S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

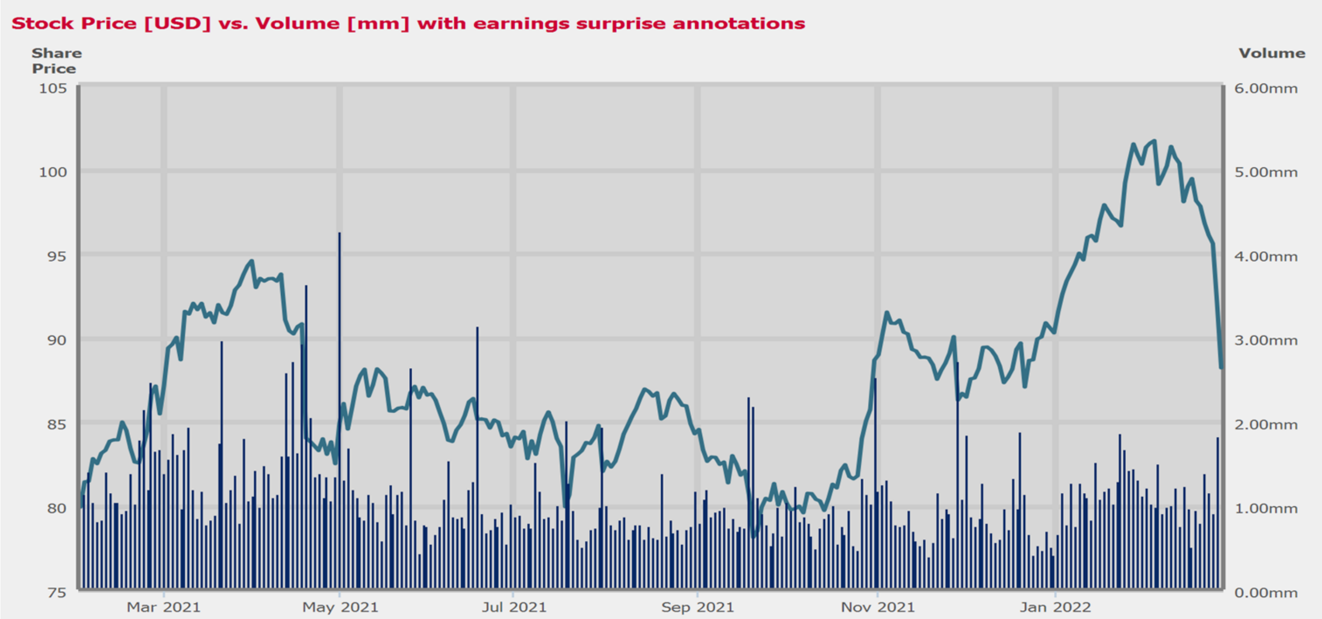
FY 2021 Earnings Call Transcripts

Friday, February 25, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.90	NA	NA	1.80	6.42	4.97	▼ (22.59 %)	9.07
Revenue (mm)	10674.06	10517.00	▼ (1.47 %)	NA	41661.91	42467.00	▲ 1.93	43063.65

Currency: USD
Consensus as of Feb-26-2022 3:28 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2021	6.42	4.97	▼ (22.59 %)

Table of Contents

Call Participants

EXECUTIVES

Christian Mumenthaler
Group Chief Executive Officer

John Robert Dacey
Group Chief Financial Officer

Thierry Leger

Thomas Bohun
Head of Investor Relations

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

Ashik Musaddi
Morgan Stanley, Research Division

Iain Pearce
Crédit Suisse AG, Research Division

Ivan Bokhmat
Barclays Bank PLC, Research Division

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

Thomas Fossard
HSBC, Research Division

Unknown Analyst

Vikram Gandhi
Societe Generale Cross Asset Research

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

William Fraser Hardcastle
UBS Investment Bank, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re Annual Results 2021 Conference Call. [Operator Instructions].

At this time, it's my pleasure to hand over to Christian Mumenthaler, Group CEO. Please go ahead, sir.

Christian Mumenthaler
Group Chief Executive Officer

Thank you very much, and good morning or good afternoon to everyone. I hope you are healthy and safe wherever you are. I'm here with John Dacey, our Group CFO; and Thierry Leger, our Group Chief Underwriting Officer; and Thomas Bohun, our Head of Investor Relations. And before we go to Q&A, allow me to make just a few remarks around things I think might be useful for you or how I see certain things and then we'll move over to Q&A shortly.

So the first one is around Life and Health and what happened in Q3, Q4, I think we analyze the data, obviously, the CDC data, the official data, what you can see here. It is quite remarkable in my mind that so little was reported around it, and that's probably part of the issue because the U.S. has really lived through a drama in this period of time. You can see in the CDC statistics, which looks at excess mortality that even in the younger ages, for example, aged 25 to 44, where in Europe and certainly in Switzerland, we have not seen any excess mortality throughout the pandemic and sometimes, it was nearly 100% higher mortality in certain weeks in the fall.

So quite dramatic. New head hypothesis, there's no research yet done on what the causes for that. It's probably a combination of the low vaccination rate of people in the U.S. There might be a component of hospitals being full or people being afraid to go to the hospital. It could be linked to the general health of the population where, for example, obesity is a key risk factor, and obviously, it's much more spread in the U.S. than in Europe. But in any case, there was a significant wave in contrast to Europe, where it was much smaller than a year before in the U.S., it was all in all, bigger than in the year before.

So all of this said, we have now all of our peers come out with figures and we're going to analyze these figures overall compared to last year, compared to first 3 quarters, et cetera, I come to the conclusion that we're actually in line with them. We just tested the biggest book in the U.S., but as known, it's also one of the oldest books in the U.S., but there's nothing standing out really apart from just what has happened to the U.S. population in terms of excess test. It's -- as I said, it's a large book. It has been very profitable in the past. As you know, we have always assumed pandemic will come. We have charged for that. The overall pandemic has helped us to increase margins now by quite a bit.

And so I continue to be very optimistic about this book of business, which is now more profitable than ever before. And as I said this morning, I expect a payback within a reasonable period of time. So to me, this looks much more like, of course, over -- spread over time, but the natural catastrophe that is, in that sense, well-controlled risk taking. If you go over to P&C Re, I'm actually really, really happy about what we have achieved. This is according to our statistics, the fourth largest year in terms of nat cat losses. And in that year, we were able to end up with a combined ratio of around 97%, which I think is extremely strong.

I remember very well the same call 1 year ago, where we presented our renewals, and there was a lot of disappointment around us shrinking and cutting, and we explained that it was the lower layers, the aggregates, et cetera, that were more exposed to climate change. And certainly, it was satisfying for B2C over the year how other people have come to the same conclusion, started to follow that and how these underwriting actions have actually saved us hundreds of millions of dollars throughout the year.

So not only do we have this combined ratio here, but I would also point out that if you combine it with CorSo, which is the way that all of my peers are reporting on P&C, the combined ratio would have been 95.8% for the whole P&C book, which I think is really pretty good. CorSo itself, I probably don't need to say much. It's really in an excellent spot in all respects. So the whole turnover is over and it's more focused towards the future now. And you have seen our targets. So we are very positive about the current situation and pricing situation in CorSo. And all of that leads us to these new targets.

Obviously, we try to give a bit of guidance around 2022 because it's a particular year with COVID continuing certainly into Q1, as you could see in the U.S. So we try to give a bit of guidance there, but we also came to a conclusion and obviously, a lot of feedback from you was also involved over the years that the 700 basis points plus risk-free is really not a very appropriate target in this environment. This is extremely obvious. So we came to a conclusion. We want to give something a bit more short term, so we chose 2024 and a target of 14% ROE, which is a combination of course of COVID receding and then a number of factors we have discussed in the past, like the life and health, the pre-2004 business that has an impact until -- including the year '22, we'll give some release starting '23.

And then we see an environment where even if rates don't go up that much, there's possibilities to grow. And if you keep costs under control, you can achieve this 14%. We also hinted that IFRS went in full work, modeling work around IFRS, we still need to take some decisions around some accounting policies. But from everything we're gathering, this is definitely positive for the type of business we're writing in Life & Health because IFRS, the biggest driver being recognizes profit recognition in a shorter period of time compared to GAAP where any increase in profits we book in an economic way is distributed over a very long period of time.

And so you see changes year-on-year are very slow compared to what you -- what you saw us do on the EVM side. To the renewals, I think we're very positive about that. We feel very good about the book of business, as I said, that we wrote last year, so we built on that. We don't push growth too much, but 6% is, I think, a good number. Price increases are probably the same that all competitors have seen, not everybody has the same method of how to show that. But basically, the outcome is that particularly thanks to some shift in the portfolio, we can lower further the guidance for P&C Re by 1 point.

You saw big growth in nat cat, obviously, this could be worrying. We are very happy about that, how we have positioned our book. I would also remind people that even if we were higher than budget in last year, in reality, the combined ratio was below 80%. So not being on target doesn't mean you have a bad outcome at all.

So to me, that these were the main points I just wanted to share with all of you. And with that, I hand over to Thomas for the Q&A.

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

Question and Answer

Operator

The first question comes from Kamran Hossain from JPMorgan.

Kamran M. Hossain
JPMorgan Chase & Co, Research Division

The first question is just on the 2024 target of 14%. Now this might be -- sound slightly unfair, but I summed up the last 5 years return on equity, and I guess something like 7%. Can you maybe talk about how to give people a little bit more confidence that from being -- having seen quite a lot of bad luck over the last 5 years as a company that you can hit the 2024 target of 14%. And kind of within that, so in the second part of the question, can you maybe talk about kind of to what extent you kind of considered additional bad luck, et cetera, in the cat budget for the coming year.

Thomas Bohun
Head of Investor Relations

Christian, do you want to take the first question?

Christian Mumenthaler
Group Chief Executive Officer

Yes, maybe. Obviously, we don't assume to continue the bad luck. We have to trust our risk assessment. We constantly adapt our risk assessment, as you know, when we see things changing. But the way you get there -- and by the way, it's not very far away from the average analyst estimates. So I think within your community, you actually have some confidence that this is where we're going. So you take last year, you take COVID out, you're already at the 11.7%. There's probably other things you want to normalize.

And then as I showed on the slide this morning, there's a series of things that are going to help. We don't assume huge increases in prices anymore. I don't think that's realistic. But as these price increases get earned over 2 years' time, in GAAP, we have a certain near effect, bit of visibility around that. And then the other driver is to increase -- continue to increase the scale without increasing costs. So I don't think it's a particularly challenging -- it's a challenging target, but it's not that challenging to get there mathematically from what we see today. But again, as I said, obviously, we're not now increasing loss cost beyond what we think is necessary in our models or assume we're going to have constant pandemics or above-average nat cats.

John Robert Dacey
Group Chief Financial Officer

Kamran, it's John Dacey. Maybe the second part, if I understand your interest, we don't -- we're not taking an optimistic view of losses on a going-forward basis. You've seen that we've made a material increase in the nat cat budget consistent with some both -- some growth in the portfolio, but also an increase in the loss picks, some model adjustments along the way. We're comfortable that we've got this targeted correctly. We also think, as Christian mentioned this morning, on life and health, not only do we not expect a drag from COVID in 2024, but this important transition of the U.S. portfolio for the pre-2004 crossovers will have a continued a tough impact in 2022, lightening up considerably in 2023 and '24.

So on the life and health side, we see that positively the earn-through gives us a high level of confidence, both in P&C Re and CorSo that the current trajectory of improvements should continue. We don't need a lot more price increase on what we have today. As Christian said, we'd be fairly confident we'll find our way to the 14%.

Operator

The next question comes from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

The first one is on the dividend. And just my starting point would be to assume that -- assume some form of year-on-year growth, now maybe a wrong assumption. Given your capital base at the midpoint of the range even -- I'm assuming that even after the January renewal nat cat growth, I think that probably is pretty surplus around the $4 billion to $5 billion above the bottom end of the range. So, perhaps, can you give us a bit more clarity on the opportunities that you're holding back for from growing the dividend and particularly in light of the fact that you've got an attractive 14% ROE by 2024?

Second question is on the casualty reserves. It looks like they've increased $500 million in 2021, of which most of that was in the second half. Your report suggested North American livability and cyber. So just any more clarity you can give on that would be helpful, particularly maybe on the cyber where it would be nice to get sort of what that size is relative to the premium, which I think is only around $300 million or $400 million when we last discussed?

John Robert Dacey
Group Chief Financial Officer

So well, it's John Dacey. On the dividend, you're right, the capital position is strong. But back a little bit to Christian's point, we see real opportunities for growth in all 3 of our major businesses and leave iptiQ aside because it's not that important in terms of capital consumption. But the P&C Re, you remember, we started off a year ago the January renewals at minus 11%. And we finished the year with a positive premium earned of 6% for the year. We think during the course of the renewals in April, June and July, there were going to be real opportunities for us to continue to write more well-priced business for P&C that we'll take advantage of. As long as this price environment holds up, and we've got no reason, frankly, given the demand we observed in January 1 that, that won't be the case.

On Life & Health, you see a significant number of transactions in Continental Europe, especially but also the United States that we've been booking last year and believe that we can continue to bring home this year. When we release our economic earnings, I think you'll see some of that capital deployment show up in the EVM numbers a little more clearly than they might have been just on premiums. But again, another valuable deployment of that capital.

And finally, on CorSo, I'd say after 2 years of shrinking the book, premiums earned up 6.5% in 2021. That trajectory will also continue strongly, partly because of the price environment that we see there, but partly because of what they see are real opportunities to grow in the lines that they're good at, not returning to those lines we exited. We exited them for a reason. And so overall, I'm comfortable that, that deployment is in front of us. So that's on what are we going to use capital for.

On the other question of why didn't we move it up? I guess my view is a 6% dividend yield in Swiss francs these days remains at the upper end of what we view as our competitors, and it feels pretty robust for existing shareholders. I think if we find ourselves at year-end with too much capital, it will be a nice problem to have, and we'll reevaluate what we do as we go into 2023. But for now, the environment seems to be deployed, the capital makes as much as some cosmetic increase in that dividend number.

On the casualty reserves, yes, they've been increased. If you look on the January 1 renewals, this book is probably a bit bigger than what you've indicated overall for casualty, the $3.4 billion was, I think, the renewal number on the chart. And again, we took the opportunity to repurpose some reserves, which were redundant in certain lines, property and accident and health, in particular, into some of the casualty that's affected by social inflation, in particular, U.S. liability. And in that case, we continue to evaluate what's appropriate. Net-net, I think it's important that the prior year development for P&C Re was positive, and we feel that we're in pretty good shape in terms of individual reserves.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I had a question just on the 2022 guidance, which is 10% ROE. I mean if I sort of back out -- and obviously, you've indicated the COVID allowance in that 2022 number. There isn't much implied earnings growth ex COVID. I mean, given you're talking about growth of the P&C book and further improvements in margins, what's going the other way? Is it simply that the investment return was unsustainably high in 2021? Or are there higher losses to be expected in 2Q? Or what is it that's going the other way because it doesn't seem that you're really expecting any earnings growth ex COVID.

I guess this is sort of linked to maybe the question you just answered. But I got a sense speaking to IR this morning, that there was an element of looking at loss picks at year-end vis-a-vis inflation. Can you give any color as to that -- I'm talking about current year as to, not prior year. And in terms of whether these sort of true-ups or additional prudence put in to current year loss picks in respect of the inflation topic in Q4?

John Robert Dacey
Group Chief Financial Officer

So Andrew, I'll take the first one and give Thierry, the question on loss picks. On this 14% return, between now and then, we actually expect to retain earnings. We think we're going to be profitable on a GAAP basis in 2022, 2023. And so that the ceteris paribus, the E part of that equation should grow and so the 14% will be on a higher base. We'll see where we land and what impact interest rates has or doesn't have along the way. We don't think that our investment income is sustainable. We're very clear on the yield components of that and where we've been able to benefit in some cases from the private equity portfolio, for example, in 2021.

But I think there's a certain level of uncertainty by nature in our business, for us to put this number of 14% out very different than x hundred basis points over risk free. I think, shows a certain level of confidence that we're going to achieve that. And if 1 or 2 things don't go exactly the way we think we can, we would still feel responsible to deliver that kind of a number on what we think will be a higher overall shareholders' equity. So I don't think we're sandbagging anything here right now. But let's continue that discussion over the coming quarters as we show the profitability. Thierry?

Thierry Leger

Andrew, this is Thierry. So on the loss pick, you remember that a year ago, we did elaborate quite a bit on inflation. So there we differentiate between social inflation and economic inflation, and we told you about certain actions we have taken in terms of our portfolio and further actions we would take during the year because we actually were watching both social inflation and economic inflation very closely. So on social inflation, we predicted that we think once the U.S. courts reopen, that social inflation would start again. We have seen some of that in the second half by the end of last year to indeed happen. And on the economic inflation, we all know that the outlook has changed. And as a result of these we have indeed been more careful in choosing our loss picks and adjust them to the environment we have seen.

John Robert Dacey
Group Chief Financial Officer

Andrew it's just been pointed out either that I might not have answered your question. And -- excuse me for giving the answer to the question on 2024. On 2022, if that was where your focus was, yes, look, I think in the result of 2021, we had a strong prior year development, both for Corporate Solutions and to a lesser degree, for P&C Re. We had the underlying P&C Life and Health Re actually performed very, very strongly outside of COVID. We don't think that underlying for life and health necessarily is going to be there. So you remove COVID and we're not back up to over $1 billion, which is what we would have shown in Life & Health in 2021. And we're not counting necessarily on positive prior year in that calculation. So the 10% is based on, I think, some reasonably prudent estimates of what the business will deliver. And if there's upside to it, we'll welcome it.

Operator

The next question comes from Simon Fossmeier from Vontobel.

Unknown Analyst

It's Simon from Vontobel. 2 questions. The first relates to nat cats. Some of your peers, including Zurich, and AXA and SCOR, have indicated that they want to reduce their nat cat exposure and you're growing your exposure. And I understand the profitability, but maybe you could elaborate on the competitive landscape if the withdraw of others is actually making this more attractive or not?

And the second question is on the divisional targets for this year, if there is a link to management compensation. And if I may squeeze in question 2b. Any guess on the COVID-19 reserves, in particular, the IBNR reserves for business interruption? When do you think you can start to release the IBNR? Does this depend mainly on the losses in the U.S. and the timing when U.S. courts will hear the cases? Or are there any other significant drivers for that?

Christian Mumenthaler
Group Chief Executive Officer

Yes. So maybe I answer both questions. So I think on nat cat, I think it's very dependent on what business you are and what your investor base is and what the expectation is. And clearly, some of this volatility that hit the primary companies is much less tolerated and welcome there for -- I think, for a good reason. It's just a different business model. So we're not astonished that you see lot of the primary company wanting to reduce vola. Some of the vola came from the cycle before. You remember that there were some excellent years into the nat cat '12 to '15. And so primaries started to retain more risk and then there were some bad surprises into all these periods.

So -- but to us, that's good, that basically means we are more in need. And then within the reinsurance sector, you have those who are heavily dependent on retrocession and those like us who are not. And if you depend on retrocession, then the retro prices have gone up more than the reinsurance prices. So this -- the arbitrage has become negative and that makes it very difficult to write too much of this business.

And then finally, nat cat obviously looks much better on a highly diversified balance sheet. We're very diversified in terms of P&C, and we have the life and health component, which is very significant. And as we showed, I think last or the one before that Investor Day, you boost the returns very significantly depending on your ability to diversify this business. So I think it's really dependent on who you are in the market and how you see that. But we still see ourselves as a natural home for nat cat risk which, I think, a very good track record through time.

In terms of divisional targets, yes, absolutely, that's part of the compensation framework. The KPIs people have to achieve, everything gets broken down. And so this is -- I guess, as you would expect. And then the IBNRs, you seem to imply it's going to be released. So of course, we, at every point in time, try to be cautiously reserved and have the right amount ready. So the fact that we keep it means that what we're saying is still we'll probably need all of that. Now we start to have discussions now. As you know, there was a huge complexity because our clients themselves don't know the exact figures because it lot depends on court rulings all over the world.

These court rulings are coming one by one, and then usually, there's -- they go one level higher and then another one to the ultimate cord in the respective country. So all of that can significantly influence their loss and then through that, our loss. So we are on top of that, I actually still chair the group that is looking at that client by client. The -- I have to say I'm pleasantly surprised that the number of disputes is extremely, extremely low at this stage, the potential contentious case are not that high. But I certainly hope that during 2022, we get more clarity around these legal rulings and therefore, can start to close some of these reserves, one way or the other.

Operator

The next question comes from Vinit Malhotra from Mediobanca.

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

So the first question is for -- and maybe even Thierry. The restructuring success we had seen in previous quarter say 3Q, I mean, did you give us a bit of reassurance that is sort of still in place, still a topic, still very much focused. And why I ask is, for example, in the fourth quarter, the normalized combined ratio is about 97%. And I've been told that that's coming from both higher loss picks, but also some midsized losses, which is sort of the second repeal. Now if you could just help us just to create a bit more reassured about this whole restructuring process that had been there for a wide now and now hopefully can still there.

Second question is on the COVID outlook, mortality for 2022 of $600 million. And I know that the 1Q was $570 million. And given the change in the age cohort and the severity of COVID claims, I mean, if -- are you comfortable, of course, you are but how can you -- I mean, can you give us a bit more color on why $600 million should be enough, given that it's not very far from what 1Q '21 was? And 1Q '22 is also, of course, lower than '21, but not that much lower either. So I'm just curious as to your thoughts on that.

Thierry Leger

Vinit, I'll take your first one. The restructuring that we announced a year ago, you remember and Christian mentioned it again. So we did actually pull back from frequency exposed layers that are particularly exposed to climate change. That's what we did. And we have totally maintained that stand. So you can rest totally assured that we haven't changed our approach in that. We have even continued at the January renewals to improve our positioning within those aggregate layer. So we haven't reduced, but we have improved our structuring and positioning in those.

I would also not read too much into the fourth quarter. I understand that you look at the number and you wonder whether there is a new trend or anything. I wouldn't read too much into it. Look at the full year, 97% or the 95% that Christian mentioned, it's a super strong year. We did adapt in Q4 for what I mentioned before, mainly inflation, but you shouldn't read too much into this one. We have looked more in detail, obviously, into the nat cat renewals in January. And again, we did not go back to the areas we actually want to avoid before. We find ourselves actually very comfortable with where you are. We feel we have been able to choose our places quite nicely. The market is actually in quite high demand for nat cat protection.

And for us, we're actually pleased to be in a strong position and really ready to exploit the opportunities on 1/1. So like Christian said before, I'm very positive about what we have achieved. And if it resulted in 24% growth, then that's a good outcome.

John Robert Dacey
Group Chief Financial Officer

And Vinit, maybe on the COVID outlook. Look, to be clear, the pandemic will develop as the pandemic develops. So we can't influence that. What we can say is based on what we've seen developed through the fourth quarter and into -- deep into February, I guess, is 2 things. One, in the United States, the case count has come down dramatically. This was the Omicron wave that went through the United States was as infectious as anything with the U.K. or the rest of Europe, but seems to have played itself out. The hospitalizations and ICUs are down, if you look at a 14-day average by 40% in the most recent periods, deaths are down less, 25% to 30%.

And where our scientists remain a challenge to explain the difference in death that Christian alluded to in his introduction in the United States to Europe, but they are coming down. And so we think the first quarter will continue to be a fairly heavy load for us. The combination of vaccinations, which in some states is over 80% in other states, it's below 60%. But that plus Omicron plus Delta, which is -- seems to be the source of many of the deaths still coming through today is the combination that we think will have this tailing off with what we know today. And so a heavy first quarter improvements in the second quarter and probably not much notable in the second half of the year in terms of insured losses for COVID.

Operator

The next question comes from Musaddi Ashik from Morgan Stanley.

Ashik Musaddi
Morgan Stanley, Research Division

Just a couple of questions I have is -- can you hear me? Yes, sure. Just a couple of questions. I mean, first of all, I just want to understand about this ROE, sorry to come back to this topic. I mean, how do you get to this 14% ROE? And especially given what is happening with interest rates, I mean, for example, last year, the unrealized gains reduced by $3.5 billion, $3 billion and your book value reduced by $3 billion. So I mean, how should we look at this 14% and book value given that interest rates are going up? I mean should we be treating it as like, okay, book value ex AOCI or should we be treating at no change in AOCI going forward? So how do we square these things at 14% and book value? So that would be helpful. Basically, all I'm trying to understand is what is the net profit number we need to think about in 3 years' time in simple, sorry.

The second question is a 1% pricing benefit, i.e., 1% combined ratio improvement. Can we get some of the moving parts on that? Because I was just looking at a 4% pricing benefit, but then you're saying higher loss assumption at the moment, 4%, then you have increased your cat budget as well, $1.9 billion, which looks pretty high compared to, say, '20, '21 premium 8%, 9%. So what are the moving parts of this? How this 1% benefit is coming through would be very helpful to know. Is it largely because you are doing more cat business. So because of that or anything else would be helpful.

John Robert Dacey
Group Chief Financial Officer

So this is John, Ashik. I'll try the first part and give Thierry the second question. Look, as I mentioned before, we expect to make money on both an economic and GAAP basis in 2022 and '23. We would expect to retain earnings in both of those years. We've got some modest interest rate increases over the period, and it's not just interest rates, but also credit spreads that matter with respect to the unrealized gains in the portfolio. I think you should not assume that we're getting to 14% ROE by shrinking the E. We would expect the equity to grow. But why don't we give you some more information at the Investor Day, which is coming off in April 7, where we'll talk both about the economic EVM results for the full year and some of the more granular thinking behind these targets that we've put out there.

Thierry Leger

Ashik, on your second question around the combined ratio improvement despite actually the 4% price increase you mentioned the 4% loss pick adjustment. And Christian mentioned that it had to do with a different mix. So that's one driver. And the different mix comes from, as you pointed out, the growth in nat cat, it also comes from growth in specialty that has typically very good combined ratios. And we did reduce in certain casualty lines, such as motor. We've been very careful in the line of business. We know that after the profit crisis, people are back on the road. So we expect frequency and severity because of inflation to be back.

And therefore, we took a very cautious approach on that one. So if you add up these 3, you get automatically to an improvement on the combined ratio. Christian also mentioned and it might have fallen between the cracks a little bit. You also mentioned that the interest rates obviously went up a bit. So from an economic perspective, there was an additional improvement from that.

Operator

[Operator Instructions] The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

2 questions from my side. The first one is, Thierry, could you come back a bit on the bargaining power of the reinsurance industry as a whole. I mean, I think that a couple of observers say that the reinsurers have not made the cost of equity for quite a long time now. And for me, there is something that I'm still struggling to understand is at the end of the day, you all need to improve your returns also to adjust for maybe climate change. But the fact is that at the end of the day, you're getting 4% on renewals, which minus 4% equals to know optically no margin improvement.

So to be fair, there's something still that I got some difficulties to understand really about where in the industry in the current environment and why volatility, the price for volatility and the risk aversion has increased so much. Why actually you're not able to leverage this situation more in your favor? That would be the first question.

The second question would be, John, I think this morning, Bloomberg quoted pretty alarming risk exposure to Ukraine and Russia. Could you be a bit more precise on potentially where you could have some exposure or maybe you need to clarify or to adjust as a statement which has been picked up? That would be my 2 questions.

Thierry Leger

Tom, on the bargaining power, it's obviously not the first discussion we had around this. I mean, on the highest level possible, it's all a question of demand and offer. And in a hardening market, typically a shift, obviously, to the reinsurance side. And I see this as a hard market, but it's a differentiated hard market. And the way I read it is that at this renewal, I felt that there was a bit less interest in nat cats. The demand went up. And Christian mentioned some of the drivers in the industry. I felt a lot of interest, therefore, shifted to casualty.

And actually put a lot of pressure on casualty in general. So probably also explains why for us, the outcome then on casualty wasn't as desired. We would have been ready to grow but didn't find the conditions we had. But I do believe, Thomas, if you look at the combined ratio target of below 95% and below 94%, that indicates a very, very good market, a very, very healthy environment overall. And we do since last year, but definitely this year has the capability to not only adjust price, but also the conditions. So we are able to not dictate, but to improve the conditions. So that's extremely valuable and not always reflected in the combined ratio, for example. So I wouldn't call it 100% seller biomarker here with seller markets. I think it's a balanced and differentiated market, but there are very attractive pockets around where we are able to gain market share at very attractive terms.

John Robert Dacey
Group Chief Financial Officer

And Thomas, with respect to the Ukraine and Russia, I hope I was able to be more precise actually earlier today when we have the press invited. But what I tried to clarify is the -- our exposure on the asset side is immaterial. We've got actually nothing in the Ukraine and a small fixed income exposure in Russia that is a double-digit million total. So it really is not a particular concern. On the liability side, we do write business in both countries, but on restricted lines, you'll appreciate that we've been cautious about our exposures in these markets for some time.

There aren't many global players operating in either market, frankly, in material ways. And so while we have seen some opportunities to work with local companies, I don't think we're in any way overweight in our exposures. And as I said, it's fairly restricted in the lines we're prepared to write there. We hope things get better before they get worse, but we're not necessarily optimistic here, but I don't think -- that's a general statement, not with respect to our insurance exposure and liabilities. So it's just a very difficult situation.

Operator

The next question comes from Iain Pearce from Credit Suisse.

Iain Pearce
Crédit Suisse AG, Research Division

The first one was just on the guidance for mortality losses in Life and Health. Could you just give a little bit more color on what your assumptions are for excess mortality, especially in the U.S. that's sort of underpinning that guidance? And also, if the sensitivities that you've disclosed around excess mortality are still sort of holding given the higher loss we saw in Q4?

And then the second one was on the casualty book in P&C Re. The H2 combined ratio is obviously very high and you sort of flagged some moving parts there, but just again, wondering if you can give a bit more clarity on the impacts of those moving parts? And is there anything sort of underlying in that so that led to the high combined ratio in H2?

John Robert Dacey
Group Chief Financial Officer

Iain, maybe I'll try the first one on life and health losses and Thierry, I think, will come in on your second question. Yes. In the second half of last year, I think we had seen some anecdotal information, which suggested that the insured population was starting to perform a little better than the general population. And we actually suggested the guidance might be a little better than the $200 million per 100,000 of excess deaths that we previously had out there. At this point of time, with the more information that we got both on Q3 and Q4, I think we have to go back and say, unfortunately, that hypothesis has not held out.

And so the view of Swiss Re losses of $200 million per 100,000 excess deaths is probably a fair assumption to go forward with. Again, frustrating, we had thought that the vaccination rates of the insured population might well be different, but it doesn't seem to have made any difference in the actual mortality when you look at our own experience. So I think that's where we are. And as I said, we expect Q1 to be a relatively heavy quarter compared to the rest of the year, but we'll see how this plays itself out.

Thierry Leger

On the casualty part. So I'll try to answer your question. I hope I understood it correctly, but please let me know. So first of all, you remember a year ago, we were very clear on casualty. We shared our concerns. I repeat myself with regards to social inflation, in particular, but also the inflationary outlook already at the time we felt was more concerning than before. And we said, as a result, we would be very cautious with regard to any business exposed in particular to these 2. And one of the areas we also mentioned are all large corporate risks with exposures in the U.S. and particularly, of course, a combination of large corporate risks and exposure to social inflation.

So those corrections we have made, and we're actually really pleased with seeing the improvements. And when you look at the combined ratio for casualty overall in 2021, you can see a very strong improvement in our combined ratio. But yes, you are right, underlying, there were movements. So we could see how not unexpected, as almost announced, social inflation comes in again. You have heard in the news different verdicts, different jury decisions that have been made. We have said that we see an environment of increased exposure also to very large verdicts driven by general negative sentiments and very active strategic plaintiff bars in the U.S.

And we have seen those at play, and we indeed have incurred here and there, the impact of that. But I think we are on really on top of this on the reserve side and definitely on top of this as well on the new business side. We have taken the actions that we can take, and we have continued to do so on 1/1 this year.

Operator

The next question comes from Vikram Gandhi from SG.

Vikram Gandhi
Societe Generale Cross Asset Research

I hope you can hear you all right. My Internet is quite patchy. A couple of quick ones. First one is on the nat cat. And I know we'll get more details with the annual report. But just if you can give us some color on how the growth in the NASDAQ lines should have impacted the PMLs? And is there any change in your retro strategy around that? And the second one is on the large corporate risks. I appreciate what you say in terms of the continued reduction around the business. But can you help us with what particular industry sectors? Or are there any top lines in that risk, which would be or should be of particular concern for all of us?

Thomas Bohun
Head of Investor Relations

John, do you want to comment on the retro strategy? And Vikram, we will be publishing the PMLs with the annual report. But maybe, John, on the retro.

John Robert Dacey
Group Chief Financial Officer

Yes. So just briefly, we continue with our alternative capital partners team to find some very interesting opportunities to place peak risks and reduce some volatility on nat cat as well. We've got both the sidecar and with the placement of some cap bonds along the way have been able to modestly increase the retro capacity of the group. And I think part of that is the result of experience in 2021 being relatively positive for those that participated in our sidecars. So I think the underwriting benefits we had of changing the gross portfolio, what we've brought in to the business was shared by those people that have come and help take some of the risk on the sidecar. So we've seen no reduction in the retro that we're utilizing here.

Thierry Leger

Vikram, very good question on the LCR. So I will not disclose all our magic soul, as I call it, with regard to sub lines and everything. But I can confirm that we are approaching this in a very, very detailed way. So we do indeed have preferences for certain supplies. And we also have preference for certain sectors overall. So we have a clear line setting, protocol agreed across the company and all the business units. On top of it, another factor, we also take into account very strongly our structures. So we obviously look at nonproportional and proportional in a very different way. And we do, and that is something actually that has quite a big impact. We also look at countries and the legal developments in certain countries that has become increasingly a driver for our appetite and line setting.

Operator

We have a follow-up question from Will Hardcastle from UBS.

William Fraser Hardcastle
UBS Investment Bank, Research Division

It's a simple one, hopefully. Just looking at the COVID IBNR numbers, it looks like it dropped from 43% to 31% the full year from half year. Some of this is probably just due to the life and health increase in proportion. Is it possible to get the numbers for P&C specific, how that's developed HoH?

Thomas Bohun
Head of Investor Relations

Well, we can take that offline, we'll try to provide that to you. Yes. But it will be driven mostly by the shift, yes.

John Robert Dacey

Group Chief Financial Officer

Yes. I think that's right. There have been maybe some payments on BI, but you can see at least by the graph on Page 41 that it's still a big chunk in IBNRs.

Operator

The next question comes from Ivan Bokhmat from Barclays.

Ivan Bokhmat
Barclays Bank PLC, Research Division

I've got a couple of questions on Life & Health. The first one is just on Slide 6. I was wondering if you could perhaps explain in layman's words, the annual pandemic mortality risk charge. What does that represent with respect to, let's say, your GAAP earnings or it's a purely EVM metric? And the second one, also maybe if we could tie it somehow to GAAP and IFRS results. You'd not say that your new business margin has improved over 2021, which I think is interesting because at the beginning of the pandemic, I think the general narrative was that the margin shouldn't change since pandemic is a normal business as usual risk.

I know you've been saying that the earnings power of the franchise should go towards $1 billion. How much of that is -- are those improvements in pricing and terms and conditions on life business after the pandemic? How much more profitable is now?

Thierry Leger

Ivan, so on the risk number, the mortality risk charge, you mentioned on Page #6. So that's -- we obviously do all lines of business, we apply a capital risk model, and that defines the capital that we add to that particular line of business. Now Life & Health, obviously, the cat event for Life & Health is a pandemic. So we have a special model, a particular model for that one that leads to a particular capital allocated to, for example, mortality and out of this we incur capital costs and $180 million is the capital costs that are allocated to mortality overall in our economic system on a yearly basis. So that's a yearly charge we apply to that line of business. That's the way it works.

On the second one, new business margin in Life & Health. So you are absolutely right that in a perfectly technical world, we would not need, as you can see with the $180 million that we charge anyway, we do not need to increase our prices. So what we haven't -- what we have not said is that we have increased our costing, but we have been able to improve our margin given actually an increased demand for this type of risk. We have also seen that there's a bit of a fear around in the market. And so we have seen the opportunity to increase prices, therefore, in this very uncertain environment on our mortality book overall.

So the increase has been quite strong, and we see this trend ongoing in 2022. By the way, I expect it also to shift from more -- so in the pipeline, we can see a shift from more recurring business to more one-off large transactions, also those driven by the need for capital optimization by our clients, for example, generally, also the sales volumes we see are up on a global basis. So it's a very good environment for our life and health book. And given the demand and our full pipeline, again, we see simply the opportunity and not necessarily the need but the opportunity to increase the margin.

Operator

The last question is a follow-up from Vinit Malhotra from Mediobanca.

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

Just one thing that was we talked about the nat cat growth. And why do all that growth, if all you're going to do is offset it with higher claims inflation assumption. So 4% pricing achieved but 4% gone away to claims inflation. Just I'm curious, maybe a quick one line feedback would be very useful.

Thierry Leger

I'm happy to take this one, Vinit. So why do we do it? Because the price environment is attractive. So I mean, we -- by the way, we improve, obviously, our margins in nat cat. It's not flat as we explained. So we have been able to improve the margins. But the price levels that we see in the market where they are, are attractive. Now there's another thing that you should not underestimate take Germany floods. Obviously, that was another -- we always told you that every big loss is another data point in our risk model.

And Germany was just another of these points. So we have adjusted our Germany flood model as an example and has increased the loss picks quite a bit, and we have been able to compensate more than that through price increases. So there are different reasons why we increased our loss picks in that business. But we do see where we are today, an attractive environment overall. And we think at those terms, it's attractive to grow further.

Thomas Bohun
Head of Investor Relations

Thank you, Vinit. Are there any remaining questions?

Operator

Not so far, sir.

Thomas Bohun
Head of Investor Relations

So thank you for all your questions. I'd like to point out that on March 17, we will be releasing our annual report, which will also include the EVM numbers. And we also look forward to welcoming you at our April 7 Investors Day. So with that, thank you again, and we wish you all a nice weekend. Bye-bye. Thank you.

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