. So I would not plug $40 million into your model as the new normal.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Thomas, for your questions.

Operator

The next question is from Frank Kopfinger from Deutsche Bank.

Frank Kopfinger
Deutsche Bank AG, Research Division

I have 2 questions on ReAssure. My first question is on the 5 constraints for a potential IPO. Could you comment on firstly whether MS&AD would be willing to do the IPO if the valuation will be below their level? And secondly, can you touch also on the reaction from the regulators which you got so far? And thirdly, whether the IPO itself depends on a deal. And so these will be the 5 constraints. My second question is on a stand-alone basis for ReAssure, can you quantify the cash and debt capacity that ReAssure as a platform has as of now, so -- to do further deals without IPO, whether the company is already at the limit?

John Robert Dacey
Group Chief Financial Officer

So I -- let me see, Frank, if I've understood the questions correctly. The first one, the time constraint, if that was your question, we...

Frank Kopfinger
Deutsche Bank AG, Research Division

Well, it's -- and look more on this -- certainly, I called it 5 constraints, but -- and -- yes.

John Robert Dacey
Group Chief Financial Officer

Now look, we -- we've obviously spoken with MS&AD in advance of this announcement. They are supportive of this action. We'll see as we progress how we move this forward. But I don't think there's either contractually, certainly not, nor operationally a floor that we have to worry about in terms of pricing for the deal. We will not bring this to market if we don't think it's in the interest of all shareholders, including MS&AD. But that doesn't necessarily mean that we've got a hard hurdle that needs to clear. I will say also, since MS&AD made the initial investment, we've announced the Legal & General transaction, we've paid out 1.1 billion in dividend to all shareholders, 15% of which went to MS&AD. The business continues to move forward. And while its U.S. GAAP returns on equity look pretty meager under the statutory counts of IFRS, we see much more positive results. So I think we don't feel as though we have our hands tied. We also don't feel as though we've got any absolute need to do this. We are not at the limit of transactions. We can -- we are open for business, as I said before, and can go ahead and transact should an interesting opportunity arrive in the market. So we've explicitly told the management of ReAssure that they should not reduce their activities vis-à-vis new business.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

And John, there was also a question regarding the reaction of regulators.

John Robert Dacey
Group Chief Financial Officer

Right. The regulators, we've informed the U.K. regulators as well as the regulators here in Switzerland. I'd say the response was neutral with no particular concerns raised to us, but a strong desire for us to keep them informed of the progress.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you, Frank, for your questions.

Operator

The next question is from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Two questions on my side. The first one, for Edi. Maybe to come back to -- again on the renewals, because looking at Slide 21 and looking at the strong increase in casualty, it seems to me that casualty is going up 16% year-on-year. So can you give us a bit of additional granularity on what is raising that? And especially because I find it a bit difficult to reconcile with the charts you're showing on the Corporate Solutions side, where you're showing that the -- actually the U.S. general liability at CorSo has decreased by 21% in terms of writing over 2 years. So I know that we are comparing apple to pears, but, I mean, it seems to be very, I would say, differentiated underlying trends. So if you can help us to reconcile what's going on. And the second question would be again on ReAssure. So clearly, this has been, over time, a very big generator of cash for the group, dividend as well. And you paid $1.1 billion in Q2. And actually, it's been managed for cash more than for earnings over the past year. So, I mean, in terms of cash generation -- and obviously, it's is not the only cash generator engine you've got within the group, but, I mean, with this IPO, this will be, I mean, a significant decline in cash generation within the group. So how we should think about it going forward? And how are you going to replace somewhat what is going to be lost we see with your IPO process?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Edi, on the first one.

Edouard Schmid
Group Chief Underwriting Officer

Yes, first one is regarding, let's say, the portfolio composition. And it's correct from the P&C Reinsurance side, the cash we share has increased. If we look at first half 2018 versus '17, this comes, to quite an extent from Asia, and also, to some extent, from transactions where we had some successes that explain this increased share in casualty. As we explained in previous calls and meeting, we remain quite selective on U.S. liability overall as this is a segment where we still see a need for significant improvement. We could achieve some in 1/1, but clearly, that's an area where we stay quite selective. And versus the different picture in Corporate Solutions, actually, yes, you've seen we grew the Corporate Solutions business quite a bit first half year 18%, and that comes from a number of sources. First, obviously, is the -- bear some fruits of the Primary Lead initiatives. And if you look at lines of business, it's quite spread. Some in engineering, aviation. The Bradesco joint venture in Brazil is also starting to bring some additional volume. And again, also in Corporate Solutions, as we've said now for quite a while, we are very selective on U.S. general liability, where we have pruned the portfolio quite a bit in large corporate risks, taking down capacity and also premium significantly. And this segment continues to be underwritten very selectively. On the other hand, we had some growth also in the U.S. on Employer Stop Loss business. And another segment where we could grow in Corporate Solutions is around financial and professional lines, particularly with a [NGA] which is running very successfully. This explains also some growth that is showing up on the U.S. casualty. But clearly, we remain selective. We grow into pools where we see the profitability, meeting our hurdles, and we continue to drive improvements. We're willing to take away capacity where we see terms and conditions and price not at the level we like it. But the main reason is obviously there's always some transactions that tend to impact this portfolio composition quite a bit from one year to the other, so it's not easy to fully explain.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Edi. And John, on the ReAssure cash generation post IPO.

John Robert Dacey
Group Chief Financial Officer

Look, I think you're right that the Life Capital and specifically ReAssure has been a big provider of cash and dividends. On Slide 11 of the deck, you'll see that that's been particularly true for the last 2 years but important in previous years, but -- in some ways. Our view is that were we to sell our share down, obviously that would simultaneously bring cash into the group and, at the same time, reduce the amount of equity capital that we've got tied up. So there are currently USD 6 billion in Life Capital. That would be a smaller number absent a vastly expanding pie. What we do with our capital, I think, is something we can discuss in the future when we're closer to an actual IPO. But at the moment, our capital management remains intact, as what we've said in the past. We need the capital to: in the first case, run the businesses we have; in the second case, to defend the ordinary dividend; in the third case, to look to expand the existing businesses; and, if there are opportunities in the open books of Life Capital or in CorSo, to continue to build scale. We're happy to do that so long as it's value creating for all shareholders. And finally, if we can't do any of those well, then we repatriate capital to shareholders, and I think our track record on this is strong and transparent.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you, Thomas, for you questions. Actually, we have come to the end of our Q&A session, so thank you very much to all of you. Please do not hesitate to contact any member of the Investor Relations team if you have follow-up questions. Thank you again, everybody, for your participation today.

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