S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FQ3 2015 Earnings Call Transcripts

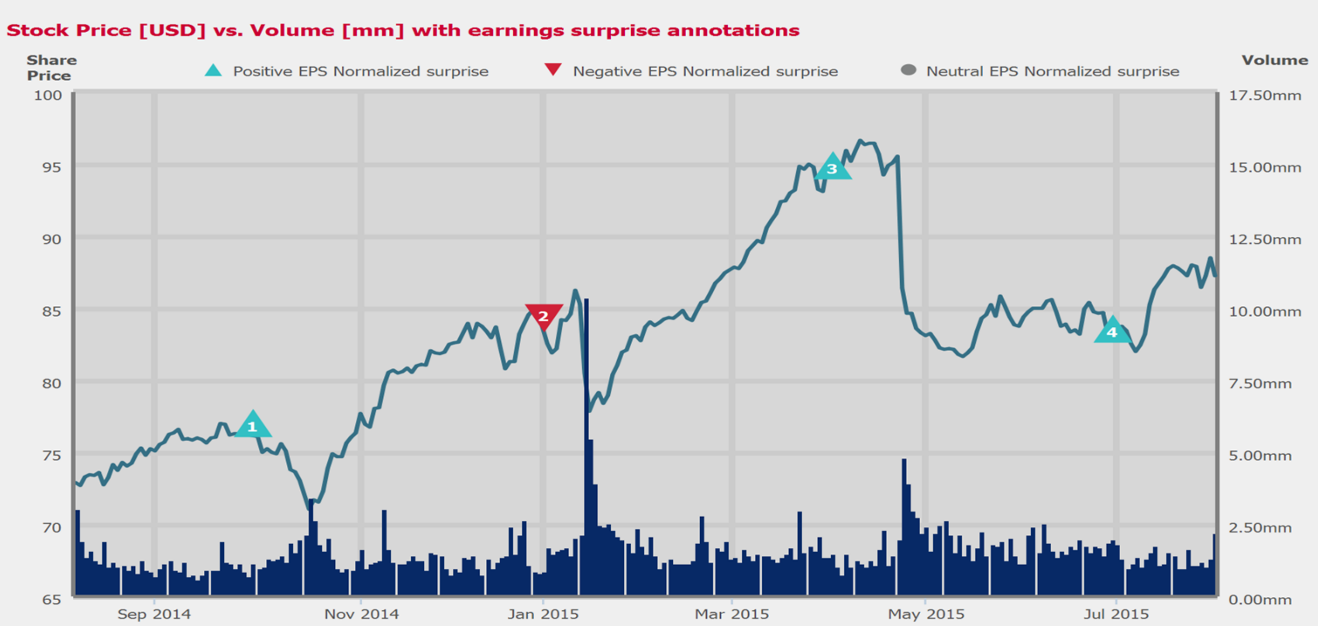
Thursday, October 29, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	2.14	3.73	74.30	1.92	9.88	9.20
Revenue (mm)	8232.18	7763.00	(5.70 %)	8122.34	31971.80	-

Currency: USD

Consensus as of Oct-29-2015 8:26 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	2.57	3.29	28.02 %
FQ4 2014	1.23	0.77	(37.40 %)
FQ1 2015	2.03	3.88	91.13 %
FQ2 2015	2.17	2.20	1.38 %

Call Participants

EXECUTIVES

David A. Cole
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Philippe Brahin

ANALYSTS

Andrew James Ritchie
Autonomous Research LLP

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Goldman Sachs Group Inc., Research Division

James Austin Shuck
UBS Investment Bank, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Olivia Sylvia Brindle
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Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Fossard
HSBC, Research Division

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Xinmei Wang
Morgan Stanley, Research Division

Presentation

Operator

Good morning, or good afternoon. Welcome to the Swiss Re Third Quarter 2015 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.

David A. Cole
Group Chief Financial Officer

Thanks very much, and also from my side, good morning, or good afternoon, everyone, and welcome to our Q3 results conference call. I'm here today with Matt Weber, our Group Chief Underwriting Officer.

I'll start today with just a very brief overview of the results we published this morning, on the assumption that all of you have had a good chance to take a look at them in the meanwhile. You will see that Q3 was a very, I repeat, a very strong quarter for Swiss Re, with positive contributions from all of our business units. Group net income at $1.4 billion, brings us to a total net income for the first 9 months of USD 3.7 billion. Both the Q3 ROE and ROE for the first 9 months demonstrate the quality of our underwriting and investment portfolios, the quality and depth of our client franchise and the strength of our operating model.

During Q3, Reinsurance delivered USD 1.3 billion of net income, underpinned by the continued strong underwriting performance of our underlying P&C and Life & Health businesses. Corporate Solutions reported a good ROE of 15%, and Admin Re generated strong gross cash of USD 126 million. The group ROI for the quarter was a solid 3.2%.

We announced this morning that we expect to launch the share repurchase program during the course of November, perhaps around mid-November, once we've received the necessary regulatory approvals.

Before I turn over to Philippe Brahin, I'd just like to underline a few key points. We have a very strong franchise. We continue to maintain a very strong capital position. And I think we continue to deliver very strong results.

With that, I'll turn it over to Philippe.

Philippe Brahin

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

Question and Answer

Operator

First question comes from Kamran Hossain, RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

The first question is just on capital management. I know you don't have to report the SST to the regulator anymore -- to the regulator anymore, but it sounds like your ratios are in or around 200%. How should we think about the kind of difference between your 185% kind of top of your -- the range that you're targeting and that 200%? Is that kind of a buffer that you need on top of a buffer? And just how should we think of that in terms of capital management going forward? And the second question is just a -- looking at your Corporate Solutions business. You mentioned the challenging environment in the U.S. and also some large casualty losses that you'd seen in North America. Is there any read across there to the P&C Reinsurance book and the expansion you've made in the North American casualty business there? Any color would be really helpful.

David A. Cole
Group Chief Financial Officer

Okay. Let me take the first and then I'll maybe hand over to Matt for the second. So yes, indeed, we don't report SST. That requirement has gone away. But of course, we continue to manage and maintain a very strong financial position and I'll try to give a clear indication of that by including in our results announcements that even if you factored in a 20% or 25% impact coming off the back of Guardian, that we continue to maintain what we consider to be a very strong, robust capital position. As to the 185%, it's not that we need to maintain a buffer on top of a buffer on top of a buffer. The 185% is basically calibrated to achieve a couple of goals: number one, and the most important, clearly, of course, it exceeds any regulatory requirement. But it's basically what we think is appropriate to position ourselves vis-à-vis our clients, to be a strong financial partner to our clients. Number two, it's calibrated to allow us, in the unfortunate event of very significant losses, what we would refer to as shortfall type of losses, to continue to operate above 100% SST, i.e. even after very significant losses, no matter where they may come from, to be able to engage with our clients the day after as opposed to engage with regulators. So the company may from time to time approach the 185%. It's not a lower limit. We could even go below it under certain circumstances, but it's an expression of where we believe we should typically be positioning ourselves. Now we've been operating in excess of that. We've said to the marketplace that when we have excess capital, of course, we look to invest wisely in our business. If we can find investment opportunities that meet our strategy and our financial hurdles, we feel very comfortable to invest. That's exactly the way that we continue to support the long-terms earnings potential as well as continue to grow the book value per share. So we think this is very appropriate, and our investors have confirmed to us their appreciation of that approach. When we have excess capital, we've looked for ways to give it back. Excess means above and beyond what is required to maintain that strong financial position as well as to fund what we would see as likely potential investment opportunities over the medium term. So indeed, we are no longer going to report SST twice a year. That will go to once a year after the change in the insurance regulation here in Switzerland. But that change in regulation doesn't change our approach to capital nor our desire to continue to maintain a very strong capital position. So with that, let me turn it over to Matt for the second question.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Also from my side, good morning, and good afternoon, to everybody who is connected with us here. Kamran, related to your question, first, on Corporate Solutions, we incurred during the Q3 basically 2 liability losses, which together drove the combined ratio above the 100% mark. One was the well-known Amtrak train derailment and the other one was a liability loss, including toxic fumes. Both of these losses are the type of losses that do happen sometimes and we are here to pay them. As a result of these losses, the combined ratio in Q3 for Corporate Solutions in casualty, which is liability, was 109.1%. On the Reinsurance side, our liability combined ratio was actually 81.5%. While we might have contributed to these losses as well on the Reinsurance side due to the overall size of our book there and the diversification, covering these type of losses as part of the Reinsurance portfolio didn't mean anything in particular there. In fact, across the whole casualty book of business on the Reinsurance side, we incurred actually favorable claims development of USD 216 million despite an asbestos reserve strengthening and some moderate adverse development related to U.S. motor. So there is a lot of very good news available in the casualty book, especially on the liability side of Reinsurance.

David A. Cole
Group Chief Financial Officer

Before I go to the next question, I'd like to just underline something Matt just said. I think we've covered it before. We continue to invest in our Corporate Solutions business. It is, on a relative basis, of course, a much smaller book than what we have on the Reinsurance side. There's no surprise there. So we may still see some volatility as we go forward, but we remain convinced of the overall quality of the portfolio and the quality of the opportunity that we see in the Corporate Solutions space.

Operator

Next question comes from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had 2 questions. One is on reserve releases, the 8% in Reinsurance. And I understood from speaking to one of your colleagues this morning, it came from liability, and I was wondering which years. It's just that your peers, particular Munich and Hanover, have specifically said they're not releasing, so I just wondered what the difference there is. And then the second one is on Corporate Solutions. So I think you've kind of answered it, but just going back to the underlying number, the kind of fully clean adjusted number of 108%. Is that something you're thinking about a little bit? It does seem a little bit high, given your target of 98%. And if pricing is beginning to soften now, it just seems kind of a little bit odd.

David A. Cole
Group Chief Financial Officer

Thank you. So I'll let Matt take the first stab and then I'll wrap around.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the first question related to the reserve releases on the Reinsurance side. They are pretty much across our total book with some exceptions. And what happened there, the actual claims experience came in just below what we expected based on our models and based on our implicit assumptions at the time when we did the reserves. The CorSo combined ratio, I think that's definitely worth to talk a little bit about this. And in my opinion, I agree with you. It is a little bit higher than we would like it to be. However, I believe the reality is actually much, much better than it appears if we just look at the 108% or 108.1%, and I would like to explain why. So first, the actual combined ratio of 90.7% is a very, very good combined ratio, especially also in the current market environment and if you compare it to the combined ratios of our peers. Secondly, our guidance, as you absolutely correctly pointed out, was 98%. And what we experienced on an adjusted basis after nat cat adjustment and prior year development adjustment was 108%. So approximately 10 points higher. First, I would like to say prior year development, while we often like to think about it as a one-off, please remember, it's still an underwriting result. It's still coming -- it's still an underwriting margin. It's just from an accident year or an underwriting year that lies in the past, but it's still equally valuable and important. Secondly, how can we explain this difference between the 108% and the 98%? And the explanation is as follows: so of this 10% points, 4% can be explained by the fact that as a result of the market softening, Corporate Solutions decided to step somewhat on the production rate as a result of which we wrote less premium while we continued to make the investments on the expense side in order to position us for the future. As a result of this, our cost ratio actually increased and did not decrease as we expected earlier this year when we came up with the combined ratio guidance. So that explains 4 points. 5 points are explained by seasonality and now I have to become a little bit technical in order to explain this. Please bear with me. I'm trying to make it as easy as possible. Seasonality on the Reinsurance helps the combined ratio in the third quarter. In Corporate Solutions, it hurts the combined ratio and I would like to explain this a little bit. In both cases, of course, we know the losses follow a seasonality pattern and an above-average amount of the annual expected losses are and have to be allocated to Q3. So that's the similarity. The difference between Reinsurance and Corporate Solutions lies in the way how we allocate the premium. On the Corporate Solutions side, we allocate the premium linearly throughout the year. On the Reinsurance side, we allocate the premium in proportion to the expected loss, plus the capital cost of the respective quarter. In Q3, given the higher amount of nat cat expected loss, and therefore, also significantly higher cost of capital, we expect on the Reinsurance side, therefore, to achieve a higher margin and hence, a lower combined ratio in Q3. In Corporate Solutions, where we allocate the premium in a linear way, but we still have a higher expected loss coming from nat cat in Q3. We therefore expect a higher combined ratio in Q3 and a lower margin. And that actually, this effect, explains another 5 points of the 10% points difference. And the last remaining 1% point can be explained partly by quarterly volatility and partly by the fact that prices have softened slightly more than we expected this to be the case at the beginning of the year. So summarizing this, yes, it is a little bit higher than we would like it to be. However, the amount of unexpected price softening is a relatively small component of the...

David A. Cole
Group Chief Financial Officer

Thank you also, Matt, for the little bit more extensive answer. I know it's on a lot of folks' mind, so I hope you appreciate we take a little bit of time to explain it. Just one thing I'll say to wrap up before we move to the next question is that, of course, we are watching the performance of Corporate Solutions as we do all the different business segments and activities. We remain convinced of the attractiveness of the market, and therefore, also remain committed to our program of investing in that business and further extending its footprint and its product capabilities. So we won't allow market-specific, shorter-term influences to get in the way of what we believe to be a very solid, long-term opportunity for the group.

Operator

Next question comes from Xinmei Wang, Morgan Stanley.

Xinmei Wang
Morgan Stanley, Research Division

Two questions, please. So firstly, on Reinsurance pricing. Do you have any updates on your view on pricing going to 2016 after Baden Baden conference and given that we've had some more negative industry commentary from Baden Baden compared to what we heard at Monte Carlo? And my second question's on the investment result. So just wanted to get a general feel of what your appetite is to continue to increase allocation away from government bonds and cash and into corporate bonds? So any commentary around that would be helpful.

David A. Cole
Group Chief Financial Officer

Okay. Thank you. I'll pick up the second question but first over to Matt for the view on pricing.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I start with the first one. So on the pricing side, the statements we made in Monte Carlo are still valid and actually unchanged relative to Monte Carlo. We said there that in Q3, we have already seen a slowing down of the price decreases, and we expect this to continue. And we continue to believe that this is the case. What we don't know exactly is by how much the prices -- the price decreases are going to slow down. That we will only be able to comment in February. But for me, there is absolutely no doubt that the price decreases we have been seeing in the past will continue, but to a smaller extent.

David A. Cole
Group Chief Financial Officer

Okay. And thank you. As to the second question, indeed, you're correct. You saw that we did do a little bit of an increased allocation to credit during the course of the quarter, utilizing some of the cash as well as some sales of government bonds. I think as we've previously indicated, we're more or less where we want to be in terms of our overall asset allocation. So there may be some tactical adjustments from time to time, some adjustments that come about as a result of market movement. I think it would be fair to say that we're well positioned and comfortable where we currently are.

Operator

Next question comes from Andrew Ritchie, Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

First question, you kind of gave us the impact of the Guardian deal on your SST ratio. Can you give us, even any qualitative impact, on the -- what this would do from an S&P point of view? My assumption would be it's less impactful on S&P versus SST because of differing treatment of credit risk and you get some credit for the EV, but maybe just give us some sense as to the S&P impact and where you think your flexibility is currently on the S&P model. Second question for Matt. Matt, you kind of gave us at the half year a sort of a walk as to how you felt you could get to your normalized 97% combined by the full year. I see in the statement you're still reiterating the 97% combined. Obviously, we're now at 99% combined to the 9 months on a normalized basis. Can you update that walk? What -- are you assuming very benign man-made situation in Q4? Is there something we're missing on seasonality? Is there some inflation of expense ratio? Maybe just give us a sense as to whether we should be using a 97% or a 99% as a starting point for thinking about '16.

Matthias Weber
Former Group Chief Underwriting Officer

Look, so the first thing with respect to the combined ratio guidance, the accuracy we would like this guidance to be understood is of the order of plus/minus 1%, which is also the reason why we never say 97.3% or so. So plus/minus 100 basis points. And secondly, combination of man-made large losses may be combined with a little bit of good luck there, not too much. Plus, secondly, seasonality makes us believe that we have a fair chance to come in within the combined ratio band plus/minus 1%.

David A. Cole
Group Chief Financial Officer

And to answer your question on S&P, if I may, so you're absolutely correct. SST is of course fully economical on both sides of the balance sheet whereas S&P is a little bit asymmetrical in that regard, more based on our U.S. GAAP shareholders' equity as a starting point. Impact on S&P is about half -- roughly half of the impact on SST capital. I'm not going to give an update at this point in time on our overall position against S&P. We'll come back to the overall capital position. We [indiscernible] fully resolve it.

Andrew James Ritchie
Autonomous Research LLP

Sorry, just to be clear, when you say half, I should sort of take the 20, 25 points, apply that to your required, that gives me a dollar number and I should just -- that's what you mean by that.

David A. Cole
Group Chief Financial Officer

Yes, and I can help you out. In the order of magnitude, it's $2.5 billion.

Andrew James Ritchie
Autonomous Research LLP

Right. Sure. And just, Matt, just to follow up. Is it -- your expense ratio has been quite noisy this year. Is there anything still in the expense ratio that's unusual in terms of, I don't know, one-off investments or any particular inflation of it? Or is the change year-on-year just what we're seeing because of mix effects and some ceding commission effects?

Matthias Weber
Former Group Chief Underwriting Officer

Look, on the quarterly expense ratio, we see a little bit of volatility and this is just quarterly noise. The expenses do not happen in an exact linear way across the year. And I believe that's probably the best assumption you can make. You know the average, but there is some variability around the average in every quarter. It's hard to predict that.

Operator

Next question comes from James Shuck, UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I have 2 questions, please. Firstly in P&C Re, we see rates are under some pressure and continues to be so. I think quite often we overly focus on the supply of capital. I'm interested just in what the outlook is around cession rates, please. Are you seeing any signs of a bottoming in terms of those rates? And if so, kind of how do you think that will play out in terms of the rating outlook, given the excess capacity in the market currently? That's my first question. And then second question, could you just sort of talk a little bit about the creation of Swiss Re Life Capital? I'm just keen to understand the logic of that. And apologies for this kind of follow-up related to that, but I think I've been drinking the Carl Icahn Kool-Aid, but I'm interested to know why Life & Health Re -- why that is the best home for you within Swiss Re. The disclosure, which I appreciate, you're on a verge of improving forwards [ph] and we very much look much forward to seeing that at the Investor Day. But there's obviously a big difference between the sort of capital that you allocate towards the Life & Health Re contract versus a P&C Re contract. So with that in mind, I'm just kind of keen to hear what you have to say about why you are the best home. So those are my 2.

Matthias Weber
Former Group Chief Underwriting Officer

Let me take the first question. So related to the cession rates, we have seen, in the very long term, a trend towards slightly lower cession rate going on. I think the very long term means over the course of the 24 years I have been working in this industry. Sometimes, the cession rates go up and sometimes go down. On average, they are going slightly down. However smooth, in the long term, the decreases actually on an annual basis have not been very big, and we expect this to be continued also in the future. Our goal is -- are -- and then, on top of this, the underlying insurance book of business for the industry, of course, is growing, which means the combination of slightly reducing cession rates in the long term and significantly more increasing underlying book size leads to an increasing Reinsurance book for the whole industry. It's just an increase. It's not as big as the increase is on the underlying primary insurance book. And it is, of course, our goal, in good years to continue to grow our share of wallet in the total amount of Reinsurance premium that is being ceded to us. And the way how we go about it is by means of differentiation, by means of doing a very good job related to capital allocation. We are going to talk about this at year-end when we have the Investor Day. And last but not least, by implementing our growth strategies, for instance, growing in high-growth markets, growing in the regional and national segment, which we have been very successful doing in the past, and quite frankly, also growing in casualty, moderately growing. We will not go crazy there. But we are still on the growth path there, benefiting from the fact that our market share there is actually clearly behind our market share on the property side, for instance.

David A. Cole
Group Chief Financial Officer

Thank you, Matt. Just to segue into the next. We also continue to believe there's very significant protection gaps in the world. While we've all experienced cycles and increases in demand and increases in demand and cession rates, increases in supply and decreases in supply, the overarching conclusion that we reach is there continues to be a very significant protection gap, certainly on the non-life side, but equally on the life side. That then being the segue to the second question. What we've announced today, and we certainly will provide more information and context around it at our Investor Day at the beginning of December, is that we're bringing together now within the Swiss Re Group all of our activities and businesses that deal with the primary life insurance. Now I think all of you are very familiar with our Admin Re business, U.K.-focused, after the Guardian acquisition about 4 million policies, which we continue to expect to grow, both in absolute sense but also in the overall importance to the Swiss Re Group. So what we've announced today is that we're going to combine under 1 BU and the BU will be called Life Capital. Up until now we've called the BU, Admin Re. But as we're bringing together both closed life business with still ongoing new life business, we're going to rename the BU as Life Capital. It happens to be the name of the holding company -- Swiss-based holding company where the Admin Re business has been sitting all along. And we're going to basically leverage the capabilities that we have on the primary side to continue to support our clients and partners as they write new businesses using new distribution methodologies. So we'll bring together under that BU Admin Re plus a number of other activities that I have to be very clear on right now are, in a relative sense, quite small today compared with the size and scope of Admin Re, but represents opportunities where we think we can help our clients also address the protection gap on the Life & Health side. So we'll come back to that in December. To be very clear, a couple of questions, these businesses that we're bringing together with Admin Re have been sitting within our Reinsurance business unit under our Life & Health Re segment. They have nothing to do with Reinsurance. And so in some respects, what we're doing is we're making a clean cut now. We're segregating the primary-related businesses from the Reinsurance-related businesses. And there's no crossover and knock-on impact on the P&C side.

James Austin Shuck
UBS Investment Bank, Research Division

Sorry, on the wider points of just Life & Health Re residing within the group and why investors may prefer to have that separated.

David A. Cole
Group Chief Financial Officer

I don't know, I think everyone realizes the benefits of having a diversified business model. We have the ability to manage our capital, I think, quite dynamically. I think we serve customers quite well. So a combination of a very well-established client franchise, excellent underwriting capabilities, the ability to provide tailored services to our customers and the ability to manage a diversified portfolio of risk, I think have proven over many, many, many years to be quite attractive also to our shareholders.

Operator

Next question comes from In-Yong Hwang, Goldman Sachs.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

This is In-Yong Hwang from Goldman Sachs. Two questions for me. Question on Life Re. For a few quarters, you've kind of reported results that's quite a way ahead of your 10% to 12% ROE targets. And I appreciate a lot of it was helped by realized gains, but do you kind of see the underlying business performing much better than the 10% to 12% that you were kind of guiding to at the start of the year? And secondly, on the Tianjin loss estimate of $250 million for the group, you mentioned obviously there's uncertainties relating to that estimate. Could you just give us a sense of kind of the uncertainty range, as it were? So is it $100 million either side? Or just a rough kind of idea of where that estimate could go and whether you've built in any kind of conservatism in that estimate.

David A. Cole
Group Chief Financial Officer

I'll pick up the first and then ask Matt to address the second. So thanks for recognizing the strong results of Life & Health Re over the course of the last 3 quarters. That's coming off the back of quite a number of important management actions that we implemented during the course of 2013 and 2014 that were intended to both address a number of portfolios that were clearly underperforming, that we needed to take active management on, as well as actually just create a more sustainable long-term earnings potential for the business. So those actions included not only addressing some of our pre-2004 business, but also getting the right access to capital, getting the right capital level in the business, ensuring that we had the right asset mix and of course, very importantly, continuing to write profitable new business. So we've been very pleased with the result. We indicated, coming off the back of that transition, that for 2015 we would target an ROE of between 10% to 12% and to isolate a little bit the impact of potential unpredictable moves in interest rates, we said, on the basis of the capital base of about $5.5 billion that existed at the time that we announced the target. Now if you look at our 9-month results, of course, the overall ROE for the period is, indeed, as you said, in excess of 10% to 12%, at 17%. Well, we've tried to provide each quarter a little bit of a view of what we think the appropriate fair assessment would be against that original target. So we reported about a 12.6% ROE over the 9 months on that basis. Now we remain committed to the business, and I think we remain convinced to the long-term earnings potential of the business. So I'd just like to leave that with you. I'll turn it over to Matt.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the uncertainty comes with respect to the Tianjin loss from pollution and from business interruption and especially contingent business interruption. Typically, first, you pay the property losses, the property damage losses also related to our motor portfolio. And after a while come the business interruption losses, and at the very end, come the contingent business interruption losses. And we are still far away from getting loss notifications related to the business interruption and contingent business interruption losses. So based on this, all I can say at this point in time, I feel compared to, for instance, estimating a hurricane loss or estimating an earthquake loss, in this specific case, the uncertainty is elevated and continues to be elevated for a while. However, it's hard to know what we don't know. So it's basically impossible for us to give you a range, a credible range, of this uncertainty. You probably know the estimates of some institutions related to the market-wide losses. They typically range from USD 1.5 billion to USD 3 billion or USD 3.5 billion. But even those people who estimate these losses, they say they do not include pollution, for instance, and that might come on top of it. So I'm afraid, at this point in time, there is really not a lot more I could give you. We just have to be patient a little bit.

David A. Cole
Group Chief Financial Officer

Before I move on, I'd just like to reiterate our reserving methodology is always on the basis of the estimate. And I think it would be fair to say that when we look at our reserves, whether it's related to new incidences or existing incidences, we always apply a consistent approach. And given some of the uncertainties that exist, I think it would be fair to even add the word a prudent estimate with what we believe our exposures could be. But as Matt has indicated, a prudent estimate doesn't do away with uncertainties, and therefore, we'd just caution that the numbers would clearly move up or down, we believe, as more information emerges over the next several quarters.

Operator

Next question comes from Olivia Brindle, Bank of America Merrill Lynch.

Olivia Sylvia Brindle
BofA Merrill Lynch, Research Division

I've got a couple of questions, please. So firstly, on Admin Re deals and the capital impact. So we've seen with Guardian that these can be quite capital consumptive, so I'm wondering if there's a maximum limit in terms of the capital that you want to dedicate, either to any particular deal or overall to Admin Re as a percentage of your business. And also, sort of related to that, the capital charge, I think, is quite penal, in particular for things like credit risk. And in speaking to you after the Guardian deal, I think you mentioned that there might be some management actions you could take to reduce this risk. Could you maybe give some indication of what possibly you could do on that front and whether that impact would be material in terms of reducing the capital strength? And my second question is just if you could give a little bit more color on the adverse reserve developments on U.S. motor. Obviously, that's not an issue that you are alone in experiencing. So which sort of -- which years are we talking about? And do you see that risk potentially continuing and the need for more additions on that front? Any sort of indication of the size of additions would also be quite helpful. If I may, a third question as well, maybe generally. There was a speech recently made by Mark Carney about environmental liability for insurance companies and reinsurance companies, likening the potential risks to sort of asbestos, which is quite worrying, if that's true. I was just wondering if you have any thoughts on that and how it's developing, if you see any potential concerning signs from that part of the market.

David A. Cole
Group Chief Financial Officer

Thanks, Olivia. We'll save the third question toward at the end and maybe we'll wrap back around to it just to be fair to other questioners, if you don't mind. So I'll pick up the first question around Admin Re space and then turn it over to Matt for the question on U.S. motor. So a couple things I'll say about Admin Re. You'll see with the recent announcement around Guardian that investing in this space can be very attractive, facilitating that we achieve our desired position as the consolidator of choice in the closed life business in the U.K. I think, frankly, it would be imprudent of me to suggest some sort of cap or limit on the size of the transactions. The 2 key criteria, I think, are that they any capital deployment would be in line with our stated strategy, and of course, that it would meet our financial hurdles. In the event that very large transactions would be available to us, it may well be that we will seek other sources of capital to support our activities in that space. So it's not that we have a per se cap on what we would be willing to do. We need to look at the individual opportunities and determine if they're attractive to us and how best we should finance them. In that regard, there's also not per se a cap on the overall position of Admin Re within the Swiss Re Group. We have, as you know, at this point in time, roughly a 60-40 split between P&C-related insurance risk and Life & Health-related insurance risk. There's nothing cast in stone with that relationship. I could imagine that it would potentially, over the course of several years, switch to exactly the opposite. I think if you look back historically, you'll see that, that number has gone above and below 50% for each of the primary insurance activities. In terms of the cash charge, I think if I understood your question correctly, you're referring to the impact it has on our SST capital requirement. And you're right, it's a credit -- particularly credit spread. I'd like to point out it does attract a fairly hefty charge under the Swiss Solvency Test, certainly more than what you'll see some of other players will be reporting under Solvency II that I think significantly dampens the impact of credit spread. We have the full charge reflected under Swiss Solvency Test rules. Yes, there are actions that we can take, and we certainly will continue to look at opportunities we see to manage the overall portfolio of risk that we have, including potential opportunities to lay off some of the risk from time to time. I would like, however, just to underline the following: that we maintain a very strong capital position and a matched asset liability approach, specifically with the intent to not really be a forced seller. So while it may lead to some volatility in reported capital levels, our intent actually is to not be selling into a stressed market. In fact, if anything, we maintain some flexibility to be able to invest when markets are a little bit disrupted. And that's exactly what you saw across the group in Q3. With credit spreads widening, we chose to increase a little bit our exposure to credit. So with that, let me turn it over to Matt for U.S. motor.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. U.S. motor, we have seen an uptick in claims frequency coming from the U.S. in the underwriting years 2013 and 2014. The older underwriting years look stable and we haven't moved the reserves there. And 2015 is too green and too early to tell. So at this point in time, we believe we are reserved based on our best estimate.

David A. Cole
Group Chief Financial Officer

Olivia, I've marked your third question. So let's see where we get to with questioners today and then if possible, I'll come back to it.

Operator

Next question comes from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Two questions. The first one, coming back to the Life & Health segment, can you just maybe give us a bit more color basically where the improvements come from, like in terms of morbidity, mortality, also sort of the impact from prior year and management action on YRT? And maybe as I saw that the health operating income was roughly doubling up from year ago, is that sustainable or is there any, basically, a one-off in there? Then the second question, just very simple on the buyback. I mean, I didn't see any figure and I assume it's still, if you launch it, a CHF 1 billion amount. And time frame-wise, is that 12 months or what should we expect here?

David A. Cole
Group Chief Financial Officer

Okay. Thank you. So Life & Health, actually, across the board, solid results improving our underlying operating margin. I think we've had, more or less in line with expectations, outcomes on the various biometric sides. Clearly, the impact of the prior management actions continue to be seen. The business that we addressed in conjunction with our clients through negotiation in both YRT as well as the PLT, we're experiencing better outcomes this year than we experienced in previous years. Also, lower interest charges as a result of having reduced some of the leverage in the segment sometime ago. Continuous strong investment performance on the basis of the asset moves that we made once again also meanwhile in 2013, 2014. So across the board, a fairly, I think, strong and robust performance. A few ups and downs on some of the more volatile items, which is why we do a little bit of that correction from time to time to bring it back to what we think is a little bit better basis, if you will, in terms of forward thinking overall profitability levels. But altogether, it's just a strong across the board performance. As for your second question, so indeed, we announced today that we are seeking now the regulatory authority to launch the buyback. I believe that process will take 10 days or 2 weeks or something in that range, and therefore, we said we currently expect subject to receiving those approvals, which at this point, I have no reason to believe we will not receive, currently expect to launch during the middle of November. Now at that point in time, we'll give a little bit more details around the program, but you're absolutely correct. What we have in place is authorization from our shareholders from the April 2015 shareholders' meeting up to CHF 1 billion share repurchase program, which runs until our next general shareholders' meeting, i.e. until next April.

Operator

Next question comes from Vinit Malhotra, Mediobanca.

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

I'll take a quick one because my buyback question has been addressed. So just going back to the 2Q, we had a nice presentation by the Chief Actuary commenting that the -- or what I understood then was that the reserve releases are likely to be trending down. Now this quarter, again, you've seen a very large number, and I understand there's some permutation gains in the casualty lines. But the presentation made was only 2 months ago. Is this guidance or is this understanding still valid, that the trend is going to be downwards? Or is it still the case that it could move as much as it has done? If you could just provide some idea there, it would be very useful. And on a similar topic again, CorSo, again, the reserve releases have been rather stable, 5%, 6% range, last several quarters now. Is that the kind of range we should think about? Just refresh our memory there.

David A. Cole

Group Chief Financial Officer

Okay. Thank you. Listen, let me start by just reiterating our policy which is that, in all times, we seek to be reserved at what we consider to be best estimate. Obviously, there's a range that you can consider when you talk about best estimate. And if anything, we would like ourselves to be a little bit positioned perhaps north of -- if the range is from 0 to 100 best estimate, certainly a little bit north of the 50. So on the rather conservative side of the range. But having said that, the approach is best estimate. It's also for that reason that we don't include any prior year reserve developments in any of our own financial planning. That remains to be exactly the case today. Specific to your comments about the presentation our Chief Actuary, Michael Eves, did in -- at Q2, now the guidance there remains the same. There could be some individual quarters where things are higher and lower, of course, based on specific developments. The 2 things that I think are relevant here is, number one, we have a continued period of low inflation and very low claims emergence. And so with the passage of time, of course, somewhat earlier reserves we set up on the basis of a certain expectation and/or on the certain expectation of claims inflation, those, of course, are now, I would say, reaching the part where they expire and they fall through. Sorry, so that's important to note. The second comment, so it's hard to predict exactly what's going to happen with inflation or claims emergence, but certainly our experience over the last not only several quarters, but several years, has been consistently positive in both those things. In terms of the expectation going forward, independent of what may happen with inflation or not, at the end of the day, of course, you do have a rather finite set of reserves that you put on the books in the path. And as those reserves run down, I think it's only reasonable to expect that the likelihood of additional reserve releases would decrease. Now of course, I'm referring now to some reserves particularly related to further historical years. We continue to reserve on what we think to be a best estimate but prudent basis. And so time will tell what happens in the future. I would not encourage you to extrapolate any specific trend vis-à-vis Corporate Solutions or P&C Re, for that matter.

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

Just a quick follow-up for me. Could you comment a bit on this commutation gains in casualty, the $215 million [ph] quoted here. Was that -- the bulk of that, that will guide me as well, if you could comment, please.

David A. Cole
Group Chief Financial Officer

Yes. No, I'm not going to comment on that. We don't, as you know, comment on individual client-related transactions. It was just a discussion, commercial discussion, between ourselves and clients where we came to the conclusion from both sides that it made sense to commute [ph]. So that's what we did.

Operator

Next question comes from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

I've got 2 questions, maybe 2 questions to grab Matt's thoughts on 2 elements. The first one is in relation to implementation of Solvency II in Europe. In the ongoing current discussion you have with your big clients, do you see any willingness to massively change the reinsurance structure they have currently in place, i.e. which were polymorphic in the Solvency I world, and that because Solvency II is going to be implemented, they are exploring new ways to use Reinsurance more as a capital management tool more than they did in the past? And the second question would be related to the specific situation of Volkswagen. Can you help us to understand from market point of view, not just history point of view or -- but from a market point of view, is potentially you could see -- we should expect some liability loss or D&O loss to emerge from this specific situation?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So related to your first question, I would like to postpone the answer until February after the renewal. It just, quite frankly, doesn't feel right. We are in the middle of the renewals right now to speak about something that is ongoing right now and in the process of being done. With respect to Volkswagen, we cannot make any statements related to our own loss at this point in time. It is way, way too early. With respect to coverages related to D&O policies, I would like you to know, to the extent that there is fraud involved, D&O policies in general do not respond to these type of losses. However, typically, they would respond to defense costs related to these type of losses. But at this point in time, this is the maximum I am prepared to share.

Operator

[Operator Instructions] Next question is a follow-up from Mr. Huttner.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I had just 2 questions, and if you've already addressed it, I'm sorry. I had to speak to -- I'm really sorry. One was pricing, and the other one is, I noticed on Slide 21 the amount in equities went up and you said you bought some more equities. But equity markets went down. So the increase, the delta, my guess, is around $500 million, $600 million and I just wondered what prompted that and how much more you could buy. The more you buy, obviously, the happier we are.

David A. Cole
Group Chief Financial Officer

Mike, I have to apologize. I really wasn't able to hear the first question. Do you mind repeating?

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Pricing. Just on pricing, anything on pricing, that's all.

David A. Cole
Group Chief Financial Officer

Yes. I think we probably did cover pricing...

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

You did? Then that's fine, yes.

David A. Cole
Group Chief Financial Officer

If I had to summarize, we're not changing our view that we expressed from Monte Carlo. On equity securities, I'm not quite sure how you got the $500 million. I don't recognize that, to be honest. I think we had some offsetting impacts on equities on the principal investment side. We actually had a reduction in Q3 versus what we showed at the end of Q2. That's basically for a couple of specific investments that are valued on a -- on the basis of traded pricing. And particularly, in Asia, we saw, of course, at the end of Q3, lower equity markets in general than what we had seen in Q2 where the markets were actually quite elevated. Other than that, it was actually a very slight increase in our equity securities position. Just frankly speaking, some purchases offset by some market value losses, but no real change in our overall attitude or position vis-à-vis equities.

Operator

We have a follow-up question from Mr. Hwang.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

Just a very quick question. In the past, I think you guided to keeping a $3 billion to $5 billion buffer on top of your S&P AA rating, which translates to about 200% on the SST ratio. Is that still an ongoing guidance?

David A. Cole
Group Chief Financial Officer

So we have not changed -- we, indeed, have not changed anything about our guidance as I think I indicated on an earlier question. I'll come back to that at our February results announcement. But you're correct, our guidance remains as per our previous communications.

I then would like to reach back to the question that Olivia posed as her third question regarding references to a speech recently given by Mark Carney, the Governor of the Bank of England, where he made a number of comments about environmental risk. So Matt, can I turn that one over to you?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So when we reserve asbestos losses, we use 3 different approaches. One is the survival ratio approach, one is the coverage ratio approach and the last one is an estimation based on IBNR to case reserves. The statements that were made you were referring to, i.e. we'll get back to you in the future. What we will do is we will check how well this estimated loss figure corresponds to the asbestos reserves in the industry.

David A. Cole
Group Chief Financial Officer

Let me come back on a broader way, if you don't mind, Olivia. I actually took quite some interest in the words of Governor Carney. He made a number of comments I thought that were quite relevant for all of us to consider. I won't perhaps use exactly the same words he gave, but he talked about 2 different types of really significant issues that we need to be aware of. One gets a little bit more coverage than the other. The first is the tragedy of the comments, i.e. the situations we see, unfortunately, on a too regular basis where public goods are not often properly priced, if priced at all, in a number of our activities and I think it's something that society certainly needs to continue to try to address and focus on sustainability in that regard, broadly described sustainability as very much an important one. Second issue he raised was the tragedy of the horizons, i.e. the fact that some risks, some concerns only emerge over a very long period of time, which I think is the analogy you were drawing with asbestos, but we need to act as early as we can to address some of these. And he referred to, amongst others, climate change, but also some technological risk and some other risk. Also in the context of the systemic importance of various financial institutions, including insurers. And frankly, I'd just like to underline, I think it's something that we've been referring to for quite some time, is it's important for societies and for businesses, for governments, for individuals to really think ahead and take steps to mitigate some of these risks, to try to appropriately understand these risks, where we can't properly put a price on them. It's something that we will continue to work on. Now I personally hope that we don't see the same type of experience emerge with any of these in terms of the impact on the insurance company P&Ls and balance sheets that we've seen with asbestos. But I do think it's something that we all should be very much aware of. And we should work to see what type of solutions we can come up with to actually not only acknowledge, but address some of these risks. So sorry a little bit for the broad answer, but I do think there's a number of things that he raised in his speech were quite important for us, and frankly, just underline what we've been referring to now for many, many, many years and our focus for many, many, many years is on the long-term management of risk and on addressing what we consider to be a still way too large, and unfortunately, only getting larger, protection gap. So while I appreciate and can fully understand the focus on pricing developments and what may or may not happen in January, I think the broader issue for us and also the broader opportunity for us is addressing this long-term protection gap. So I apologize for somewhat ending with a speech, but I think the matter is so important that it deserved a few more words than just a quick answer. So I'd like to thank everyone. I'll turn it over to Philippe to round it out.

Philippe Brahin

Thank you. Thank you, David. We've come to the end of our Q&A session today. So thank you, again, very much for joining. Do not hesitate to contact any member of the Investor Relations team, if you have follow-up questions on our Q3 results. And just before closing, I'd like to remind you that we will host our Investor Day on the 8th of December in Rüschlikon, near Zurich and David already mentioned it. We hope to see many of you at our event. We will present our strategic framework based on which the group and the business units will operate in order to achieve our new set of financial targets. With that, thank you very much for your participation today.

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