S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FQ1 2016 Earnings Call Transcripts

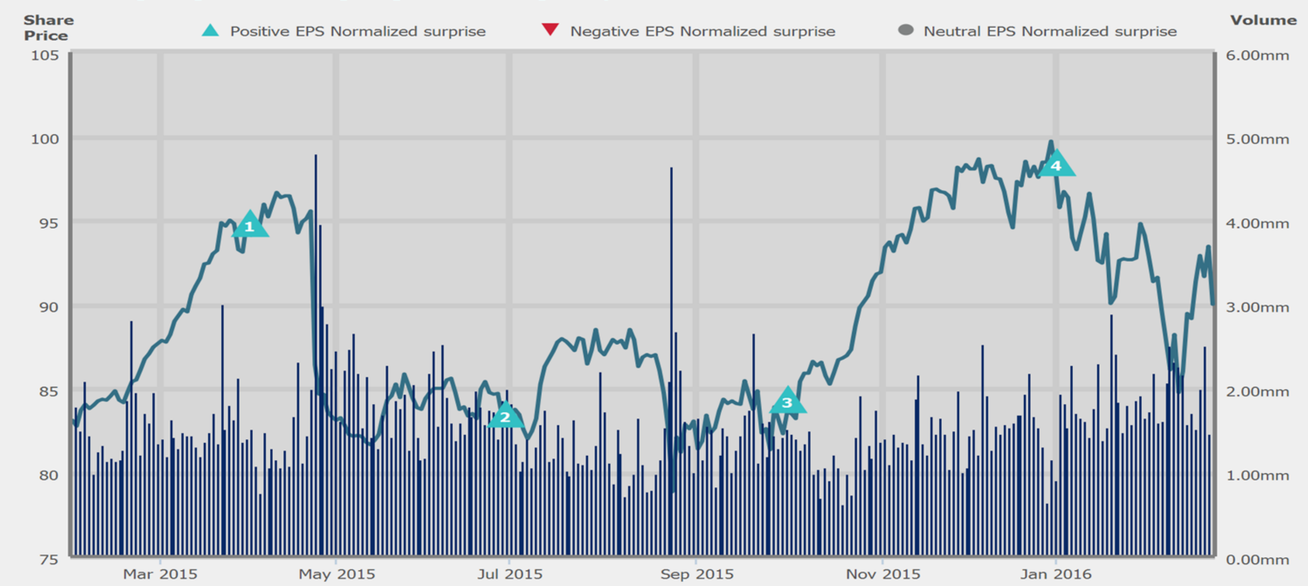
Friday, April 29, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.66	3.48	▲30.83	1.90	9.30	9.21
Revenue (mm)	7646.29	7812.00	▲2.17	7078.04	31474.53	32603.02

Currency: USD
Consensus as of Apr-29-2016 10:21 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	2.03	3.88	▲1 91.13 %
FQ2 2015	2.17	2.20	▲2 1.38 %
FQ3 2015	2.14	3.73	▲3 74.30 %
FQ4 2015	2.44	2.52	▲4 3.28 %

Call Participants

EXECUTIVES

David A. Cole
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Patrick Raaflaub
Group Chief Risk Officer

Philippe Brahin

ANALYSTS

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Presentation

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to Swiss Re First Quarter 2016 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 David Cole, Group CFO. Please go ahead, sir.

David A. Cole
Group Chief Financial Officer

So thank you very much. Good morning or good afternoon, everyone, and welcome to our first quarter results conference call. I'm here today with Matt Weber, our Group Chief Underwriting Officer; Patrick Raaflaub, our Group Chief Risk Officer; and Philippe Brahin, our Head of Investor Relations.

Swiss Re started the year with a strong first quarter in what remains a challenging environment. All business units contributed positively to a group net income of USD 1.2 billion. The first quarter reflects the benefits of our strategy and systematic capital allocation to diversify our access to risk in attractive segments.

P&C Reinsurance reported a strong ROE of 19.1%, supported by large and tailored transactions and benign nat cat experience. Life & Health Reinsurance reported ROE of 16.1%, also driven by large transactions and reflecting continued attractive growth in all regions.

Corporate Solutions delivered good results in the first quarter, with an ROE of 13.5%. The acquisition of IHC in the U.S. provided attractive growth.

Life Capital delivered a very strong ROE of 21.2%, benefiting from net realized gains from the derivative portfolio of Guardian. It's the first time that we report under the newly created business unit structure, reflecting Admin Re, the Guardian acquisition as well as open Life & Health books.

Our asset management team produced a strong ROI of 3.7%, despite the low interest rate environment. And finally, we also reported today our latest group SST ratio, estimated earlier this month to our Swiss regulator FINMA, which remains very strong at 223%.

As we promised earlier, we conducted a comparisons [ph] analysis of our group SST ratio with an equivalent group Solvency II ratio. You may have seen the video of our Group CRO, which explains that our Solvency II comparable ratio is estimated to be 312%.

So with that, I'll hand over to the Head of Investor Relations, Philippe Brahin, who will introduce the Q&A.

Philippe Brahin

Many thanks, David, and good day also to all of you from my side. [Operator Instructions]
So with that, operator, could we please have the first question.

Question and Answer

Operator

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

Daniel Bischof
Baader-Helvea Equity Research

Two questions please. Firstly, could you provide some more details on the reserve strengthening on the liability motor side, for instance a motor, I would be interested to know on which accident years these movements relate to? And on that, I mean last quarter was the first one, for quite some time, with an overall negative development. Appreciate there are always some movements, but it would be helpful to get your view on the reserve adequacy. And then the second one, on the demand side, I mean you benefited from the 2 transactions with AIG and Selic Holdings, fully in line with the focus on tailored transactions, which we see does not provide any top line guidance, but maybe could just provide some comments on the pipeline or the demand side, in general, both in P&C and Life & Health specifically on further launch transactions?

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Daniel. I'll let Matt take the first question.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the path, indeed, a little bit of prior year loss development on the motor side, especially coming from Germany, where we made an adjustment to our longevity pattern that is relevant to assess the amount of the reserves. And we also had some prior year development related to our umbrella business, and I'm mentioning this because umbrella also includes the motor portion and we made some adjustments there related to the last 2 to 3 accident years, and that's the majority of our motor adverse development came from. With respect to the large transaction pipeline, we never go into details related to our pipeline, but in the long, long text comparison, our pipeline right now looks rather full.

David A. Cole
Group Chief Financial Officer

All right. Thanks, Matt. You picked up both questions. Let's go to the next question.

Operator

The next question is from Xinmei Wang, Morgan Stanley.

Xinmei Wang
Morgan Stanley, Research Division

First, I wanted to ask on Capital. In the past, the message has been that a 200% SST relates to 3 billion to 5 billion above S&P AA. Has that binding constraint changed under the new SST methodology? And how should we view that in relation to excess capital in terms of the buyback? I mean does your previous commentary around the buyback still stand? And my second question is on the nat cat normalization, I appreciate you changed that in terms of how you do normalization this year, with some of the budget going into next year with late reporting. I'm just wondering if you could give some color on why you decided to make the change this year as opposed to previous years on that?

David A. Cole
Group Chief Financial Officer

Okay thanks for both questions. I'll pick up the first and I'll hand it over to Matt for the second. So first, the overall economics regime SST has really changed a whole lot. We do get some clarification from FINMA regarding the treatment of certain types of equity-related assets, hedge fund, fees, those kind of things, which contributed a little bit I think to the positive, more positive outcome. For SST '16, than we had ourselves originally included our estimate. In terms of any potential impact on S&P, frankly, there is none. As per our earlier indications, I think we continue to maintain a very strong capital position. The different binding constraints change a little bit over time, depending primarily what happens with interest rates, to be frank. But there's no real change in overall communication from earlier this year nor from earlier discussions about how S&P and SST, more or less, relate to one another. Also, relative to buyback, there's no change in our previous communication regarding that as well. So we maintained a strong capital position. I think we're in a position to be able to respond to opportunities that may arise. We look to see how our capital position develops over the course of the year, which may be a combination of profits that emerge, loses that may occur, opportunities to invest may occur. And later in the year, we'll determine whether or not it would be appropriate to actually launch the new buyback program that was recently authorized by our shareholders. So the broad message on capital management is no change from earlier communications. Let me then turn over to Matt for a discussion about nat cat normalization.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Related to your question, if it's okay, I would like to take the opportunity to overdeliver a little bit and give -- explain the changes we made and why we made the changes in the broad context, I will not forget about your specific question at the very end. The story does not include every individual detail, and I believe knowing all the details will probably not add to understanding our numbers and understanding Swiss Re, but could make sure that I would use more than 5 to maximum 10 minutes to talk about this. And in my opinion, that should be the cap. So I would like to explain to you how we adjusted the combined ratio in Reinsurance in the past, and how we will do it going forward, including what we did already in Q1 of 2016. Let's go back to February, the last time we met. At that time, I explained, or we explained, the 2015 results to you. And when we did it, we highlighted the absence of reinstatement premium, higher-than-expected profit commissions and sliding scale commissions. As a result of the incredibly low experienced nat cat loss burden in 2015, in order to explain the difference between our expected combined ratio, which last year was 97% for Reinsurance, and our actual combined ratio, which, when adjusted for nat cat from the prior year development, was 99.8%. We used this opportunity to fundamentally review our nat cat normalization process related to our combined ratio, including seasonality of losses and adjustment to premiums and commission figures. On a quarterly basis, when we released a portion of our total expected nat cat loss burden from our accounts and repriced them with actual reported losses. We replaced only a portion of our total expected nat cat loss burden. The reason why we release only a portion is to reflect late season reporting related to the actual losses. This approach leads to the correct U.S. GAAP combined ratio, which we published. In the past, when we adjusted the combined ratio normalized for nat cat, we adjusted for the difference between total expected and reported nat cat losses. This led to a too conservative estimate of the adjusted combined ratio. We, therefore, adjusted the methodology for 2016 as follows: the USD 1.5 billion total expected nat cat loss is still a good estimate for the full year and remains the basis for our 99% expected combined ratio for the full year. So no change there at all. However, to determine the adjusted combined ratio, we now adjust for the difference between released and reported nat cat losses, which leads to a more realistic adjusted combined ratio than in the past. We now also use a seasonality pattern that reflects the portion of the nat cat loss to be released rather than the total expected nat cat loss. The new pattern looks as follows: 19% in Q1; 13% in Q2; 41% in Q3, due to U.S. hurricane; and 27% in Q4. And in addition, we now also take into account adjustments due to reinstatement premiums, profit commissions and sliding scale commissions. For 2016, the amount to be used to normalize the combined ratio is, therefore, approximately $1.2 billion. Together with the portion of the total nat cat loss that will not be released in 2016, that however, will be released in 2017, due to late reporting, this will still add up to the total expected nat cat loss of USD 1.5 billion for the full year. Applying this methodology, the nat cat normalization impact for Q1 is USD 232 million. Maybe a remark at the end. Please note that while the new methodology is more precised than the old one, which was too conservative, the adjustment to the combined ratio will continue to be an approximation and subject to change. That's an explanation I would like to give. And now, related to your specific question, why did we do it now? The reason is we realized in February, when we explained the 2015 combined ratio, how important the reinstatement premium and the profit commission and the sliding scale adjustments can be in a year with a very unusually low nat cat loss ratio. That was the trigger for looking deeper into our methodology. And since we did this, we felt now is the right time to review it in full, and to adjust it, to bring it to the best of our knowledge.

David A. Cole
Group Chief Financial Officer

Thanks, Matt, appreciate that. Also, I'd just like to remind, as Matt indicated, there always will be some approximations here. And at the end of the day, we are referring to estimates. These estimates are based on a number of assumptions about future events, including future renewals, pricing levels and business mix. So at the end of the day, it's important to recognize it. So we do our best, but an estimate is an estimate. So I'd just like to leave the question on that. Can we go to the next questioner please?

Operator

The next question is from Anasuya Iyer from Jefferies.

Anasuya Iyer
Jefferies LLC, Research Division

My 2 questions. The first one, just on the negative prior developments, again. I just wondered if you had any commentary about whether within there's any offsetting impacts? And therefore, what's that look like on the positive side? And my second question was on casualty. So I can see that the casualty in the year-to-date premiums have gone up to 51%, obviously, as you reduced your flow business. And I'm just wondering, as you see more negative prior developments in casualty, are you worried about this? Are you worried that this reach for casualty growth brings more unexpected result developments in that area?

David A. Cole
Group Chief Financial Officer

Excellent. Thanks for both questions. I'm going to, I think, ask Matt to respond to both.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So, also here, I would like to tell you a little bit more than you asked for. I hope this is okay. We have in Reinsurance adverse development of $141 million in total. More than half of this adverse development actually does not come from the loss side or from the loss reserve side, it comes from updates to premium estimates and commission estimates. Please note that when we close a quarter, some of the premium figures and some of the commission figures are not reported or not yet reported by clients, and they have to be estimated. And then, subsequently, they are or will be replaced by actually reported figures. Sometimes, when we make these estimates, we are a little bit too low, sometimes we are a little bit too high. This -- the last time we made this estimate last year, it looks like we were a little bit too high, which means too optimistic. And now as a result of this, we had prior year development related to the premium and related to the commission, which actually is bigger than the total prior year loss development related to losses. To be more specific in property, for instance, we had to make an adjustment of $42 million coming from the premium and the commission side. In casualty, we had to make an adjustment on $17 million, again coming from the premium and the commission side. Coming now to the losses, which I believe is what you were asking for. The remaining $67 million of loss reserve development alone could be more than explained by development coming from the New Zealand earthquake. That alone explains all the negative development. The rest -- in the rest of our book, we had some favorable developments and we had some pockets of adverse developments. I mentioned already motor, for instance, there we have a little bit by the way, it's not dramatic at all, but we had a little bit of adverse loss development. In the specialty lines area, we have a good amount of favorable development. We needed to add some strengthening to our U.S. asbestos reserves, for instance. So you win some, you lose some. But if you take out the New Zealand earthquake loss development, the rest is plus/minus a wash on the loss reserve site.

David A. Cole

Group Chief Financial Officer

Maybe you can let me interject before you go to the question about casually. I'd just like to remind everyone, our philosophy approach to reserving remains unchanged. Best estimates, I think we continue to have what we considered a prudent overall reserving level. When you looked at our portfolios throughout the year, every quarter, we have adjustments, we try to keep this up-to-date as possible with underlying development. There's nothing in the Q1 figures that leads us to conclude that we have somehow reached an inflection point and there something different about the way we would like to talk about our reserves vis-à-vis the way we talked about them last quarter or the quarter before that. Let me just come back to Matt now for the question on the casualty.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So you asked me whether I am concerned with the fact that we have 51% of our renewed treaty business in the area of casualty. The answer is -- look, as an underwriter, I always am concerned about everything, that's my job. I have to be a little bit paranoid. However, I am not more concerned with respect to our casualty book, knowing that the reason for the increase of the casualty portion to 51%, right now it could change as we progress through the year, but right now, it's 51%. It's entirely driven by a very small number of large transactions, which I have seen and which a good number of specialists have looked at and thoroughly vetted and we were, when we wrote this deals, and also now we continue to be confident that these deals will continue as expected, meaning they will be profitable.

Operator

The next question is from Andrius Budnikas from Citi.

Andrius Budnikas
Citigroup Inc, Research Division

This is Andrius Budnikas from Citigroup. Two questions please. The first one is on Life & Health Re. Could you give us more information regarding the underlying performance of this business unit? How much of this strong performance is sustainable going forward? In other words, would you tell us the normalized ROE for this business in this quarter? The second one is on Life Capital. Could you explain to us what gives you confidence that the gross cash generation over the next 3 years will be in the region of 1.4 to 1.7, given that this quarter the run rate was well below expectations?

David A. Cole
Group Chief Financial Officer

Thanks. I'll actually pick up both of those. So first from Life & Health Re, now we've had now the fifth quarter of, I think, very good results. Now always when we think of the life portfolio, and we think about the notional value of the policies we have over the period of time because they are enforced there's going to be some noise and volatility. In 2013, when we announced we wanted to address a number of very important performances issues, we said that we wanted to express our view about the sustainable earnings potential of this business by saying we thought we could bring it to a 10% to 12% ROE on the equity base of about $5.5 billion. And during the course of 2015, we normalized each time back to that. We now, going forward, said we're going to drop that caveat about the equity base of $5.5 billion, so we believe that through the cycle, we can deliver sustainable earnings between 10% to 12% ROE. Q1, we actually delivered something above that. There's always going to be some pluses or minuses, but there's nothing that I actually think I should point out specifically as being some form of fashion or one-off. We're not going to be normalizing the ROE on the Life business going forward. I do feel quite comfortable that we're in a strong position. We've addressed some of the underperforming portfolios that we previously identified. We've put the right capital mix in place. We've put the right asset mix in place to reflect the duration of the liabilities, and we continue to write attractive business. So that actually feels quite good. As to your second question about the gross cash generation with Life Capital. So as of the 1st of January, for the largest part of that business to the Admin Re part, which falls under the Solvency II rules, we, of course, moved from Solvency I to Solvency II assessment, with the level of capital required. But there's just some transition related to aspects associated with that. Perhaps more importantly, we had brought on board the Guardian portfolio in Q1. We've not yet optimized the portfolio. We are on our way to having done so. We've already taken some very important steps. Now we now anticipate we'll be able to, by and large, round those steps out during the course of the next several months. So certainly Q2 or Q3 we should have finalized that to bring it into what we think will be down to a more sustainable going forward position from a Swiss Re perspective. Now while we've been doing that, we also, of course, experienced in Q1 very significant financial market moves, both credit spread, and perhaps even more importantly, interest rates. And that impacted our Q1 results in a number of different ways. You've all seen, of course, the positive impact on the realized gains coming off the [indiscernible] portfolio. Offsetting that, of course, we had an increase in the level of liabilities on the basis of the lower market value discounting rates. So there were a number of transitional elements in there. The minus 25, I think should be put in that context. Going forward, if we look at the business, if we look the way those liabilities and assets are expected to perform, how we intend to continue the integration of Guardian, including the part 7 towards the end of the year, beginning of next year. Also, we'll be moving from the standard formula to an internal model-based formula over time. We still remain confident that the business in the U.K. will throw off actually more than $1.4 billion in cash, part of which we will invest in our open Life business outside of Admin Re. So that is what leads to the overall 1.4 to 1.7, which is a confirmation of our earlier communication.

Operator

The next question is from Kamran Hossain, RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

I'm Kamran Hossain, 3 questions. First one, sorry, it's coming back to the prior year development. I don't want to make Matt more paranoid on that. But could I just ask, I guess, the prior year development and the unfavorable development, was that season related? Or was that Swiss Re driven? And then I guess the second part to that one is, have you recalibrated your forward-looking liability models to kind of reflect these movements that you've seen? So that's the first question. The second question, just on the large loss budget. Does this make any impacts on the kind of how you think about the buyback going forward? So do you need large losses to be a little bit lower to execute a buyback? Did they have any impact at all? Just interested in any thoughts on that.

David A. Cole
Group Chief Financial Officer

Okay. I'll ask Matt to address the first, and I'll come back around on the second question.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I assumed when you distinguished between season related and Swiss Re related, what you mean is, is it due to higher-than-expected reported losses coming from the season to Swiss Re? Or is it due to a methodology change on the Swiss Re side? And the answer is, and again, on the loss side, the total amount of adverse development is less than 50% of the total adverse development we have seen. Both factors are included. For instance, New Zealand is season related. Motor is season related in the U.S. However motor in Germany, there we slightly adjusted our methodology to take into account the increased longevity of people who encountered a motor accident. So both elements matter. However, again, both elements are less than 50% of our total reserve development, more than 50% comes from the premium and the commission side.

David A. Cole
Group Chief Financial Officer

Thanks Matt. As to the second question, let me just reiterate a couple of things. First, no adjustments that we make now to the way we talk about normalizing our combined ratio, the way we look at the emergence of losses, will change the way we have thought about or communicated around capital management and more specifically about the buyback. And when we think about what may happen during the course of 2016, obviously, the occurrence of large loss and/or perhaps smaller losses in unexpected places can have an impact on the way that the market responds. We could have opportunities come to us throughout the course of the year to invest. Overall, profit developments of the other non-PC related segments can also influence our overall capital generation during the course of 2016. So I think we'll just reiterate that we assumed a certain level of losses in any given year. We know that, frankly speaking, in most years, historically, we show a little bit lower losses than what we would reflect on an average basis. If we just go back to last 10 or 12 years, and when you go back to before Katrina in 2005, you'll see between 2004 and 2015, we basically had 2 years where we were above our expected loss budget, and the other years we're actually below it, sometimes even very well below it. So I think we -- you need to understand that we assume a certain level of loss. We'll look to see how those losses develop during the year. It's not just the individual number that will be important to us, it will be what type of loss emerges where. Matt, you want to add?

Matthias Weber
Former Group Chief Underwriting Officer

I would like to add that on the nat cat side, due to the asymmetric loss distribution, typically in 1 out of 5 years, we have an actual loss burden that is bigger than the mean expected loss burden, and in 4 out of 5 years, it is smaller.

Operator

The next question is from Vinit Malhotra, Mediobanca.

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

Sorry to ask again on the budget change on nat cat. I just want a quick clarification please, if you don't mind. The $300 million that has been moved forward because of reinstatement or timing differences, is it then fair to assume that the $300 million is going to show up in next year's budget, and then that should be $1.8 billion, because otherwise we can't just make this $300 million disappear somewhere. So that's my first question. Is it timing difference or not, just to clarify that sorry? Secondly, we have seen a very big change in or very high level of gains on the credit side, probably from the narrowing of spreads, how is the decision taken, because is it just an opportunistic decision? How do you think this affects future investment income potential? And you also mentioned just now the Guardian portfolio not yet fully optimized, should we expect more of these kind of realization gains in this coming year?

David A. Cole
Group Chief Financial Officer

Thanks, I'll ask Matt to pick up the first and I'll get the second.

Matthias Weber
Former Group Chief Underwriting Officer

So with respect to the $300 million, which you're referring to, you're absolutely right. The majority of this will actually be released next year. However, it will be offset by late season reporting nat cat losses. So to the extent that the late reported losses match the amounts to be released, it will not lead to any prior year development at all. If 1 number is bigger than the other, then, of course that will lead to either adverse or favorable development. However, next year, if our portfolio stayed stable, which, of course, will never be the case, we would have to add the $300 million to be released next year, again with $1.2 billion of losses that will be released as a normal course of matter. And this will, of course, then still add up to the $1.5 billion.

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

It should add up to $1.8 billion, shouldn't it Matt? Because otherwise we are literally taking away $300 million out of the system and not counting it anywhere?

Matthias Weber

Former Group Chief Underwriting Officer

So next year we will have again $300 million that will not be released next year, but the year after next year, so in 2018. So, in fact, if you don't grow -- if it didn't grow, it will be a very stable situation.

David A. Cole
Group Chief Financial Officer

Key thing is just recognizing we've been too conservative in the past in the way that we've calculated this normalized expected contribution to combined ratio. The second question. Listen, we're not opportunistically realizing gains due to lower interest rates. We haven't been doing that. As you know, we came off the back of the financial crisis with a very significant derisked portfolio over the course of 2012, 2014. We've rebalanced fully in line with what we had indicated we wanted to do over the medium term in terms of our strategic asset allocation. Included wasn't exclusively related to putting the right asset mix in place for our Life & Health Re amongst others. In Q1 2016, if you take a step back from the gains associated with the Guardian derivative portfolio, we actually had a lower level of realized gains overall than what we would have had in 2016, and there are different reasons for that. The Asset Management team, of course, is fully aware of the fact that at current interest rate levels, churning to somehow harvest unrealized gain is not a very sustainable strategy. So I can assure you that's not our policy, not our practice at all. In terms of the sustainability of the gains that we saw on Life Capital, also associated with the Guardian portfolio, look, I don't know what will happen with financial markets, so certainly I am not going to tell you, one way or the other, interest rates will be up or down over the course of the next couple of months and quarters. But what I will tell you is that we are transitioning that portfolio. Part of that is to reduce this overall derivatives position, i.e. reduce somewhat the long position that we brought on board when we acquired the portfolio. We are also going through the portfolio that we've acquired to ensure the quality is what we would like for it to be, so there are a couple of higher-yielding investments that we're in the process of disposing off. That will continue although I have to say we probably already well into that right now. So our intent is that, by and large, by the middle point of this year, and give me a little bit of room around that, is that before June 30 or after June 30, in the middle of the year, we hope to have more or less completed the transitionary work that we'd like to. In the meantime, we remain subject to a little bit more volatility than we otherwise would want to carry going forward. We want it clearly to work out to our advantage, so we're very transparent about that. And in Q2, we'll see how that plays out.

Operator

The next question is from Frank Kopfinger, Deutsche Bank.

Frank Kopfinger
Deutsche Bank AG, Research Division

I have to apologize, I would like to contact again this nat cat budget, into the normalized combined ratio of 95.7%. I understand that there is some sort of timing effect, and you should forward $300 million of budget, however, I think what we all need to get is an understanding how the underlying developed from last year Q1 to this Q1. Last year, you disclosed a normalized figure of 95.8%, which included, obviously, too high 9.8% nat cat budget by that point in time. Do you have some sort of comparable figure that we could take now to put it against the current 95.7%? This is my first question. And the second question is also on the Guardian portfolio and the impact from the derivatives. Could you shed some light on, if you exclude all this noise from the derivatives, could you shed some light on how you see the underlying development and contribution of the Guardian portfolio, and ideally you have some numbers for this.

Matthias Weber
Former Group Chief Underwriting Officer

So regarding to your first question -- I take this. We did not readjust the combined ratios of the past to reflect what would they have been had we applied also the current methodology. So all I can repeat, it was too conservative, and you have an order of magnitude by how much approximately and that's how much I can explain.

David A. Cole

Group Chief Financial Officer

Okay, after the second question. So if you take a lot way, a couple of hundred millions rough order magnitude of the gains associated with the derivatives portfolio, I think you end up with still a very acceptable underlying results, certainly in line with our overall expectation, in line with our overall target of achieving ROE of between 6% and 8% for this business in the medium terms. I think the underlying result was very much in line with our expectation. Obviously, there was a significant impact from the derivatives book.

Operator

The next question is from Sami Taipalus from Berenberg Bank.

Sami Taipalus
Berenberg, Research Division

The first one is on these large transactions that you've been doing quite a lot of recently. And I'm just wondering how those impact concentration risk within the group? And how you manage this concentration risk? I suppose I'm particularly thinking about this because you've talked about paring back reinsurance a little bit in the past. Then my second question is on the comparison you made between the Swiss Solvency Test ratio and the Solvency II ratio. Now I appreciate I'm taking a bit of artistic license here, but if I scale the Swiss Solvency test numbers and apply them to your Solvency II ratio, you get to a minimum requirement on the Solvency II basis of 260%, which is quite a bit above what your peers have. So I'm just wondering if you're having any discussions internally about maybe reducing the minimum requirement that you have on the SST ratio, given how conservative it seems that this ratio is.

David A. Cole
Group Chief Financial Officer

Thanks very much for both questions. So Matt, why don't you take first, and then I'll ask Patrick to pick up the second.

Matthias Weber
Former Group Chief Underwriting Officer

So with respect to concentration risk, I must admit that it's not totally clear to me what exactly you mean by concentration risk. However, as we increase and continue to increase the portion of large transactions in our book and reduce the flow business, as long as price levels deteriorate and continue to deteriorate, we, of course, increase a little bit the volatility coming from the possibility that 1 single risk or the book of 1 single client could develop one way or the other way from what we expect it to develop. However, please also understand that our biggest exposures coming from the underwriting side are in the area of pandemic risks and nat cat. And with respect to these risks, large transactions are treated exactly the same way as smaller transactions are treated. We are looking at the contribution from each and every one of these transactions, independent of how small or how large they are, and we control the total and make sure that the total exposure with respect to these correlating perils stays within the allocated capacity limits.

David A. Cole
Group Chief Financial Officer

Thanks, Matt. Patrick, you want to pick up the question about Solvency II?

Patrick Raaflaub
Group Chief Risk Officer

I'm not sure whether your scaling up from SST to Solvency II is really helping us a lot. I mean we have a group risk policy, which states from -- on the capital side, what our target capital level is. It depends on a multitude of parameters. It has a respectability component on what do clients expect us to have in terms of capital. It also has a concept behind it, which says that we expect to be to able to weather a shortfall event, shortfall-type event and still be in business, hopefully to benefit from what we expect then to be excellent market conditions. And then there are also other considerations, such as S&P Capital and statutory capital constraints. So all in all, this leads to this expression of an SST-based capital target or capital tolerance. A buffer that we want to hold above the minimum. The minimum on the SST is 100%, and SST is really the metric that we look at in terms of economic capital model. What we have provided here is really just a translation to help understand what the comparable Solvency II ratio would look like, but I don't see this translation effort result in any revision of our capital risk tolerance. Obviously, we are constantly thinking about the capital risk tolerance. Any element of our group risk policy is permanently also challenged and can be potentially revised.

David A. Cole
Group Chief Financial Officer

Thanks, Patrick. Indeed this walk to Solvency II is really just for facilitation purposes, but it doesn't change the regimen on which we operate. Of course, on a group-wide basis, is this Swiss Solvency test in breach of our underlying operating subsidiaries carrier will be the local relevant regime in the various jurisdictions where they operate. Some of which are operating in Europe under Solvency II, others are operating in the U.S. under the state regime. Some operate in Asia under their respective regimes there. So the overarching capital regime for Swiss Re is or remains the SST.

Operator

The next question is from Andrew Ritchie, Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

First question, on the premium growth in renewals year-to-date, could you just tell me how much of a premium is multi-year deals? And are we already seeing all of the multi-year premium in the delta? Another way of putting it is how quickly will the increased volume earn through? And I'm assuming it carries with it probably a normalized combined ratio higher than 99%, given it's clearly very weighted to casualty. So really the speed of earns for you and the combined ratio. The second question, Patrick, in your comments, your recorded comments, your last comment is intriguing. When you talk about -- you're looking for convergence or hope for increased, you want to work to help towards increased convergence of economic capital regimes. Is that something you see? Do you see more convergence at SEC and Solvency II, or something I mean do you think this is possible? My final, just an observation, I think there's a danger of quite a lot of confusion on this nat cat change, on the combined ratio. You keep referring to the fact that previously, it was too conservative, your normalized number. Just to be clear, I think, you mean it was conservative when you talked about it on a discrete quarterly basis, but it makes no change to the annual basis, just to clarify, if that's what you mean.

David A. Cole
Group Chief Financial Officer

Okay, thanks for the observation. We'll come back to that in just a minute. Let me first go to the question regarding the overall component multi-year and the combined ratio on the cash, let me ask Matt if he'll address those first.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So we do have multi-year complex in the large transactions. We are not disclosing how much of it is multi-year. The written premium in case of a multi-year contract, the written premium, which we are disclosing here reflects the total amount of premiums across all years, if a contract is written on a multi-year basis. However, the earned premium, the earned pattern, will be smeared again over a multi-year time period. So when determining the U.S. GAAP earned premium, everything is being done as it should be. And with respect to your question, 1B, the 99% expected combined ratio appropriately reflects the large transactions, which as you rightly pointed out, including above average amount of casualty business, which almost by definition comes with a higher-than-average combined ratio. So that has taken into account. It's all good.

Andrew James Ritchie
Autonomous Research LLP

Okay. Can you come back to the question regarding the convergence around solvency regimes?

Patrick Raaflaub
Group Chief Risk Officer

Yes. So -- I guess it depends little bit on your perspective but what I was trying to express in the video is really, if you take a relatively broad perspective, you can see that there are several countries also outside Europe that are modernizing or modifying their prudential capital regimes. And they adopt an approach, which is at least logically or conceptually similar to our approach, meaning a total balance sheet, risk-based economic or at least partial economic perspective. The most relevant examples, I would quote here would be China and Mexico. Obviously, there is an exception, a very notorious exception being the U.S. But even in the U.S., you can see, at least, very partially or very partial elements of internal models being introduced in the NAIC/RBC approach with respect to nat cat for example. So that was really the trend I was referring to, and that is certainly a trend that we are encouraging.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. With respect to your question 2B, so I note, in total, you asked, in fact, 4 questions. With respect to your question 2B, what I explained applies both on the quarterly basis as well as on an annual basis. So if in order to do the nat cat normalization, we released USD 1.2 billion and add back USD 1.5 billion, that leads to a too conservative outcome.

Operator

The next question is from William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Back on the combined ratio with no apologies. First of all, just picking up I think on what you're saying, Matt, to Andrew's question, I'm still confused about what you're doing at the full year stage. You said very clearly in your prepared remarks that $1.5 billion is the figure within 99%? But when you were talking to Vinit, you were talking about $1.2 billion this year, so I don't understand that, and from what I've understood, it sounds like there is a step change between the 9 months and the full year? More relevantly, can you help us understand your underlying combined ratio, because your new underlying combined ratio is 96%, you're still talking about 99% for the full year? So what I'm trying to get is the message from you guys, if that really is an underlying figure, you're actually telling us that you're doing much better than 99%. If what you're actually saying is that's not the case, and effectively the figure in the next 3 quarters is going to be north of 100%, amongst other things, the whole purpose of this process, which was apparently to create a more smooth quarterly combined ratios seems to be defeated, because you introduced volatility. So how am I to think about the 96% versus the 99% of the full year? I'm sorry if that sounds like many question, but it was only one. But secondly, David, can you very briefly just give us an outlook from the actual dividends coming in the rest of the year such as you can see them. Reinsurance seems to have paid its dividends a quarter early. Are we -- given that we haven't seen a dividend from CorSo, are we budgeting for 0 this year? And are we still assuming about $300 million from Life Capital by the end of the year?

David A. Cole
Group Chief Financial Officer

Thanks, Will, for both questions. Matt, you want to pick up the first and I will take the next one.

Matthias Weber
Former Group Chief Underwriting Officer

So look with respect to the first question, I really don't know what else I could add or what else I could explain. And other than just repeating myself but I don't believe that makes a lot of sense to do so. With respect to the underlying combined ratio and the 99%. So absolutely, I assumed the 96% you're referring to is the one for Reinsurance where you adjust the 93.3% actual U.S. GAAP combined ratio for nat cat and for prior year development. And the question is why are you guys still sticking with the 99%? And the answer is, we wrote as a result of us writing a much bigger amount of larger transactions, more casualty business. This additional casualty business will come with a higher combined ratio, but over time, it will also come with higher reserves and therefore, higher investment income to compensate for this. And this casualty business has just started to earn through, and its impact over the quarter will become bigger. Secondly, this quarter we were lucky with respect to large man-made losses. The total amount of large man-made losses we experienced is clearly below what we experience on average, and therefore, we also believe that the 2 underlying combined ratio, taking into account also large man-made losses, is higher than what we experienced in Q1. And the third reason with respect to the renewals, prices are still softening. Despite the fact that the price softening has decreased, it's still softening. And as a result of this, we believe that the business in the next few quarters, again, across almost all lines that will come in with a little bit higher combined ratio relative to the past. So taking into account these 3 reasons makes us believe that the 99% expected combined ratio continues to be a reasonable number to assume.

David A. Cole
Group Chief Financial Officer

To address your second, I think, your eyes are as always are quite sharp. And if you look at our Q1 results, you'll see that the Reinsurance you did pay a dividend up to Group of just under 3 billion prior to quarter end. Last year, you may recall that Corporate Solutions did the same, a couple of hundred million, just prior to quarter end. And Life Capital, then known as Admin Re, paid a dividend during the course of Q2. There's no real specific number that I want to put on the other units other than same order magnitude as previous years would not surprise me. These things are actually just down to a little bit of going through proper corporate process. Our philosophy remains the same. We have a targeted capital level for each of the units and excess capital above that we like to have the units move up to the group as quickly as they can. So I would encourage you to look for our Q2 report when I would anticipate that both of the other units will have paid dividends up by the end of June.

Operator

The next question is from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

Just got one question left, which is related to SST. It seems to be that a couple of industry's best players warn about a discussion or potentially FINMA push towards, I would say, going more for the standard formula and scratching internal models. So I just wanted to better understand where -- how do you view potentially FINMA evolution in that respect, and potentially integration?

Patrick Raaflaub
Group Chief Risk Officer

So I guess to get an authoritative answer to that question you would have to ask FINMA. And as you know, I'm no longer speaking for FINMA, actually, I have not been for 2 years now. But what we see is that there is an attempt to develop standard models, so we don't have standard formula on the SST, it's a standard model. And to actually encourage smaller, especially smaller insurance firms to use the standard model rather than come up with their own internal model. I don't expect this to apply to Swiss Re or to any of the large groups for that matter, but that's just my personal expectation.

Operator

Our last question is from In-Yong Hwang, Goldman Sachs.

In-Yong Hwang

Goldman Sachs Group Inc., Research Division

I think you've taken my question. I'm going to have a last stab at the $1.2 billion and the $1.5 billion that we've been talking about. Would it be fair to say that you can only adjust that number down to $1.2 billion this year because you had a very benign 2015. Because if you saw normal loses during the last year, then there will be $300 million late reporting from 2015 that you'd have to be reporting from 2016, so I just wanted to check that. And my second question is on the losses that we've seen so far in the second quarter, earthquake in Japan and Ecuador. Is there anything that's worrying you in terms of the losses in those places?

David A. Cole
Group Chief Financial Officer

Thanks for those questions. So Matt, I'll take the first question and either you or I can take the second if you prefer.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I'll take both, if that is okay. So with respect to your first question, the answer is no. That takes place every year because we have every year, we have a late reporting loss item coming from our clients. With respect to the loses that happened in Q2, the biggest earthquake Japan event is right now under consideration. So we are in the process of estimating our loss, and it's too early to talk about it or give any signals with respect to the other nat cat related losses that have happened in Q2. So for -- so far, they are not of an order of magnitude that is worth speaking about.

David A. Cole
Group Chief Financial Officer

Okay. So just to confirm, these are Q2 events, and so there's nothing in our Q1 numbers. We'll look at each of them, of course, individually to determine what an appropriate level of reserving would be. As Matt said, it's a little bit too early, I think, it's always important for us when we talk about these things to also just recognize that, whether or not they impact us directly, they certainly impact the people and the communities where they have occurred. So I just would like to make sure that that doesn't get forgotten here.

Philippe Brahin

Okay Dave, this is Philippe again. I like to come to end of the Q&A. So thank you all very much for joining. Also, thank you to Matt, to Patrick and David. If you have any follow-up questions, don't hesitate to call us at Investor Relations at Swiss Re. Thank you again everybody for your participation today. And operator, back to you. Operator, can we close the call?

Operator
Ladies and gentlemen, thank you for participating in the conference. You may now disconnect your line.