S&P Capital IQ

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Swiss Re Ltd SWX:SREN

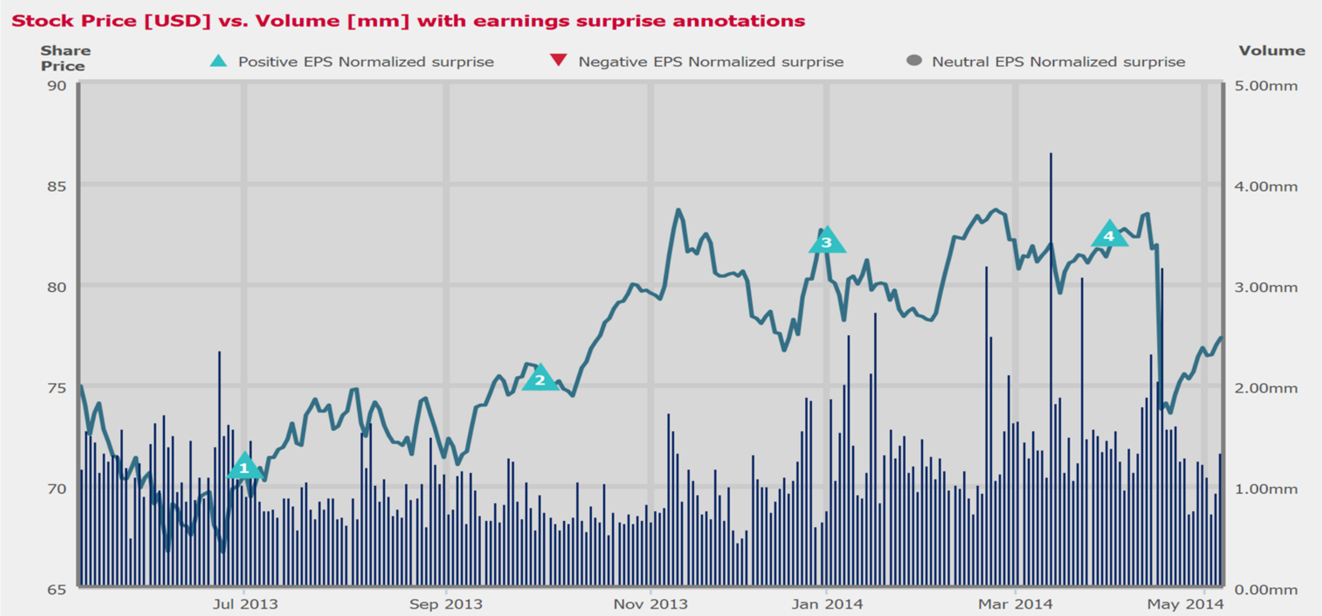
FQ2 2014 Earnings Call Transcripts

Wednesday, August 06, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-		-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.85	▼(19.65 %)	2.40	9.13	9.08
Revenue (mm)	7669.17	▲22.35	-	34112.76	35783.39

Currency: USD
Consensus as of Aug-06-2014 12:21 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	2.29	2.33	▲1 1.75 %
FQ3 2013	2.11	2.92	▲2 38.39 %
FQ4 2013	2.09	3.29	▲3 57.42 %
FQ1 2014	2.68	3.28	▲4 22.39 %

Call Participants

EXECUTIVES

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Eric Schuh
Former Head of Investor Relations

Matthias Weber
Former Group Chief Underwriting Officer

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

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to the Swiss Re's Second Quarter 2014 Results Conference Call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to Eric Schuh, Head of Investor Relations. Please go ahead.

Eric Schuh
Former Head of Investor Relations

Thank you very much. Good morning, and good afternoon, everybody and also from the Swiss Re side, welcome to our second quarter 2014 Results Conference Call. I'm here with Michel Liès, Group CEO; David Cole, Group CFO; and Matt Weber, Group Chief Underwriting Officer. We will start this call with David giving a quick overview of today's results. David, over to you?

David A. Cole
Group Chief Financial Officer

Okay. Thank you, Eric. Indeed, good day to everyone, and my remarks will indeed be just a quick overview. I guess, you saw from the press release, as indicated, I'm pleased to how our 2014 results have been shaping up so far. I think the results show the fundamental strength of the group's business model and strategy with all of our business units continuing to deliver a strong and a profitable growth.

P&C Res combined ratio was 93.5% for the quarter. And though this quarter's combined ratio was higher than some of you were expecting, please remember the seasonality factor. Our Q2 continues to have typically a higher combined ratio due to the lower nat cat premiums.

Combined ratio for the first half of the year is 86.1%. Life & Health Re also had some noise in the quarter. There's more work for us to do here but the team is well on track to reach their 10% to 12% ROE goal by 2015.

Corporate Solutions made another step on their journey of delivering profitable growth and Admin Re delivered excellent gross cash generation of $271 million.

I was also very happy with our investment performance, as the group's fixed income running yield was 3.5%. As you know, for the full year, we continue to expect 3.3%. We've maintained our short duration position, anticipating rising interest rates.

Following today, we give you an update of our July renewals. You've seen that we've shifted our portfolio by writing less nat cat business and more casualty, and that the year-to-date risk-adjusted price adequacy is 108%, so our rates are clearly down compared to last year. We are writing business at attractive profitable terms.

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

Eric Schuh
Former Head of Investor Relations
Thanks very much, David. [Operator Instructions] Operator, could, we please take the first question?

Question and Answer

Operator

The first question comes from Andrew Ritchie from Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question, just on the underlying combined ratio performance in Q2. What was the impact of man-made losses? I think, I mean, the performance is a very similar margin to the 2Q, you reported last year underlying basis but last year had 3 points of man-made losses. I think man-made's were quite benign this time, maybe just give us a sense as to how man-made's were versus what you expect? And the second question, there's been a substantial shift, casualty versus property. Is that shift more than you would've expected. It looks like casualty is up something like 37% year-on-year. And if I think about the impact that'll have on attritional combined ratio, it looks like it could be quite significant to 2015, may be 2 to 3 points. Could you just give us some sense, maybe from Matt, as to how we think about the mix effect going forward in the combined ratio?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I take both questions. From a man-made perspective, you need to differentiate between large and mid-sized losses. With respect to the large losses, which for Reinsurance are greater than $20 million and for Corporate Solutions, greater than $10 million. We saw a slightly below average loss activity in the quarter with respect to the mid-sized losses, which were -- which are writing the level below, we actually saw the opposite, we saw an above-average amount of loss activity. With respect to your second question, shifts to casualty, it is -- actually, we expected to increase our proportion of casualty business. We have, especially also on the casualty side, a few rather large quota shares included also to benefit from the rather favorable price development we are seeing in the U.S. in the casualty primary market. And whether or not you're right, 1 or 2 of them or not since the large deals are quite lumpy, of course, it makes a little bit of difference at the end of the year, or at the end of the quarter you look at the casualty book. With respect to impact on combined ratio, maybe the best way for me to answer is at the current interest rate level and you asked for next year, if the interest rates could change between now and then, but at the current interest rate level and with a typical tail length we write in casualty, the discounting effect is the order of 5% to 6%. So this information, probably, should allow you to answer your question.

Andrew James Ritchie
Autonomous Research LLP

So is it enough to say that it meets -- if I take an estimated nominal combined ratio, knockoff the discounting effect, I would get to a sort of target ROE your approaching on that business? I'm trying to factor -- I appreciate the ROE taking into kind of investment return. What is the ROE you're targeting on that new casualty business, is it 11%?

Matthias Weber
Former Group Chief Underwriting Officer

So the ROE, we are targeting across all lines are given by the external return on equity target, which we disclosed, which is on average 10% between 2011 and 2015. So there, we do not differentiate between the individual lines and don't split it. With respect to the large transaction there, we get to a minimum of 11%. So at this point in time, we are not in a position to give guidance related to anything that relates to 2015. There, I would like to ask for a little bit of patience. We will do this in February, when we disclose 2014 annual results.

Andrew James Ritchie
Autonomous Research LLP

And is the same -- is this general liability, it's not workers' comp within this casualty, it's general liability and umbrella liability, the nature of the cash business has not changed from what you are doing within the year?

Matthias Weber
Former Group Chief Underwriting Officer

It's of course, a mix, right. It includes General Liability, it includes Professional Liability, motor, workers' comp compared to what is being offered in the market and what is being written in the market, in our book is heavily de-emphasized.

Operator

The next question comes from Thomas Seidl from Sanford Bernstein.

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

Two questions. P&C Re noted the quite market increase in expense ratio, especially acquisition costs nearly up 5 percentage points. Is this all related to these large transactions? And what are sort of is the going rate we should expect now on acquisition costs? And on Life Re noted the, against step up on the loss ratio side, 79% last year, 82% now, are we moving in the right direction, is my question here?

David A. Cole
Group Chief Financial Officer

Let me first start with the second question, while we consider a little bit more your first question. I think there are clear signs that we see, that indeed we're moving in the right direction on the Life & Health Re. You have to picture this a little bit as a very significant work in progress. At this point in time, we can already clearly see the positive results coming through from the rebalancing of our asset mix, predominately last year. We started, also, last year really looking at the overall level of capital, we extracted some capital from the segment, as well as the overall leverage structure of the segment. Those results are also clearly starting to come through. We have been successful, actually, for several years now and we certainly continue to see that over the last couple of quarters, including Q2. The writing, what we consider to be a very attractive business in many different regions, both life, as well as a health and we would expect that to continue going forward as well. Now we do have some, as I mentioned, some work in progress going on that creates noise in our results. We also have a couple of less economic type of results that flow through sometimes up, sometimes down. This time most of those are not economic type of things are down, so we still have Canadian interest rate hedging coming through in a negative way, less than in Q1, by the way. We have some FX remeasurement coming through, less than in Q1. We haven't disclosed and we have specifically not disclosed any update on where we're getting to with the liability management on the yearly renewable term that we recaptured last year, early last year from Berkshire Hathaway. Those discussions are continuing. We continue to make what we consider to be good progress. We have concluded some time ago, and I think communicated to you that as long as those discussions are going on, we don't think it's in the interest of the firm, interest of our shareholders to provide too much interim details in that space but we certainly will do so later on. And we remain committed to the overall ROE target of 12% -- 10% to 12%. We'd love to see the upper side of that but we've committed 10% to 12% in 2015.

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

May be just one follow up, David, if you allow. Last year, if I'm not wrong, that was impacted by Australia and a few one-offs of 79, the underlying last year was actually lower so now, we are marketly higher. Is there any market that is specifically hit on the Life side?

David A. Cole
Group Chief Financial Officer

No. As I mentioned, it really is a work in progress. If you want to say there's any one specific market that's clearly bringing our overall results for the segment down, it would no doubt be the U.S. market, predominantly the pre-2004 business that we earlier identified. So indeed, if you look at last year's numbers, we had Australia, the first trends of Australia in there. It was more than made up for with some of the gains that were realized as we were shifting the asset mix. So overall, what I'll say is that the performance of the segment is clearly heading in the direction that we would like to see. There's a good bit of noise, I recognize that. We, however, remain committed. I think it's very important in terms of the future profitability here. We remain committed to the profitability target that we earlier have indicated, and we see very clear signs that we're on track to deliver that.

Matthias Weber
Former Group Chief Underwriting Officer

With respect to your first question, this is Matt Weber speaking, acquisition cost increase on the P&C Reinsurance side, this is driven by our business mix. Last year, at Q2, we had 53% proportional business, 34% non-proportional, and 13% facultative business on the Reinsurance side. Now as a result of the changing portfolio, we were relatively de-emphasizing nat cat, which is written on a nonproportional basis and wrote more U.S. casualty. A good portion of it on a proportional basis, our proportional business proportion has increased. Right now, it's 61% proportional, 27% nonproportional and 12% facultative. Typically, the nonproportional business does not come with acquisition costs other than brokerage, which if it in those cases where we pay brokerage is of the order of 10%. In those cases, where we don't pay brokerage, it's obviously, 0. And on the proportional side, typically, we do pay a commission to our clients of the order of 30% or a little bit more. So the business mix between proportional and nonproportional largely drives changes in the acquisition costs.

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

Okay. So in that respect, the current rate is close to the run rate as long as the business mix stays as we are today?

Matthias Weber
Former Group Chief Underwriting Officer

Which, of course -- so the answer is you're absolutely correct about the business mix never stays the same.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

My first question. What's the equivalent to the 108% year-to-date price adequacy for this time last year? And then secondly, you've given some helpful directional comments, David. But can you maybe remind me what life operating margin you think is consistent with the 10% to 12% ROE? And how you would normalize the actual first and second quarter figures to get to what the underlying figure was? And just an observation, you guys used to publish all the kind of noisy volatile items to try and help us get to a cleaner figure. And for some reason, you seem to have dropped that. So we're back into a period of almost rounding volatility in that ratio.

David A. Cole
Group Chief Financial Officer

Okay, thanks, Will for all of your questions. May be I'll let Matt pick up the first one about the price adequacy and then, I'll come back and try to shed a little bit more light on Life & Health.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to your first question, the equivalent to the 108%. Last year, we have not disclosed the exact number. But directionally, these sets in February, related to the business that was up for renewal that we saw a decrease by 3.6% from 111% last year to 107% this year. Now we are at 108%. The reason is that at the midyear renewals, the nat cat portion is a little bit higher than at, on one renewals and year-to-date, the rate changes we have seen on our portfolio are very close to the January 1 rate changes we disclosed, the negative 3.6%. So that should give you a pretty good feeling to determine the number you're looking for.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

I'm sorry, just to come back, because I'm thick. I don't understand why you're being so contrived on this. The January figure you're saying is down 4 percentage points to 107%. You're not telling me what last year's equivalent figure is to the 108% but presumably, the deterioration is more than 4 percentage points?

Matthias Weber
Former Group Chief Underwriting Officer

All I'm saying is we haven't disclosed the number last year and therefore, we are not disclosing it right now. However, the percent decrease is extremely close to the one we disclosed at January. And the reason is if you look at the volumes that were up for renewal, the January 1 renewals are significantly bigger than both April and the July renewals.

David A. Cole
Group Chief Financial Officer

Well, let me come back to your question about life & Health Re. Some of our analysts asked for the information with and without the market volatility. There was a point in time when everyone wants to be very clear to the market about negative drags on our Life & Health Re earnings at some of the year early renewable term in the PLT, the pre-2004 U.S. business was starting to clearly the impact us. So we wanted to be very clear about what was driving that negative drag on our earnings. And so we were disclosing that on a periodic basis. Now we're in a situation where we're actually negotiating with some underlying cedents that have ceded that business to us, and we're in very intense and I think very, I would characterize them as making good progress discussions and we simply don't think it's in our interest to be as transparent about all the details as we were in [indiscernible] period of time, so we've actually brought it back a little bit similar to the transparency that we have on the P&C side. I don't mind giving you some sense of what we would expect, as well as if you do look at some of those volatile moves what you would see underlying. Let me just start with Q2 of 2013. You'll see the reported result for Life & Health Re is 154%. If I take away things like tax expense, VA ups and downs, and realized gains, I would come to an underlying operating number, excluding this type of market volatility of just over $40 million. If I look at Q2 2014, we reported net income in the quarter for $48 million. Going through exactly the same exercise, I come to an overall operating income number, excluding this market volatility, of just under $100 million. Now in terms of where we're headed, at the end of the day, it's very clear that we're trying to focus attention there because we think that ultimately, that's the real driver of the valuation of this business. We said in July of 2013, that we would like to achieve return on equity of 10% to 12% for this business, basically, looking at the equity associated with the business at that time, i.e. taking neither benefit nor punishment for changes in interest rates. It of course, can move the level of equity under U.S. GAAP. So basically, that equity at the time was somewhere around $5.5 billion. So if you want to do just the read across what we're saying with a minimum of 10% ROE is that we'd expect on an annual basis coming from Life & Health Re, something on the order of 505 -- $550 million a year.

Operator

The next question comes from Thomas Jacquet from Exane.

Thomas Jacquet
Exane BNP Paribas, Research Division

So my first question is on the short duration portfolio. It was put in place last year. If you -- if it was not existing today, would you put it again in place or in another word, did your view on the rates change? My second question is on pricing in High Growth Markets. Can you give us a bit of granularity regarding the current level of pricing and maybe the direction as you're probably not the only one focusing on these regions?

David A. Cole
Group Chief Financial Officer

I'll take the first question, and I will let Matt pick up the second. So on the short, we maintain the position today, which basically, answers your question in the affirmative. This position can be eliminated very quickly. But we continue to hold the view that interest rates will continue to rise. Now to be very honest, and frank, I guess, it's not a surprise, we had expected that already to have happened to some extent more than it has. You recall interest rates at the end of last year were actually closer to 3% and 2.5%, and now they've been trading at -- I'm talking about 10-year Treasury, at 2.5% now for sometime. But we continue to expect a generic upward slope to that 10-year figure and something in the range of 3% by the end of this year. And then something moving up, it's 3.5% and perhaps even beyond that in subsequent years. So we continue to hold the position but at the same time, continue to watch the market and review our position on that.

Matthias Weber
Former Group Chief Underwriting Officer

With respect to the High Growth Markets pricing question you asked, on our book, the price quality we are seeing right now in the High Growth Markets is approximately halfway between 100% and the 108%, which we disclosed for the average of our book, which, of course, includes both the mature markets and the High Growth Markets. So somewhere, halfway there. Please do not forget the 100% number is not the breakeven number. 100% is equivalent to a premium, which we would like to achieve over the course of a cycle. So even if you wrote business at 100%, we will still generate economic profit. So right now, the situation in High Growth Markets is slightly less attractive than in mature markets. But clearly generating enough economic profit to grow there and to be written, and in fact more economic profit than we thought we would achieve over the course of a cycle. If you look at the rate level changes in High Growth Markets compared to last year, the rate level changes we achieved on our book are also negative as in the mature markets. But the changes relative are less -- the negative changes are less than 50% of what we have seen on our book overall.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

So both questions on P&C Re, please. On the -- just another way to just ask this, I think Matt had just clarified but just to be clear again. When we say a 100% price adequacy, is that equatable or equal to a 10% ROE on the P&C Re? Is that how we should look at it because you've guided range of 10% to 15% but you've hit 17% in 2Q, and the price allocation was 108%, and the reason is just, so we understand this metric, which is now more important in your disclosure than the pricing. And then just on the 95% being maintained through the whole business mix change, in 1Q when it was 93%, I think what you had said, I think, was that in the rest of the year, there will be some pricing pressure and so 95% should hold. And now, we've obviously seen the seasonality which we should have seen. But is that 95% -- is it a sense of caution on that 95% in all these commentary, or is it still exactly the number and the reason being that you're trying to get more -- on the other areas other than [indiscernible] ?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to your first question, which is not a total easy one to answer. In order to get from 100%, we call this level the cycle reference premium, which is the premium level we would like to achieve across the cycle, and that assumes risk-free discounting. That's just the way how we go about pricing and costing under the EVM rule. So in order to make the walk from this 100% cycle reference premium to a return on equity, of course, we need to make assumptions with respect to the returns on the investment side. So under a specific set of assumptions, which is not a unreasonable set of assumptions, you're absolutely right, we can make the walk from 100% to the return on equity, which we promise we will achieve. However, please keep in the back of your mind, these assumptions are not the only set of assumptions that can be made within the reasonable range. With respect to the 95% combined ratio, we absolutely, without wavering, stick to the 95% and the reason is the following. Q1, we were a little bit below. Q2, we were a little bit higher. Together, we were almost there, just a tiny little bit higher despite the fact that on the Reinsurance side, only 40% of the nat cat expected losses earned during the first 6 months. And 60% of the nat cat expected loss will be earned during the second 6-month. So your absolutely correct observation of a continued softening market environment in our opinion will be offset by this seasonality effect, which does not only play a role when we look at Q2 but plays also a role when we compared H1 with H2.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just one 10 second follow-up quickly. The 100% means that in your view, we can hit 10% ROE, is that -- do you agree with that statement or 15%? Just -- it doesn't, I mean, I don't need the exact math but because of your role as the head underwriter, you know where you want to stop this, or you know where how far we are from an acceptable return and -- here just to get a sense, it's not really the math here?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. As I explained before, under a certain set of assumptions with respect to investment income, we can say that however, these set of assumption is not the only set of assumption in the reasonable range.

Operator

The next question comes from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Three questions. Apologies, they might be slightly leaning on some other questions that came through earlier. First is on the casualty. If I look at your reported combined ratio on casualty, it was at 107% I think, the first half. I was just wondering how much -- what the combined ratio of the casualty business written today is running at roughly? And that perhaps goes back to Andrew's original question about how the change in business mix is going to impact the combined ratio? That might just give us a little bit more color. And the second question is again, leaning on Vinit's question, your reference point -- your 108% versus your 100% reference point cycle. They simplistically, it says to me, that you've got actually quite a lot a room yet for pricing to go down across the portfolio before you really start to feel uncomfortable with where the industry pricing levels are. Is that a statement that you would concur with?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to your first question, the casualty book we have written so far year-to-date on the Reinsurance side is above 100%, clearly above 100%. It's not that highest price adequacy of all the lines, but it is above 100% and therefore, it makes absolutely sense to grow there. With respect to your second question, if every piece of business was priced, exactly, at the same level, I would agree with your statement. However, please keep in mind that there is a distribution of price qualities around the 108%, which means while on average we have room left relative to the 100% mark, even lower because the 100% mark is not the walkaway. Given the distribution of the price quality, it means that there is a tail that's dropped already below the 100% mark or even lower. And with respect to that tail, we have taken appropriate actions already, which include shrinking our shares or even non-renewing it, and we will continue to do so. And if price levels continue to decrease, we will do more of this.

David A. Cole
Group Chief Financial Officer

Andy, if I may add to that. I think it's important and ties back into earlier comments we've made about how we differentiate ourselves. So I fully subscribe to every single comment Matt just made. No, we can't isolate ourselves from the marketplace and there's some markets, some lines of business where pricing pressure is clearly evident and there's a series of quarters where we've now seen that to be true. As Matt indicated, we can adjust our allocation of capital and capacity to those markets. Now I would just like to underline the fact that there's not a direct readthrough in the market prices that you see and the transactions that we are closing with our clients. So we do seek to differentiate ourselves, our clients value, the services that we provide above and beyond just the capacity that we provide and therefore, the market prices and the prices that we conduct business at with our clients are not always the same.

Andrew Broadfield
Barclays PLC, Research Division

So just to come back very quickly, in a mathematical term, Matt, is it fair to say that the median adequacy is below the 108% and the mean is 108%, or does that relationship -- the mean is higher than the median?

Matthias Weber
Former Group Chief Underwriting Officer

It's not necessarily the case. And, please remember that not every deal has the same size. So there is the distribution of the price qualities and the distribution in size. So it is, therefore, actually even possible to have the opposite picture that the median is higher than the mean. I quite frankly, have never looked at it from this way. So I cannot really confirm that your statement is correct nor can I say the opposite is correct.

Andrew Broadfield
Barclays PLC, Research Division

Okay. I guess, I'm just wondering how many -- how much of that price adequacy is propped up by some very, very attractive bits of business and how much the bulk of it, a little closer to the 100% but I guess, we'll find out in due course.

Operator

The next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

Two questions, if I may. The first, you might not be able to answer but I thought if I asked it at a high enough level, maybe you can. I'm just wondering whether or not you can say has there been any impairment whatsoever of that $500 million in 2Q? I'm not sure if you can answer that. The second question I would have is on the Admin Re cash production. The cause of the cash that was produced in the quarter was attributed to declining credit risk. I'm just wondering whether or not that is linked to credit spreads? And if so, is that reversible, so if credit spreads blow out could there be a cash consumption in that business? Those are my questions.

David A. Cole
Group Chief Financial Officer

Okay, thanks. Let me take both of these. So indeed, you're right. We won't say anything more specific about the $500 million other than just to confirm that we still believe that's the best estimate. We have the freedom to move above and beyond that. We're not specifically tied to that number but it does reflect our view, still, of what the overall impact of the various actions will be that we need to take and agreements we need to reach with our clients in order to address a big part of this pre-2004 business. I do anticipate that later on, I won't say exactly when, but later on, we'll be able to give a little bit more clarity about that. So it continues to be the basis upon which we are operating today. And it continues to be part of the overall statement I've made about delivering the return on equity of 10% to 12% for 2015. As for the second question, actually, it's not so much about credit spreads here and therefore, not subject to the reversal that you've indicated. This is really reserves held against credit default. And we've looked at our portfolio, we've looked at how we're looking at credit across the group, and we've looked at what feedback we have from various market participants and we've concluded that it's appropriate thing to do to reduce the amount of reserves held against credit defaults. So in that regard, of course, the market could change significantly, our view of the overall quality of the portfolio could change significantly, but this is not being driven by credit spreads.

Operator

The next question comes from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

I have got 2 questions and both coming back to casualty. So the first one is and I guess you've seen this shift to casualty business from property coming from several regions. We've seen it coming from the shift, coming from the intermediate players just getting a little bit of movement in Europe. Just could you give a bit of color around how quickly you think the casualty business will become as competitive as, say, the property cat business and what's going to happen if everyone is taking the same business? And the second question, just on your coming back to the slide that Andy referenced. You talked about the -- an adverse large loss development in your liability. But can you just allay my fears and tell me which year that came from?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. With respect to your first question, this question falls again into the category, tough to answer, hard to answer. It depends a little bit what the market is doing, what the competitors are doing. Very important there is actually also what are the reserves doing in the industry, what are the excess reserves doing. Right now, we believe in the industry and, please, this is not an exact science. This is based on assumptions. But we believe in the industry, there is still some excess reserves that is around and that are being released and could be released over the course of the next several months or maybe even years. And the question is also a little bit how quickly -- how big is this pot of excess reserves really, how quickly will it dry up? And the answer is also a function of what is happening on the inflation side. So there are a number of unknowns which make it largely impossible to really answer your question with a number, and I assume you did not expect me to. Because it would -- not really have any credibility.

David A. Cole
Group Chief Financial Officer

As to the second question, I'm not exactly sure I can give you the exact year but I can probably allay your concerns. It wasn't from the last 2 or 3. I can imagine that question would've come. So no, it's something that was written many, many -- several years ago, many years ago.

Operator

The next question comes from Stefan Schürmann from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 questions, in fact. The first, still, on the casualty side and you moved up now to 42% in terms of year-to-date business mix. I mean, do you set some upper limit there or as long as we see it forward your businesses will just go for it? And maybe also, do you have any like kind of rough indication of the average duration of that book you wrote this year? The second question is on Admin Re. Just I haven't figured out really the impact of the HSBC deal on your Q2 numbers in terms of profit, could you maybe give a hint here? And potentially there's some update on the pipeline on Admin Re?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. The first question is we have no upper limit defined. It depends a little bit how the market is developing both on the price side, as well as on the demand and supply side. We will, of course, always look to have a book that is not completely lopsided. So we will never be in a situation where we write just nat cap and nothing else on the P&C side, and we will also never be in a situation where we just write casualty. But if the attractiveness of casualty relative to other lines continues to increase, we still have some room to grow there actually.

Operator

The next question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the cash, you got from Admin Re, the $473 million over the 2 quarters. Can you say how that changes your view of potential capital management or potential spend going forward? I remember from the Investor Day, the discussion was that you didn't just have $3 billion, which you could, either be used in investment or capital management. But the real number was maybe twice that and I just wondered whether $470 million is kind of evidence of that? And then the other -- you answered, I think, it was Vinit's question saying there's a reasonable range of assumptions about the underlying profitability, which is a fair comment but it kind of avoided the question of what you're really thinking. And I was just wondering whether you can say your view? My guess and it is just a guess, and I have no clue really, is that the profitability you currently experience is way, way, way better than that reasonable range of assumptions which you're using for the 108%. In other words, if we were to assume that the current fairly benign environment in terms of claims were to continue, we're probably not at 108%, we're at 110% or 112%?

David A. Cole
Group Chief Financial Officer

I'll start with the first part. We saw very good cash generation coming from Admin Re, as you've seen, $271 million for the quarter. Big part of it was coming from management actions. I think we'll stick with our overall guidance as far as Admin Re goes, which is, we expect something in the range of about $900 million over the course of the period 2014, 2016. And then almost the same amount or roughly $900 million to be dividend up to the group over the period of 2015, 2017. So just that little delay, if you will, in the actual movement of the funds up to the group. In terms of the actual capacity we have, I don't think now is the right time to come back to that. We've discussed quite extensively overall capital management and our approach to maintaining appropriate capital to not only satisfy regulators but also present ourselves as the partner of choice from the respectability point of view. We do have good capital flexibility. I think we've demonstrated, not only the ability to generate profits, but also to move those profits up to the group to make them available for different usage, investment, as well as return to shareholders. And I would anticipate coming back to this discussion probably around February of next year.

Matthias Weber
Former Group Chief Underwriting Officer

With respect to your second question, the 108% we are disclosing, these are -- that's really our best guess at this point in time. Of course, when we analyze deals we have to make certain assumptions with respect to forward-looking inflation, for instance, loss trends, exposure trends. For risks attaching deals, we also have to make assumptions with respect to future rate level changes. And these assumptions -- the reality, sometimes comes in close to our assumptions, sometimes a little bit different. And then it depends, do they come in lower or higher. So it could turn out to be one is always smarter, after the fact that the 108% turned out to be a little bit conservative or a little bit optimistic. But at this point in time, given our current knowledge, we really believe that's our best assessment of the price quality of the underlying price quality in our P&C book.

Eric Schuh
Former Head of Investor Relations

Before we get to the next question, we skipped the second question that Stefan Schürmann asked about the HSBC deal. I guess, the question was how much was Q2 impacted by that deal?

David A. Cole
Group Chief Financial Officer

Yes. So I won't give a exact number related to individual transaction. I don't think we've done that in the past. I don't think we should start that practice now. But what I will say is that the deal was signed in June and the way it's structured, it's retroactive to January 1 of this year. Therefore, We do see some contribution coming in the second quarter from that transaction, and we would anticipate that the actual further step of the transaction was originally signed as a Reinsurance transaction, will go to a Chapter 7 type of transition during the course of, most likely, 2015. So the overall impact has started to manifest itself starting in the first half of this year.

Operator

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Just one question left on my side, which is related to the Life & Health reinsurance business and most specifically to the Health business. In the financial report Q2, you've got -- you made a comment saying that in 2014 there were unfavorable cedent updates. Could you just tell us if it was only Q2, it was a trend, it is Q1 and Q2? And really, what is the underlying of this and potentially is this something which is worrying you in terms of how you're in-force business is performing?

David A. Cole
Group Chief Financial Officer

Well, I'm going to give a very clear answer. No, there's nothing here that from our point of view represents a worrying trend. It's a little bit of a quarterly noise, so I would say up one time but sometimes we see a little bit more impact than others. So there's nothing here that suggests to us a trend break or something that will impact us on a continuing basis going forward.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Could you give us a figure for how much economic capital has been created or destroyed since you put in place your short duration investment position, presumably that's been quite high profile that you're monitoring internally? And then secondly, I think this is vain hope of a question. But your $3 billion commitments to deploy capital targets, deploy capital over the next couple of years, can you give us an indication of how much was deployed in the first half?

David A. Cole
Group Chief Financial Officer

So thanks, William. We haven't disclosed the economics, specifically of the short rather than say that, if you look at when we put it on and you still look at interest rates today, you can see that it has not been a bad transaction for us. There's the carrying costs associated with it. I think we've acknowledged earlier that, obviously, if we went from effectively a cash position to even at existing yields of 250 basis points, which we'd -- we certainly would see a pickup in the actual, absolute level of income coming. So I guess, what we'll probably say, what we think about the deal as when we close it. In terms of the $3 billion, I'm going to disappoint you. I think that we've continued to indicate that it is not earmarked.

It's a rough indication of what we would hope to be able to invest, successfully invest according to our strategy and according to our financial hurdles, over the course of 2014, 2015, it's roughly equivalent to what we did over the course of 2012, 2013. The types of things that we would expect to be able to invest in, actually run the entire gamut of our business model, so there's really no element of our business, the different unit of our business that would be excluded from that, to continue to invest in attractive Life & Health business, invest in Admin Re pipeline, similar to what we did in Q2, look for additional growth in Corporate Solutions, be it organic or inorganic. And frankly speaking, also in our traditional P&C Reinsurance business, subject to developments in the marketplace, be ready to act quickly to respond to client needs that may come about as a result of significant changes in market circumstances. All potential consolidation moves that may take place or people who at this point in time are starting to position their portfolio for some of the new solvency regimes that are becoming a little bit more imminent in terms of their application. So I won't give you a specific number in terms of what we spent, but I would anticipate toward February of next year, giving you update on what we think in terms of the overall impact on our capital management.

Operator

That was the last question, ladies and gentlemen.

Eric Schuh
Former Head of Investor Relations

All right. Thank you. So if you have further questions that pop up later today, please feel free to give the Investor Relations team a call. And if I'm allowed a personal comment, I wanted to take this opportunity to thank you sincerely for the past several years of working together. I am now assuming a new role at Swiss Re and moving again into our Reinsurance business. I do hope we'll also speak personally again. That concludes the meeting. Thank you very much, everybody, for your participation, and goodbye.

David A. Cole
Group Chief Financial Officer

Thank you.

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