S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FY 2017 Earnings Call Transcripts

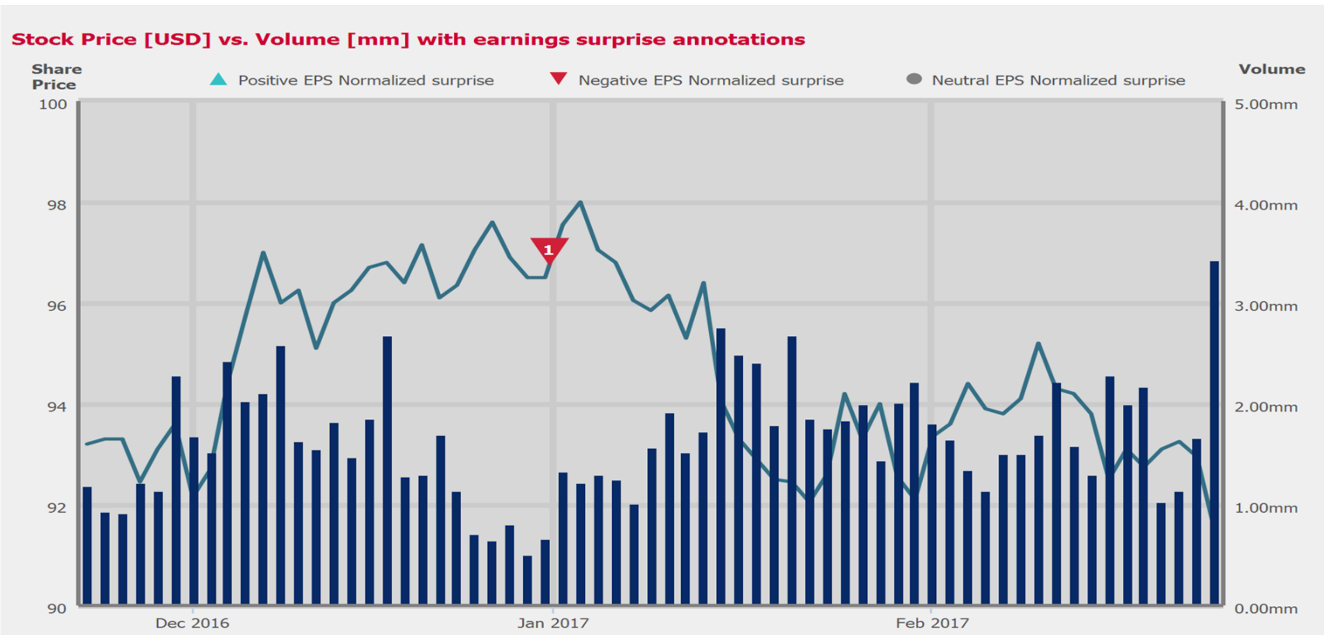
Friday, February 23, 2018 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-	-FQ1 2018-	-FY 2017-			-FY 2018-
	CONSENSUS	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.59	2.35	0.74	0.74	0.00	8.56
Revenue (mm)	7838.07	-	32154.50	33119.00	3.00	33916.64

Currency: USD

Consensus as of Feb-23-2018 8:23 AM GMT



Call Participants

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Group Chief Executive Officer

David Alan Cole
Group Chief Financial Officer

Edouard Schmid
Group Chief Underwriting Officer

Guido Fürer
Group Chief Investment Officer

Philippe Brahin
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Presentation

Operator

Ladies and gentlemen, good afternoon. Welcome to the Swiss Re's Annual Results 2017 Conference Call. [Operator Instructions] At this time, it's my pleasure to hand over to Christian Mumenthaler, group CEO.

Christian Mumenthaler
Group Chief Executive Officer

Thank you, very much. Good morning and good afternoon, everybody, and welcome to our 2017 Annual Results Conference Call. I'm here with David Cole, our Group Chief Financial Officer; Eddie Schmid, our Group Chief Underwriting Officer; Guido Fürer, our Group Chief Investment Officer; and Philippe Brahin, our Head of Investor Relations.

Before we go to Q&A, there are several remarks I'd like to make both on the results we reported today and on the recent developments.

In early February, we informed that we're engaging in preliminary discussions with SoftBank, who approached Swiss Re regarding a potential partnership and minority investments. We're carefully assessing the strategic and financial implications of such a partnership.

There's nothing in our current discussion with SoftBank that would support the issuance of new capital. As discussions are still at an early stage with no certainty on the outcome, there are no further comments which we can make at this stage.

Turning to our annual results, 2017 was marked by series of natural catastrophes around the globe and was, therefore, a year in which Swiss Re heavily supported its clients and their customers. In total, we expect to pay $4.7 billion in claims.

Despite these events, the group reports a net income of USD 331 million, reflecting the benefit of having diversified earnings streams and supported by strong investment results.

The P&C Re business segment result reflects the impact of bearing $3.7 billion of estimated large nat cat claims. The strengths of our reserves remains intact, and we benefit from favorable prior year development across all major lines of business.

We're very pleased with the results of Life & Health Re business segment, which is continuing to show profitable growth and improved underwriting performance and strong investment results.

Corporate Solutions result was also impacted by significant natural catastrophe losses in 2017. We'll continue to invest into the business unit enabling the further rollout of the primary lead initiative, particularly as we have a positive outlook on the long-term opportunities in commercial insurance.

Life Capital generated strong gross cash of $998 million and paid a $1.1 billion dividends to the group. We're happy to have attracted MS&AD as a third-party equity investor in ReAssure enabling us to pursue further closed book opportunities.

Meanwhile, the open book business is continuing to grow dynamically.

The group investment portfolio delivered a very strong ROI, supported by net realized gains from sales of equity securities. Our investment portfolio is also well positioned to benefit from future returns.

Today, we also report the estimated outcome of the January renewals. Volumes were up 8%, and we're able to achieve price increases of 2% as we remain focused on quality.

I believe there's strong profitability that rates will continue to improve throughout the year. Overall, I would say, the outlook for P&C is stronger than it has been for the last 4 years.

Given our very strong capital position, we also announced this morning that the board will propose to the 2018 AGM a 3% increase in the regular dividend to CHF 5 per share as well as the new share buyback program of up to CHF 1 billion.

Unlike in previous years, there will be no other preconditions to the commencements of the proposed share buyback program beyond the board approval, considering our unchanged capital management priorities.

With that, I hand over to Philip to introduce the Q&A session.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability
Thank you, Christian. And good day to all of you also from my side. So as usual before we start the Q&A I would like to remind you to please restrict yourselves to 2 questions each and register again if you have follow-up questions. So with that operator, can we please take the first question.

Question and Answer

Operator

The first question is from Edward Morris from JPMorgan.

Edward Morris
JP Morgan Chase & Co, Research Division

Two please. The first is just for a bit more detail on the combined ratio guidance. I've been expecting most of the benefit from price increases to come through in 2019. So if it could just talk about how much benefit do you think is still to come in the 2019 year. And maybe if you could give us a little bit of help on reserve releases. I know you claim to reserve the best estimate but some guidance on how much that might contribute would be helpful? The second question relates to your over-the-cycle ROE target, which based on what U.S. rates are is now 9.9%. I understand your price quality metric is calibrated at the level to meet this target. So should we assume if you're 103% that you feel quite comfortable with that? And I noticed from consensus that the ROE expectation is 8.8%. That seems like quite a large gap, so could you help please?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Okay, thank you very much. Maybe Eddie, you'll take the first question and maybe David the second. Eddie?

Edouard Schmid
Group Chief Underwriting Officer

Okay. Thanks, Edward for the question on the combined ratio. Estimate for 2018 we should put at 99. Obviously that reflects the improvement in price quality, as seen at 101%, but as you pointed out, if you look at it on a GAAP basis, there's always a time delay to be considering. So if you, for example, look at the business we earn on the GAAP in 2018 about 50% of that is actually business we brought in 2017. So that explains how we earn it over time and the business we wrote now. A significant part will be earned into 2019. So that explains the delay and also the 99 estimate still includes business we'll renew later in the year. So it's hard to give a precise number. But clearly, the improvements we have achieved now, they will not be fully earned this year, but they will significantly move into 2019. That's how I would summarize it.

Guido Fürer
Group Chief Investment Officer

Right. And then it was a short point of our reserve releases which basically, we don't give any estimate as usual. Nothing has changed there when it comes to the combined ratio.

Edouard Schmid
Group Chief Underwriting Officer

No. We don't give an outlook on reserve releases. We stick to this best estimate. It's 3.3% private development on...

David Alan Cole
Group Chief Financial Officer

2017.

Edouard Schmid
Group Chief Underwriting Officer

2017, yes.

David Alan Cole
Group Chief Financial Officer

Our estimate looking forward is always on the base of assumption of 0 prior year developments, yes. Next to your second question, so just refer you to Slide 15 of our results announcement and of course, you'll see the return on equity developments over the course of the last several years, and also looking at the lower end of the page you see the P&C Re segment that you're referring to. Now over the last 5 or 6 years, we had a return on equity certainly benefiting from a number of years with relatively benign, large cat losses as well as some positive PYD of closer to 20 and even in some years above 20, as you may recall. Clearly, in 2017, were significantly below that with net loss for the year. Our target of 10% to 15% we think still is absolutely appropriate. It's a through-the-cycle target. We don't try to predict exactly when cycles will come and go. We don't, of course, try and predict exactly which year actual losses will be above our estimate versus below our estimate. But if you look at our results over the last several years, look at the quality of our portfolio, you look at the quality of what we have now written, and you think about it indeed on a through-the-cycle basis as opposed to in a moment-in-time basis you're referring to a spot interest rate. Then yes, we remain comfortable that the business that we're writing will facilitate that we achieve our objectives, including the ROE target for this segment.

Operator

The next question is from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Two quick ones. Could you give us a sense as to what you think the average rate improvement might be in CorSo in 2018? I appreciate it's obviously skewed to the U.S. It's quite skewed to big-ticket property so I guess, it will be fairly material. But just some sense to what you think you might achieve in terms of average rate across the book as it stands? Second question on ROI. How should I think about the outlook for the overall ROI? I mean, clearly, it was very strong in 2017 helped by gains. Should I assume the running yield is kind of flat and also the gains I need to possibly adjust downwards, but also the changes to U.S. GAAP could result in very substantial volatility through your P&L. Is there an intention to break out kind of normalized ROI and/or adjust your ROE targets given the implications of that?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Eddie, you take the first one and Guido, the second one.

Edouard Schmid
Group Chief Underwriting Officer

Yes. It's really hard to give an average. As you understand, the portfolio is quite diversified. So we have clearly seen that really change in the time for commercial pricing on the back of the large nat cats in 2017. So we clearly see significant rate improvements in the U.S. and in the Caribbean where our most of the losses have it on property accounts, particularly, on large accounts and to a lesser extent on other lines of business and to further rate you move from the U.S. the lower the impact will be. And again, there's a similar time delay also in the earnings on the Corporate Solutions side, a lot of the business will renew actually, in the middle of the year. In January, it's only around 10%, 11%. So we still need to see. But clearly, we will put a high focus on underwriting quality in our Corporate Solutions segments. We'll push for increases not just for property cat effective programs, particularly also on the casualty side, where we actually have proven the portfolio bit over the last couple of years and this will continue. So we push for it and yes, we're quite optimistic that we can achieve quite a bit. And this really backs up our long-term commitment into the commercial space. We have grown a lot in a few years back. We now have moderated growth the last 2, 3 years. I think now with the back of rate increase we can again benefit a bit more also on the volume growth side.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you. Guido? On the outlook ROI.

Guido Fürer
Group Chief Investment Officer

On the return on investment outlook, I think it's good if we quickly look from where the various sources are coming. As you've seen this year, we had on the -- just on the net investment income $3.1 billion, which corresponds to about 2.7% return on investment. And another $1.5 billion in realized gain. If you go back to last few years, it was all -- there's a good contribution from realized gain. Different sources. Again this year, we had a particularly strong year on the equity side and on alternatives, which led to additional contribution. But overall, gain realization was always part of each of our yearly result. That's why sources defers depending what financial market, of course, are doing. This year was particular good on the equity side. Running yield is the fixed income kind of forward guidance, 2.9%. We show now for 2 years, very stable. If you look a bit what interest rate has done, they rather came up and, of course, if the trend continues this helps us on the new investment side. That's why running yield is clearly good point as an input for fixed income. It's fair to say cannibalization was always a component that's why it's -- we assumed that will still be an important piece and going forward because we managed the portfolio. And if you see economic possibility to take some of the gains, of course, we do it. Hard to predict what the year brings, but the other part of your question was the change in accounting. That means, from now on, all fair value change goes with through the P&L, and, of course, it's impact to return on investment. And if we have a 10% correction in a market, this, of course, goes directly now into return investment calculation. Now the additional portion of the portfolio, which is basically newly affected by this accounting regime is currently $4.8 billion. That means if you have a 10% drop, you would see an additional volatility of approximately $500 million in the respective result. This gives you an idea. Importantly, is that we look to the result and again, such change in equity always impacted the economic position of the group. So far, managings have not flown directly to the return of investment. This change in respect of equity. But from an economic point of view, there's no change, and it's just -- it's different presented. Of course, we will always make the distinction what has been related to move -- mark-to-market moves in the market and basically what has happened based on portfolio action. That information can be provided for sure. To give guidance, as you know you need to basically crystal ball what the equity markets are doing.

Andrew James Ritchie
Autonomous Research LLP

Can I just ask a follow-up on the -- for Eddie. It's fair to say that for Corporate Solutions at least the average rate will be more than for the Reinsurance book. Is that a fair statement?

Edouard Schmid
Group Chief Underwriting Officer

That's hard to differentiate. On Reinsurance you have the nonproportional side, which goes up quite significantly. Proportional is a bit lower and...

Andrew James Ritchie
Autonomous Research LLP

And then weighted average?

Edouard Schmid
Group Chief Underwriting Officer

Weighted average.

Andrew James Ritchie
Autonomous Research LLP

Well, the weighted average you've held, is it 3%?

Edouard Schmid
Group Chief Underwriting Officer

That's really hard -- it's hard to say, and we need to think about it more carefully.

Operator

The next question is from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I'm slightly picking up on Andrew's 2 questions. On Corporate Solutions, given that you did have a very tough 2017 I was thinking it might be reasonable to expect a bit more clarity on how optimistic you are shorter term for that business? So I know you've dropped the combined ratio guidance for this year and that's sort of understandable but sort of not. So could you just try and be a bit clearer. You've just another $1 billion in, you still got the 10% to 15% medium-term ROE target, but maybe we should even -- and on the one hand, I'd hope for payback that would be generating a greater ROE on that. On the other hand, you still think of the restructuring so maybe the environment is going to be tougher. So I'm really not clear about the earnings momentum for Corporate Solutions. So some clarity there would be helpful? And then, secondly, when we look at the great return you've done in Life Re, the 15% ROE. That's clearly smashed through your 10% to 12% target. But again, I'm finding it kind of hard to see whether that's telling me that you are sustainably doing better returns in that business, or if it's all just market noise? So I mean, should I just assume that the 15%, say, versus 12% is just capital gains and strip that out? Or can we be any more -- any clearer in terms of why you've done well last year?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

David, you want to?

David Alan Cole
Group Chief Financial Officer

Yes. I'll try to pick up both and then, Eddie, if you want to complement what I say on Corporate Solutions, please do so. So yes, we had a tough 2017. And it was tough for 2 reasons. I think both of them are very visible and not really specific to Corporate Solutions. If you don't mind, I'll say it that way. Obviously, the pricing environment going into 2017 and throughout most of 2017 continue to be very strained. And that reflected in the fact that we were moderating our growth, we were putting our portfolios as well as, of course, the large losses that reemerge, particularly, in markets that we are disproportionately represented. So the North American market historically, they are very large part of the overall Corporate Solutions business mix. Now we've been investing in this business, and we've been managing this business, William as you know, for many, many years. It's been spread out now, separated out as our operating model since 2012. We have very good view of the historic performance in this business. There are couple of things that we think people should bear in mind. If we think about the short-term performance, and we certainly are looking at the short-term performance but not losing sight of the long-term objective that we have. We obviously, continue to invest in the footprint expansion as well as the primary lead capabilities. We've said to you in the past, we think that's probably in the neighborhood of between 3% and 4% of the combined ratio manifesting itself on the expense side. Incremental to what we would have once I think we get to a little bit of a steadier state in a different scale. We've also in the past, referred to this total financial contribution, which basically reflects the -- only the development of reserves. It gets for the moment in the investment income on those reserves, but the development of the reserves that were as part of the carve-out left behind. And we said that's also been somewhere in the neighborhood of 12% or so of PYD on the Corporate Solutions-related book. Now, the reported number as you see over the last handful of years is 3.1%. Clearly below the 10% to 15% guidance. I think if you look at it and you factor in just a few of the things I just talked about, you actually would find yourself nicely above the 10%. As we go forward, we put the S1 billion into Corporate Solutions not to cover the losses. We're very clear about that. Corporate Solutions was adequately capitalized for all of its claims in 2017. We put the capital in because we believe that there will be interesting opportunities to write attractive business and to show further growth going forward in Corporate Solutions. We do expect the pricing situation not only in the loss-impacted areas but also more broadly, if you think about some of the things other significant players are now communicating regarding their views of pricing adequacy and the need to move pricing to a more sustainable level. We do anticipate that pricing levels will continue to show a inflection point from what we have seen over the last several years. We've been down now fairly steadily since just about 2012. The degree of that decline started to moderate already 1.5 years, 2 years ago. At this point, and you'll see that in the back of our presentation. Our own estimate is for positive pricing moves throughout the course of 2018. As Eddie said, we'll be working very hard to achieve that. Edddie, do you want to add something?

Edouard Schmid
Group Chief Underwriting Officer

No. I think you have pretty much given the story. I mean, I would like to share one data point. If you look at the portfolio in CorSo that was written in fourth quarter 2016 versus fourth quarter in 2017. So the first quarter is already benefiting from the losses and for that portfolio, we have about a 4% improve in price quality. And the prices will not move in one go, but they will now gradually over the next probably 18 months gradual improve. Most affected, of course, in U.S. property cat and that it's a significant part of the portfolio and then clearly also in other parts. Again, Steve will give an overall number, but the moment is clearly there.

David Alan Cole
Group Chief Financial Officer

And we also saw, of course, in Australia, after Debbie some very clear pricing movements there as well. Let me pick your second question, William. So yes, it's, I mean, 15-plus-percent ROE in 2017 significantly above our 10% to 12% target. We had good underlying performance. If you look at the overall biometric side of things, you look at the actual versus our expected, actually, more or less in line maybe if you look at it in entirety, a little bit better than what we would have expected and that was then supplemented by the realized gains. Now the realized gains were, as Guido has referred to, are really economic. They're not about managing a short-term P&L. They're looking at the valuations of the various instruments, particularly on the equity side or here and there, where we had to I think reposition our portfolio as a result of statutory update to liabilities in 1 or 2 markets. We maintained the 10% to 12%. We maintain our growth outlook for that business. I think, we're very comfortable that the quality of the book that we have increasingly diversified the earnings streams that we have support that outlook of 10% to 12%.

Operator

The next question is from Frank Kopfinger from Deutsche Bank.

Frank Kopfinger
Deutsche Bank AG, Research Division

I have 2 questions. So my first question is on the buyback. And so you adjusted the conditionality on the buyback, but you haven't been precise when you really want to start? Can we assume that you start right after the AGM given that the board will decide to do so? And then, secondly, on topic of Life Capital, obviously, there is some news flow today with the Phoenix deal. And do you see that this has any impact on your business and strategy going forward?

David Alan Cole
Group Chief Financial Officer

So the buyback, yes. So number one, I think the announcements today around capital twofold both the increase in the dividend as well as the intention to request authorization for new share buyback really underlying our statement regarding the capital position of the firm, which remains comfortably above our target. The change in approach, change in communication, I think is reflective of a couple of things: number one, this is not the first year we do. We now have 3 years under the belt. We see how the market has responded. We also have, of course, seen in years were it's relatively low. Nat cat losses as well as in 2017 clearly are more significant, well above expectation in terms of losses. I think we've tried to listen to feedback from different -- and we came to the conclusion that we could be a little clearer with the market at this point in time that the capital position of the firm is strong. We would do away with that conditionality regarding waiting to see what happens with the third quarter windstorm in North America. The actual timing of the launch is really at the discretion of the board. It could happen at any time subsequent to the authorization to be given at the AGM with the intent of, of course, having it concluded in advance of the next AGM in April 2019. But the board want to look at specific circumstances and determine, exactly what the right moment may be and how to go about the implementation. But it's quite clear, we've stepped away from that precondition, and I think we're signaling to the market that the capital position of the firm is comfortably above our target. And therefore, we think it's appropriate to get authorization and change the communication. I think on the second question, I will ask Christian, if he wants to respond.

Christian Mumenthaler
Group Chief Executive Officer

So we're not surprised because we see a very active market right now in the U.K. Obviously, you have to pick your battles because every one of these deals is a significant work in consolidating on our platform. So this year, we focused on the L&G transaction, which was also ideal in terms of size compared to the investment that MS&AD he was prepared to deliver. Plus L&G is an excellent client of ours. So I think the only thing it shows is there's a lot of activity going on in the U.K. market right now that the solution itself is well recognized and is probably where things will go. And so I take it as a positive.

Operator

The next question is from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Three questions. The first one, just coming back to Corporate Solutions. I guess, following the losses in 2017, could you talk us through how your protections for Corporate Solutions for the Reinsurance cover there, et cetera, has changed going into 2018? So that's the first question. And the second question is, I'm kind of with you on the pricing. I think I'm a believer in the fact that pricing will improve throughout the remainder of the year. I guess, one of the best thing there's this is massive pool of capital out there waiting to deploy. We heard from one of your peers yesterday that in some cap on funds that kind of stuff closes that's still 25% in cash not fully invested. What's the argument back to that, prices versus too much capital still in the industry? Any color or thoughts would really be hopeful?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. Maybe I hand over to Eddie and then...

Edouard Schmid
Group Chief Underwriting Officer

The first one, yes. On the course of Reinsurance protection. So it's fair to stay the course, so loss is a bit higher than with peers because again, there's a significant part of the business in the U.S. So it is also more prone to cat exposure and intentionally only, both a really severity-driven protection in the past. We consciously accepted a higher volatility because we reckon it really carried it on the overall balance sheet. But we review the course of regions protection on an annual basis and into 2018, we actually decided to lower the attachment points so the protection attaches a little bit quicker and also we added a so-called added cover. So also second and third events will be covered in a year similar to what we've seen in 2017 with a series of let's say, medium-sized cat events. So CorSo into 2018 is better protected. Some of the volatility is damp and should something similar happen again.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you, Eddie. On pricing and alternative capital maybe...

David Alan Cole

Group Chief Financial Officer

I think the -- I'm happy to take that question, right, even though that probably will take a long time to go through all the different aspects here. In our view, long term, we think some of the capital will stay because natural catastrophe in the natural catastrophe fields because that's a natural place to be and Reinsurance has been scarce there for decades. And so -- and there's still a huge protection gap. So over time, you think capital market have to play a big role here. So I certainly think that alternative capacity will stay either in form of cat bonds, which is a bit more limited and hard to do, or in form of actually, Reinsurance, right, the collateralized Reinsurance. I have to say that these price levels when we recalculate it, I'm afraid there's a little aspect of what we saw in the financial crisis. A decoupling of people who understand the risk and people who take the risk, right? There has been a period where not much has happened and so some of the returns look good. But I'm not sure that everybody in this -- also in the capital market, value chain is completely aware of where prices are. Because in contrast to us, they don't have diversify capital and they have to completely collateralize it. So I have a little doubt here whether we're not in a non-sustainable territory right now. But I'll leave it at that. I think the implication is that certainly overall, in the nat cat field, which historically, has been a big driver of profits, you would see some capping of how far prices can go up. All the other lines I think, through that will get under pressure because reinsurers still need to make profits. They still need to earn a cost of equity, and they need to be active in all these other lines, which cannot be taken by this capital. So there's overall, from the Reinsurance side but also on the primary side, the push for higher rates, which doesn't uniquely come from this capital that is just there for the cat at the end. So you can clearly see that, for example, the big CorSo-type players in the U.S. they all push for higher prices because -- and that's independent of all type of capacity because they know their value chain, their piece of the value chain needs higher rates. So I don't -- in other words, I don't think no matter how long this cost that, that completely unsustainable rates for the whole value chain will be borne. So I think prices have to go up. But it's clear that on a medium to long term, there's a dampening effect on this sub-line of business coming from this alternative capacity.

Edouard Schmid
Group Chief Underwriting Officer

If I may just add, if you look at all the alternative capital which is about $80 billion, that's still heavily focused only on U.S. cat because that's really the outstanding peak period on a global basis. And it's really hard to imagine how this capital can also be efficiently deployed in all the lines of business and the markets, where diversification of global balance sheet is a major competitive advantage. But for the U.S., which is really a huge peak in the global risk landscape, there alternative capital actually has a role to play.

Operator

The next question is from Vinit Malhotra from Mediobanca.

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

So sorry for following up a bit on the CorSo. I was more curious on another number in the CorSo which was quite tough in 2017, which is the PYD. I mean, just in second half, it seems to be $144 million odd from what I understand from 2015 accident year. I mean, so how -- I know you guide for 0% going forward. But because these numbers are quite material, David, would you mind just highlighting how we should think about cost of PYD from these prior year casualty kind of growth going forward? So that's the first question and just the second question is more how do we understand this renewals disclosure this time? Because -- I mean, this is obviously, the second year you've excluded the large transaction. So the way I see it, it was last year up for renewal was $8.5 billion and you have renewed $8.1 billion. Is that not the right way to do it? And why not would you say that it's the right way to think of this renewing?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

I'll turn to Eddie, and possibly Christian as well.

Edouard Schmid
Group Chief Underwriting Officer

I will take the first question on the course of PYD development. Yes, for 2017, it's 7.8%. Prior year development, actually, was the overall reserve base we feel very comfortable how this stands. The majority of this can really be put down to individual large losses. So there were a couple of -- all the nat cat losses that developed to some extent, one in New Zealand, another one from an older U.S. hurricane. But the most developed and actually, we've seen from some larger U.S. liability losses goes back to accident year 2005, and these are really just in the nature of that business. So obviously, liability is really assigned to a party. It goes through several instances in the U.S. court systems. So it took a couple of years until the final liability was assigned. And then with CorSo playing mainly on an excess-layer basis, it's just a time delay. I would say this is really linked to these several large liability losses that explains the large part of the 7.8%. And it goes back to what I explained earlier, that CorSo has taken a quite cautious approach on U.S. casualty business. So they started to prune a bit particularly, umbrella business. We actually still maintain a fairly cautious view, particularly on large commercial risk exposed to liability and this underwriting actions start to take benefit but obviously, with the time lag it took a bit of time to consume. So I really would describe this as a one-off based on the several losses and not as a more broader thing in the reserve base of Corporate Solutions.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thanks, Eddie. Christian, on the renewal.

Christian Mumenthaler
Group Chief Executive Officer

Yes. I mean, on the renewal disclosure, that's always a bit of a pain point because as you can see, everybody does something different. And I would certainly welcome some standards that we could all make it more comparable, but that's not the case today. So we try to make something that makes sense from our perspective. And the way we report and I think the same last year, is we tried to determine all the pieces of business that will be replaced in the market. So that's the definition of up for renewal. And then see can we renew those or add new volume compared to that. And this year, there's always piece of business that were renewed last year that's not renewed this year. If it's a 2-year deal, a 3-year deal, it's not. If it's a one-off large transaction by somebody not placed again. This can drop. So it's hard to reconcile back to last year, but basically, before the renewal, we make the bottom-up list of things that are up for renewal. And then, we look -- and that's a definition. So if a large transaction is not renewed and we know that, it's not going to be part of that. And then we compare to what we actually achieved compared to that. I'm aware there's different ways you could do it, but that sort of make sense from managerial point of view because why would you add things you know when it's not going to be renewed to that number. But you could. It's not an exact science. I think the other thing that I think you all keenly aware is that the correlation between top line and bottom line is extremely weak in reinsurance, which makes it really hard to compare notes. So you can have a piece of business with very little volume, and it's a huge margin. You can have, in particular, a large quota share are typically very, very thin margins. So the volume doesn't tell you much about the actual profitability business, if you don't combine it with a combined ratio or something like that.

Operator

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

Daniel Bischof
Baader-Helvea Equity Research

The first question is on Life Capital. I would be interested to know how you think about the 6% to 8% ROE target longer term? And I appreciate there's still a significant amount of unrealized gains, but I guess, after the L&G and Guardian deal, probably more than 40% of policies are now from these 2 transactions whereas the old less profitable business is running off and then isn't top to growing open book business. And presumably, that's all priced at north of 11%. Then the second one, on the U.S. tax reform. I may have missed that. I mean, other than '17 impact, could you tell us how this will impact the structure of your reinsurance and course of business? And which tax rate we should assume for '18 and also for the mid- to long term?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. Thank you, Daniel. Turn to David.

David Alan Cole
Group Chief Financial Officer

Thank you, Daniel. So yes, Life Capital. We have the 6% to 8% medium-term target. And the business unit is really comprised of 2 different underlying activities. The closed life book, which I think is getting closing and closer to that 6% to 8% target as a result of some of the transactions that we have previously disclosed. You're well aware of those. And obviously, it's coming through as we fully integrate those activities, and we will continue to average up the ROE of that business. And to be very clear, why was that business stuck with such a low ROE? It wasn't because the performance of the policies was completely different than what we expected. It was because, in previous years, there really was a harvesting of the income on the investment portfolio side, which was then difficult to replace. So we've decided that we're going to manage that business incredibly efficiently, bring it to a highly effective, scalable platform and then average that ROE up by writing attractive new transactions, which is exactly the path that we've been following. The second activity within this unit, of course, is the open book business and I think everyone is aware that, that business is on the one hand small but growing. Here, the more successful you are, the more impact it has on the negative contents in the first handful of years on the reported ROE. So we're writing what we believe are very attractive transactions continuing to build volume on those platforms. But the reality is in the short term, of course, that has a negative pool on the reported ROE. And then you yourself I think correctly pointed out, we still have these unrealized gains and on a shareholder equity base of about $7 billion. Roughly 1/3 of that, or $2 billion or so, is actually is unrealized gains. And we're not complaining about it. We just recognize it for what it is. As and when we write additional new transactions, acquire new portfolios on the close side. As and when we get to a certain scale on the open side and as and when interest rates will go up, then it wouldn't surprise me to see this ROE move very quickly up into the -- and perhaps, at some point, in the future beyond up into the target range. It really is a medium-term target, just to be clear. And that was -- what it was whenever, we originally articulated at some time ago. To your second question, so the tax reform in the United States, as you've all seen, it had a net benefit of about $93 million for us, basically reflecting the fact that although we were relatively balanced deferred tax asset, deferred tax liability, the net impact of the reduction in the corporate tax rate from 35% to 21% of the U.S., given the fact we had slightly larger deferred tax liabilities was a net positive impact in 2017 of $93 million. Going forward, it's quite clear that we as well as others will be looking at the new rules. First and foremost, to make sure we really understand how they're going to be interpreted and applied. There's also the possibility there may be some as yet technical corrections during the course of the year. So that's something that we obviously are following very closely. And as we always do with our business, we love to see how do we best optimize across the group, taking advantage of diversification, taking advantage of liquidity across the group to ensure that we get a good outcome. Now, we've never been a firm that in the past has taken advantage of low tax locations and we certainly have used Switzerland, it's our home base, but with a statutory rate of 21%, I don't think it falls into the same bucket of some other places it have been the target. Some of the attention in the United States. So we don't have to go and address those types of situation, where we're bringing things into very low tax rate jurisdictions. But we want to look at our overall capital levels. We'll look at our internal group retro sessions. We'll look at financial flows across the various entities. Let me get to the heart of your question because you asked for a forward-looking view of overall tax. And I'll just recall what I just said about the Swiss francs, 21% at this point in time. U.S. rate's gone down to 21% as of January 1 and then going forward. I think for the Swiss Re group, as a whole, we would say something between 19% and 21% is probably about the right number in terms of forward-looking assumptions.

Operator

The next question is from Stefan Schürmann from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Two questions. First one, coming back to renewals. You had a nice 8% growth. Can you maybe give us some more color how much of large transaction were included there? And may be also how much of large transactions renewing were outside these renewals and maybe adding to growth and going forward? Then the second one on claims inflation. Just generally, your expectations in terms of claims inflation, maybe based on the major markets like U.S., U.K. and then Europe?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Eddie, I'm turning to you again for this 2 questions.

Edouard Schmid
Group Chief Underwriting Officer

Yes. In regards to the 8% in terms of where it's come from. So I think it's broader base, so it is normal business that we deployed a bit more capital, but there's also a number of large transactions. I cannot name the individual ones, but there were several ones, I would say, quite a bit of them in Asia and -- but also in the U.S. If I reflect back on the P&C side in 2017, about 28% of the bottom line actually comes from large transaction. So you see it's a significant contribution, but it's always a bit lumpy and when during the year they happen is hard to predict. So it contributes again to the growth, but I couldn't give you a clear breakdown. But they play a role again also in the renewal numbers 2018.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

And maybe Eddie on claims inflation, U.S., Europe, what we observe?

Edouard Schmid
Group Chief Underwriting Officer

So inflation is clearly a bit higher on our radar. But actually, we always observe it very carefully as obviously, is a key underwriting consideration for our longer-tail businesses when we set our costing parameters. We always take the latest forecast, not just for CPI, but really the claims inflation on medical costs on wage cost. So that's definitely reflected in the way we cost the business.

Operator

The next question is from Sami Taipalus from Goldman Sachs.

Sami Taipalus
Goldman Sachs Group Inc., Research Division

Just 2. So on the Life Capital first, you've obviously had quite strong cash generation there and you've reached your target on the cash generation. Are you going to provide an update on a new cash generation target there at any point? Or how should we think about the cash generation here going forward? And then the second question is on the renewals. Is it possible to just break out the movement in price cap quality between rates, expenses and interest rates?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

David, on the Life Capital cash generation.

David Alan Cole
Group Chief Financial Officer

Yes. Indeed, we had a wonderful I think delivery during both 2016 as well as 2017. So I think most of you picked up at this point we say, we're basically at $1.7 billion of gross cash generation of those 2 years. More or less in line with what we said the target would be for 2016 through 2018. Obviously, we're just at the beginning of 2018. Two things. Yes, I do believe we'll come during the course of 2018 with an update to that figure looking forward. I think it would be also appropriate to say that we've been very pleased with the level of cash generation coming out of the closed life book, so very much in line with our expectations. And that's clearly something that we would expect to continue to see going forward. As also Christian indicated, we'll continue to be looking for opportunities to invest in that business. So short answer is that I anticipate that during the course of 2018, we'll come back with some sort of communication regarding the periods going forward.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Eddie, on renewals, again, maybe you'll have some breakdown view.

Edouard Schmid
Group Chief Underwriting Officer

You had the question on the composition of the price increase. So overall, we see a 2% improvement. I would say the majority is really quality improvement. So really premium we get for the exposure we take onboard. I can also split it down a bit more on the nonproportional side, which is cat business, nonproportional business that we see more something like 6%, so that's real quality improvement. Proportionally, is a bit less than 1% expenses. I wouldn't say is a significant factor and you also point correctly to the interest rate. So our measure is an economic one so the cash flows are discounted. But out of the 2, I cannot give you a precise number, but it's a small part of that 2%. But it's contributing to the improvement. That's fair to say.

Operator

The next question is from Thomas Seidl from Bernstein.

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

First question on the casualty line of business. In both Reinsurance and in CorSo, you increased volume by some 30% in 2014, if I'm not mistaken. And quite similar in both segments, the combined ratio went up 20 percentage points to quite unsustainable level for different reasons like reserve increase, asbestos and what have you. My question is could you share level of CorSo, what went wrong during this period? And also going forward, what are you going to do other than the quite marginal pruning you have done so far to correct the situation? That's the first question. And second, on tax. You outlined future tax rate. I also looked up the -- in the risk section of your report, you mentioned 3 items changes to operating model, increased costs also related to different capital requirements. And thirdly, reduced access to liquidity. I wonder if you could comment on those 3 items. How they might impact Swiss Re going forward?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Casualty, Eddie?

Edouard Schmid
Group Chief Underwriting Officer

Yes. First one on the casualty book, which you correctly reflect. A few years ago, we have grown the casualty business quite at bit because actually, we came out of a position where we were clearly underweight on casualty, and we still saw opportunities particularly, on large transactions. I think where we have really seen some adverse development is a particular case of U.S. motor business, which is not a Swiss Re-specific issue. Actually, the whole market has suffered quite a bit, with more frequent driving, again, unexperienced driver, distracted driving so that the loss frequency and severity has increased a lot, and we were also affected by that. I think that explains a significant part of the performance we are not happy with. But it's fair to say that market overall, in the U.S., but also what we did on the Reinsurance side as well on the CorSo side, now see significant improvements. So rates are going up in this segment. Also, besides motor on U.S. liability, we see now some movement. Also if I reflect on the 1/1 renewals it's not just the cat-affected business that has significantly improved in quality. It's particularly also the casualty line. So U.S. motor, but also European motor and U.S. liability has improved in price quality. So we are now at a much better level, but we also keep monitoring the casualty lines very carefully. Because the loss trends really need to be on top of and adjust accordingly.

David Alan Cole
Group Chief Financial Officer

Thomas, I'll come back to your question on tax. I guess the 3 things you cited and it gets right out of our report not surprising in and of themselves. We operate in many different jurisdictions and as you know, have done for 150-plus years. We're always confronted with changes in local rules, and we look, of course, across the organization to say, how do we best wish to respond. And likewise, I think it's important to point that we're not alone in this and looking at these changes now in the U.S. But many of our customers are also thinking about what it means for them. So we just wanted to point out that there are changes in the world. If we did nothing it could potentially have a negative impact on our operations. But it wouldn't surprise you to know that we're actively looking to see how best we can respond and make sure that we continue to optimize across the group. I guess, a little bit more feeling for you, there's a possibility we'll leave a little bit more risk behind in the U.S. as opposed to moving in across through IGRs that may bring with it additional capital and liquidity requirements. But it's early days. We have a number of different initiatives that we're thinking at. We await to see exactly how the rules are finalized and the guidance given around some of the technical aspects of the rules. And as and when we have clarity about that, we will I think make appropriate adjustments.

Operator

The next question is from James Oram from Citigroup.

James R Oram
Citigroup Inc, Research Division

I've just got one question left, please, if I may. And if I look at the Life & Health Re balance sheet, both sides seems to have increased quite significantly by about $7 billion since the first half, driven mainly by Reinsurance assets and liabilities. Is there a new retrocession agreement with Life Capital or something because the intra-group consolidation adjustments have also got up as well. And if so, how it is likely to impact Life & Health Re's financials? Or is there something else going on there that I've missed completely?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Thank you, James.

David Alan Cole
Group Chief Financial Officer

James, if you'll give me just a second I'll come back. We won't forget about it. I'll come back in just a second and make sure I get a good answer for you.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Well, we'll park this one for now James.

Operator

The next question is from Vikram Gandhi from Societe Generale.

Vikram Gandhi

Societe Generale Cross Asset Research

I'm afraid both my questions relate to CorSo. First of all, how do you see the pricing environment developing in primary versus excess markets? The group is actively focusing on being the primary lead, but that is what some others are also doing, Talanx, for example. So just wondered if that space is already getting crowded and also the reasons why pricing should be better in one versus the other. And secondly, I just wanted to ask what's the magic around the 0.9 percentage points improvement in cost to admin expense ratio, when you have continuously invested in business expansion, while also maintaining your investment in growth represents 3% to 4% of your combined ratio?

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

Okay. Eddie, maybe on the primary...

Edouard Schmid
Group Chief Underwriting Officer

I'll take the first ones regarding, let's say, difference in pricing movement from excess layer business versus more primary lead business. Again, if you look at the picture over number of years, the segment where CorSo was most strong is the large corporate high excess layer business and that's by the nature more volatile not just from a loss perspective also, in terms of price changes that the mid-markets, the smaller risk they are, quite more stable. So the price trends over the last few years were more moderate in this primary lead business. If it now comes to positive price momentum that's fair to say that we would also expect more increases in the volatile high excess layer business that has also been hit by some losses and a bit slower in the primary business. So clearly, it's a difference, but it's hard to give a number how big that difference is.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

All right. And on the admin expense ratio, it's due to higher premium around -- that's the background Vikram.

David Alan Cole
Group Chief Financial Officer

And if I may, James, I'll come back to your question. I just wanted to check and make sure I gave you a complete answer because you were basically, in the right direction. So that really is related to a couple of different business shifts across the group. The 2 that I'll point out is the primary drivers of those changes were the IGR-ing of our Group Life business, elips, out of the Life & Health Re balance sheet as well as we move some of the non-Asian business out of this new Asian entity that we launched. We actually, moved it from Switzerland to Singapore. It's a very complex story. I'll try to save you all the details, but basically, there was a business shift of non-Asia business. How does that entity that we have, have also executed during Q4 of 2017. So really it was driven by some internal shifts with -- across Life Capital and Life & Health Re.

Christian Mumenthaler
Group Chief Executive Officer

Thanks, David. So James, that was the answer.

Operator

The next question is a follow-up from Mr. Ritchie.

Andrew James Ritchie
Autonomous Research LLP

Just a very quick follow-up. First of all, you mentioned that CorSo has bought more Reinsurance. Just to clarify, I'm assuming that's intra-group, not third-party Reinsurance. And then, the other question just on

Life Capital, can you give us what the losses are for the front -- the open books business? I'm assuming it's in net loss position given the new business strengths and what that number is. And also, in relation to Life Capital, the cash generation is normally being a good forward indicator for dividend payments which obviously you extract in the first quarter of the subsequent year. I guess, I'm a bit confused, as to how to think about dividends from Life Capital now because you actually raised capital in Q1 in effect by MS&AD contributing a capital increase to fund the L&G deal, but to think -- and the cash generation is very strong presuming you still want to pay a substantial dividend, so maybe just clarify the guidance on dividend policy of Life Capital now.

Philippe Brahin
Head Investor Relations and Head Governmental Affairs & Sustainability

No. I think that was almost 3 questions but...

Edouard Schmid
Group Chief Underwriting Officer

I'll take the first one on the CorSo Reinsurance protection and that you're right. That still the majority is intra, so it's seeded to the Reinsurance balance sheet. So obviously, the margins healthy in that business, with everyone to keep that margin within the group. So as in the past, there is some external but the bulk is seeded from CorSo to Reinsurance.

David Alan Cole
Group Chief Financial Officer

So you're right. The open book business is bringing some drain with it -- earnings drain as we build up. We haven't disclosed those numbers. And certainly, at some point, in the future we will. At this point, I just confirmed that indeed, it is a negative drag on the ROE for the unit as a whole. And to your comment about cash generation, absolutely, I mean, the cash generation here has been fantastic. One small correction, we typically get dividend out of Corporate Solutions and Reinsurance in the course of Q1. But in Life Capital, it's typically, is during the course of Q2 because we have a little bit of additional regulatory discussion to go through. So it's not to be disappointed if you don't see something in Q1. But certainly, in Q2 of 2018, I would expect another healthy dividend coming out. Amongst others reflecting the transactions that you referred to, but also just a good ongoing cash generation coming off of that business. So yes, I believe that it's quite important that we maintain good discipline around expectations in that business and see a steady state of dividends coming up. We do continue to invest in the business, investing in from time to time large blocks, of course, as well as investing in the open book business. So yes, dividends certainly -- I'm always happy to see dividends from Life Capital. And in terms of timing, more Q2 as opposed to Q1.

Christian Mumenthaler
Group Chief Executive Officer

Well, thank you, David. Thanks. We have come to the end of our Q&A session. So thank you very much all of you for joining today. Don't hesitate to reach out to any member of the IR team if you have follow-up questions. And we very much look forward to seeing many of you in Zurich on the 4th of April, where we will have our Investor Day. Thank you.

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