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Swiss Re Ltd SWX:SREN

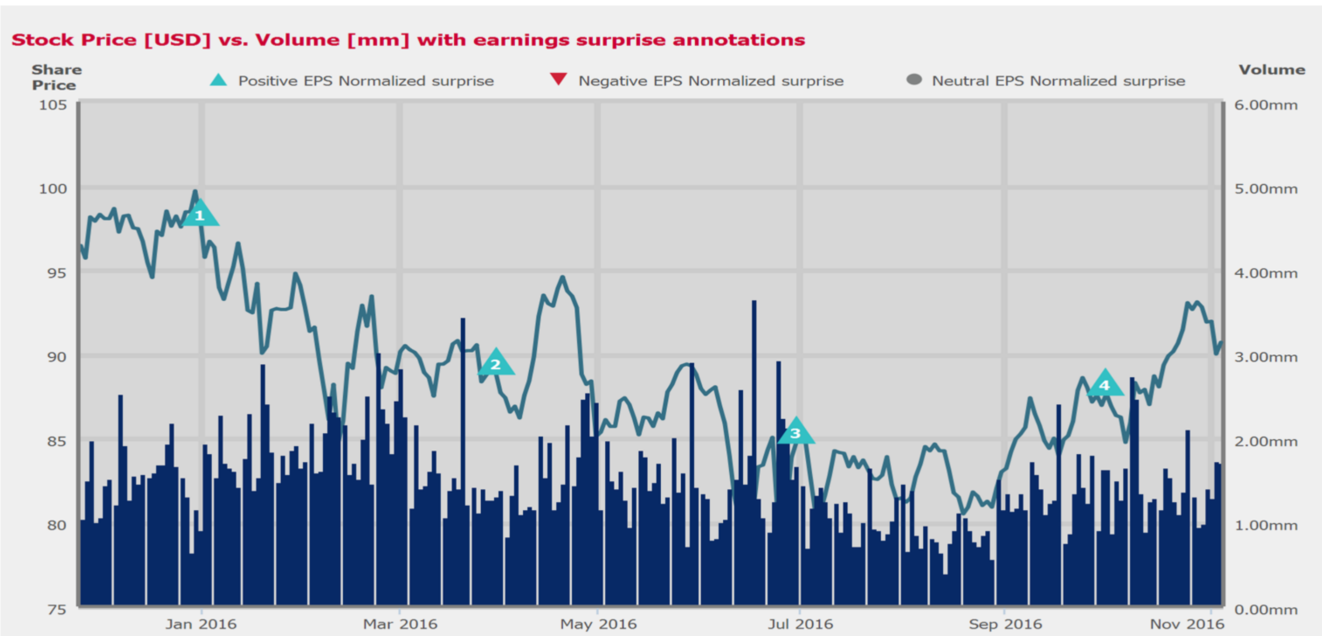
FY 2016 Earnings Call Transcripts

Thursday, February 23, 2017 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2016-			-FQ1 2017-	-FY 2016-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.95	1.53	▼(21.54 %)	2.25	10.46	10.47	
Revenue (mm)	8263.80	8398.00	▲1.62	8501.96	32429.60	32691.00	

Currency: USD
Consensus as of Feb-23-2017 12:20 PM GMT



Call Participants

EXECUTIVES

Christian Mumenthaler
Group Chief Executive Officer

David A. Cole
Group Chief Financial Officer

Guido Fürer
Group Chief Investment Officer

Matthias Weber
Former Group Chief Underwriting Officer

Philippe Brahin

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Daniel Bischof
Baader-Helvea Equity Research

Frank Kopfinger
Deutsche Bank AG, Research Division

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Sami Taipalus
Berenberg, Research Division

Thomas Fossard
HSBC, Research Division

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

Vikram Gandhi
Societe Generale Cross Asset Research

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

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's Annual Results 2016 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, Group CEO. Please go ahead.

Christian Mumenthaler
Group Chief Executive Officer

Thank you very much. Good morning or good afternoon, everybody, and welcome to our 2016 annual results conference call. I'm here with David Cole, our Group CFO; Matt Weber, our Group Chief Underwriting Officer; Guido Furer, our Chief Investment Officer; and Philippe Brahin, our Head of Investor Relations.

Let me start with a couple of brief remarks on the results we published this morning. Our group net income achieved USD 3.6 billion with all business units contributing positively to the results. We also benefited from the strong contributions from investments with an ROI of 3.4%. The group ROE is above our over-the-cycle target of 2016 and many other targets were met in 2016. We also reported the estimated outcome of the January renewals. As you have seen, we actively steered our portfolio reducing capacity where rates were noneconomic. The premium volume is down by 18% compared to what was up for renewals demonstrating our underwriting discipline. Our risk-adjusted price quality is maintained and stands at 101%.

Given our strong capital position and business performance, we also announced this morning that the Board will propose to the AGM 2017 an increased dividend of CHF 4.85, as well as a new share buyback program of up to CHF 1 billion.

Finally, we announced this morning that Matt Weber has decided to step down from his current role to start a new chapter in his life. Of course, we will miss Matt, his experience and guidance of 25 years at Swiss Re, and we wish him all the best for the future. Eddie Schmid will take over as Group Chief Underwriting Officer on July 1st. Some of you already know Eddie, who has been at Swiss Re for 26 years and brings a broad underwriting and business experience across many lines and markets.

And with that, I will hand over to Philippe to introduce the Q&A session.

Philippe Brahin

Thank you, Christian, and good day to all of you also from my side. As usual just before we start our Q&A session, [Operator Instructions].
So with that, operator, could we please take the first question?

Question and Answer

Operator

The first question is from Thomas Seidl from Bernstein.

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

First question is on obviously, Corporate Solutions, one of the businesses which didn't meet the -- even cross cycle ROE target, you also guide now for the 2,000 point higher combined ratio, 103 for the year. My question there is, what makes you confident that this comes back in reasonable time to normal outyield levels? How much patience do you have in this business, is my first question. The second one, I know it's probably difficult to comment for you, but I guess some comment would be helpful on the -- how the, let's say, issues -- one of your clients, AIG, had been in the casualty business. Given that you have a very strong relationship, a very large treaty relationship there, and of course, AIG is now transferring a lot of long-term liabilities to Berkshire Hathaway so I wondered if you could comment how this reserve issue AIG has been experiencing impacts your casualty relationship with [indiscernible].

David A. Cole
Group Chief Financial Officer

Thomas, thank you. This is David Cole, the CFO, I act a little bit as a -- air traffic control here. I think for the first question, talking about confidence in the future of Corporate Solutions, I'll ask Christian to address that. And for the second question regarding AIG and potential impact, I'll ask Matt to follow on that one.

Christian Mumenthaler
Group Chief Executive Officer

Okay. Obviously, I was expecting the question on CorSo there. I think it's maybe worthwhile to summarize my thoughts on that and the EC's thoughts on that. So clearly, the year 2016 was disappointing. We didn't meet the ROE targets. So this is a good time to step back and look at the business and rethink all the -- everything we saw, why we have entered and whether everything is still valid. So let me just share a little bit our thinking process. So the first question is, and we always thought in -- on a long-term future, 10 years, whatever, this is going to be an attractive business or is this -- how insurance is going to be an attractive business, and I think the answer is still yes. But as we shift and on -- into primary business side, some risks will shift from retail to corporate-solutions-type business like on the motor side with self-driving cars -- so fundamentally, we think this business will be attractive, will exist, although in 10 years, and it's just highly cyclical, and we know -- and it's an attractive field to be in. The second question is then does Swiss Re have any particular strategic capabilities that should make Swiss Re successful in that business? And I think over there, the answer is yes in our minds. Because in that type of business, you need a good brand name, you need capacity and you need underwriting discipline and underwriting knowledge. And I think we have all of that, we have been in this business for 20 years or so, and so I think it's clear that it will take a long-term view. This is a good business also for Swiss Re. Then you go to the next level and you might say, okay, so what about execution? So do we have an execution problem? And there I think it's useful to refer to what you can see out in the markets on main course our competitors have risks figures at this stage and from those I've looked at, they look very similar. So you have combined ratio published for us around 100% right now, which indicates that the market is just incredibly tough and at the level which is basically not sustainable if you want to make the right profit. So it's a really tough market. When you compare to competitors, I think you need also to take into account 2 other things: The first one is we see these are the growth areas, so we invest significant costs into it, also to enter primary lead and that adds 3% to 4% combined ratio points that are clearly visible in the cost ratio and combined ratio. And the other one is that CorSo is basically a 2012 startup. So when we created the group structure in 2012, it was separated out. And the older reserves, of course, they were left behind in Reinsurance. These reserves have produced an equivalent of 4.3% combined ratio points, so had we shifted them together with CorSo, so, i.e. were another startup, like the other competitors there would be

4 points better in their combined ratio. So these are not excuses, this is just trying to analyze the factual situation of where CorSo is and whether we have an execution problem. So my analysis would be this is a growing business, we invest in it as we should. And it's a -- mostly market issue that we're encountering, which is not sustainable and at some stage will turn. It has always turned. So my confidence in the turn is high but it's very hard to foresee at which point that will happen.

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

Have you known then that you also apply like you have done in the Reinsurance space a stronger cycle management now scaling back, also given the fact that with rising U.S. interest rates, I guess, the softening on the underwriting side probably gets a new fuel, if you want.

Christian Mumenthaler
Group Chief Executive Officer

No, absolutely, and if you put -- that we share, if you look at the last 2 years, CorSo didn't grow, it shrunk. The only reason it grew is because we acquired IHC Risk Solutions, and we entered into some transactions, bolt-on acquisitions. But otherwise, it was actually one of the few CorSo carrier that started to shrink earlier than some others and showed some disciplined underwriting. So clearly, we need to do that. They're doing this and we need to continue to do that. So absolutely, that's the core success criteria in Corporate Solutions. In bad times, you need to be underweight and in good times, overweight. So I mean, from an EC perspective, of course, you have 2 choices, you could say, we stop all investments in the future to try to make the combined ratio look good in the next quarters, but that's not the way we would like to proceed. If you'd take a step back, you will realize that 6% of our capital is in this business. So not 25%, it's just 6% and it's a clear growth area and we don't see any reason to slow down our investments in that area. So -- and that means the actual investment in IT infrastructure and all of that, are not necessarily on the -- just the right business but is not profitable. So fundamentally, we see no reason at this stage to change our view on the long term, short term and -- on what we want to do with Corporate Solutions, and I hope that this lengthy answer would then gives you the sense because otherwise, I'm going to get 10 questions so I hope this gives you the holistic picture of our thinking currently.

David A. Cole
Group Chief Financial Officer

Thank you, Christian. Let me go to Matt for the question regarding AIG.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So Thomas, if it's okay, I will not give you a super long answer but probably also more than 2 or 3 words because we do understand that this is almost of a public interest, this topic. Normally, of course, we could never and would never comment on the performance on -- of an individual client's transaction. Here, we believe he can say a few words given that for instance, in 2016, a transaction we concluded together was in the public domain. And there, I would like you to make 1 or 2 comments. So that's -- because so far, most questions we have received are related to that one. That transaction affecting 1/1/2016 covers new and the renewal business. Now 1 year later, we are still in the very early portion of the tail. In underwriting, we call this a very green contract. Green contract, as you know, has an ultimate loss, which mostly consists of IBNRs, which losses were incurred but not reported losses. Quite frankly, some of the losses have not even happened, which are going to happen for underwriting year 2016. So it boils down to how do we set the IBNRs. We do not set the IBNRs on an individual client or an individual contract by contract level. We set the IBNRs portfolio segment by portfolio segment. And to give you an order of magnitude, we had Swiss Re use approximately 100 portfolios on the P&C side when we seek -- when we set reserves. And we determine the IBNR provision on the basis of the underlying paid and reported triannuals, which means completely independent from the IBNR set by our clients. And that's just important for you to consider. Of course, we received the Q1 quid pro quos. We looked at them, we analyzed them, and on the basis of the Q1 quid pro quos, we see no need at this point in time to change our research.

David A. Cole
Group Chief Financial Officer

Thank you, Matt. Next question, please.

Operator

The next question is from Daniel Bischof, Baader-Helvea.

Daniel Bischof
Baader-Helvea Equity Research

Two questions. The first one on the January renewals, so the price decks declined by 1 point. What is your outlook for the remainder of the year in terms of rate changes? And related to that, I mean, the 18% volume decline, how does it impact your planning, in particular, on the cost side? And then the second one, you have probably, again on inflation in Europe, you touched upon this briefly at the Investor Day but it was still early days. And given the new administration in the U.S., could you talk about your midterm change of pace and expectation? And do you see potential risks on the reserve side here?

David A. Cole
Group Chief Financial Officer

Thanks, Daniel. I think actually both of those questions will be best directed to Matt.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Good. So the first question, how do we see rate changes to continue? Look, it's always a little bit guesswork. It's very hard to forecast the future. Our current thinking is that the trends we are seeing, i.e. a decrease of the rate decreases in property and the decrease of the rate decreases in specialty and casualty plus minus flat. However, with distinct differences by segment and markets that these trends in the short term will continue. In the medium to long term, nobody knows. We don't know, it depends how quickly excess reserves in the industry, not at Swiss Re, but in the industry are depleted and of course, it also depends on the occurrence or lack of occurrence of individual large losses. Your question 1B, related to the 18% volume decrease, will it have an impact on the cost ratio? Of course, yes, it will have an impact on the cost ratio. However, please take also into account that large transactions, that's a lumpy business. Sometimes you write them and sometimes you don't write them. It's hard to really plan for them. And sometimes, you write the big deal in the middle of March, they do not necessarily come all at January 1. So by the nature, if you are strong in the area of large transactions, this is a risk you incur, especially if you have a good and strong look at the bottom line. That's also important to know. We always said our large transactions and our tailored solutions, we regard them as more attractive than the regular core business or the open market reinsurance business. However, that's not necessarily true for -- well, it's definitely not true for each and every individual deal. So also, their prudent underwriting, discriminating risk selection and really good structuring really does matter and is important. Your question 2, related to inflation, in the U.S., of course, this is something we pay a lot of attention to and we monitor it continuously. We see at this point in time a little bit of higher risk for increasing loss-relevant inflation for some lines of business in the U.K. and especially also in the U.S. And we are taking this into account when we are writing business.

David A. Cole
Group Chief Financial Officer

Thank you, Matt. Move on to the next question, please.

Operator

The next question is from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Just on the Life & Health business, you delivered an ROE for the full year above the targets, 12.8%. And yet when I go to this disclosure on the kind of, I guess, the biometric elements of the result, it looked like there were net negatives in terms of mortality, morbidity worse than expected and valuation assumptions. So it gives me the impression or maybe you could tell me what you think the underlying ROE was, which you've told us in the past for Life & Health and now it must have been aided by sort of higher-than-expected realized gains? And linked to that, is there specific action that you need to take in the U.K? Is the U.K. that you mentioned in your commentary as the source of weakness? And I guess, the second question just on Life Capital, you've -- parts of the transfers has occurred. Is there still -- are you still transitioning Admin Re U.K. or Swiss Re Reinsurer U.K. to an internal model into Solvency II. Has that happened yet? Or should that happen in '17, and would there be an additional benefit in terms of cash flow if that was to happen?

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Andrew. I'll -- Maybe I'll take both of those. So first on Life & Health. Listen, we're very happy with the result that we were able to present for 2016. And you're right, Q4 of 2016 was a little bit lower, just shy of the 10%. But we remain firmly committed and convinced of the sustainability with the underlying profit of this business. You see that also in the reported operating margin. And you're right to point out the U.K. where we had some issues on the mortality, morbidity side, particularly showing up in Q4. We certainly will address those as we do always when we identify areas where parts of our business are performing lower than our expectations. We also just had some to be expected volatility. At the end of each year, we show the volatility coming from our model adjustments, from valuation adjustments and whatnot. Particularly in Q4 of 2016, a couple of those things went against us a little bit. But there's nothing specific that would suggest that ongoing profits and our ongoing commitment to the 10% to 12% would need to be changed. In terms of your comments about the situation in the U.K., yes, we were successful, very happy to announce that we've concluded now the Part VII transfers in the U.K. The Guardian business, actually, there are 2 specific Part VIIs. And that really facilitates a couple of things for us. Number 1, it means we can go on to the next phase of the synergies. One of the synergies that we certainly would like to capture during the course of 2017 is moving indeed to an internal model. Of course, that's ultimately subject to the approval of the regulatory body in the U.K., the PRA. Those discussions, of course, were already well-advanced to -- prior to the acquisition of Guardian. We decided to put them somewhat on hold because we recognize the restrictions and it was too significant to simply ignore and have 2 different types of restrictions during the course of 2016. It's certainly one of our priorities for 2017. And yes, as to when we would proceed in moving over to the internal model, I would anticipate that to have a positive impact on cash generation.

Andrew James Ritchie
Autonomous Research LLP

But -- sorry, David, can I just follow up? What went better in Life & Health? Because you were above your target return on equity. But it looks like the biometric experience versus expected was below normal for the year.

Christian Mumenthaler
Group Chief Executive Officer

Yes. Maybe I can take that, Andrew. We disclosed a little bit the different lines, right? On how the result is decomposed, on how that's happened and -- as you know from economic perspective, last month is actually more volatile than P&C, but obviously, the way it's accounted is much less so. So there were years where the experience was much better than expected and we had the negative adjustments on the models. And this year, I think it was basically the contrary, right? We had some negatives especially in the U.K. some negative deviation in actual claims, but we had some positive model developments. But to us, that's one of the same. So it's not like the ROE is all dependent on realized gains. It's actually the underlying technical one, which contains both components in our view is strong. So we feel comfortable about that. On the realized gains, maybe one word, I think. The realized gains are a bit one side of the medal of a low-interest rate environment. So in Life & Health, either they have a low-interest rate environment, which means that your GAAP equity is a bit blown out of proportion, which makes it hard to have an ROE, but vice versa, each time you touch any asset you realize gains basically. So to me, that, that belongs a bit together. In a different environment with a higher interest rates, the GAAP equity would shrink and yes, you wouldn't have the realized gains anymore, but you still would be able to achieve the ROE. So in that sense, rightly, these realized gains are not completely meaningless, I think they're an expression of a certain environment that we're in, which is a -- it's just that -- that's the positive side, the negative is that the GAAP equity is very large.

David A. Cole
Group Chief Financial Officer

And I think you know that we expressed it well in our Investor Day. We -- where we have realized gains in the course of 2016 and before that as well, by the way. These were not financial accounting reporting-driven actions, but the vast, vast, vast majority are just based on economic decision-making.

Andrew James Ritchie
Autonomous Research LLP

And it sounds like for the U.K. a very specific review required. You think this will normalize in time, in a very short time?

Christian Mumenthaler
Group Chief Executive Officer

If it's -- I mean, obviously, each time you have something like that, there were reviews the Q1, we're going to have reviews that, through all the levels of the organization on that. But -- that's why -- I cannot predict any -- in the future movements of that. But from what we've seen at this stage, we think that's -- that we did all the appropriate bookings. So in other words, I don't see anything further coming through at this stage.

Matthias Weber
Former Group Chief Underwriting Officer

On the maybe Life Capital and terminable reputation, that was the second question, Andrew.

David A. Cole
Group Chief Financial Officer

Yes. I was going to that. So we hope to have that achieved during the course of 2017. Obviously, it's subject to regulatory approval, but I think we're in a good position to achieve that during the course of the year. Next question, please.

Operator

The next question is from Vikram Gandhi from Societe Generale.

Vikram Gandhi
Societe Generale Cross Asset Research

I've got only 1 question, which is on the -- Ogden discount rate that the group is using as of the end of last year. I think it stands at 2.5 percentage. This is based on my discussion with IR. Can you just provide us with some sort of sensitivities as to what the hit on the results would be if it was lower to, let's say, 101.5 percentage?

David A. Cole
Group Chief Financial Officer

Yes. Thanks, Vikram. I'll take this one. So yes, we, of course, are watching the Ogden situation, I understand that there could be an announcement in the U.K. at any time. We haven't specifically reflected anything in our 2016 accounts, so what would -- we have we done that in prior years where adjustments to the Ogden rate would be considered. We remain overall a strong position. As you know, upper half of the best estimate range. I won't give a specific number for Ogden. A lot depends on what -- where they ultimately end up, which then drives the present value of potential lump sum payments. But also, it has an influence on the propensity of claimants to accept either the annuity type of structure or the upfront payment. Our business is relative to perhaps other players, a significantly smaller component of our overall portfolio. As and when they announce something, we'll reflect it in our -- in current period results.

Operator

The next question is from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Can I ask about the renewals? So you've taken -- so you reduced premiums there quite substantially in January. Is there much capital benefit to that? So do you have kind of more capital as a result of that? And I guess, thinking Life & Health, do you have funds to redeploy that as this is kind waiting for lot -- for a more -- a lot of transactions materialize? So that's my question.

David A. Cole
Group Chief Financial Officer

Matt, you want to take that one?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. So I make the assumption that you relate to EVM Capital when you asked the question. So for EVM Capital correlating exposures do matters, especially, everything else is almost diversified. I would -- nat cat, to give you an example, we reduced our capacity for the top key scenarios, including the U.S., U.S. hurricane and California earthquake, but also European windstorm, i.e. between 3% and 11%, depending on the security of the scenarios. And this percent numbers are big influence, our total required EVM capital. We have enough capital to deploy, but we do not necessarily have to deploy it. So we just patiently wait for good opportunities and should good opportunities arise, we redeploy it, and if not, we will give it back to shareholders.

David A. Cole
Group Chief Financial Officer

Next question, please.

Operator

The next question is from In-Yong Hwang from Goldman Sachs.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

So I've got 2. Firstly, on Life Capital, I think there was a capital contribution of $150 million in the fourth quarter. I think it was opened to pay -- opened an entity in the U.S. Could you just give us a bit more detail on that? And whether we should be expecting further capital contributions into the Life Capital business? And second question is around whether there was any specific reserve strengthening in the fourth quarter? I think, Matt, you mentioned you're taking some more of the claims inflation trends into account in your business, and you made some comments about the 2016 year as a whole. But I was just wondering if there's any kind reserve strengthening and specifically in the fourth quarter?

David A. Cole
Group Chief Financial Officer

So thanks, Yong. Let me take the first and then I'll come back to Matt on the second. So yes, you're correct that we have made investments in one of -- opened life businesses in Life Capital during 2016. So basically extending our iptiQ model, which we enacted now in Europe now for some time into the U.S. where we actually set up shop, and in fact, rolled our first policies before the end of the year. So we've got 8 months from start to finish. And that included purchasing an entity that provided us with licenses that they accelerated our ability to go ahead and start that business up. As for your question about likely to continue that, we have indicated in the past that over the course of the next couple of years, we would envision making investment into the open book business, not necessarily always in the form of acquisitions, relatively modest acquisition, I might add as indicated in the U.S. right now, but really just investing in the startup cost and building up the portfolio of business there. That's all been incorporated in our overall communication regarding cash generation. You may recall that after Guardian, we increased our expectation from the 3-year period '16, '17, '18, up to $1.7 billion, but it indicated that over the course of those 3 years, we would also see a possibility to invest part of that cash back into the business, particularly in the open book business. So I think what you saw in the back end of 2016 is just fully in line with what we had previously communicated. Just to reiterate, I don't anticipate any significant acquisitions in that space.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I take your second question related to the reserve strengthening. Specifically in Q4, overall, of course, on the Reinsurance side and on the group-wide level, we had favorable development. However, of course, if you drill down, we found some areas where we had to strengthen our reserves. And the most prominent one which I would like to highlight, relates to motors, motor business. There, we strengthened our reserves in Q4 in 2 markets, 1 is Turkey and 1 is again, in the United States. And in the United States, it continues to be the trucking business, which is producing bigger losses than we expected them to happen. So we made an adjustment to our reserves also in Q4.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

Can you give us a -- idea to that? Or the reserve idea?

Matthias Weber
Former Group Chief Underwriting Officer

Sorry, I didn't understand the question.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

The -- sorry, the size of the reserve strengthening.

Matthias Weber
Former Group Chief Underwriting Officer

I can give you the smooth of total we strengthened in Q4 by $30 million.

Christian Mumenthaler
Group Chief Executive Officer

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David A. Cole
Group Chief Financial Officer

Thank you. We'll go to the next question.

Operator

The next question is from Vinit Malhotra from Mediobanca.

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

Just -- can I try to understand better this whole renewals data that has been presented today? Because the headline 18%. Now if we go back to last year's data, the -- there was a restatement in the first quarter numbers because of the large transaction. So is it not fair to say that actually, the underlying or the normal renewals is not actually down 18% but probably flat? So how should we really interpret this number, please? So that's the first question. And second question is on the pricing commentary. There is -- obviously, you have stated that large transactions are flat in the pricing, so that's one can understand, but there's also a comment about high-growth markets being flat in pricing. And if you could just help us understand where that is coming because I would've thought there's a lot of pressure in high-growth markets, divestitures from the outside.

David A. Cole
Group Chief Financial Officer

Thank you. Christian, will you take the first one?

Christian Mumenthaler
Group Chief Executive Officer

Yes. While Matt finds the data for the second one. So Matt, and the -- firstly, I think you're right. I think it’s important to state that if you go back to last year, I don't have the slide in front of me but I think we said, we ended up with 8.8 billion at the second call, right? 8.8 billion. And then, when you look at this year's slide, we say up for renewal, 10 point something, ending with 8.5 billion. So if you -- if we make ending point versus ending point, it's 8.8 billion towards 8.5 billion. So that's quite relevant. But so far, what we always showed is up for renewal, and up renewal is really now since as the portfolio -- what is up for renewal exactly on that date, because that shows the kind of selection and underwriting discipline we have. And the difference is basically there are 3, 4 elements to it. It's a bit complicated but the obvious one is transactions that were written after we reported to you, but still effecting 1/1 or effecting later but was the renewal date 1/1? So we had some of those. Those are sometimes multi-year transactions that end up exactly on 1/1/17 for example, and things like that. And therefore, before entering into the renewal, when you added everything up, it was not the 8.8 billion, we had sort of less than 1/1 but it was 10 point something. And so I think, indeed, you need to take both into consideration. I think the minus 18 show, I would say the underwriting discipline versus what -- the decisions we had to take and the 8.8 billion versus the 8.5 billion shows more a year-on-year basis you have. And as Matt said, it could be we write more transactions, we had written some transactions in between so hard to make a prediction for that.

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

And is this discipline coming because there's a bit of a change in management here? Or is it just the normal Swiss Re process, which I assume would be the case?

Christian Mumenthaler
Group Chief Executive Officer

No. I would say, it's only me changed. So I'm not that influential. I think it's much more the discipline you have in the system, that is quite brutal. We have this long-term price at equity. You could see last year, it was 102 and there's a distribution around 102. And obviously, it's quite a normal distribution or something like that, right? Because there's a lot of piece around that, which means that if prices go down overall in the whole market, which they nearly did, it becomes quite tough, right, to keep it above 100%. So you have to -- you start to have to shed a lot of business. So I think that is a -- it's more a mechanical approach we have with every underwriting having to do every deal, price on the EVM basis and nobody wanting to have a negative EVM client, for example. So think it's a more natural consequence of the -- that we're so close to 100% long-term price at equity that you see more shedding. And clearly, some of these large Chinese quota shares, they were always -- not only the greatest place but now it was just too much.

David A. Cole
Group Chief Financial Officer

Thanks, Christian. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So we think the spectrum of high-growth market segments -- and I do have here the numbers in front of me. Of course, we have individual segments that deteriorated in price adequacy and we have individual segments that improved. Overall, we stayed extremely close to flat. Specialty improved a tiny little bit, Casualty deteriorated a tiny little bit within the area of high-growth markets. And Property stayed more or less flat. So that's -- these are the observations we made within high-growth markets.

David A. Cole
Group Chief Financial Officer

We go to the next question, please.

Operator

The next question is from Sami Taipalus from Berenberg.

Sami Taipalus
Berenberg, Research Division

First one is on casualty rates. You mentioned in your disclosures that pricing was above stable year-on-year on renewals. I just wanted to drill into this a little bit more. Are you referring to -- I guess, a lot of your business is core to share business. Are you referring to saving commissions there? And how do you feel on the pricing of the sort of underlying primary business that you feel that, that's is also flat year-on-year? And maybe if you could comment on that separately from motor and normalize it, that would be great, because I think there's a loss-driven rate increases in some of the motor segments. Then the second question I have is on the Life & Health Reinsurance business. Now that the health premiums grew for quite a few years in a row but have been quite stable actually in the last couple of years. So I'm wondering what the reason for that stabilization is? And whether you still see that as a growth area into the medium term?

David A. Cole
Group Chief Financial Officer

Thank you, Sami. So I'll let Matt take the first one.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So your question related to the price stability in Casualty. We distinguish between proportional and nonproportional. On the proportional side, we take into account the movement of the price adequacy of the underlying policies of the underlying portfolio, and we also take into account changes in the commissions or the expected commissions to the extent that variable commission features are involved. The more important one is the former. So the profitability of a proportional reinsurance contract is determined by the profitability of the underlying business. On the nonproportional side, of course, we have reinsurance rates that apply, and our statement, flat renewals, applies to the combination of both pro rata business and nonproportional business on a combined basis. Of course, as I tried to point out earlier in the call, we observed differences by market, and some of the markets have seen some difficulties in the past. For instance, U.S. motor is one of these markets. And as a result of this, U.S. motor has reacted already on the underlying portfolio side and has led to price increases there, and that is taken into account.

Sami Taipalus
Berenberg, Research Division

Just to follow up a little briefly on that. Did you see a significant difference in sort of the rate dynamics between the nonproportional business and the proportional business?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. The nonproportional business is always more volatile than the proportional business. Yes.

David A. Cole
Group Chief Financial Officer

As to your second question, there are 3 things I'll say. The first is just, indeed, looking at individual quarter, I think is always quite challenging because of the fact that we do have from time to time also large transactions in this space, in the health space. I think if you look at the overall compounded growth in the last couple of years in health, it's also been quite healthy, and we would, based on our view of the continuing protection gap and our position in the marketplace, see that we still have very nice attractive growth opportunities going forward. So a little bit of the quarterly noise. It was perhaps also a little bit exacerbated just by the reclassification within our business unit. Within Life & Health, we also -- within the health area. So I don't see anything there that looks like a read across into future opportunities and future growth.

Sami Taipalus
Berenberg, Research Division

I wasn't actually referring to the quarterly growth rates. I mean, just looking at your disclosures, it states the premium was $4 billion in 2014, $3.8 billion in 2015 and $3.7 billion in 2016. That's more like a trend over the last few years, but perhaps it was this reclassification that you mentioned, maybe that had...

David A. Cole
Group Chief Financial Officer

Indeed, there's some reclassification but also there's some currency impact there because we -- the good part of that business is written in Asia and other markets outside of the U.S. So that also was having an impact.

Sami Taipalus
Berenberg, Research Division

Okay. But nothing has changed in your outlook?

David A. Cole
Group Chief Financial Officer

Nothing. In fact, I think there continues to be an area where we see good opportunities going forward.

Operator

The next question is from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

I had 2 questions. The first one will be on the group investments. So referring to Slide 10 of your slide pack, the running yield in '16 was 2.9, only 10 basis points down compared to '15. So seems to show a kind of flattening of the negative impact from the low-interest rate environment. That said, it looks like you're still investing your new money around $1.9 billion in Q4. So could you help us to better work out what we should expect in terms of running yield assumptions for '17? And the second question will be probably for Matt. And relating again to inflation risks. I think that there is a lot of attention around the evolution of CPI but based on history of your books, can you tell us what has been in the past a correlation between your superimposed inflation and CPI? And here behind, I'm referring to one of your peers' comment saying that they've saw in the past in their book negative correlation between CPI and superimposed inflation.

David A. Cole
Group Chief Financial Officer

Thank you, Thomas. Also forgive me, opportunity to direct the question to Guido. Guido, you want to pick up the first one?

Guido Fürer
Group Chief Investment Officer

Yes, Dave. On the running yields, as you correctly mentioned, it's 2.9 for the year. Now we also made a statement that we believe this is now a good level, which we should be able to hold in going forward more or less, of course, it always depends on what the yield level is doing. But again, if I look at U.S. rates have come up a bit, I think we clearly have some expectations that we see slightly higher rates. If you also look at kind of the overall reinvestment rate, and if I refer to Investor Day, where we showed basically how the structure of our fixed income portfolio is, and what we have seen the bulk of securities are really in the longer term, that means you still have a very high level of group income. With respect of new investments, in other words, bonds, which mature, you can capture, let's say, levels which are closer to the current running yield. That's why I believe 2.9 is a good guidance. In contrast to the former years, we have to count, and kind of run down that piece. We believe that now we probably reached a good bottom. It doesn't mean that it cannot drop considerably low, but if I stick to our forecast, I assume we should be able to hold the running yields around this area with the tendency maybe slightly to be upwards, again, depending what policy rates are doing, you could just think -- again, we have, at the moment 15% in cash in short term, if we pick up slightly higher yield, and if rates are going up we have immediate impact also on that component, plus, of course, if we invest into U.S. corporate to 10 year, you have around 3.6%, 3.7%, which are good levels. That's why overall, I feel comfortable with 2.9 and again, make the statement this is probably a good assumption as a floor.

Thomas Fossard
HSBC, Research Division

Just to kind of ask on the 15% cash, any willingness to redeploy that in the short term?

Guido Fürer
Group Chief Investment Officer

I think cash has always -- if not the cash first of all, 1 part of redistributing that the right short-term business that means we don't want to take unnecessary interest rates. On the other hand, it offers a lot of optionality and opportunity. And finally, it's a combination of both. And 15% cash is a considerable piece which gives a lot of flexibility in allocation as well as capturing some up turning opportunities in going forward.

David A. Cole
Group Chief Financial Officer

Matt, you want to tell him about deployment?

Matthias Weber
Former Group Chief Underwriting Officer

We did a while ago a study probably trying to figure out the similar type of correlation or anti-correlation. And if my memory is correct and the study is a little bit dated, I believe we found a big positive correlation about the big one. And if you now just lean back and forget about the study and look at it qualitatively, inflation on the P&C side matters most for casualty in the United States. The U.S. is 50% of the worldwide casualty market and the one with the longest scale. So that's where inflation does matter. There are 3 inflation types that are important: medical inflation, wage inflation and social inflation. Social inflation is a kind of the catchall, but it includes also payments offering and helping and offering reimbursements develop over time. And if you now think of it, medical inflation contributes to CPI, but it's clearly not the majority of the CPI basket. It's a smaller piece. Social inflation doesn't contribute at all to the CPI. So if you just lean back and think it through qualitatively, you would probably also expect a small positive correlation, but it's really not a big one.

David A. Cole
Group Chief Financial Officer

Thank you. May we go to the next question, please?

Operator

The next question is from Frank Kopfinger, Deutsche Bank.

Frank Kopfinger
Deutsche Bank AG, Research Division

I have 2 questions. My first question, I would like to come back to the nat cat budget and the exposure. As you said, you are cutting it down. You try to answer it while the EVM impact that -- could you also elaborate a little bit on the SST impact at the end of the day that this lower exposure will have? And the second question is on the derivatives movement in the last capital segment which affected Q4. Again, should we expect this P&L volatility to continue going forward along the interest rate movements? And the -- or the other question would be when will it fade out?

David A. Cole
Group Chief Financial Officer

The last part of the second question was?

Frank Kopfinger
Deutsche Bank AG, Research Division

When should we expect it to fade out, if at all.

David A. Cole
Group Chief Financial Officer

Okay, thank you. Yes, thank you. Matt, you want to pick up the first?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. On an SST basis, nat cat, given the fact that it diversifies heavily away from the big risks, including market risks, I would expect the decrease be half done and the decreases we plan to do going forward will have a very, very minimal impact than this.

David A. Cole
Group Chief Financial Officer

So let me come back to the derivatives impact on Life Capital, so just to put it into context, and we started showing the derivatives impact of Q1 '16 and both Q1 and Q2, as well as somewhat less but still important Q3 showed positive impact as rates were declining in the U.K. but we also announced right away with the acquisition of Guardian that we went over the course of, basically, the first part of the year convert that portfolio into more of a Swiss Re ownership optimizing our approach to Solvency II. Now we, by and large, achieved that reduction in the size, if you will, of the derivatives position during the course of the first 9 months or so, first part of 2016 anyway. So that leaves us now with a position that has the DDO 1 at the end of Q4 of 2.4%, and that's a position that we probably we're going to be more or less comfortable in holding. Now it does have an impact on our reported financial results, but we hedge the business on the base of an economic view as opposed to only a financial accounting view. There may well be some noise going forward. We'll show it to you each time so you'll be able to see it. Given our current intent to maintain the position more or less the way it is. I think you can probably calculate more the potential impacts on a going forward basis. Guido, you want to add anything to that?

Guido Fürer
Group Chief Investment Officer

No, it's perfect. Thank you.

Operator

[Operator Instructions] .

David A. Cole
Group Chief Financial Officer

Next question please.

Operator

The next question is from John Urwin from UBS.

Jonathan Peter Phillip Urwin
UBS Investment Bank, Research Division

Just a quick question for me on the normalized, combined ratio. Can you help us bridge the 2016 guidance to the actual? And then also, the 2016 actual to the 2017 guidance, that'd be helpful.

David A. Cole
Group Chief Financial Officer

Thank you. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So let me do it for 2016 first, Reinsurance. And first, if it's okay, we don't give guidance as we share with you our expectations because we feel it's not really our task to guide you. It's just our task to share with you what we think, but that's just a terminology. And under Reinsurance side, our adjusted combined ratio was 99.8% for Reinsurance. Our expectation, which we stated at the beginning of the year, was 99%. So this is less than 100 basis points difference. We view this as the normal range of uncertainty. We had, for instance, with respect to agricultural losses, a little bit higher losses, driven by France, for instance, than the expected and this alone explains already 0.7% of the 0.8% difference, a point difference. On top of this, we have additional things, where we were a little bit too optimistic and other things where we are a little bit too pessimistic. But overall, we felt we actually did a pretty good job formulating a realistic expectation for Reinsurance. And that is true for the full year. I won't pay too much attention on the quarter-by-quarter basis because the volatility, the quarterly volatility is just too big. On the Corporate Solutions side, we were a little bit too high with respect to what happened compared to what we expected to happen. Our adjusted combined ratio is 104%. We said we would come in at 101%. This 3% point difference is due to the fact that we shrank our premium a bit more than we anticipated. It would reach -- increase our cost ratio, our expense ratio. We incurred more market softening than we anticipated at the time. And last, we had more losses between $2 million and $10 million than we expected to have. With respect to our expectations for 2017, going back to the Reinsurance side starting at 99%, which we felt was a good expectation, and we realize we incrementally adjust for the higher losses that happened on the -- our gross side at 1 1. We lost 1% point in the price quality, assuming that might continue, brings us to the 100% expected combined ratio for Reinsurance. On the Corporate Solutions side, thinking those as follow. We start with the 104% on a normalized adjusted basis. We take into account smaller but still further rate decreases, which we expect to incur also on the Corporate Solutions side, and we subtract from this the positive impact we expect to see from portfolio pruning actions and portfolio steering actions, most of which we have done already or most of which we have started already. But it takes a few quarters until this flows through into U.S. GAAP numbers.

David A. Cole
Group Chief Financial Officer

Thank you, Matt. Any other questions?

Operator

This was the last question. I would now like to turn the conference back over to Mr. Philippe Brahin.

Philippe Brahin

Now, thank you very much. Thank you. We have come to the end of our Q&A so thank you very much for joining. And don't hesitate to reach out to any member of the Investor Relations team if you have follow-up questions. Back to you, operator. Thank you.

Operator

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