S&P Capital IQ

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Swiss Re Ltd SWX:SREN

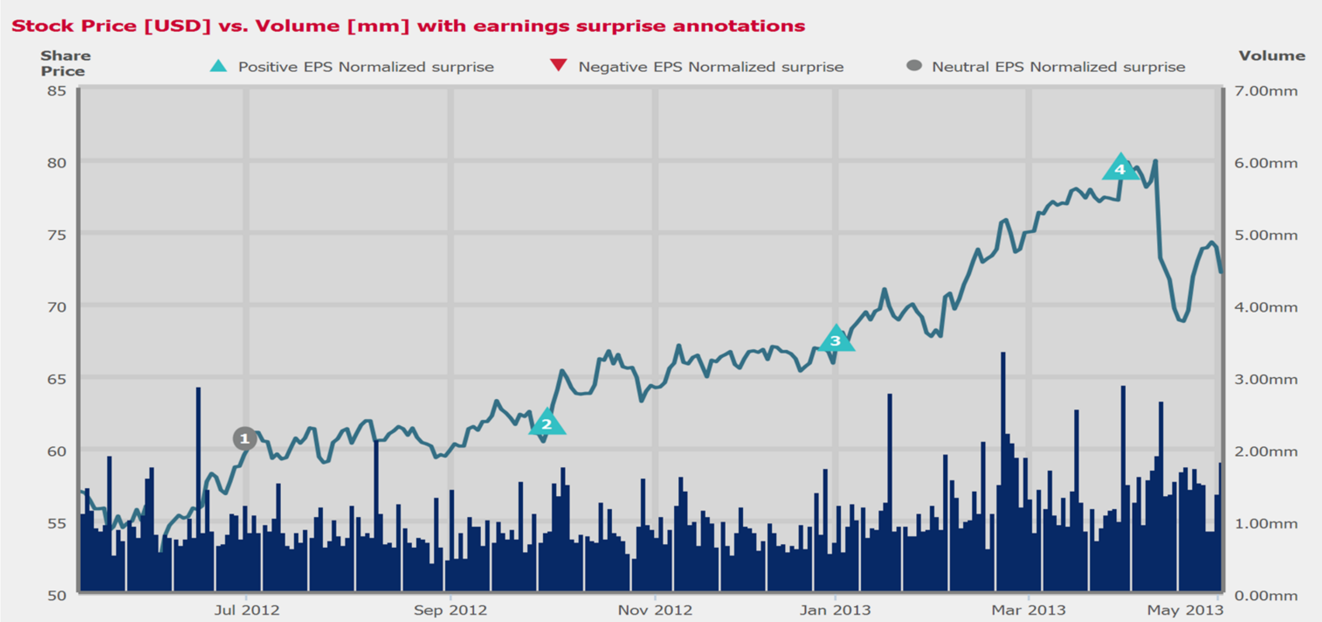
FQ3 2013 Earnings Call Transcripts

Thursday, November 07, 2013 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-	-FQ3 2013-		-FY 2013-	-FY 2014-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	2.29	2.11	▲38.39	9.77	8.32
Revenue (mm)	6979.04	7184.80	▲27.73	33722.44	33858.24

Currency: USD
Consensus as of Nov-07-2013 12:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	0.02	(0.12)	NM
FQ3 2012	3.23	6.30	▲1 95.05 %
FQ4 2012	0.50	1.53	▲2 206.00 %
FQ1 2013	2.88	4.02	▲3 39.58 %

Call Participants

EXECUTIVES

Eric Schuh
Former Head of Investor Relations

George Quinn
Former Chief Financial Officer

ANALYSTS

Andrew Broadfield
Barclays PLC, Research Division

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Helvea SA, Research Division

Fabrizio Croce
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Frank Kopfinger
Commerzbank AG, Research Division

Jason Kalamboussis
Societe Generale Cross Asset Research

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Maciej Wasilewicz
Morgan Stanley, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Dorner
Citigroup Inc, Research Division

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

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to the Swiss Re Third Quarter 2013 Results Conference Call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to Eric Schuh, Head of Investor Relations. Please go ahead.

Eric Schuh
Former Head of Investor Relations

Thank you very much. Good morning and good afternoon, everybody, and also from the Swiss Re side, welcome to our third quarter 2013 results conference call. I am here with our group CFO, George Quinn, who will give a brief introduction to the results before we start the Q&A session.

George Quinn
Former Chief Financial Officer

Thanks, Eric, and good morning and good afternoon, to all of you. And I'll start briefly with summary of the highlights from today's announcement.

Swiss Re has delivered excellent results, it's probably best illustrated by it's combined ratio of 80.9%, and premiums grew by 20% and reserve releases more than offset relatively significant man-made events in the quarter.

Our outlook for the January news is unchanged compared to that we gave in Monte Carlo, and we still expect to see nat cat pricing decrease before it stabilizes in 2014. Other lines of business are expected to remain flat.

Life & Health Reinsurance result is depressed by further Australian group disability business strengthening, $121 million. The overall ROE of 0.9% is far below any reasonable expectation. But we do remain confident that our restructuring efforts will deliver the 10% to 12% ROE that we committed to by 2015.

Our asset rebalancing is largely complete, has led to -- already led to slightly higher running yields, 3.3 for the third quarter this year compared to 3.1 in the third quarter of last year, and 3.2 in the second quarter this year. Going forward, given the level of interest rates, we know, again expect to see modest drag on the running yield of about 0 to 5 basis points per quarter.

Also, as we highlighted on the Investor Day back in June, we're also aiming to reduce leverage by more than $4 billion by 2016. And as you may have seen already today, we made significant progress against that objective.

The group's Swiss Solvency cash ratio of 229% is a good reflection of our continued very strong capital position, which brings me to our capital priorities.

There's no change for the overall message. First priority is to give regular dividends in line with earnings; secondly, we aim to grow the business where it meets profitability requirements; and we do continue to see opportunities to invest but a special dividend if possible, depending on the precise year-end capital position and our view of future opportunities. We'll make a final decision in February.

With that, I'll hand it back to Eric, who will host the Q&A session. Eric?

Eric Schuh
Former Head of Investor Relations
Thank you very much, George. Now I'd like to turn to the Q&A. And as usual, if people could please restrict themselves to 2 questions each and reregister for follow-up question. [Operator Instructions] .

Question and Answer

Operator

[Operator Instructions] The first question comes from Daniel Bischof from Helvea.

Daniel Bischof
Helvea SA, Research Division

I have a question on the asbestos reserve increase. And I think you had some additions in U.K. last year and now in the U.S. So could you provide some more details on the reserve increase of $250 million? And also more generally, how comfortable are you in terms of A&E reserve position?

George Quinn
Former Chief Financial Officer

Thanks, Daniel. So I mean, just to make sure we're on the same page. We added $247 million to our asbestos reserves in the U.S. this quarter. I mean, that was mainly driven by our regular reviews that take place, and the main driver this quarter was that we felt, we should have a slightly higher survival ratio than the one that we were seeing pre the entries in reserves. So that was really the key driver. I mean, overall -- overall, we feel comfortable with the reserving position on A&E, in the same as we do with other parts of the portfolio. I mean, as you're well aware though we look at the adequacy of our reserves as an entire portfolio. From time to time, we expect to see some positives, some negatives. But the critical issue is that reserving is at least adequate overall, and we feel very comfortable with the firm's current reserving position.

Operator

The next question comes from Thomas Dorner from Citigroup.

Thomas Dorner
Citigroup Inc, Research Division

My first question is on P&C Reinsurance. On the man-made losses, it meant that you have sort of missed the underlying combined ratio target in Q2 and Q3. I guess, can you give more color on them? And, I mean, it's clear from your commentary that you don't think this is a trend and is just sort of a 2 quarter long blip. But can you say why you are so confident it's not an issue? And then the second question is on Admin Re, actually, and your plans for sort of addressing lower ROE. I appreciate you can't be too specific, but how comfortable are you with this sort of informal timeline you had of dealing with Admin Re by the end of the year? Is that still sort of the timeframe we should be thinking about?

George Quinn
Former Chief Financial Officer

Thomas, first of all, on the man-made loss side. Just to highlight, I guess, you've all seen today, if you reverse the impact of relatively low nat cat is on the impact of positive reserve development, we end up an underlying combined ratio of about 97, which of course is substantially above the level we'd indicated back in February. We don't, though, have a -- particularly elegant way of isolating the man-made loss component. We have never tried to do that. I mean, I think that -- I'd direct those of you that have the slide pack, to Slide 21. On there, you could see a summary of the items that impact the third quarter. So we have a number of, in fact, fire losses are the predominant driver, we got marine loss, we're seeing -- I mean, if I look at recent history, I think this is the highest level of man-made losses we've had in something like 7 or 8 quarters. So that's the key driver. There are few other items. We've had a minor restructuring take place within P&C Reinsurance. That's also contributed. I mean, so that's a combination of what drives the underlying combined ratio up. I mean, looking at the drivers, we feel confident that the choice of the gains that we made in the beginning of the year are the underlying combined ratio, it's still valid. So we don't see anything that would lead us to other change or conclusion, or change the guidance that we gave you earlier in the year. On Admin Re, I guess, you'd appreciate. I cannot say anything other than what we said in the press release already about the discussions with Phoenix. And I guess if I now indicate timelines, I guess, by definition, I am. I mean, that process will take as long as it does. I mean, I can't really add anything to what we said earlier in the year on the press release. From an Admin Re perspective, overall, I mean, our strategic goals remain unchanged. Our aim is to tackle it and remain undiminished. So, I mean, when we have new news on this, you'll be the first to know.

Thomas Dorner
Citigroup Inc, Research Division

Can I ask the restructuring, the minor restructuring you mentioned in P&C Reinsurance? So -- I mean, is that -- is it genuinely minor and immaterial or is there anything we should be aware of there?

George Quinn
Former Chief Financial Officer

It's about point on the combined ratio and expenses.

Operator

The next question comes from Thomas Seidl from Sanford Bernstein.

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

Two questions on the investment income side. Number one, what exactly is that of the key actions you have taken to boost running years when we look at the asset mixes, I mean, minor moves, but nothing spectacular. And also, have you consumed the $3 billion you wanted to spend on this? And secondly, going forward, did I understand you correctly in the introductory note that this is a onetime action from here, you see the trending down by 0 to 5 basis points quarter-on-quarter?

George Quinn
Former Chief Financial Officer

Just to give you more detail, we actually did it in the quarter. So our purchases on the asset rebalancing side, we added about, almost $4.5 billion to credit. So that was the major change that you saw on the running yield in the quarter. And that was largely complete on the process that we announced at the Investor Day. The rebalancing on the asset side. I mean, we've also done on the equity side and we are all done on the short duration asset, the position that we announced. So I mean that's really the key driver. And that, obviously, lets the running yield you've seen in the quarter, and given that we're now finished, and assuming that interest rates remain at these levels going forward, we'll see a modest drag quarter-by-quarter as we to reinvest a slightly lower rate on average than the current portfolio. And I've given guidance today that, that should be between 0 and 5 basis points per quarter. I mean, one point to highlight, the short duration position that we have is reversible at any time, its not a difficult or eloquent position to address. I mean, we are modestly in the money compared to the level at which we stepped out. I mean, we have an expectation that selling over time interest rates will go higher. So we'll set what we have for the time being. And again, I mean, as we've highlighted back in June, we have not consumed the $3 billion of capital that we highlighted at the Investor Day as the capital required to support and is risk taking. And as you've also seen on the SST ratio, that's the principal driver of the reduction from 245% in the earlier part of the year to 229% SST at the beginning of the second half.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

George, just on the cost in premium growth in Non-life Reinsurance of 14% in third quarter. I mean, just that number stood out as another strong number on the growth level, and I am just wondering if you could comment a bit on that? Secondly, just wanted to understand the Life & Health ROE target, which has been maintained on to medium-term. This debt swap that has been structured probably adds around roughly one point of ROE on a very rough calculation. And the target is still maintained. So I just wanted to understand how you think about that.

George Quinn
Former Chief Financial Officer

So, on the course of saying first. I mean, our expectation was to see declining growth rates, which I guess, we have done, some very, very high levels to still high, but, I mean...

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Not quite so, I mean, the P&C Reinsurance, sorry.

George Quinn
Former Chief Financial Officer

P&C Reinsurance.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes, yes.

George Quinn
Former Chief Financial Officer

So the predominant driver of P&C Reinsurance is the expiry of the quarter share. If you take out the impact of the quarter share our underlying growth is more like 2%.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Even if the gross premium is written 11?

George Quinn
Former Chief Financial Officer

Well, I'm talking and [ph] for the time being. So, I mean, the driver of the gross written premiums is the impact of the new. So, I mean, you saw some rare effects, but we had some growth in the portfolio. And that was coming through from the 2 earlier renewals.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Sure, sure. Okay.

George Quinn
Former Chief Financial Officer

On the Life & Health ROE target, I mean, just to make it completely crystal-clear. This was not a step towards the target. I mean, this is right pocket, left pocket. So, I mean, We haven't changed the target, but I expect Life & Health to do better by the summer. This wasn't part of what was contemplated back in June. And this is simply an adjustment of the capital structure. So, I mean, In essence, that target is a bit higher because of this.

Operator

The next question comes from Jason Kalamboussis from Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

A couple of questions. The first one is on the life retail side. The hit of around $500 million that you're going to take in 2014, is there any chance that we can see that coming a bit forward, so in the fourth quarter? And also, is there, therefore, a chance that we see it increase for 2014? And the second thing is, for -- on the running yield, if we say that it's going down by around 0 to 5 basis points, is it fair to assume that some of which are making it up from the higher equities investments or not?

George Quinn
Former Chief Financial Officer

So on the first one, Jason, on the Life & Health number. I mean, Alison and his team are working really hard to get this done as quickly as they can. I mean, if we could -- if we are able to get things done in the fourth quarter, we absolutely will. But does that mean a change to the overall number? No. So I've talked to Alison and Christian several times, they both feel confident that $500 million is a good estimate. You'll appreciate though -- its a relatively small number or transactions that's quite a bit of event risk around each negotiation. I mean, the team are working hard. It seems to be on track, and we have no change to what the cost will be. On the running yield, equities don't affect the running yield. So the running yield is purely a fixed income. I mean, you're right. If we look at the potential impact on the overall yield of the equity portfolio, I mean, if you make broader market-based assumptions, you could anticipate some improvement from that. I think, the challenge for us is very hard to call when that comes, of course part comes through dividends, which is typically more predictable. And some will almost silently comes through gains, some will be losses. I mean, overall, it's hard to predict exactly when that impact will arrive. But equity themselves don't impact the running yield.

Jason Kalamboussis
Societe Generale Cross Asset Research

Yes. No. It was a separate, maybe you have done more realized gains within equities. The things that you know the overall, which you take out of equities is more substantial in the third quarter, but it could be due to realized gains.

George Quinn
Former Chief Financial Officer

Yes. I mean, from what we see, I mean, the vast bulk of the equity. The bulk of the equity portfolio is managed externally. So the managers make decisions around timing of entry and exit, and we see active management of a number of the mandates this quarter. And that's, obviously, driving up the contribution from realized gains. But that's not something the group is instructing.

Operator

The next question comes from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Two questions please. One, purges about completely something hit. But the discussion about special dividend. The SST is 229%, notwithstanding some major change in the fourth quarter. And I can't -- maybe I'm not creative enough, but I can't think of a way in which you could utilize the capital [indiscernible] not justify a special of some sort. And so, I guess, the question is, what barriers, assuming there was no major loss event in the fourth quarter, which may be that, it's several weeks to go. What major thing would stop you because you couldn't grow to use that much capital I shouldn't think, as all other major things might stop you from paying a special. That's the first question. Second question, just is a -- is a bit of a hygiene question because there has always been lots of speculations about Spanish surety issued in the market, and I was just wondering, and apologize if I missed this as well, what your position and exposures might be to that, please?

George Quinn
Former Chief Financial Officer

Yes. It would be a surprise to me if you have missed something on either of these 2 topics. So on the special dividend, I'm going to avoid the hypothetical. I think we're really transparent with cap position currently. So, I mean, I think it's pretty much exactly what you'd expect to be given when we invest on the asset state. I mean, what can happen between now and February, I mean, if we split losses, we'll make a lot of money, we'll create even more economic capital. I mean, we see the potential to invest. I don't know if we will, but I mean we see the potential with what has happened and the key driver when we do that, sort of we get the right levels of return. I mean, you can see today we signaled that there is a willingness to consider one but we won't make the decision until February. And my guess is you can see all the possible things that I can see, just you can't see the amounts or probabilities. But I'm going to avoid what could cause you not to pay a special dividend question at this stage. On Spanish surety, it's not an issue for us.

Andrew Broadfield
Barclays PLC, Research Division

Okay. So we shouldn't expect to see anything from you toward on that?

George Quinn
Former Chief Financial Officer

No, nothing material for us.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

So I've got a very simple question to start with. Is it quite hard to model the net earned premium trajectory of the P&C business. And I appreciate the vulture effect. I thought that the 19% year-on-year growth back the envelope was around 15% to 16% was vulture effect and the rest was earned through of increased business. Can you give us any sense, kind of any outlook there for the next couple of quarters as the rate of earn through of the vulture affect? I'm guessing that starts to trail off by Q2 of next year. But there could still be quite a lot of earn through new business? I know some of the new business you wrote was multiyear, it's quite hard to work it out. Is there any kind of flavor, the vulture versus organic growth effect would be useful? Second question. I guess is linked to that. I mean, George, you still talk about, and I'm not driving for any other angle on the special dividend here. I'm more curious on growth opportunities, which you still say you see growth opportunities. And you mentioned again that you still feel nat cat rates will stabilize in 2014. Most of your peers have got slightly more bearish given we've had a very benign loss situation in the second half, we had another hurricane season without losses. What gives you still so much confidence in the stabilization on nat cat? And have you not at all got slightly more skeptical in the growth opportunities?

George Quinn
Former Chief Financial Officer

Thank you. So on the vulture topic first. We reported 19.9% in the quarter and approximately 2.2% is the non-core to share impact. I mean, that will vary going forward because you can rate shorter contracts, longer contracts, you have multiyear, as you pointed out. But I mean the -- I mean, we'll see some continuing and...

Andrew James Ritchie
Autonomous Research LLP

[indiscernible] should increase a bit because it seems quite a low impact given the increased renewals in the last 2 such renewals.

George Quinn
Former Chief Financial Officer

Yes. Remember what we said before. You can't rely entirely on the renewal headline because we got a mixture in there of multiyear underrating reviews. It will come through different rates. But for Q3, 2.2 was, let's call it, the organic element of the burn through, growth opportunities, I mean...

Andrew James Ritchie
Autonomous Research LLP

Can you give us any color on the next couple of quarters on the trajectory?

George Quinn
Former Chief Financial Officer

Hang on, I'm just looking at my notes. Yes. I mean, if you go back to July, we reported 11. You tell low for the fact that, a chunk of that is going to be multiyear again, I know for the fact in the U.S. in particular the largest driver of growth, with multiyear premium in July 1. I mean, I don't really see fundamental changes in what you see at the moment, and it can vary a bit up and down, but I'll be surprised if you saw massive changes. The core share will continue to be the biggest driver of growth, which I guess, leads on to the second question. So I'll start with the nat cat topic first. Just to restate what I tried to say earlier. And because of Scottish, maybe it doesn't come across clearly. We expect nat cat pricing to decrease. And then we expect it to stabilize. For me, that's feels like almost like a statement obvious. And I don't feel we have a more bullish view of the nat cat opportunity in the short-term. And for the avoidance of any doubt , I really don't expect we're going to come up in January 1 and report massive growth rates on nat cat. So, I mean, that's not what's in my mind, at least, when I talk about growth opportunities. I mean for me, I expect to see some growth continue in Life & Health. I think what the team had been doing there on the Health side in particular has been good, and if we continue that, that will contribute towards the target. On the P&C side, I don't see that we can do something that's vastly different from the market. I think, we can outperform in some areas, but, I mean if the market, particularly again the nat cat is going to suffer in the short-term. I mean, we can't resist gravity. So we'll try and do our best to do better than average, but we won't completely defeat the direction of the market. On the others, I think we generally expect other lines of business to be broadly flat. There maybe some growth opportunity there. But again, I think as you appreciate, I mean, to the extent that there's going to be some casualties, largely a diversified risk for us. So that wouldn't be a significant consumer. I mean, what's really in my mind, when I think of growth opportunities, is steady bolt-on acquisitions for Corporate Solutions. I mean, we would like -- I think we expect the team to do some of that growth over the next couple of years in the form of acquisition. I mean, you've seen this on the other side, we talked several times over the course of last couple of quarters around our investment philosophy, and particularly in higher growth markets, I mean, supporting client insurance companies in ways other than traditional reinsurance, which will typically mean investments in the capital structure, and it's also something that we would consider and, in fact, you've seen us do, in fact, announced relatively recently. So I mean, these are the things that are from the mind, I think of the opportunities that may be ahead of us.

Operator

The next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. A couple of questions if I can. The first question, just on Life, the disability charge that you guys took. George, I think you're -- I don't know, if I should say self-deprecating. But you used, I think, the words not a good enough job, or something like that when describing how the original estimate was compiled and presented at 2Q. I don't know if I'm being too harsh there for misreading that. I'm just wondering if you can just -- I don't know how much you can go in terms of explaining what went wrong and how are you guys now playing to reverse this situation. I guess, maybe, you're doing a very, very thorough review that might take a few months and come through next year or something. I just -- what you can tell us there? The second question I wanted to ask is just on the asset portfolio, you said that the re-risking is down, and you've gone through that in some detail. I guess, you do still deliberately have ALM mismatch for good reasons. So I'm just wondering, if you were to close that mismatch, so once the yields have moved to where you expect them to, is that going to consume more capital than I guess, it might create because, I guess, the ALM mismatch itself might cost you something in capital? But re-risking or extending duration or investing cash might cost you something in capital. So just wondering, what the balance is of that impact when you close off that position?

George Quinn
Former Chief Financial Officer

Yes. Okay. So on the first one. I think, for the Life & Health team, feel we're being a bit hard on them. I think the challenge here is that we saw the issue in Q2, and I think we really feel we have done a bad job and again a bad number together at Q2. A lot of the changes you've seen comes from new information from clients in the course of the third quarter. And you can see around that it appears to be a broad industry issue. And I think we expect more from our team. So there's a number of lessons we'll learn from this. We had a number of reviews that had taken place. I mean, they are largely complete. I mean, at this stage, I don't expect further changes from those, but I can see that, not in all cases, that we have all information from clients that we'd expect to see. The team have an made an assessment of the risk there, they have made explicit allowances. I mean, just given the experience they've had, Q2 versus Q3, and the change that we've had to take -- I mean, I cannot, in the short-term, exclude the possibility that there are further change to come on these reserves. I mean, I don't expect a huge drama here. I mean, it could well be visible in this segment given the level of earnings that it currently produces. It would not be material for the group. I mean, that's really the context of the remarks that you saw from me on the video. On the ALM mismatch saved, I mean, it depends on the cash when we reverse it. But if we go straight into currency and duration matched government, has no impact on additional capital -- there's no additional capital requirements and we saved the sum, $1.1 billion of capital, that was required to create the mismatch in the first place. Obviously, if we decide to go further into some of the risk classes, then that can have a different impact. But I mean, at this stage, our intention would be, that if and when we reverse this, it will go back into currency and duration matched government securities?

Maciej Wasilewicz
Morgan Stanley, Research Division

Sorry, just so I understand that -- maybe I, fundamentally, just don't understand that one thing. So currency matched government bond investments don't carry any capital charge in your model? Is that the implication from that or have I misheard all?

George Quinn
Former Chief Financial Officer

Well, it partly depends on which government. But in general, assuming we're invested in the higher-quality government, so we're talking U.S. Treasuries, bunds, et cetera. These consume no capital.

Operator

The next question comes from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

George, I just got a couple of questions. First one, just the SST ratio. Does the 2 2 9 increase -- any impact from the convertible securities you issued earlier this Autumn? And what's the Swiss regulator's view on that? And the second, I guess, is just touching on what Andrew was talking about earlier. Just from the [indiscernible], I mean, thinking back to Investor Day, and it seems you should reinvested $3 billion [indiscernible] hit your 2015 EPS target. Do you think you're more positive on that or less positive on achieving $3 billion of capital deployed at 11% now?

George Quinn
Former Chief Financial Officer

Thank you. Thanks for the first question. I mean, just make sure everyone knows, the SST ratio that we've published does not include the contingent rate down note that we issued in March, which was $750 million, nor did it include the $175 million Swiss francs bond that we issued on October. The reason for that is -- I mean, they're relatively novel in the insurance sector. We've been in discussions with FEMA, with the treatment. I mean, at this stage we expect for this to appear in the SST ratio, probably in the course of next year when FEMA has reached a conclusion. But that said, decision is entirely in FEMA's guess. But I'd say that we are relatively confident that we will get the credit that we expected when we issued these bonds. But again, they are novel, are quite different from what we've seen in sector before. And FEMA, quite reasonably, is taking some time to satisfy themselves. But the treatment is appropriate. On the $3 billion, I would say that, today, I'm neither more positive nor more negative. I guess, we had 2.5 years left back in June. Now we're down 2.25. I expect the company will see opportunities to deploy capital, whether it's $3 billion, a bit less, a bit more. Today, I just couldn't say, but our level of optimism hasn't changed.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

So you want it to come back to you in January then?

George Quinn
Former Chief Financial Officer

Say that again, Kamran?

Kamran Hossain
RBC Capital Markets, LLC, Research Division

So once it comes back to you to in January maybe?

George Quinn
Former Chief Financial Officer

Yes. Maybe I'll change it January, but today, I've got the same opinion.

Operator

The next question is from Michael Huttner with JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the reserve lease, can you give a feel for how much is coming from lower inflation, low CPI inflation? And also, if we continue to get what in Europe is like negative CPI inflation at the moment and U.S. low, I think U.K. is the only country where it's kind of high-ish. How much should be kind of half-expecting per quarter? And then on the man-made point. I may have completely misunderstood, but at one of the meetings, the thing I heard was that, in order to grow you would consider going down the risk curve. In other words, more frequency. And then, inevitably, is my guess, you would pick up more man-made, and I just wonder, if that's what we're already seeing now or whether is that something yet to come?

George Quinn
Former Chief Financial Officer

Thank you, Michael. On the first point -- maybe to highlight what the underlying reserve movements were in the quarter. So we have $351 million of positive net impact on the technical result, vast bulk of that comes from property. So $271 million from property, which is a combination, mainly of Thai flood and Sandy releases. For the others, casualty is actually negative for the quarter, driven by the $247 million adjustment for A&E. And we've got about $160 million positive bonds specialty. And I mean, if I look at it -- i mean, if you peel back the impact of A&E, we clearly have a positive on casualty generally. And we do have a view on the impact of lower inflation of future reserve release? And I mean you're probably sick of hearing this from, but in general, we don't forecast future reserve release. I mean, if everything remains the same and the reserves that we have simply get pulled pooled from the [indiscernible] estimate, which is the pricing basis towards the chain ladder which is the current experience, you'll see a continuation.

But I don't have a number in my head, Michael, for that what may be. But in general, we don't plan to reserve release. I mean, we don't think it's necessarily a negative, but we don't see it a high-quality component of earnings either. And want to avoid the situation where we start to convince ourselves that this is necessarily part of our future and can be relied upon as a recurring part of earnings. I just don't believe that, in the long term, it can be. On the man-made point, I mean, I think what you said is right, but it really didn't change the feedback here today. With the man-made losses, we're only look at the large man-made losses, so ignoring the traditional stuff. So we're picking up stuff that, for our share, is in excess of $20 million. So, I mean, it really is still severity that's driving this rather than frequency.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And is there anything here where, internally, you might have asked questions of your colleagues saying, is your underwriting discipline slipping a little bit?

George Quinn
Former Chief Financial Officer

I mean, you know Matt Weber. I'm completely confident in the way that Matt runs the underwriting function. I mean, I think he has long demonstrated his ability to run it extremely successfully. I mean, you can imagine that we ask lots of questions when we see things that deviate from expected, and Matt is the first person to ask those questions. So we've looked at it very carefully, and we've drawn the conclusions that you've heard from us today. We really see it driven by, mainly, the man-made losses, and these are man-made losses in excess of $20 million. And the list is on Slide 21. I mean, we expect to see some natural volatility and we have it this quarter.

Operator

The next question comes from Stefan Sherman from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 questions. And the first, coming back to the Australian disability business. Can you maybe just remind us on the size of this book in terms of premium and reserve? And then the second question -- I mean, coming back to -- comparing your basically reserve movements based on what Berkshire announced a few days back, on the Berkshire disability book. It just doesn't really match from the outside. Can you maybe just give some color? I mean, Berkshire was giving sort of a negative overall reserve allotment for the disability book. You now have quite nice positive developments. I mean what's the explanation from the outside?

George Quinn
Former Chief Financial Officer

Okay. So I'll start with the one I know the answer to, and then I'll probably try to [indiscernible]. On the Australian DI piece, annual premium from the group schemes in Australia is about $800 million for us, and it breaks down $600 million for disability, $200 million for life. We have a bit more -- about $1.2 billion in reserves in Australia.

George Quinn
Former Chief Financial Officer

On the Berkshire Hathaway one, I mean, problem is -- I don't know their numbers, so it's very hard for me to comment. I guess the one thing that they couldn't have known when they published was the results we had for this quarter.

Stefan Schürmann
Bank Vontobel AG, Research Division

No. But then, basically, most of your reserve, basically, should relate to all the business you wrote between 2008 and '12. I mean a lot of deposit movement. I mean, is there any, maybe, timing there or just any specific issues why it diverges a lot from your reporting?

George Quinn
Former Chief Financial Officer

I don't see any reason, and I can assure you that you don't get different numbers from the ones that they get.

Operator

The next question comes from Fabrizio Croce from Kepler Cheuvreux.

Fabrizio Croce
Kepler Capital Markets, Research Division

I have, actually, only one question. It's about Corporate Solution. It seems that you are growing there pretty aggressively, 34% is a bigger -- but of course, you are in the process of building up this business so you need to be aggressive. But on the other hand, we feel the combined ratio, which is actually going out of control, and I mean 105% is pretty high level. And the question is, actually, what is the limit of growth? I mean, do you have in mind a figure, in terms of size, at which you will start to stop and then start pruning portfolio back to a combined ratio in line with that group one or what is actually the endgame of this department? Because, of course, at the beginning you have to be aggressive, but the question is when it stops. Even because this quarter, actually, the operation keeping up all the other is the P&C. But this is a lot of good luck and it's not everyday is Christmas. So, actually, going forward, could become our issue.

George Quinn
Former Chief Financial Officer

Thank you for the question, Fabrizio. Maybe If I just give a bit of insight on how Q3 for Corporate Solutions, because it's quite different to we're used to for reinsurance. I mean, as is typical for the commercial insurance sector. We don't earn premiums in the commercial business in proportion to risk. So that means, again, in contrast to P&C, we actually expect to see an elevated combined ratio in Q3. I mean, we've got pro rata temporis premiums and we have a much higher expected loss burden. And in fact, I mean, if you've seen this quarter, even though it doesn't show in Reinsurance, Corporate Solutions has been hit by the 2 hurricanes in Mexico. Maybe just come back to the broad thrust of the question. I mean, I have a completely different perspective on this business from you. I mean, I think it's firmly in control. I mean, we talk about premiums and we talk about ROE, but the discipline that we apply in the growth that Corporate Solutions executes on is all about growth of profit. So there's no volume target in here. There'll be no celebration if [indiscernible] gets to Corporate Solutions or if Corporate Solutions that gets to 4 to 5 and the ROE is not in that range that we promised. I mean, I guess [indiscernible] and the team don't see any differently. I mean, they're a very, very disciplined group of people. And I think the relatively rapid growth rate you've seen is them expanding footprint into markets where we're not as present as we have been in the past. I mean, Swiss Re is a strong brand name. We attract a group of clients that previously, perhaps, were not available to us. But we're not looking to compete on price, we're not trying to be aggressively growing at the expense of margins. The discipline we apply here is exactly the same as the one be apply in P&C REIT, and in the not too distant future, we expect exactly the same performance.

Operator

The next question comes from Frank Kopfinger from Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have 2 questions also. My first question is on the Admin Re business, where you do have just positive taxes. Could you comment whether this is a pure one-off or whether this auto reverses in some point of time? And my second question is on your equities portfolio, which have split up now you also placed up unrealized gains, but you also harvested a certain part of it. And the question is, do you have some sort of guidance on how much you want to harvest on the unrealized gains there or was is it just a coincidence in Q3?

George Quinn
Former Chief Financial Officer

Sure. On the first one, Frank, this is absolutely a one-off. But it's a political decision, so the U.K. has reduced tax rates. Admin Re has a net deferred tax liability, so therefore, has a positive impact. The only way it would reverse is if the U.K. reversed direction on tax rates and the firm was still in a net deferred tax liability. So, I mean, I think we can assume that, for the foreseeable future, it's a one-off positive. I don't expect to see it repeat. On the equity side, I mean, in general our equity mandates a total return. We don't give targets to the managers for levels of gain realization. When they decide themselves when they either rotate in a row of a particular sector, when they pick a particular stock, when they sell one. So, I mean, what you're really seeing is chance, it's not a directed outcome from the group.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

This is, again, on the to 2 2 9 [indiscernible] solvency test [ph]. And if I was just looking at the required capital between the last invested in now [ph], so it has gone up around $7 million to $8 million. And again, going back to the growth in the business, and when we adjust for the Asset Management rebalancing capital charge of around $1.6 billion. I'm just wondering why this hasn't grown much more. Or in other words, the $229 million that you've given today, I would've thought already included the [indiscernible]. So, in other word, it will be much higher. I imagine the driver is the required capital there as well as the good comment on the growth in the quiet capital please [ph].

George Quinn
Former Chief Financial Officer

Yes. Vinit, the 2 core cause are no end [ph]. [indiscernible] just cause-and-effect. They're required, but you would have expect them to show up in the available -- at least, the March one. I guess, for the reasons I gave. And in response to the question earlier, I mean, there'll be a delay before you see those appear. On the risk side -- I mean, one thing to bear in mind that the $3 billion of capital was never target capital item. That was the required capital multiplied up for a target level of capitalization, so 1.85. You wouldn't have expected to see the target level of capital grow by the full $3 billion that we talked about back in June.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Even considering that, this $19.8 billion becoming $20.7 million means there were some other drivers as well, which reduced this. Is there anything we should know, I'm just trying to understand.

George Quinn
Former Chief Financial Officer

No. I mean it's routine for us to have relatively minor changes in models, either that we originate or that [indiscernible]. There's a number of maintenance topics that are always running in the background. So you'll always see some variation from the expected.

Operator

The next question comes from Jason Kalamboussis from Societe Generale.

Jason Kalamboussis

Societe Generale Cross Asset Research

Just a quick one, follow-up, exactly on the same topic of SST. If you have your 19.9 and you add your 1.6, you should be at 21.5. So the difference is relatively big, with a 20.7. So you would say that this is on the other adjustment and there is not one big item in there. The second thing is when I look at RBC, within it you have included the economic loss on Life Re, presumably. But would it be, in general, more possible to have a breakdown so that we can have, at least, some of the items and that we can do sort of roll forward?

George Quinn
Former Chief Financial Officer

Answer to the first question is yes. And the answer to the second question is, let me think about it and see what we can do in the future.

Jason Kalamboussis
Societe Generale Cross Asset Research

Okay, great. And if I may ask, just another quick one. On the man-made, I mean, if I was to look with your peers, on the man-made, even though it was higher, you do look to be on the lower end compared to your peers. And on the other side, what we see is a bit of a reversal, that means on both the German floods in the German hale, you had a relatively big number compared to all of them. What would be your comments on this observations?

George Quinn
Former Chief Financial Officer

It's hard for me to exactly analyze our portfolio assets of other companies, so I don't know. What I can do, relatively easily, is compare the trend of man-made losses that we've reported. And this is one of the highest quarters that I've seen in the last 2 years.

Jason Kalamboussis
Societe Generale Cross Asset Research

Okay. And there is no change, with you're underwriting that could reflect either any of these 2 observations? For example, in Germany, you just -- on both events you had a very large number compared to all your peers. If I was to look at all the previous events be it Japan or anything else, you were probably certainly not, in a way, above everyone else. If anything you were probably coming second.

George Quinn
Former Chief Financial Officer

I mean, again, Jason, I think on a relatively, let's call it, regional event. I mean, I would expect to see big deviation between the various company. But again, very hard for me to comment compared to others given, I don't know their portfolio. I mean just one thing. Just my crystal comment to make, no change in our underwriting procedure. I mean, the thing that I just cannot promise to you is that every single quarter, would have expected of man-made losses. It will vary and we don't try to normalize underlying combined ratio for that. So you got to see some volatility for sure.

Operator

The next question comes from Michael Huttner from JP Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Two questions. One, what's the target ROE and the combined ratio for Corporate Solutions, please? And the new capital third-party capital coming in, and I know you spoke about this at one color. If your strategy the same as your peers, which is use some of it for your own, provide -- get some fees out of it? In other words, active [indiscernible] of money and then of course, help clients issue capital?

George Quinn
Former Chief Financial Officer

So on the first one, Michael, we said that by 2015 we target a return on equity of between 10% and 15%. For Corporate Solutions for this year, we indicated that we expect to see a combined ratio in the range of 97%, which is not very far away from the 9-month number that the Corporate Solutions has published. On the second one, I think you're not far, but I would change the order though, so I mean, if clients have a desire to do this they are our #1 priority. We get some fees -- it's not really our #1 aim here. It doesn't make a difference to us financially if we own fees on passing through large risk. I mean we really see that, one, helping our clients, and number two, on organizing risks that are maybe excess of our risk capital or otherwise, we change the shape of our portfolio in the way that it's more net capital efficient. It's not really about the fees.

Operator

The next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

On the FWD group acquisition, I just wanted to know -- I understand this part of a strategy to buy insurance assets globally where you have some advantage in understanding the business dynamic so that you can a bit of additional return and from your existing knowledge. Can I just try to understand the scale of that project? And also, what is it fit within the asset allocation? Is that part of the 10% in equities and alternatives? In which case, is it exhausted or is there more to come on that project or on that asset class?

George Quinn
Former Chief Financial Officer

All right. I guess, first point I'd make is, Mac, I don't see this as some of equity investment project. I mean I guess, the way I prefer to characterize this is it's an alternative form of capital support for our clients. I mean, in some markets, it's clear that Reinsurance is, I'll say, less popular given the local market structure. At some point in the future, Reinsurance will become an important product, but their focus in some areas is more on the primary side for the time being. I mean, we believe we can still have value. And we believe we can still add capital support. But in this case, we've done it through the equity investment that we've made. I mean, if not within the mid-term plan that you see, so we see it as a separate allocation of capital. Again, it's driven by opportunity. And, again, in particular, the level of returns that we perceive we can achieve through these investments. So I mean, it's not limited by the 10% that you see on the mid-term plan for the equities. But, I mean, for me, from a strategic perspective, it's a Reinsurance replacement. And we're happy to do that when we think we know the business, hopefully we can add something. And most importantly, the returns meet targets.

Maciej Wasilewicz
Morgan Stanley, Research Division

So am I right to say that the size of the eventual of these type of cover that you might give your clients, it will just depend on what opportunities crossed the door? Or is there any kind of endgame sort of specific amount of capital that you would allocate to that part of the business?

George Quinn
Former Chief Financial Officer

I mean, given that it's such a small part of what the group does today, I mean, we're long, long way away from any particular limitation. and we haven't said that today, but, I mean, when you look at capital allocation for the group in general, whether it's nat cat, casualty, Life, Health, Corporate Solutions, Admin Re, or this form of investment, we apply that of the same discipline to every single piece. And if you want the money, you have to have the target, and that's the basic requirement.

Operator

There are no more further questions at this time.

Eric Schuh
Former Head of Investor Relations

All right, great. So we are done in time. I hope everyone felt that you could ask all the questions you wanted. Please contact me or anyone else in the Investor Relations team if you have further question regarding today's results or our upcoming events. Thanks again, everybody, for your participation and goodbye.

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