Swiss Re Ltd SWX:SREN

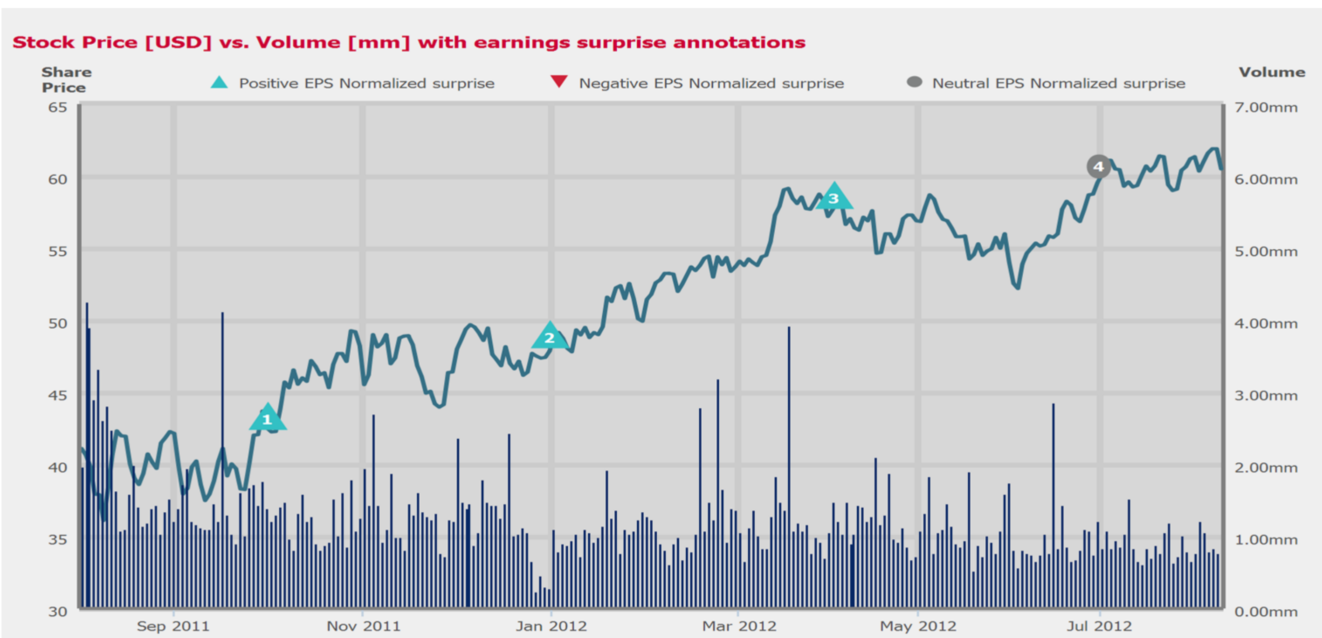
FY 2012 Earnings Call Transcripts

Thursday, February 21, 2013 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-		-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	3.23	6.30	▲95.05	0.50	▲206.00	9.93
Revenue (mm)	6734.24	9283.42	-	6937.04	-	32023.49

Currency: USD
Consensus as of Feb-21-2013 9:14 AM GMT



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EXECUTIVES

Eric Schuh
Former Head of Investor Relations

George Quinn
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Michel M. Liès
Former Group Chief Executive Officer

ANALYSTS

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Frank Kopfinger
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Jason Kalamboussis
Societe Generale Cross Asset Research

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

Unknown Analyst

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Michel M. Liès
Former Group Chief Executive Officer

Good afternoon, or good morning, everybody, and welcome indeed to our 2012 Annual Results Conference Call. I am here with our Group CFO George Quinn and Matthias Weber, our Group Chief Underwriting Officer. Before jumping into the Q&A session, I will hand you over to George for some further opening remarks.

George Quinn
Group Chief Financial Officer

Thanks, Michel. So good morning or good afternoon to everyone on the phone. So I'll briefly summarize some highlights of today's results before as Michel said we jump into the Q&A. So as you've seen all of Swiss Re's businesses and the asset management team have contributed strongly to an excellent result. Net income of $4.2 billion. As you probably have seen already today in dollar terms this is the highest ever result achieved by Swiss Re.

During the January renewal we've seen continued growth on the renewable reinsurance treaty business, we're up by 11% with 2% nominal price rise. This we expect will lead to powerful growth for us as we were also able to maintain the economic price quality of the portfolio at last year's level, meaning that the nominal price rise was offset by the impact of interest rates and other changes such as exposure adjustments.

As you also know on top of that we had the expiry at the end of last year of the 20% P&C quota share with Berkshire Hathaway and that will bring us a unique source of additional fully diversified net premium. And in fact Swiss Re's net premiums will increase by about 25% over the next 2 years as a result of the expiry.

As you've seen and for the end of this year we've proven that we have the strength to both grow the business and the dividend. If you look at the total dividend payouts proposing as $2.8 billion, approximately $2.8 billion. If we measure the amount of capital we've deployed into growth in 2012 the renewal this year and the P&C quota share expiry and we use S&P as the basis, we've deployed about the same into the growth of our business.

We are also serious about capital management as the dividend policy and the actions that we've taken today show. First priority grow the regular dividend with the mix and minimum we aim to maintain it and then we focus on business growth, where that growth meets our profitability requirements.

Highlights wouldn't be completed with I mentioned the targets, and as you've seen today, we have made good progress this year. We are well on-track. We still have challenges ahead. But these are the firm's number one priority.

With that I'll hand you back to Eric to host the Q&A. Eric?

Eric Schuh
Former Head of Investor Relations
Thanks very much, Michel and George. Now, operator, we would like to turn to the Q&A. [Operator Instructions] Thanks very much in advance and operator could we please take the first question.

Question and Answer

Operator

The first question comes from Jason Kalamboussis from Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

I have a following question; the first one is on the dividend, both the special and the ordinary. On the special dividend how do you see going forward, you know, with the excess capital that you have, how do you see the next year panning out and what conditions would make you come back to the special dividend? And on the ordinary dividend side, I was slightly surprised by the growth and you know is it something that if we take for example a more normal growth of 10% of your EPS this year versus last year, if you were to assume that then you had sort of a payout of around 46, 47%. Is that where you would like to be, because of don't you think that for example in the ordinary dividend, you have a very strong growth this year, but that could bring you to a very low figure on some other years. So you think about dividend growth if you want? And the second question is on the [indiscernible] businesses. The fourth quarter was very good. We didn't have basically any losses. Was that driven by the shape of the book or by any actions and could you update us on what you are looking for in 2013? And the final question is on the expense ratio in casualty reinsurance. If you could help me to try to understand when we're looking at you know last year on a restated basis, you had gone from about 10 plus to 12, 13 if you look at 2010, and '11, now you are at 10.7%, 11% and you have also an impact from the quota share, I don't know if the 0.5% heat on the combined ratio will be in the admin expenses. So how should I look at that in 2013? Thank you.

George Quinn
Group Chief Financial Officer

Well, that was a large number of 2 questions Jason. Well, but you've got 3 at least to get. We will do these and if you don't mind, come back, we will get other people a chance. So on the dividend, so first of all, on the special dividend, obviously we're delighted to make a payment today. We've been pretty clear on the policy though, so policy now is focused on the regular dividend and actually growing the business. And the board still have the options open to that capital repatriation, I mean if we're going to pay a special dividend every year, it wouldn't be special anymore. So at this stage, we have no further plans, but we will reevaluate it at a relevant day. On the ordinary dividends, you mentioned the payout ratio, I think because of the natural volatility you can see in our business our payout ratio is a relatively risky way to go out and so we look underlying earnings and we think the underlying trajectory would be to back to the start of your question, if we see 10% growth in earnings and what will that lead to, that will typically lead to 10% growth in the dividend, and I think we have seen today is a bit more confidence from us around the future trends. And pre-2004 business impact, we have been working on this, I wouldn't claim that the things we have done so far have had a huge impact yet, you're right, we had a breakeven impact in the fourth quarter even though the impact for the full year was $144 million, so all I can say at this stage is that we expect less in 2013 than we had last year in total. And on the expense ratio, so just to clear out one thing on the treatment of the over write from the quota share, the over write has actually impacted acquisition costs that's why we had to trade essentially, so the distortion you're seeing in that line, the expense ratio is un-impacted by this, but of course given we are going to have more end premium in future you are going to see this decline as volumes continue to rise.

Operator

The next question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First one to George, just a clarity on the capital position now, I mean I make it that roughly pro forma, the payment of the 2 dividends and if we set aside what you will need to set aside about your quota share expiring and what you're probably deployed at one, one, you end up with about $5 billion-ish over your S&P AA; just to clarify the target was always I think $3 to $5 billion buffers, is that still the target which should imply that kind of as far as you are concerned to the right sizing of the capital base has more or less occurred. Second question just a point of clarification on the combined ratio again. The guidance you've given which is a one point lowering of the combined ratio, normalized I'm not clear, does that incorporate the expense ratio of the absence of the override and I know that obviously isn't, it will take 2 years to come through but you just clarify does it those reflect some element to that. In other words, the underlying combined ratio guidance has to be lowered more than one point? Thanks.

George Quinn
Group Chief Financial Officer

So on the first one, the answer is more or less we have little over $10 billion excess if you knock off the impact of the dividends and the capital required not only for this year but also for next year; the $1.9 billion for the expiry of the quarter share were down in the more than 5 point something so yes, is the short answer to number one. On number two, I mean, essentially the impacts that drive the combined ratio the way that you see it, one is the positives are the impact of last year's renewals, this year's renewals because that nominal rate rise will show up in the combined ratio, we also have the positive impact on the expense ratio from the growth and then we have the negative impact of the overall rate. So the combined ratio we are giving is our GAAP view for 2013. So all of that's in there and I guess I think it's more positive than we expected. We got a bit more growth than we expected. So we are obviously very pleased with what ended up on an expected combined ratio for this year.

Andrew James Ritchie
Autonomous Research LLP

Calendar year '13 guidance isn't it, not underwriting, the calendar year '13?

George Quinn
Group Chief Financial Officer

It's the calendar year '13, Matt you want to add anything?

Matthias Weber
Former Group Chief Underwriting Officer

Yes, so from my side, this is Matt Weber speaking, the answer to your question is yes, it includes that change in overwrite and cost ratio which together amounts to approximately an increase of 0.5% which is more than offset by a decrease of approximately 1.5 percent point as a result of the fact that the interest rates are a little bit lower than the previous year. So together 1% lower than the year before.

Operator

The next question comes from Thomas Seidl from Sanford Bernstein.

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

Two questions one on the P&C, I think as you pointed out in the presentation, George even if you accept for the outlay and [indiscernible] you sort of still miss the normal combined ratio by around 4 if not more percentage points and one other bit was underlying this better than expected performance on the structure you are seeing is a pure luck or what is driving this? And then on the net investment income, we know it is basically the sells [ph] on the fixed income that went 3.6 to 3.2 a bit more sharply than one would have expected, what else you have seen elsewhere and again if you could provide some color on why this looked more sharply what is driven by the shift from government into corporate or some other rotation on the asset size? Thanks.

George Quinn

Group Chief Financial Officer

So I'll start with the combined ratio and Matt can maybe add some more color. I mean, you are right we ended up with a better than expected number for the full year. We track I guess the excess or lack of excess natural catastrophes, because that's the most transparent part of what we do. There will be natural volatility in the rest of the portfolio, very hard for us to quantify what that is or what impact that it had. So therefore, as we've come to estimate this year's combined ratio, we tend to ignore that. Matt, you want to add anything?

Matthias Weber
Former Group Chief Underwriting Officer

Yes, from my perspective, the 90% is normalized for net cat. It has to be pointed out however we did not attend to normalize for large manmade losses which happen in the current underwriting in 2012 but also there is a normal volatility sometimes we experience an above average amount of large manmade losses and sometimes below. And in 2012, we were a little bit lucky and our large manmade loss was also a little bit lower than in the years before and that explains the slightly lower combined ratio.

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

The [indiscernible] before guidance.

George Quinn
Group Chief Financial Officer

Yes, is the short answer Thomas. On the investments I would say you are right. I mean, you point out the running yield we've dropped from 3.6 to 3.2. I think every insurance company is going to have the challenge going forward if rates stay where they are. I think that's relatively well known. I mean, there is more positive [indiscernible] of this is that the running yields in Q4 is flat compared to Q3, that's obviously we are benefiting somewhat from the rebalancing of the portfolio that we have done. We've allowed ourselves room for further rebalancing in 2013. Again, if we go back, if you think of the Investor Day presentation from last year, we still had an assumption over the period to 2015 there is still be a significant impact on our P&L from following yields, but so far and at least more lately, we have seen a much less pronounced impact on investment returns.

Operator

The next question comes from Thomas Dorner from Citigroup.

Thomas Dorner
Citigroup Inc, Research Division

I have 2 questions please, time first is on your renewals, you mentioned that you are starting to write little bit more casualty, I just wanted to check that so sort of presumably that's meeting your 11% hurdle rates for the redeploying capital and maybe you could say something about your market more generally. And then the second question is again on the S&P capital buffer but similar to the earlier question, but maybe if you could say something around what would determine where in the $3 billion to $5 billion range, you would like to be and should we assume for the foreseeable future, you preferred to be top end of that range?

George Quinn
Group Chief Financial Officer

Matt, let's start with...

Matthias Weber
Former Group Chief Underwriting Officer

Yes, I'll take the first question on the renewals. So it is indeed through in the Americas including the United States, we started to slightly increase our casualty writings in reaction to the fact that the prices have started to slightly increase, slightly means less than the double-digit percent numbers. On average across the market, we feel the right efficacy on the casualty side is not yet there, it needs to be and we expect further price increases to happen in reaction to the fact that interest rates continue to be on a still very low level.

George Quinn
Group Chief Financial Officer

Thanks, Matt. So I would like to talk about the S&P capital side of things, so again your rate that we've commented or have made this comment that we targeted this $3 billion to $5 billion range, our targets are actually based on economic capital adequacy so we translate it into S&P numbers. In the past we've indicated that I mean ordinarily we'd like to maintain the capital strength of the firm, but the types of things that would be acceptable reasons to move down on the range would be for example growth. It would make no sense to maintain very high levels of capital adequacy if we see very attractive growth prospects in front of us, and that's the obvious thing I can think of. I mean any determination of what the group does with its capital position at the end of any given year is a decision for the Board. I think we are going to try and be cautious, try not to make rapid judgments. I think you've seen the firm set with a fairly significant capital buffer for at least the last 2 or 3 years. I think the good news is last year we had growth and we are going to return some substantial capital to shareholders.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Two questions, first is on the growth agenda. George I remember in the previous, I don't know if it was one year ago, maybe in May or April, but growth in the business was not really leading to any increase in S&P required capital because of diversification and this is my understanding and I just wanted to confirm that because Michel did say that is $1 billion put into growth and business capital last year. That's the first question. And second thing is that there's a lot of mention on the structured products in Europe and is that also partly driving a change in business mix that leads to this 1% better combined ratio, and if I can just squeeze in one on admin Re just to confirm your near term outlook is lower or sort of breakeven? Thank you.

George Quinn
Group Chief Financial Officer

So on the first question on capital, I guess the confusion is that, typically S&P is mainly factor driven. There is a diversification element in it, but when we typically talk about the growth and the counter claims for S&P we ignore diversification to try and keep things relatively simple and straightforward. I think where diversification really counts for us is when it comes to the SST model, and I think the best example of that is the impact of the quota share. So the expiry of the quota share as you've over the course of the next 2 years will require about $1.9 billion give or take and S&P capital but it needs a relatively small fraction of that from an economic capital perspective. So I apologize that these things all go in different ways, unfortunately we don't control them all but the story is what it is. So hope that explains some of the comments you've heard from us. I'll do the Admin Re thing and I'll give it to Matt on the structured products and other comments. So on the Admin Re side low ROE breakeven, it’s going to be a low single digit ROE for Admin Re, that's our expectation for next year. There's still work to do to improve it. I think if you look at the results we've had this year. If you extract the lowest from the sale of the US business, it actually looks pretty good. But when you dig in, the team has done a lot of things to drive that result this year but most of them are one-off in nature. There is not many of them are sources of sustainable future earnings. So you will see a bit more. It should start to improve but a bit more at this level going forward. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

So regarding the combined ratio guidance and the business mix question, yes the reduced combined ratio guidance takes in to accounts the business mix of the business which we wrote already January 1, 2013, and the business we believe, you are going to write during the rest of this year.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

So just to be clear, the large amount of structured product in Europe and US, they would be lower combined ratios?

Matthias Weber
Former Group Chief Underwriting Officer

It actually depends because the term structured actually includes relatively broad spectrum of different products ranging from external run-off deal to solvency quota share with a structure around and some come with a higher combined ratio and some with a lower combined ratio. So it is actually not possible to generalize and say structured product always have lower combined ratio. Some of the deals indeed come with lower combined ratio but not all of them.

Operator

The next question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On Admin Re the cash flow slide on slide 13, could you possibly talk me through it. I am just wondering if this is new and maybe given the idea of how much cash flow we should see from this in 2013 and then going back to combined ratio, I struggle. 90.1 is the kind of mathematical long life [ph] and which is 2012, the net changes that Mr. Weber explained is 1% that will then become 89.1 and you are probably 92. I am kind of thinking what I am missing here, the 3 point gap, it sounds bigger than just the manmade, manmade from my experience are volatile, but they are not actually very volatile. Those are my 2 questions, thank you.

George Quinn
Group Chief Financial Officer

So I will do the Admin Re then Matt will talk about the relatively simple where you get back to the 93% for the overall. On Admin Re if you look at the slide on page 13, so I guess the first part and the shaded block is what you’ve seen before on the investor day and in additional steps that we think we can take here, mean through areas like cost management through active portfolio management which is partly ALM so the asset structure to back this business we think can generate this additional approximately $200 million from Admin Re. From a cash flow perspective what do we expect this year? In the early part this year we will get the benefit of some of the higher than expected gross cash generation from last year, so I expect larger than normal dividend in the first quarter of -- or first second quarter of 2013, then the cash flow margin should be relatively smooth thereafter, I don't expect it to be particularly lumpy.

Matthias Weber
Former Group Chief Underwriting Officer

Okay, so the 90.1 is for reinsurance is the normalized 2012 combined ratio for reinsurance only, the 93% combined ratio guidance for 2013 for the whole Group. So we think the insurance and corporate solutions combined. We actually did not start from that 90.14 reinsurance and try to extrapolate up to the Group again. We really started from the 94% guidance we gave last year. We felt what actually happened, is more or less in line with the guidance. The difference can be explained by a little bit of good luck on the Nat-Cat side, some good luck on the manmade side and some prior year development, so our starting point was 94%. We added half a percent point in order to take into account the impact from the missing Berkshire Hathaway quota share and we took into account that the business we renewed was actually renewed at the nominal price quality that is approximately 2 points lower than expiring and we took into account the fact that approximately 2-thirds of the business done this year will be written this year and one-third will come from the previous year which comes a little bit from the higher, with the higher combined ratio guidance, so together that adds up to approximately 1% lower combined ratio and the 94% which was the starting point.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

The volume effects because certainly you are growing still right, so I don't know whether that figures in 11% or 30%. But surely the volume effect gives you a little bit of extra on the expectations.

Matthias Weber
Former Group Chief Underwriting Officer

The volume effect is taken into account in the 0.5% change from the Berkshire Hathaway quota share calculation. So there we also took into account the change in net premium volume, yes.

Operator

The next question comes from Cameron Hussain [ph] from RBC.

Unknown Analyst

A couple of questions, and the first one is I guess coming back to the structured solutions, just wondering kind of what the drivers are for in solvency release still, kind of way you say those going into 2013 and also just kind of were many of the deals were renewed each year on year. And second question, just really useful to have a quick comment on reserve trend year-on-year given that the kind of substantial reserve release this year where you stand? Thanks.

Michel M. Liès
Former Group Chief Executive Officer

So I think Hussain, I'm going to ask Matt again to address the structure piece. I'll tackle the reserve part now. So I mean both of the last prior years you've seen some very substantial reserve release from our P&C book, both from P&C Re and from corporate solutions. In the course of 2012 we've had nearly or approximately $1 billion pretax of reserve in plan. I think as you point out from prior conversations that we've had we don't plan for reserve release. We don't take it as part of a sustainable earnings. We think as opposed to saying something we've done before where we got something, maybe a bit prudent, we may be managed reserves more effectively than we had anticipated. But if you look at it quarter-to-quarter the numbers are volatile and in any event at some stage, I mean reserve releases aren't ordinarily a sustainable part of the business model. So I mean we've seen a very positive performance 2011, very positive performance 2012, but as volatile and no matter what happens, at some point in the future, it will not have the effect that it has today, but we don’t plan for it. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

So to answer your question on the structured deal side, we have actually a mixture of products. So not all products address solvency concerns, for instance, of our clients. Some of the products which we describe as structured and which are structured, for instance, address also frequency losses on the Nat-Cat site. These are typically losses that stay in the retentions of our clients below the attachment points of the cap expense and in case of an above average frequency of such losses, some clients would like to ask protection and the cap on top of these losses and we do have some products on our shelf which address these concerns and this has very little to do actually with a solvency relief quota share. So actually what we are offering is a mixture of runoff deals, solvency release deals and frequency protection covers and the typical clients actually can be located in the regions, Europe and Americas.

Operator

The next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz

Morgan Stanley, Research Division

I have got a couple of questions of course, budgeting around return on investments. First one is just on what guidance you can give us from here, and I think I might have been at your Investor Day and you told us new money yield was around about 2.2% at the point you are investing then, I am just wondering what would the new money yield be now with sort of a stable asset allocation? And the second question would be if we look at Q1, and we look at sort of what possibilities there are in terms of you changing your asset allocation, it looks very roughly to me that if you are going to move to mid-point of each of your ranges, the more or less what you are going to be doing and shifting about 10 percentage points of your assets out of government and cash into for example, corporate bonds and potentially structured, little bit of a structured credit, I mean, will I be right thinking that, let's say that I mean I don't know if that's correct to start with, but the start was correct, and you get a 150 basis points to 200 basis point up lift, that only really equates to about 15 to 20 basis points improvement in your ROI, if you've done the 10% of your portfolio is moving, am I wrong with that is it more potential to uplift your ROI within your risk framework?

George Quinn
Group Chief Financial Officer

Thanks, Maciej. I think you can asked for the new money yields quarter-by-quarter, I'll give the actual numbers for Q4, may ask other questions that people have and I'll answer, other questions that people have. I mean in the quarter and it makes that the running yield was flat, the disposals were at 1.9 and the acquisitions were at 1.9, so that's where given the investments we made in Q4, the new money yield was. And if I go back to the discussion that we had in April, and I'm not sure the picture has fundamentally changed. I don't have the [indiscernible] flow in front of me but if you remember there was a huge negative impact from anticipated from falling yields. There were only 2 things that I anticipated that would help mitigate that and they did not in their entirety offset it. So I mean given what we are today, I don't expect that we are going to have the ability to shift the asset allocation assuming that yields or spreads and interest rates stay where they are to offset the fall in income that we had anticipated back last April. I mean if you look at it, in April we were saying that we are expecting from a per share basis about 3 to 3.2 impact of full income from the investment side, partly offset by additional asset risk, partly offset by asset volume increases from the growth that we have in new business. But I mean unless we see some meteoric rise in interest rates which may not come from entirely positive circumstances, I don't expect that we can fully offset the impact of the reinvestment yields that we are currently seeing.

Maciej Wasilewicz
Morgan Stanley, Research Division

I guess I can go back and try to recalculate the goal, there's no quick figure you can give me for your sort of end gain ROI for you to stay in this environment, is there?

George Quinn
Group Chief Financial Officer

I only had the EPS impact, I need to go back and look at it. So we can probably come back to you with something on that.

Operator

The next question comes from Stefan Schürmann from Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 questions. First on the renewals again, maybe can you give us some more details or insight into basically how much basically growth was coming from emerging markets and also China, then maybe sort of like proportional and non-proportional mixed balance sheet to be around? Then the second question is just on the life and health top line which was quite nice and driven by health, some insight here where health is coming from and is that going on, is it a trend or is that some one-off that you wrote and basically driving that top line up?

George Quinn
Group Chief Financial Officer

Matt, please do the pleasure on the renewal.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So renewal from the emerging markets first question China, we are out approximately $400 million less in China than we did right last year and from the emerging markets, our high growth markets outside of China right now approximately $0.7 billion comes from those markets.

George Quinn
Group Chief Financial Officer

On the life and health side, I mean you have seen some substantial growth in the health last year. I mean we have, one of 2 I mean handful of very large drivers, so we've and Europe we supported a buyout last year that transaction has brought a lot of premium together with the reinsurer behind it and the team reinsurance team had been actively focused on drawing this part of the portfolio. So I mean I'd be surprised if we necessarily saw the same rate of growth in 2013, but this is certainly an area you will see us continue to focus on and also principally in the high growth markets where we can.

Operator

The next question comes from Andrew Broadfield from Barclays Capital.

Andrew Broadfield
Barclays Bank PLC, Research Division

The first question is China I think a little bit about the interest rate decline. We talked a lot about, we can modelized to some degree the signs that it's little bit harder to guess what the manufacturers of the company you kind of pretty well matched. And you talked about on the P&C side that you are getting the right increases to offset the interest rate declines. You talked about the rest of the portfolio. So this is a bottom line net income level and in all the other those that you moving around and to manage, do you think what you are achieving sort of neutral position in the business you are launching? So we can grow our earnings in line with the underlying risks you are taking? That’s the first question. And just on the second question, your thoughts on reserve releases from you cedence and I think quite often we see the farming sector beginning to show patterns before the reinsurance sector sees it and I guess partly because you will see the day to day as they see it and afterwards. It seems to me that farming sectors have the few more examples of little shocks or durations of fitting reserve releases and do you see that at all? Are you worried about that at all?

George Quinn
Group Chief Financial Officer

All right. So on the first one, I mean I can’t give you a hard and fast number but I don't think we're neutral yet. So what I expect to see is that from an asset balance perspective, we will go through the inflection point during the course of 2013. We will start to see the asset balances rise. So that will help. I mean if interest rates stay flat, I mean given the duration of the book, we're still going to trend down unless we really move up or increase the proportionate of higher yielding assets and I just don’t see that in the cards. I mean if I go back to the question at Maciej, I think it as Maciej asked earlier. He talked about the midterm ranges which would imply a 10% shift government, a 10% shift in our portfolio would be absolutely huge, and we just don't anticipate that type of shift in the near future. So I mean through this year I still expect to see the running yields decline. From a reserve of this perspective, I'll will ask Matt, because he will have a perspective on it, this maybe the closer to main, but I think just to emphasize one particular point traditionally “reserve releases” perceived to be something that comes when actually they are able to study where they actually change their views like [indiscernible] to shift and we have a release, that's true for part of what you see from us but typically it's a very small proportion of what we are calling reserve releases [indiscernible]. The biggest driver is simply, you would expect claims to be reported in line with the items you released from IBNR in line like factors and we are seeing that the releases are just far in excessive to reported claims from clients that have been for some time. So that those kind of one of studies, that is only part of what we got but that's not the biggest driver of the evidence that we are reporting to you. Matt I don't know if you got any insight in terms of the primary side of things?

Matthias Weber
Former Group Chief Underwriting Officer

I would just like to add, generally, we are seeing reserve releases of course because claims emergence is coming in lower than originally anticipated and there are probably a number of reasons for that. One possible explanation could be the inflation which has been going down over the years and another explanation could be the economy and typically the economy is not totally hot, the loss is coming a little bit slower and a little bit less than every risk operates at its maximum capacity.

George Quinn
Group Chief Financial Officer

One thing is absolutely crucial here is that, I think the reason you hear the same comments was around the reserve releases and the fact that we don't plant them is that the most important feature here is you never come to rely on them as a source of earnings. We don't. I'll add one point to the first question just to maybe complete the picture, I think point wise it may be a bit too bearish, I mean part of what's happening on the interest rates is, can expect in Matt's comments around renewals. So we have this nominal rate rise which is designed to compensate the underwriting side for the fact that interest rates are lower. So I mean a general philosophy is, we use the so called risk free rate and pricing and we look to compensate for yields falls through underwriting. There are obviously limits I'm sure to what can be done there, but that's how the internal system works here. So we are going to have a bit less on the yields side but as you've seen already we are going to have a bit more on the underwriting side.

Andrew Broadfield
Barclays Bank PLC, Research Division

So just on that point I guess the point in my question was in a net-net to get matched to the policies you already got in place and the assets backing them and locked in, I mean I appreciate it's theoretical. And then you know as you are writing your products hopefully you are covering that offset, in terms of the underwriting charge or [mean] charge or whatever it is you are charging on. So that was really my question, because I guess it's easy for us to do the asset side calculations or to guess and speculate on them but it's a little bit harder to do the other part.

George Quinn
Group Chief Financial Officer

Yes, so that means that's generally should be, you are not completely free of reinvestment risk. I mean a lot what we said key reiterations, we managed them overall but obviously into the longer key reiterations you'll have to reinvest at some point in the cycle to achieve the returns that you had assumed, and if we are going to reinvest at lower rates that will have some incremental negative impact on the yield. I don't see it as a major factor for us and the same way would be for some of the primary companies but it's still a feature in our performance.

Operator

The next question comes from Frank Kopfinger from Cheuvreux.

Frank Kopfinger
CA Cheuvreux, Research Division

I have 2 questions. The first question is on your Nat Cat business on page 32 of your presentation. You showed that your effective net premiums, they go up from $2.5 billion to $3.4 billion, I assume the big driver is the Berkshire quota share nevertheless a part of this year you are further expanding in Nat Cat business. So maybe you could elaborate a little bit on the business, on the exposure that you are expanding on, be it on the regions, on the return periods. I know that [indiscernible] that you saw over the 200 year and 50 year return and similar event losses maybe you can elaborate a little bit on this and the second question is just for clarification on your new combined ratio guidance. Does this include any reserve release assumptions?

Matthias Weber
Former Group Chief Underwriting Officer

So if I can take the second question first.

George Quinn
Group Chief Financial Officer

I was going to take the second question.

Matthias Weber
Former Group Chief Underwriting Officer

Okay, why don't you say it.

George Quinn
Group Chief Financial Officer

No.

Matthias Weber
Former Group Chief Underwriting Officer

Yes, George is right. I would also have said no. with respect to Nat Cat your observation is absolutely correct by far the biggest contributor to the increase of the expected net Nat Cat claims on page 32 is due to the fact that the first quota share is no longer in place and you are also absolutely correct, the [indiscernible] little bit our Nat Cat exposure at the 1:1 renewals. We were able to take advantage of the fact that Nat Cat prices improved a little bit, mostly in the Americas, a bit in Canada, a bit in the Hurricane Sandy affected part of the United States or also in Latin America. But there are also a small number of European Nat Cat market where prices for Nat Cat increased a little bit. These markets include markets like earthquake. Italy for instance in reaction to the Emilia-Romagna earthquake or also in the Middle East there were a number of markets where Nat Cat prices actually increased. We took advantage of them and increased our Nat Cat exposure a little bit and a little bit means typically high single-digit or low double-digit percent range.

Frank Kopfinger
CA Cheuvreux, Research Division

Okay, and in terms of the figures of your single event losses, are going to disclose them on your investor day.

George Quinn
Group Chief Financial Officer

Frank we'll do that in a normal time period versus the Q2 results.

Operator

The next question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had a question on slide 17, so here it shows the reported ROE 9.2, 9.6, 13.4. So you've beaten consistently your target by a huge number and I am just wondering, is it me and I am thinking there are actually 2 different companies, one which is actually delivering and the one that you imagine when you set these targets out 2 years ago, or am I missing something. The impression I have is that your profitability is way above the 8% minimum or whatever and I know we are talking about low investment returns but it's almost set by the better pricing and better volumes. The target is too low, I don't get it, am I missing something?

George Quinn
Group Chief Financial Officer

Just one question Michael.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Yes, just one questions, how you see it, it feels like 2 different companies for me?

George Quinn
Group Chief Financial Officer

Okay, so I think on this one, I think you and to your colleagues can see just as clearly as we can that you need to look through the underline quality and there are elements of it, we discussed their releases today, that we don't allow for in the targets, we don't allow for in the combined ratio number we've given today is we don't plan for internally, because in a 5 year view that would be a very risky for reserve development in your targets, and apart from that it means no obvious to me that we really control the aspect of our performance today. So I think that's the reason why you see the difference here, we have learned for the fact the elements of the earnings which artificially boost the reported headline number and when you peel some of that back, we still have to make improvements to get to that 10.1 by 2015, and even though you may imagine 2 companies, Michael, I look at the analyst consensus estimates typically they are lower. There aren't many people who share your view.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I was looking at the left hand side, the ROE side, I understand your comment on the EPS, that's completely fair but even the billion net of tax $800 million divide by 32 [indiscernible] on the capital, 32 that's about 2 or 3 points, we get to 10% ROE adjusted for 2012 and you also a [indiscernible] again and the target that's 8. This is where the disconnect is among…

George Quinn
Group Chief Financial Officer

Yes apologies. I think that's fair. On the ROE side, the ROE I mean even though it wasn't designed that way to begin with, it's clearly the easier of the 2 targets. But I mean you only get a price for hitting both.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

I'm showing on slide 17, and just wanted to ask George about the change you made for special dividend in the EPS growth rate, I mean I understand what you say about this being a proxy for the impact of making an adjustment for a buyback but I don't remember you talking about this when you set these targets back in April and actually at that point the concept of paying the special dividend and most of the issues we've talked about should have already been in most of our minds and indeed since then I know the yield environments stayed challenging, but as you said the underlying the environment seems to have gotten an awful lot better. So I feel a bit that the 5% is somewhat moving the goal post. So if you could just sort of justify that again? And then secondly, not sure if this is for but is there any update you can give us on [indiscernible] and how the whole process is going in the UK for bringing in third-party capital? Thank you.

George Quinn
Group Chief Financial Officer

Thanks. I mean if you've watched the video today, I've highlighted this because I knew that I mean some may agree with it, some may not, I think just on the targets, we set the target's more than just April last year. I think it was February the year before that, so that's been around for a while. I mean the reason for doing this was simply to remove any disincentive if there is in the system to return on capital. It's clear that our preference was around; we've indicated the preferences were around special dividend for some time. We've done it transparently. I appreciate some will agree, some won't, but at least you knew whereas you know why we've done it and you can calculate and adjust it back if you don't agree. On Admin Re I have no formal update other than to say that it's a key priority for this year. We think the team had made good progress. They have put themselves on a much better footing, there's a bit more to do but this is the year for third-party capital at Admin Re. We will see where we get to.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just one very quick follow-up. On that capital calculation that George you talked about earlier in the call, you know, there's also the life reinsurance of $1 billion capital or repatriation target, would that impact this S&P calculation in any way or just one-for-one added banking or what will you say to that? Thank you.

George Quinn
Group Chief Financial Officer

One-for-one.

Operator

The last question for today comes from Stefan Schürmann from Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 follow-up questions. First one on the S&P model, I mean you measure yourself at the S&P and AA rating level, I mean that model is basically now fine tuned and changing potentially. Do you see already any impact on your basically level of capital you have to hold in the future [ph], may be new S&P model or raise that too early. The second one is on the retro session of [indiscernible] insurance coverage taken basically do some adjustments there for your 2013 exposure.

George Quinn
Group Chief Financial Officer

In a second, I will ask Matt to cover the reconcession program. On the S&P model, so you raise that fund. S&P have announced or at least issued a draft proposal. I am not asking it, they are telling us. So they informed us of the lately changes to the model. I mean they conducted a pretty extensive discussion exercise. Best judgment I can make, I don't see it having any significant impact and I really don't see a negative impact on Swiss Re but until we really have all the final detail, it won't be completely clear. I mean it doesn't cause me any concern at this stage.

Matthias Weber
Former Group Chief Underwriting Officer

Regarding your second question, the answer is yes. We made some changes to our retro protection mostly in the areas of Nat Cat for those cat perils where our gross exposure is bigger than our net risk appetite. We started already 18 months ago to increase our hedging, protection, our hedging book mostly by means of swaps, insurance linked securities, ILWs, and also by sector our site car. And this protection is fully in place. So now we're good.

Stefan Schürmann
Bank Vontobel AG, Research Division

Could you maybe give some feel how much you basically increase protection percentage wise or?

Matthias Weber
Former Group Chief Underwriting Officer

For instance what I can say is with respect to the insurance linked securities, we issued something like $800 million over the course of the last 18 month.

George Quinn
Group Chief Financial Officer

Okay, since this was the last question and I think it's time for me to make 2 -- a couple of quick announcements so then we can end the call. If you have further questions please feel free of course to give your IR team a call later in the day. So what we refer to couple of times in the video presentation is the investors day for 2013, which is scheduled for the 24th of June.

So before wrapping up, I would like to give you a few key details for that event. It will be a half day event to allow for day trips on London to Zurich. It will take place as I said in Zurich at our central for global dialog in Richticon. We had Investors Day there before and we will arrange for transportation on the [indiscernible] so it will be easy.

In terms of the topics we mentioned all 3 topics today. I will repeat them again, it will be firstly on capital management, so to explain a bit more on what our thinking is going forward, we set a lot of things in capital management already today. The second topic is productivity and cost management, and the third one is life and health reinsurance.

We will send all official invitation in the coming weeks. And then for the short term planning I would like to highlight quickly the 15th of March when we will publish our 2012 annual report, the full annual report and also the EVM report is out on the same day.
So this concludes the meeting. Thank you very much everybody for your participation and goodbye.