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Market Intelligence

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S&P Global Market Intelligence Estimates

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Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's 9 Months 2020 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 CFO & Member of Executive Committee

Thank you very much, and good morning or good afternoon to everyone from me as well. I'm here with Thomas Bohun, our new Head of Investor Relations, to talk you through the 9 months 2020 results.

Before we go to the Q&A, I'd just like to make a few quick remarks about the release we put out this morning. You've all seen that the group reported a net loss of $691 million for the first 9 months of 2020, which reflects a strong performance in the third quarter, a net income of $444 million. In addition to the COVID-19 reserves -- sorry, the additions to the COVID-19 reserves, amounted to $428 million in the third quarter, bringing the total to nearly $3 billion for the 9-month period. I'd just reiterate that 67% of these reserves remain IBNRs. Excluding the impact of COVID-19, the group net income increased to $1.6 billion for the 9 months, up from $1.3 billion of the prior year. P&C's ROE, excluding COVID-19, was 15.5%. The business remains on track for a 97% combined ratio in 2020. We're positive about the improving market conditions. Life and Health Re's ROE, excluding the COVID-19 losses was 9.7% with a strong premium growth of 6%, supported by large transactions.

I note the courses turnaround continues to progress with an ex-COVID combined ratio for the year of 96%. And the normalized combined ratio, that's significantly better than the 105% estimate for 2020 that we provided at the beginning of the year. In Life Capital, we successfully closed the reassure sale in July. And Life Capital is paid up to the group, a dividend of $1.5 billion. We continue to build out the open book business with year-to-date premium growth of almost 20%. We continue to navigate the financial market volatility with an ROI of 3.4%, and ongoing active portfolio management to maintain the quality of our credit portfolio in particular. The impairments for the third quarter were 0 on that credit portfolio, the impairments year-to-date were only $27 million on the portfolio that's in excess of $30 billion.

Swiss Re maintains its strong capital position with the SST ratio of 223% as of the first of July. We noted that the ratio remained above the group target level of 220% throughout the third quarter. And I'd simply reiterate the 220% is a target. It's not a limit for us. And with that, I'll hand it over to Thomas to manage the Q&A.

Thomas Bohun
Head of Investor Relations
Thank you, John, and hello from -- to you from my side as well. Before we start the Q&A, I'd like to remind you to please restrict yourselves to 2 questions each and then register again, should you have follow-up questions. With that, operator, could we please take the first question?

Question and Answer

Operator

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

Andrew James Ritchie
Autonomous Research LLP

Two questions, please. The first one, John, I'm just interested in -- if you could give us a framework for thinking about second wave type impacts from COVID from a loss point of view. Now I appreciate things like event cancellation is more a prolongation of the first wave, but maybe just a framework as to how you're thinking about second wave potential losses. I'm wondering, for example, does it matter that it could be defined as a second event? And obviously, I suppose you've got some exclusions in place that went in place before. So just some sense for that would be useful. The second question is on Life. I just want to get a sense, is the -- you've obviously been booking mortality charges as the notifications have come through. Are there any concerns about the outlook for morbidity arising from COVID? And what it could mean for long-term health effects and whether that would have an effect on your results?

John Robert Dacey
Group CFO & Member of Executive Committee

Thank you, Andrew. Yes. Why don't I start on the Life and Health and then provide a little bit of color there and try to address your specific question. What we've seen is a -- well, to start with our major exposure for mortality in our Life and Health portfolio is in the U.S. with a secondary exposure in the U.K. The increases in cases and potential increases in Europe will be unfortunate, but probably won't have a lot of effect on our overall COVID charges. Back in the U.S., what we see is that in the second quarter, when we booked approximately $500 million of reserves, we expected a higher incidence of insured losses in the last month of the quarter in June than we actually experienced. And so we found ourselves with a little bit of a positive coming into the third quarter in retrospect the third quarter itself, we've booked the losses that we saw come through in July and August, largely according to plan. And have an IBNR effectively up for the month of September. So overall, these mortality rates are close to what we expected. We've got a new parameterization maybe that would help you and other analysts, which suggested that at least in the U.S. with a per 100,000 excess deaths, we would expect about $200 million of pretax losses. And that seems to be a more precise estimate given the evidence we've seen through the third quarter.

On morbidity, we are concerned about long-term impacts of COVID-19 on health and the long haulers already provided some indication that there may be subsequent health problems for people who have been infected. I think at this point in time, it's just premature to be able to make any serious modeling of what that might mean for our portfolio, but it is an issue which we are looking to track closely, and we've continued to access experts around the world to see what information -- new information might be available for us to ask our team what additional challenges are going to be on the morbidity dimension as well as effects of long-term mortality.

Your first question was related to the second wave, I think the framework you might want comes a little bit from what we were able -- or what we did book in the third quarter, where you see a big migration away from the property losses related to business interruption into some combination of end cancellation and potential credit and surety. And so -- and the events will proceed or actually not proceed as a result of the pandemic, and those losses will continue through the fourth quarter with probably some carryover into 2021, I would guess at this point. On credit and surety, we booked in the third quarter between the P&C Re and CorSo another nearly $50 million of losses. I think as you see more long-term economic damage and related defaults, you'll see more losses here. I -- the wildcard continues to be the interplay between national programs, especially in Europe, which are supporting trade credit specifically. And the assisting companies that are may be otherwise near defaults. So we'll see how that plays out.

Mortality, I think I've mentioned in terms of the play. And then your -- I think fundamental question is, to what degree we think a second wave will trigger additional losses in the property book through the business interruption. And there, I simply will observe the level of IBNRs that are currently up on our property books. P&C Re overall, with all of the positions are -- have IBNRs of over 80%, 87%, I think, is what we've disclosed. And it's unclear how these claims are coming in. We believe this is our exposure. But in many cases, we're still waiting for the presentation of the claims, the agreement of what the occurrence might have been to trigger it and the accumulation that's appropriate for it. So absent a massive long-term lockdown across western economies, I don't think you'll see a repeat of the kinds of numbers that we've put out in the second quarter. We anticipate some modest movements to what you saw in the third quarter for business interruption across P&C Re and CorSo was an additional close to $50 million, and that's the kind of the unfortunate muddling along we would expect absent something more dramatic occurring.

Operator

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

Kamran Hossain
RBC Capital Markets, Research Division

Two questions. The first one is on CorSo. I guess underlying, you talked about some 96% combined big improvement, I guess, versus the half year and definitely well below your target for the year. Do you think this is just tailwinds from better frequency? Or should we pursue 96% in our numbers next year and then add pricing? So that's kind of question one.

And then the second question, in P&C Re, I guess at the half year, you had $1.5 billion of COVID claims. It's only $1.6 billion at the 9-month stage. Was there a positive development? Or did you just kind of change your assumptions based on kind of how things are or how claims are coming in.

John Robert Dacey
Group CFO & Member of Executive Committee

Thanks, Kamran. On CorSo, I'd say, yes, we do seem to have some tailwinds. It's actually somewhat challenging for us just understand the nature of the relatively low level of man-made losses, in particular, in the quarter. And we saw to a lesser degree, in the second quarter of this year. It may be that these claims are late and being reported. It may be that the lower levels of economic activity in the spring and the early summer simply have meant that there are fewer losses. But I would strongly encourage you not to take the 96% as a starting point, we don't think that's a new normal -- we said ourselves, you take COVID out and you get to 96%, but you make some adjustments for what has been modestly positive prior year development and a more normal level of man-made losses. And you're still well below the 105% guidance we gave you, but you're materially above the 96%. So I think that's the starting point on there.

With respect to the COVID losses for P&C Re, what I can say is Q3 was largely coherent with what we thought at midyear would be a play out of COVID losses. I think you're right. The P&C Re numbers are a bit light, but we didn't necessarily expect a lot to be coming there in the quarter, where we have continued exposure, I believe, is on subsequent credit and surety losses. Potentially something in some other lines, but the business interruption, again, we believe strongly that the triggering event were the governmental lockdowns that occurred in the second quarter of last -- of this year, and we reserved aggressively related to that triggering event. And so if that's the occurrence, we're comfortable that in the third quarter, there really wasn't much other mechanism by which we found ourselves exposed.

Operator

The next question comes from the line of Paris Hadjiantonis from BNP Paribas.

Paris Hadjiantonis
Exane BNP Paribas, Research Division

I hope you're doing well. Firstly, on capital and capital returns. Obviously, you are going to -- well, most likely, you're going to have a net loss for the full year, depending on how the last quarter develops. At the same time, your SST is slightly above your target. Can you basically explain to us or explain the thinking behind dividend issuance into this year? What can you essentially tell us that you still consider the dividend you're paying to shareholders being one of the their -- good ATs of the equity story within Swiss Re despite all the losses that we're seeing due to COVID this year? And then secondly, I mean, on COVID, from an SST perspective, I know there's an assumption in there regarding additional losses. Can you give us an idea where those additional losses are coming from? My initial assumption is Life Re, but I don't know whether you have an assumption about P&C Re and CorSo in there as well?

John Robert Dacey
Group CFO & Member of Executive Committee

Sure. So let me start with the second question, if you will. On the SST calculation, you're correct. We have a expectation of future losses coming from COVID baked into there. As I mentioned, our third quarter total of $428 million was coherent with what we expected in midyear with whether the third quarter loss could look like. And so we've gone ahead and projected out for the full year, and in some cases, into 2021. I think that the nature of those losses expected in the first case, a -- as you say, some increase continuing mortality related to the fact that the pandemic is ongoing. People, unfortunately, are still dying of the virus. It involved other losses in P&C Re and in Corporate Solutions. Clearly, the events cancellations we've got them mapped out quarter-by-quarter about -- and how we think they are likely to play out. We're not particularly optimistic on that front. And clearly, the credit and surety losses. I think on property, as I mentioned in the quarter, we didn't see much in the way of triggers for new property losses for business interruption. We've got some model, but I think there, mostly what we would expect is that the IBNRs that we've currently put up will migrate into case reserves when we get clear indications of legitimate claims that we're responsible for. So that's the position I think you should think about for future COVID claims with respect to the modeling we've done ourselves. On capital returns, I'd observe, we've got a fairly clear order of capital management, the first is make sure that the group remains adequately solvent and capable of running its business. I think I can't imagine that we can check that box any harder than having worked through this year the way we have and end up on July 1 with SST of 223%, again, above the target. I think the second is to maintain and where appropriate, increase the ordinary dividend that, I think, remains an important part of our capital management. And I simply reiterate that we've already accrued 50% of next year's dividend in the SST calculation as of the 1st of July. The second part would be accrued during the second half of 2020.

I think we believe there are important growth opportunities for us. We've been pleasantly surprised on CorSo that the volumes have not contracted as much as you would have expected when you're pruning 1/3 of the portfolio. Thanks to the price increases. And there's been places where we've seen some opportunities to actually grow the lines of business, which we're comfortable with. But premiums overall remain down year-on-year. Instead on P&C Re, we're up. Net premiums earned 9% in the first 9 months. We think the pressures in the market for continued price increases into the January when renewals are strong, and we will look to see how we can grow that business. But growing our business in an orderly manner does not conflict at all with our ability to pay the dividend.

Operator

Next question comes from the line of Ivan Bokhmat from Barclays.

Ivan Bokhmat
Barclays Bank PLC, Research Division

I've got 2 smaller questions. The first one, could you please talk about the reserve developments over the third quarter, maybe the underlying reserve strength, I understand that there's been some additions. Maybe you could talk separately about line take specialty and separately about the U.S. casualty, which we've spent some time in the past? And the second question is on the investment result. Obviously already some volatility in the fourth quarter. Just wondering if you could maybe outline what's kind of hedging strategy you've had in place, should we expect the same successful navigating of that volatility as we saw in the first half of the year?

John Robert Dacey
Group CFO & Member of Executive Committee

Sure. So on the reserve development, what you saw in -- or what we've experienced in the third quarter was, I'd say a modest negative prior year development for P&C Re, which was dominated by our decision actually after the close in the first part of October to adjust an existing reserve that we've set up for a major aviation loss, where there's new information came to the market and to ourselves as well. We thought we'd been conservative, but the major increase in the expected loss that was communicated to us -- had us push another fairly significant amount into that reserve. That reserve dominated the negative for P&C Re. And if you take it out, I'd leave it with what I would call a Red 0. In Corporate Solutions, we had a Black 0 on prior year development, a modest release. Overall for the group, if you take out the aviation increase, we were still at a Black 0. So to give you a sense that there's just not been a lot of movements other than this one very specific issue, which I think you can probably piece together.

With respect to the investment results, during the course of the second quarter into the third quarter, we've removed a fair amount of the hedges that we had up or put up starting in February of this year. We still have part of the equity portfolio hedged, I think we've come down a little more on the credit side, having watched what the Fed's actions have met for investment-grade credit pricing. I think most important there is the adjustments we made to the credit exposures and trading out actually starting in 2019, but continuing in the first quarter and early second quarter of 2020 to remove ourselves from the most vulnerable sectors, and we remain very comfortable with that. So I think I already mentioned on behalf of Guido Furer and his team, the great result in the quarter of 0 impairments on the credit book for the quarter. I think we're continuing to feel fairly comfortable about our positioning. There's obviously volatility in the market that I would expect will continue through next week. Let's hope it settles down. But if it doesn't settle down, we're still, I think, reasonably cautious in the positioning that we've got for our investment portfolio.

Operator

Next question comes from the line of Iain Pearce from Crédit Suisse.

Iain Pearce
Crédit Suisse AG, Research Division

Two from me. Just trying to understand on the assumptions around second lockdowns that you made in the SST? And if there is an expectation of second lockdowns that you baked into the SST number you've reported. And then on that as well, just in terms of geographical exposures between sort of France, Germany, U.K., where you see the biggest risk to your book around second lockdowns?

And then a second one on COVID losses. I noticed that the credit and surety loss and the other loss in Q3 actually decreased in P&C Re. So I'm just trying to understand what's happened there, please?

John Robert Dacey
Group CFO & Member of Executive Committee

On the second one, the decreases that you referenced. I think we're fairly trivial in amounts, maybe a little less than $10 million in the positions. There's nothing really to say there are other than just maybe some true-ups of some modeling, but I wouldn't read much into it other than we were very close, and there are some people in Swiss Re that continue to like precision and might make an adjustment of $8 million along the way.

On the second lockdown that's been modeled, we did not assume the kinds of lockdowns that we saw in March and April in -- to recur. What we expected was some partial lockdowns in certain regions, which would affect economic activity, but not wholesale reduce it.

I think of the geographic exposures, we see -- what we've seen to date is that in the United States, our exposures are limited in part by the relatively high attachment points for the excess of loss treaties that we've gotten in place. And by the fact that the legal system seems to be maintaining a fairly literal interpretation of wording on the primary insurers contracts. And so there -- the exposure seems to be contained. I think what we saw in the U.K. courts, the FCA rulings was a -- as I mentioned, a bit of a mixed bag that we anticipated. I don't think we were surprised even if it was more in favor of the insured than the insurers than we might have modeled, but we remain fairly comfortable.

We didn't expect this to be clean in the following quarters. And so our midterm estimates suggest that there will be some additional losses along the way, but not a wholesale lockdown. And so if that's the case, we're going to have to go back and evaluate what those exposures are. A second lockdown of the same duration, same scale, same scope, is likely to have a less costly charge to us in part because of business that has renewed in April and June and July. Obviously, the January 1 renewals are coming forward. And again, they're the contractual wording, you should expect to be even tighter than what might have been existing with respect to exposure to pandemics.

Operator

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

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

Yes. Just 2 sort of follow ups, please. First one is on the U.S. mortality. So I mean, we're trying to understand how worse it has become in the last few weeks even of the -- on the excess mortality side, CDC data, I can check ran up to only October 17. I mean how are you thinking about this risk for your numbers? Because at least up to October 17, it didn't look like excess mortality was very high, but it might have gotten worse. I mean are you -- how do you results or the -- do you just wait for your feedings to come back to you? Or do you make some estimates? And are you able to share whether this question was raised when you were booking the 3Q numbers. And I understand it's not booked, but if you could just help us understand that because this question keeps coming up.

And second topic is just on Corporate Solutions. In the past there have been some claims about PG&E. And you may not want to comment one case or the other, but was that -- it's just curiosity? Is that instrumental in some of the reserve movements that could have happened in Corporate Solutions, please?

John Robert Dacey
Group CFO & Member of Executive Committee

Sure. So on U.S. mortality, Vinit, you're exactly right that we're doing our reserving based on all-cause mortality actual versus expected. So we're not dependent upon the classification of death as being a COVID death or not. I think that was especially important in the spring where systems were being overwhelmed and people were simply being -- people didn't have the time to clarify the exact cause of death. What we done through the third quarter is to estimate the number of deaths that we expect actually occurred as of September 30. And so subsequent to that, what's going on in October, and you're exactly right, there's a lag on the CDC data. And obviously, there's a lag on the information we've received from our primary companies, although to be fair, they have been on this particular topic fairly responsive and forwarding information they have, especially on the large dollar insured lives that might be relevant for us. I think we just need to continue to monitor. It's a tragedy that in the U.S. We're back up to 1,000 deaths per day for the last 3 days. And if this continues in October, in November and December, the rough calculation that I told you of another $200 million for 100,000 deaths, it would be a relevant calculation for the quarter. We'll see how it plays out. Our hope is that some of the actions taken in individual states will improve. It's clear that the mortality at those moment is very different than it was in the spring wave protocols, procedures for treating patients is obviously materially improved at the moment. Health systems are not being overwhelmed the way that either New York or Italian, Northern Italian hospitals might have been back in April. On the other hand, you see stories about some of the rural hospitals in the U.S., some of the hospitals in urban areas in France and Spain being close to full capacity. So we'll see how this plays out. But we're a bit optimistic that actual mortality will be contained. And we just hope on multiple dimensions that the pandemic itself comes back under control in these jurisdictions.

On the Corporate Solutions, the PG&E, we don't normally specify the source. But I think the California settlements probably was not particularly relevant for our CorSo business in terms of the positives that were coming through. I think what we're seeing is a series of smaller positions, which have been trued-up for prior years.

Operator

Next question comes from the line of Michael Haid from Commerzbank.

Michael Hermann Haid
Commerzbank AG, Research Division

Two questions. First, also on the Swiss Solvency Test. The 223%, slightly below my expectations. Can you give us some moving parts there? In particular, I'm also interested in did you assume higher growth in 2021, higher price increases? I think you already commented on increased COVID-19 loss expectations in your SST ratio?

The second question, more philosophical one, actually, COVID-19 and the problem of ensuring burning houses in the new business. If the COVID-19 crisis develops well into the 2021 year, then you might find yourself in the situation of ensuring burning houses maybe in facultative insurance, you already encountered this problem that, for instance, business interruption or event cancellation, but the likelihood of cancellation is extremely high. So how do you deal with this? You have long-term relationships in place. On the other hand, you probably ensure already, you ensure losses which have already -- which you expect to come actually. How do you handle this problem?

John Robert Dacey
Group CFO & Member of Executive Committee

So with respect to the first question on the SST, I recognize that the consensus might have been a few points higher. I think there were some modest adjustments to our own modeling, some foreign exchange movements and maybe the impact from some of the financial market hedges, which might have not been transparent to people and what's come through. I think, overall, 4 percentage point difference between where we landed and consensus should not be a big fixation for the market. What I think should be reminded, is just the overall level of the capital strength, whether it's 227% or 223% or 220%, frankly. It remains one of the most robust capital positions in the industry. And in addition to that, I'd say, just reiterate that we face no red line at 220%. That's a target. We expect to be around that over a longer period of time. But dipping below that is not a particular cause for concern. So long as we expect to continue to move plus or minus that number. So that's the one -- your first question, I think.

On the second one, a couple of thoughts. One is on event cancellation, I think the industry broadly, and I can say Swiss Re specifically, probably missed the -- what in hindsight is obvious accumulation effect of a pandemic on the potential set of losses coming through on a worldwide basis for these events that are insured. I think it's linked to the fact that while the pandemic itself is not a black swan event, the simultaneous lockdown of economies for 6 to 12 weeks around the world was not something that anybody had modeled. And as a result, the subsequent play out of this probably makes event cancellation insurance a harder cover to obtain than previously. We've been very clear, we decided in the restructuring of Corporate Solutions in 2019 to exit this line of business. And so the losses you see coming through especially through CorSo, are effectively the existing book running off. And to the degree that people write new event insurance for 2021. My guess is they'll be cautious about exactly what gets covered. There'll be rethinking the required pricing and in some cases, my guess is it simply won't be picked up by the holders of those events, which is unfortunate because it may create some bigger challenges to actually hosting events. But be that as it may, I think we're not we don't expect to be particularly exposed there.

I think more broadly, on the business interruption, social losses, yes, the changes in contract wording between reinsurers and primary companies, between primary companies and their insurers, I think we'll be much clearer about exclusions for pandemic related losses. And again, it may not be what people want. But if they want coverage for these kinds of events, the pricing is going to be dramatically different on a going-forward basis.

And the last bucket, I'd say, is on our credit and surety lines of business. This is a line which tends to reprice aggressively, people adjust exposures. And this is not the first recession that underwriters have had to work through, and it won't be the last. So that line of business, I think, will continue to function. But we're probably not done with losses there related to COVID.

Operator

[Operator Instructions] Next question comes from the line of Thomas Fossard with HSBC.

Thomas Fossard
HSBC, Research Division

Two questions. The first one would be on the 11 renewals upcoming 11 renewals. It's fairly obvious that actually the cyclical upturn is not led by any massive disruption in capacity. And it's more driven by underwriting discipline. So in this kind of environment, clearly, the commercial strategy of the big players like Swiss Re and Munich in the market at the start of next year is going to be probably very important. So maybe if you could tell us how you're thinking about playing the 11 renewals? I mean are you looking for -- to benefit from business opportunities and capacity there? Or is it going to be a mixture or maybe just to feel if -- I would say Munich and Swiss are going to be the one leading the market next year?

And the second question would be in relation to the U.S. elections. I'm not saying -- I'm not asking you which is going to be the winner or your preference. But any -- what could be the implications for Swiss Re if we had Democrats coming to power? Or I mean, any thought on that?

John Robert Dacey
Group CFO & Member of Executive Committee

So I'm looking around, I think I'm the only American in the room. I might be one of the few Americans on the phone. With respect to your second question, I will retain a discretion on my personal vote, although I was able to vote in the state where I grew up, which is Ohio. So I'd like think my vote matters for this election. What I would say -- the only thing I guess I'd say on that one, Thomas, is the -- anything that reduces the overall level of uncertainty in the world broadly and financial market specifically is probably going to be a good thing. And so what I aspire is a clarity of result next week. And if that clarity exists. I think there's a reason for us to be able to move on from the mess of getting ready for the election to what happens next. So -- and beyond that, we've got a global portfolio. There's a whole lot of issues that we think about on geopolitical issues, but sometimes, it's going to be a Swiss company. And I think there are opportunities balance out what some of the risks might be there.

With respect to your first question, yes, I do expect not just Munich and Swiss, but actually all the major reinsurers to be disciplined as we move forward. I think there are 2 things which provide, I think, or maybe more if I count it out and gets to 4 very quickly, reasons for optimism for the pricing. The first is -- and maybe the most important is the pricing in the primary market is improving. And you see that on commercial insurance, which is, by far, the largest component of the reinsurance market. And the whether it's major U.S. players like Cub or the European players, they're getting rate increases for the risk they write, which allows them appropriately to be able to afford, frankly, higher prices for the reinsurance as part of that equation.

The second thing is what we've seen related to COVID losses. And again, we remain one of the more reserved COVID players, but we expect there's going to be more losses that would get booked in Q4 and maybe even into 2021. The primary companies have shown an interest in reducing other risks as they can, and whether it's buying lower down on retentions and/or expanding the programs that they have for reinsurance, the demand continues to be very strong.

The third is that the alternative capital market, which we access ourselves, I think, has taken a pause, having seen another source of loss on the P&C side coming out of COVID-related property losses, which they did not anticipate. And while alternative capital doesn't shrink, necessarily. It also doesn't grow. And yes, there's been some new capital coming into the system by some start-ups, but on a relative basis, it's pretty modest. And in many cases, it's simply, I'd argue, replacing capital, which has otherwise been burned up by the COVID losses. So the supply remains somewhat constrained. The demand is strong. And overall the need for covering risks given the inevitable lower investment income makes us optimistic.

Operator

The next question comes from the line of Edward Morris with JP Morgan.

Edward Morris
JPMorgan Chase & Co, Research Division

A few questions from me. First, can you just talk about how you're feeling about the level of sort of pricing that you're seeing relative to loss trends. Obviously, on the net cat side, I think increasingly, the loss experience has been higher-than-expected over the last few years. And obviously, there's other sources that claims registration is pretty high. And similarly, a combination of low interest rates means that you really need to keep earning more and more on the underwriting side just to earn a steady margin. So I just wonder if you could talk about what you think the overall outlook is on margins, both a pure underwriting sense and then an aggregate level?

And then secondly, I don't know if this is something you've given before. Maybe you can just remind me. But I know your SST ratio has an assumption of ultimate COVID claims within it. And I was just wondering if you could remind us what the difference is between what you've assumed at the ultimate level and what we've seen so far going through the P&L?

And then lastly, if I'm allowed a third question, I can't remember if everyone is supposed to limit themself to 2. But a third question if possible. Just could you talk a little bit around the demand outlook for some of these classes of business that have been very affected by COVID? So I would imagine, as you talked about terms and conditions are going to tighten a lot, I would imagine it's very difficult to buy possibly cover for COVID going forward, but presumably, people can buy cover for other hypothetical pandemic events. What do you think overall, do you think people are going to be buying more insurance in these products? Or do you think it's -- actually, there's areas that will transpire and not really insurable? And just overall, how does that play out from the demand sense?

John Robert Dacey
Group CFO & Member of Executive Committee

All right. So I'll take 3 questions because one will be a very quick answer. On the SST component of COVID, we've not disclosed the difference between our ultimate and what we booked through. Again, I think there should be some utility in the recognition that our third quarter was coherent with what we expected when we started this calculation through the -- the ultimate in our processes.

With respect to pricing, I think I got to part of it on the previous question, but just to reiterate, yes, the -- we see a need for continued price increases in part to cover what will be a decreasing contribution from asset returns, but also with respect to specific portfolio. So what we said which remains absolutely valid at 6 months for our reinsurance business as we saw 6% notional increases, 2 percentage points of that were sucked up by our revisions to loss models, which says we needed more rate for that. And 4 percentage points, we're covering a decrease in expected investment income for new business.

So I think that's keeping our head above water, but it's not necessarily making this brilliant price increase, and that's why we expect on January 1, we'll see continued improvement in those price levels.

On specific covers and demand outlook, I think there's, in some cases, there's going to be some frustration in the market at primary level where -- whether it's SMEs that are just frustrated that their business interruption was not paying due to the pandemic or other areas that potentially could involve some interesting product innovation. But we go back to the fundamental point that you've heard Christian talk about, which says a true pandemic loss related to these lockdowns and the economic damage associated with it. Is not something the insurance industry can manage. And our Swiss Re Institute has the number out there for total economic loss of $12 trillion, more than $6 trillion already in this year. And this is not a set of losses the insurance industry can manage with the capital base we have. So I think you're going to see some adjustments to products. But I think, at the end of the day, there are certain risks which are not insurable by this industry.

Operator

Next question comes from Darius Satkauskas from KBW.

Darius Satkauskas
Keefe, Bruyette & Woods Limited, Research Division

Just one question, please. You said the primary rates are going up. So the company is going to quote to pay more for reinsurance. What are you actually seeing in terms of commissions, particularly on the proportional side?

John Robert Dacey
Group CFO & Member of Executive Committee

So I mean -- when I say the primary industry is going up, our Corporate Solutions price increase, which, again, is the portfolio they renewed, not what they approved, 15%. You saw some other major players in the U.S. market talk about 15%. I think it might be a little lighter than not some European spaces. But what we see is across all geographies, across all commercial lines at least some major increases of rates for certain retail personal lines businesses, the effects that we saw of lockdown for frequencies on motor, in particular, have made pricing in those lines a little more complex. But again, even the motor insurance, there's a component that's sensitive to investment income. And we'll have to adjust accordingly the -- when we talk about the prices for our reinsurance side, it's less about specific commissions and more about just overall notional increases that we receive and/or the price adequacy again, the 6% we saw through the July renewals was directionally correct, but not sufficient. And we believe we're going to have to see more to justify a broader expansion of our portfolio. But we're -- as I've mentioned for the reasons before, I think through questions ago, we're optimistic with those opportunities for justified price increases are there.

Operator

Next question comes from James Shuck with Citi.

James Austin Shuck
Citigroup Inc., Research Division

Two quick questions for me, please. John, you talked about the focus on the COVID losses is mainly on the property side of things. Just keen to get your perspective on the liability lines outlook. Obviously, there's going to be lots of things that end up in courts, and there's been quite a long tail to this. But particularly as we go into 2021, how should we think about credit losses online, such as D&O and workers' compensation, for example?

And then secondly, just on the investment yield. So I think the running rate was 2.4% at 9 months. How confident are you there to sustain that level? Can you give us any guidance as you reinvest excess cash, what's the kind of headwind in terms of basis points on that investment year?

John Robert Dacey
Group CFO & Member of Executive Committee

Sure, James. Thanks for the question. With respect to your first question, I guess, I won't be surprised to find some disputes and potential litigation actually on the property book as well. In terms of disagreements over what the occurrences, disagreement of how accumulation works for the treaties under which losses might be claimed, but we'll see how that plays itself out.

On the specific set of liability lines, I think the one place which has been reasonably well-behaved, at least till now is the U.S. workers' comp. It's not an area that we've got a big exposure, but there has been some major decreases in premiums that have been captured by the insurance industry due to the fact that the workers have been furloughed or positions have been closed to the degree, the economic recovery is recooling some of that. The -- it seems to be functioning okay.

I think on the D&O side, yes, there's likely to be some losses coming through, again, not a big exposure necessarily for us. But even that's probably been mitigated by the relative rebound of share prices in particular. And some of the losses will come from people that build-out in April and then stick around for some of the rebounds. But we'll see how that plays out. We ourselves have a material reserves set up for liability lines related to COVID on the P&C Re side, in particular, we've not seen much at all in terms of reported losses. And so that remains largely an IBNR position. We'll see how it sorts itself out.

With respect to the investment yield, yes, the 2.5% -- 2.4% is down. Our current reinvestment yield is looking to be about 1.4%. The duration of the portfolio at approaching 6 years means that it's going to take time to migrate down to that number in between now. And then things can change, obviously. But at the moment, I think consistent with the earlier question, we're not going risk on to try to maintain it. We're going to be cautious, at least until some of the uncertainty that we're facing in the economies and the political situation in multiple countries, not just the U.S. resolves itself a bit, and we'll see how it works.

Thomas Bohun
Head of Investor Relations

So thank you very much. With that, we've come to the end of the session. If you have any questions, please reach out to members of the Investor Relations team. Thank you for joining today, and we wish you all a nice weekend and stay safe and healthy. Thank you very much.

John Robert Dacey
Group CFO & Member of Executive Committee

Thanks, everyone.

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