S&P Capital IQ

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Swiss Re Ltd SWX:SREN

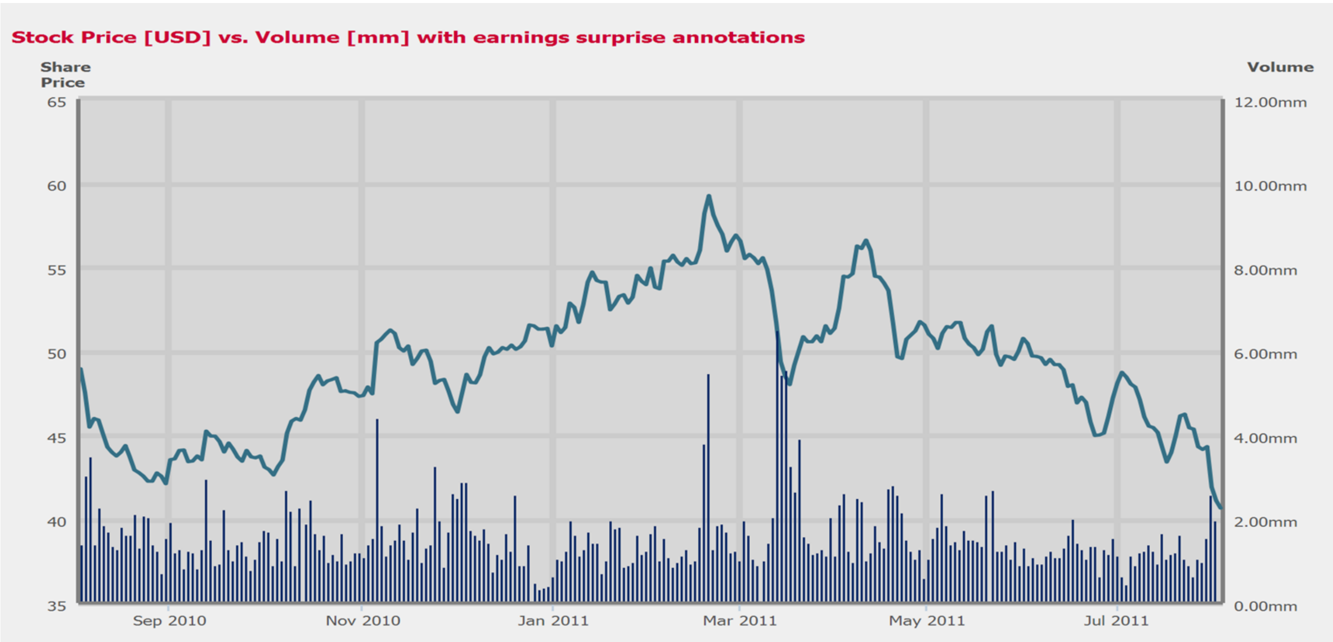
FY 2011 Earnings Call Transcripts

Thursday, February 23, 2012 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-		-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	2.27	3.93	▲73.13	1.64	▲68.29	5.22
Revenue (mm)	5627.42	5126.25	-	5603.22	-	23860.08

Currency: USD
Consensus as of Feb-23-2012 9:43 AM GMT



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Presentation

Eric Schuh
Former Head of Investor Relations

Good afternoon, and good morning, everybody. And from Swiss Re welcome to our Annual Results 2011 Analyst and Investor Meeting. I would also like to welcome those watching the webcast and joining us on the phone. I'm here with our new CEO, Michel Liès and our Chief Financial Officer, George Quinn. After the Michel's welcome, George will go through the results, elaborates on our capital management and report to you on our financial targets.

Michel will then update you on our January P&C renewals, take a quick look back at our 2011 achievements, present on our 2012 priorities and close with a summary and outlook. We will then have time for Q&A for the participants in the room as well as on the phone.

With that, I would like to hand over to Michel.

Michel M. Liès
Former Group Chief Executive Officer

Thank you, Eric. Also for my part good morning, good afternoon to everybody. Welcome to this analyst and investor conference on Swiss Re's annual results 2011. Not all of you know me yet, so let me start with a few personal remarks. I am Michel Liès from Luxembourg, Group CEO of Swiss Re since February 1st when I took over from Stefan Lippe. Before anything else, I would like to thank my predecessor Stefan Lippe and his team for the excellent work they did. The company is in very good shape.

I have been with Swiss Re for 33 years. I joined the company life actuary, actually as a mathematician having graduated from the ATR [ph]. And after 2, 3 years in Latin America just after my graduation mainly in the Brazil in the manufacturing industry I joined Swiss Re in which I had several assignments in both the life and non-life segments in various geographical areas between Europe and the Americas. I acted as Head of Client Markets Worldwide from 2005 and then took up the fascinating job of Chairman Global Partnership early last year. Now, with full enthusiasm, but also with a lot of respect, that I takeover to lead this firm into the future.

Well through the last 2 years, we've developed new strategy priorities and initiated the implementation of a new legal structure and operating model. Today, we report for the last time in the old format on Swiss Re's results. Going forward, we will have 3 clearly separated business units, Reinsurance, Corporate Solutions, and Admin Re. Each of these business units will have its own balance sheet and P&L. And it will provide additional transparency about their individual performance. We will start reporting in this mode with the first quarter results of this year in May. Of course, we will also continue reporting about the Group performance.

My focus, going forward, will be on implementing and further advancing our strategy on setting free and challenging the energy and dynamism embedded in our new setup. The role of the Group is fundamentally in strategy development and control, making sure Reinsurance, Corporate Solutions, and Admin Re stay on course and deliver strongly on the Group's financial targets. The management of the business on the daily basis, however, will be the CEO of the respective business units, Christian Mumenthaler, Agostino Galvagni, and Bob Ratcliffe.

Among others, one of my main job and interests is to assure quality and discipline, first and foremost in underwriting, one of the key assets of our firm and for which Swiss Re well known. In this sense it has been my first priority since taking over to find a new group Chief Underwriting Officer. Very happy to announce that Matthias Weber will succeed Brian Gray. Matthias is currently Division Head Property & Specialty and can look back on the 20-year career, not only career, but also success in underwriting with Swiss Re.

I would also like to add that Martyn Parker, current CEO of Reinsurance Asia and Regional President, Asia, has agreed to succeed me in my former role as Head of Global Partnerships. Martyn's succession has been already announced on 19th of January in the name of Moses Ojeisekhoba.

Time to turn to the figure. George, up to you.

George Quinn
Former Chief Financial Officer

Thanks, Michel, and good morning or good afternoon to everyone in the room or joining the call via the webcast. I'm going to start on Slide 5.

So, as you've seen already today we've reported strong result for the Group. Net income for the year of $2.6 billion compared to $900 million in the prior period. As you remember from our updates this year, and from last year, and from the 2010 results, there were some significant one-offs negatives and positives in the result. And I'm now trying to highlight these as I go through the presentation, and in fact one of them I'll start with.

We have an exceptionally low tax rate for the year. We've had a number of one-off benefits through the course of the year, but in particular, we got a especially large impact in the fourth quarter, triggered by the corporate restructurings that's been taking place, in fact, Michel mentioned, in introductory remarks.

This has triggered adjustments to the statutory accounting values that generate substantial tax losses. And the net impact of this particular item in Q4 was about $200 million. We would not expect this to recur. And the previous guidance that we gave around the tax rate being at 25% level for the Group overall still holds.

Given the result for the year, return on equity is 9.6%, which is slightly above the level implied by our 5-year targets in earnings per share of $7.68. That represents 16% growth over the starting point that we defined for the targets, not the actual result for 2010, the growth will be far higher but 16% over the starting point. As a result both of these, even though the targets aren't annual, mean that we exceed the targets in 2011.

P&C has got strong result, which may seem odd given the fairly high combined ratio 101.6%. And of course that demonstrates the firm's ability to absorb some very significant natural catastrophe events. The underlying combined ratio has been 93%, which is about 1 point greater than the guidance that we gave this time last year.

Life & Health result is weak. We've got operating income $464 million mainly due to a combination of market volatility so the impact on the embedded derivatives in Life & Health, and the costs that we've incurred in the restructuring of Admin Re. There are some additional issues some of which you know about before by the way that we report investment income, and we have some weaker performance in some of our older traditional Life blocks, which I'll talk about when I come to Life & Health today.

The changes that we will have in April will certainly improve both the presentation and the actual result for Life & Health, and which should reduce the volatility that we're seeing and have seen over the last couple of years.

Asset Management result for the year, excellent results, return on investments 5.1%. I said throughout 2011, and I will repeat it today that it's substantially above our expectations and I think your expectations of a reasonable return for 2012, given the kind of market conditions is supported by realized gains.

And finally on Slide 5, book value per share up by nearly 17% to $86 and change or almost CHF 81 per share driven by a combination of the strong result, and the impact of interest rates on the fixed income portfolio.

P&C is on Slide 7. Strong years I mentioned earlier for P&C despite the extraordinary level of natural catastrophes. We've got substantial growth against the backdrop of rioting and prices. Premiums grew on an annual basis by 11% or 7.6% if you adjust for foreign exchange. And in fact, the headline growth was partly offset by clients reporting premium reductions in prior years. So even this number is slightly understated.

That growth is mainly driven in 2011 by new business in Asia. We talked about China in particular last year, but price rises in other markets have also contributed to the growth. Gross premiums written, which is a good indicator of growth still to come, is up by nearly 25%. That's before we talk about the impact of renewal or the impact of the expiry of the Berkshire Hathaway quota share before the end of this year.

Operating income down significantly in comparison to the prior year, result of about $1.29 billion, a fall of about 50% mainly due to the impact of the natural catastrophe events partly offset by very strong favorable development from prior accident years $1.3 billion. The allocated investment returns also fell as the yields dropped during the course of the year.

You can see the impact of the NatCats in combined ratio. We got reported combined ratio 101.6% compared to about 94% in the prior year, total cost of NatCats $3.4 billion compared to an expectation from our pricing of about $1.2 billion. The excess NatCat claims added nearly 20 points to the combined ratio. The favorable impact of reserve development was about 11 points. So again if you look to the underlying that's about 93, which statistically, in my view, is not particularly different from the 94 guidance that we gave you last year.

Lines of business are on Slide 8. Property, again the NatCat story very high, almost 120% partly offset by some of that positive value development even on the property side. There are almost too many natural catastrophes last year to mention. If I pick some of the largest, Japanese earthquake, where we estimate claims just under $1.2 billion; the New Zealand earthquake at Christchurch again just around $1.1 billion; and Thailand will be as noted in the fourth quarter, our initial estimate losses was at about $600 million where we have announced data we have increased that to $680 million. Given the size of the events and the continuing inherent uncertainties, the changes in my view are relatively small and there continues to be a risk that we'll see further changes in the estimates either up or down as more information becomes available.

The result from Casualty is very strong. We have a relatively unusual circumstance combined ratio beneath 100. The main driver of the result is positive prior-year claim development particularly from our business in Europe. Current underwriting business and total business in over view remains only slightly profitable.

Although the overall result is positive for casualty, I had mentioned already in Q3 that we strengthened our U.K. motor business. Economically that has no impact but we have moved from the disconnected events reported by our clients too us to nominal results. We have also strengthened workers compensation, U.S. workers compensation in 2011.

Specialty has had a very good year, again mainly same story, positive prior-year developments, good underwriting performance combined with a cautious approach particular to Credit and Aviation, where as you'll see later in Michel's part of presentation of the U.S. pricing in these lines continues to weaken.

Life & Health is on Slide 9. Although the result suffers from market volatility and from the costs incurred in restructuring Admin Re, the overall result is weak. Overall, growth as you can see here is fairly flat. We have growth in traditional Life & Health in Asia and growth in traditional Life in the U.S. that essentially offsets the fall in income in Admin Re, which is driven by lower fee income that's caused by the impact of equity markets on our unit-linked business in the UK.

Operating income, as I mentioned earlier, $464 million. If you look at the underlying result and depending how you view the Admin Re expenses and the market-related volatility if you adjust both years the positive impact in 2010 and the negative impact in 2011 the underlying is similar. However, I'd like to go walk through each of the sub-segments with traditional Life & Health or Life and Health overall, in a bit more detail than I normally would.

I'll start with Traditional Health that's particularly bright spot in the Life & Health world. We produced a result that's about 5% higher than the last year with operating income of $388 million substantially above the expectations for this line of business. Morbidity of the cost of health claims has been particularly favorable. It's above expectations or morbidity is favorable by about $100 million. We would expect to see favorable morbidity but north of this level.

Traditional Life we have seen a substantial fall in operating income from just over $500 million in 2010 to just over $200 million last year. It's a combination of financial market volatility which is about $100 million of the change less favorable mortality by another $100 million and then updates from our clients which last year was substantially negative by about $60 million. The mark-to-market volatility is temporary volatility assuming that everyone continues to perform their obligations under the various contracts for this reason at this point no reason to expect otherwise.

Mortality again we expect it to be favorable. It's less favorable when we saw in 2010 and maybe this is about a level that would be roughly in line with expectations.

On the receiver [ph] or the client update side, we would normally anticipate client updates are neutral but recent experience particularly on the pre-2004 business as shown as the updates there typically more often negative than positive. And we can see that we have elevated mortality on the pre-2004 blocs of business particularly in the U.S. This is largely offset by better-than-expected performance from the post 2004, 2004 and later business and the 2004 prior seems to be due mainly to anti selective lines. So, we expect clear mortality in that growth to continue. But continue to be partially offset by the good news we're seeing on the later and more recently underwritten business.

There is no doubt though that Life & Health will look a lot different when we do the presentation in April. We are aware of some of the self-inflicted problems that we have in presentation, the high investment earnings accrue to Life & Health because of the asset risk that they have on their balance sheet or reduce the volatility because it will create a more stable base for the business and the more profitable part of the portfolio will become more pronounced as time passes.

Admin Re has produced an operating loss of $136 million for the year compared to the loss in the prior year of $69 million, main drivers are expenses. We talked several times this year but not only the restructuring that we conduct in Admin Re but also the cost around the new deal that we expect to be profitable for us that took place in 2011. But there are further impacts from the impact of markets and I mentioned the impact of fee income, the potential to accelerate PVFP or VOBA and all this is partially offset by some positive model changes. Overall we would estimate that the one-off impact to Admin Re is about $100 million, negative.

Asset Management on Slide 10, very strong results for the year, excellent performance. There are some effects that boost the results and operating income for asset management is up to over $5 billion for the full year but running yield is a good indicator of our ability to generate investment income on a consistent basis in the future has fallen as you would expect given the move down in yields would come from 4.1% in 2010 to 3.8 on average in 2011. It was 3.7 at the end of the last year.

Just to give you some sense of reinvestment rates if I look at what we are investing at we are investing at about 2.1% given the mix of investments that we made, so heavily weighted towards government in the fourth quarter and the book that rolled off, rolled off about 2.5%. So, for the overall portfolio this would be a less than 10 but reduction in the overall running yield. Assuming that rates remain where they are running yield will continue full.

All the asset classes are positive although relatively modestly for equities the returns were boosted by the impact of interest rates and the designated trading portfolio we discussed in Q3. The impact of gains in general we got nearly $2 billion of gains and we have a slightly smaller impact from impairment. One change we made in the fourth quarter, we have changed the way we managed foreign exchange risks, we have altered the structure of the portfolio and this should cause significantly less volatility in the result going forward. Total return is boosted by the impact in interest rates and equity.

One point before I leave this slides no, actually on this slide this is the best place to do it, and legacy, we haven't talked about legacy for some time. Although it's not reported as a separate segment it's in the group part of the result. It's had a reasonably significant negative impact in the fourth quarter last year. We made a conscious decision to accelerate the sales of the remaining parts of the legacy portfolio and as a result we've realized what has been previously been unrealized losses so we moved losses in equity already into the P&L.

We also strengthened the model reserves that we had in our credit correlation book. As a result, the P&L impact for the full year is about $260 million negative, of which about $300 million of that, so negative $300 million in the fourth quarter. I don't expect that this will recur given the very low levels of risk that we now have remaining in legacy.

Slide 11. Shareholders equity has risen strongly from $25.3 billion at the beginning of the year to $29.6 billion at the end of the year. Total equity, including non-controlling interest $31.3 billion.

I think it is worth spending a few moments here about the impact of interest rates. I think everyone here understands the unbalanced impact that interest rates can have on book value but 2011 is particularly good example the misleading impression that this can leave.

Overall, we've seen a strong rise because of that impact of interest rates. But, if you eliminate the interest rate effect, on current asset liability matched insurance company you should keep dealings with a negative impact for Swiss Re and I assume for just any other insurance company. And, in fact, if our company had been short it would have an even more significant negative impact on the economic capital base of the firm. I think this is important because this is a calculation that explains the capacity that people have for risk taking. The GAAP book value is not a good proxy for it.. And this perhaps explains some of the additional costing pressure that we see in pricing side, which is more than just the impact of the volatility last year.

So one key point, we're not immune from this. If you remove the impact of interest rates, you could have a negative impact in equity over the course of the full year, principally because of the impact of widening credit spreads. While I think relative economic capital position is strong, it's clearly declined over the course of 2011.

More about capital on the next slide. So despite of all of that, our capital position remains very robust. Our economic capital adequacy is reported back to FINMA based on Swiss Solvency Test in October, the SST ratio was 210%. I don't have any saying today that this would be negatively affected by potential model changes. Although I cannot offer assurance that this will always be true. We continue to be in discussion with regulator but at this stage we feel very comfortable with our current estimate or this estimate of the Swiss Solvency Test ratio.

S&P excess we estimate for the end of 2011 was more than $7 billion above the minimum required for a AA rating. Solvency 1, which is the legal measure of solvency in Switzerland, but which again is a very solid measure of capital strength, is well above 200%. From any perspective on the capital front the firm is extremely well capitalized.

Capital Management on Slide 13. First of all, with the basics that's the most important part of it, the Board, the company will propose its shareholders that we increase dividends from CHF 2.75 per share to CHF 3.00 francs per share. And again as it was last year, we paid tax-exempt distribution from reserves. As you see on the slide we have significant continuing capacity to pay dividends as tax-exempt distributions. Beyond dividends, priority is to have a progressive dividend policy, so we would look to grow dividends in line with long-term earnings.

Next priority is to deploy the capital in the core business and we would look to deploy at level or above that implied by alternative uses of capital in particular buyback. We estimate that that hurdle would be around 11%.

And in addition though if we're unable to deploy the capital or for some reason to generate significantally more capital than we anticipate, say for example, we have a very low natural catastrophe cleans burden over the course of the year our preferred form of returning additional capital to shareholders there will be special dividends. Given the current tax-exempt capacity that the firm has that makes sense to favor this mechanism.

Finally before I hand you back to Michel, just a brief words on targets on Slide 14. You can see a summary of the results for 2011. The targets are not annual but on the basis that everyone pays a lot more attention to the information that's front and center. We will continue to update these on a quarterly basis.

The good news is that for both ROE and EPS given the starting point, given the performance over the year, they are both at the level implied by the targets. On the other hand, given the comments I made around economic capital I do not expect that we will achieve a goal for economic net worth per share in 2011, but given the impact of volatile financial markets that's one must be viewed as a longer-term time horizon.

We will all report in more detail on the economic performance on March 16. Michel, back to you.

Michel M. Liès
Former Group Chief Executive Officer

Thank you, George. I'll now give you an overview of our 2012 January renewal and focus on our 2011 achievements and this year's priorities. I then conclude with a summary and outlook, before we take your questions.

Let's start with the 2012 January renewal on Slide 16. We've seen continued strong growth in the reinsurance treaties coming up to renewal on January 1, 2012. Top-line premiums have increased by 20% across all regions, from US$8.6 billion to US$10.3 billion. It's very important that despite this 20% growth, we did not sacrifice the quality of the book. We are able to even slightly increase it, as you will see in a minute.

We had 2 main drivers of premium growth. First, we responded to an increased demand for large volume, capital relief transactions in Europe, in U.S., and in China. And second, we saw opportunities to deploy more NatCat coverage as prices rose, particularly from the non-peak catastrophic areas for example in Turkey, Canada, Australia. Prices for the capital relief transaction were above our threshold and price for NatCat coverage have gone up sometimes sharply also because some peers pulled back capacity.

In the Credit and Aviation business, as already pointed out by George, we experienced some reduction as price went down further. This brings me to the Slide 17 on price adequacy.

As already said, we were able to increase slightly our risk-adjusted price quality. Let me explain that in more detail. The nominal prices rose by 4% on average over the renewal portfolio. On the other hand, observed loss trends as well as lower yields and the additional capital relief transactions do partly mitigate the trend by approximately 3%. This still gives us an increase of 1% on a fully economic price quality.

These large capital relief, which are mainly in the form of quota shares, are creating incremental opportunities in 2012, adding absolute profit and contributing to achieving our financial targets. All in all, this resulted in a slight improvement in price quality to a very good level of 108%.

Let's move now to our achievements in 2011, Slide 18. We delivered well on our strategy and on our financial targets in a very challenging year. Mostly thanks to successful reinsurance renewal over the last 12 months, we have seen continued profitable growth. Part of our profit story goes back to large transactions. We did several of them during the year 2011. The major Admin Re transaction with Alico, P&C run off deals with JS and Zurich Financial Services and also reinsurance transaction with Quinn Healthcare, which has nothing to do with our CFO by the way.

Another future-oriented achievement was setting up the new group structure. These include the establishment of n holding company Swiss Re Ltd by way of exchange offer in which shareholders could exchange one old share in the Swiss Reinsurance Company Zurich for one share in Swiss Re Ltd. Internally, we reorganized ourselves into the 3 business units and the group function. Very major achievements of course with regaining the AA rating by Standard & Poor's, also A.M. Best have rated us to A+ and Moody's changed its rating outlook to positive.

Last but not least, we progressed in 2011 with regard to our financial targets, as George just illustrated. And this achievement came in spite of the fact that last year saw the highest economic loss due to NatCats in the history of our industry. I insist the highest economic loss due to NatCats in the history. You will find our priorities for 2012 on Slide 19.

We are determined to continue delivering on our targets and capturing unique growth opportunities, not only in traditional markets, but also in the fast growing emerging markets. On the P&C Reinsurance side, we see excellent business opportunities. In addition, let’s not forget the expiry of the quota share agreement with Berkshire Hathaway. This is what I mean with unique opportunity. When capturing opportunities we will do so while seeking through underwriting discipline, and I am confident that Matthias Weber will be a resolute and determined promoter of this discipline.

Next to our traditional reinsurance business, we will push to further build up corporate solution and develop Admin Re. Admin Re ties in with the Life & Health Reinsurance business. There we want a traditional focus on profitable development possibilities. Our high growth markets for Life Reinsurance are the key emerging markets and we see some strong potential where the middle class is expanding very rapidly.

Meanwhile Asset Management will firmly maintain its prudent and successful approach as the markets remain unsettled. We see little chance for stabilization in the short term.

Finally, Capital Management. We are committed to paying attractive dividends, which take priority for us over other capital management measures. So, as I already said, we will propose to the AGM an increased dividend of CHF 3.00 for the year 2011.

As mentioned by George, we believe there are attractive business opportunities where we can put our capital to work. And if capital cannot be fully deployed into our core business at profitable terms, special dividends are of course possible as optional capital management measures for 2012 and beyond.

Let me conclude with a summary and outlook on Slide 20. We strive to perform and grow in 2012. Our strategies confirm and is solidly in place. We will continue focusing on disciplined underwriting and cycle management. Assuming a loss burden in line with expectations, we foresee a combined ratio of 94% in 2012.

Capital management and the delivery of our financial targets remain core group responsibilities. Capital and market strength are key enablers that not only position us ideally but also differentiated us from the competition.

For information, following the presentation by the 3 business units CEOs of their respective high level strategies at last year’s Investors Day in March 2011 we'll get an update on their near-term plans, meaning what is going to happen in 2012, 2013 at the forthcoming Investors Day on April 17 this year.

Achieving what we have promised we'll create great value before our stakeholders. Hence, our financial targets are the top priority for the group, for the executive community and obviously also for me personally.

With this, I would like to open the floor for your questions giving actually the floor back to Eric.

Eric Schuh
Former Head of Investor Relations

Thank you very much, Michel and George. We are now going to move to the Q&A session. We will take questions from here in the room and then also from the participants of the call on the phone. Can questioners in the room please indicate their intention to ask a question? Wait for the microphone and then clearly state their name and company name.
After the questions in the room have been answered, we will move onto those on the phone. And could we observe the usual convention of 2 questions per person. With that we will start up with questions from the room, over there.

Question and Answer

Fabrizio Croce
Kepler Capital Markets, Research Division

I have 2 actually questions, the first is about China growth and the second one is about your excess capital. If I look to China, it actually already account to some $2.6 billion, it's around 9% of your portfolio and this comes like a rocket. I think it was a big amount of business coming through. Here the question is what is the risk embedded and how well under control do you have the margin on this business? Or even if you could say something about the duration of this contract?

The second question is about shareholders equity. The excess capital position is around $7 billion which actually correspond pretty much to the amount that you have in additionally unrealized gains due to the low interest rates. So, is it not a little bit too early to speak about share buyback or special dividend? Or if you really have a low interest rate scenario, the question is, how your return on investment further reduce considering that you have $11.4 billion in cash?

Michel M. Liès
Former Group Chief Executive Officer

Maybe on the China first. The challenge for the big Chinese companies of course, growth and that gives us an opportunity because they are getting each time more disciplined on the capital allocation that they dedicate to this growth. So that the growth is I would a healthy one.

One of the big advantage of the deal that we do in China is that we have been reinsuring a majority of this company for quite a while, so we know the business that we are entering now in the surplus relief frame in equity share. The quality of the business is something that we look at the China the same way as we look it in Switzerland and Germany. And I would say it is quite logical that these Chinese company come to their classical reinsure when it comes to these couple of discussion, we are not that many and we are taking advantage of being part of this not-that-many group that can allow these discussion with them.

George Quinn
Former Chief Financial Officer

So let me add one thing on China and I will come back to the interest rate and S&P capital totally. I think that the one of things that rapid growth highlights is there is a risk that of course you'll see some volatility in this top line [ph]. Our focus remains profit, and if we can't achieve the right levels of return you will see less volume. I think the one thing that most observers would accept is that over the longer-term we will see significant growth in China but it will be lumpy and it will be potentially volatile.

On the second question for this year, we appreciate it is a complete coincidence that these 2 numbers are the same. I think the point is valid. I think today we have announced that number one dividend and the dividend policy. Number 2, fund the capital required to grow the business given the opportunities that we see in front of it, and then if we have excess of capital beyond that we're stating our willingness to return that to shareholders in the form of special dividend. But you need to clear that that's not commitment to do that. So I think some of the things that you mentioned, also influence is about the timing of type of activity.

Eric Schuh
Former Head of Investor Relations

And the next question please.

Andreas Frick
Bank am Bellevue AG, Research Division

Only one question on Slide 8. Casualty lines and motor, I haven't really got your comment on this change in business mix and also the moving to nominal reserve in for U.K claims. Can you please explain that what the impact is?

George Quinn
Former Chief Financial Officer

The U.K motor piece is by far the largest part of it, and so it’s relatively common in the U.K. for claims to be reported as periodic payment orders essentially in annuities. Clients will typically but not always report that to us as discounted amounts and our policy requires us to record them as nominal amount. So we have adjusted the value of the result there from discounted to nominal. So, it will show up in GAAP and did already in Q3 where you won’t see the same impact on economic. So that’s what’s behind this. It’s the un-discounting of the annuity part of motor claims in the U.K.

Eric Schuh
Former Head of Investor Relations

Another question from the front.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 questions. First in the cost side, you had some restructuring cost. I mean should we expect some more come in the next few quarters in different business lines? The second question again on the capital management. I mean you have more than $7 billion of excess capital of AA rating level. You’re growing quite quickly. You said dividend is first priority, funding growth is second priority. I mean can you do all of that? I mean can we expect that you'll terminate sort of the quota share with Berkshire and then also go back to a normalized investment mix each year like increasing maybe exposure to equities over time and so on? It just appears to be you know growth is really high and I think investors fear that you’re growing maybe too quickly currently. Can you maybe give me some more flavor on that again?

George Quinn
Former Chief Financial Officer

So on the cost side of it first, I think you will still see some continued expense in 2012. On Admin Re we are not quite finished yet. So some still to do there and of course we also see higher expenses on Corporate Solutions as Agostino builds the business for the higher volumes that we expect. So there will be short-term negative impact from expenses.

On the second piece, capital management, so first of all, easy there, on the quote share, it expires. Doesn’t quite terminate, cancel it or counterparty to do and it will expire end of this year, and as you heard us say several times of course 2011 we expect to retain that business. We given that’s our P&C book, that’s not something that we're unduly concerned as that book is in very good shape.

So looking at the other things, so normalizing the investment portfolio and growth on the reinsurance side. First of all, on the reinsurance side growth and especially as you see it currently have relatively modest consumer capital. And I guess one way of illustrating that would be if you look at the expiry of the quota share end of this year, from an underwriting perspective that will give us 25% growth. So, it will take longer to come into GAAP we will be 25% growth from an underwriting perspective. That’s about $1.5 billion of S&P capital or it's about $500 million economic capital because it’s a fairly large diversification effort.

On the investment side, so I think we've signaled that we've had a pretty cautious stance on asset risk. We were in the process of I guess expanding asset risk in some areas of these I think some on corporate credit. We were building an equity portfolio. We kind of stopped that around August in response to the financial market volatility, but eager to go back and complete that program before will if things stabilize. Again, it's not a massive shift in the portfolio overall. I guess the question is if we were to go back to the peer group average that would be a far larger consumer capital. But I think we've tried to signal that we prefer to be on the side of underwriting side of things, and in fact what we've done last year in the asset side is the source of the opportunity that we had in January 1.

Michael Klien
Nomura Securities Co. Ltd., Research Division

I had a question firstly in terms of your growth you highlighted a part of it was in property NatCats. If I look Slide 26 in the appendix you're highlighting that your premiums grew by almost 15% but the expectation in terms of claims grew in line with it. If I compare the slides to the same slide at the same time last year then the growth is about 40%. Now, how do I have to square this in terms of price improvement when I think about profitability? Because from the numbers that I see here, I see premiums up in line with your expectation in terms of nat claims.

The second question is just to make sure that I understand this correctly. You still have obviously some written CDS outstanding as part of the legacy business that’s running off over time you reduce I think down to $6.7 billion. Importantly, there is some mitigating factors in place protecting shareholders, so how do I have to think about the net exposures from a shareholder’s perspective?

George Quinn
Former Chief Financial Officer

I will start with the CDS question. So we have -- just a reminder for everyone, on the legacy portfolio we have a credit correlation book, which has a relatively long piece of bought protection and a relatively large piece of loan protection, and relatively large piece of sold protection. We are on a net bought position, so we bought protection from the market about $800 million net.

I think that we -- we made some changes the way we view that book at the end of last year, which is about greater reserve, some of the model features, so we strengthen those model reserves, that’s part of that negative impact on income. I think the gross numbers are quite large, I think personally I take significant comfort from the fact that that book hasn’t changed a great deal over the last year, but has been through, I guess, another stress test given some of the credit market volatility that we saw and the impact on P&L has been relatively modest.

And so, we’ve tried to position to book so that we would benefit as things become more negative and potential to give up some limited P&L as things improve. But when we look at the overall exposures, I think I have said repeatedly in the past that my number one concern on that part of legacy was operational risk and making sure we secure the expertise to manage it. And as you know, we completed the outsourcing of this book to specialists and third party credit firm in Q3 last year. So, they have been managing that actively on our behalf.

And so, I think you can never say these kinds of free of risk, but legacy in general and credit correlation have been our areas that I feel very comfortable with.

Michel M. Liès
Former Group Chief Executive Officer

On the NatCat, I am not really sure that I got your question. So if I may ask you.

Michael Klien
Nomura Securities Co. Ltd., Research Division

It’s on Slide 26. So, if you look at growth in terms of your expected net premiums for 2011 and to 2012, we have something like close to 15% growth in premiums. If you look at the expected nat claims, it’s up almost 15% as well. So, if you think about -- very simplistically to think about your expected profitability there seems to be a growth of about -- in line basic with your premium growth. So, how do we have to think about the improvement in rates that you have been achieving that we have being seeing in the markets and therefore in terms of the profitability on this book of business?

Michel M. Liès
Former Group Chief Executive Officer

Well I think a lot depends also on the geographical mix that you have. So we’ve seen that -- sort of the recent scenario that we are considered more profitable now in which we took some of our opportunities. So I think the geographical mix is one the answer to your question about how to achieve the maintenance of the margin that we have on the NatCat. I think we cannot pretend that concentrating on the top 3 or 4 scenarios will always bring us the margin that we have, that our global presence and the activity in the secondary market that I did mention, Turkey and Australia is something which help us to guarantee this level of margin which is at the high level. So I would say maintaining this level of margin is for us already quite a challenge, and of course I would not take 2011 events as a sustainable type of event. 2011 was exceptional and our job is to cover these, I what I think the key element there is definitely to give the geographical mix that we achieve and the less dependency that you may have on some of the top scenarios.

George Quinn
Former Chief Financial Officer

The other thing that you have to bear in mind, Michael, is that this is a GAAP view rather than underwriting view. So you still got for example the big impact of the old Japanese book that we had in April 1, last year and which of course we expect to see definitely after the April 1 renewal this year. So it's partly impacted by the GAAP and in part that we are seeing a different picture from books versus the underwriting view that we gave you from the renewal information out there.

Rene Locher
MainFirst Bank AG, Research Division

On Slide 17 on the renewals. So as far, correct me if I'm wrong but I thought that the 2010 treaty book, the split was 40% non-proportionate, 60% proportionate. Now what I have seen with some of your German peers they experience very high premiums rate increases in the non-proportion business like they sell property plus 10%. Now my thinking was that you come up with a little bit higher renewals. So perhaps you can update on some, how the book looks like non-proportion, proportional what with the premium rate increases in the 2 business lines?

And then just -- I know it's always same but this ROE target, I mean your nice growth and you have a very interesting or healthy investment income and you have ROE target of 8.5%. So I mean that's also something people from an investor stand how can a company like Swiss Re be happy with a ROE target of 8.5%?

Michel M. Liès
Former Group Chief Executive Officer

On the first point I would just like to point out that the other firms [ph] actually that we do mention and which are really capital surplus, are really in the form of quota share, which are definitively less volatile than what we do in the non-proportional and our proportions. So that's one of the element. We want to conclude this kind of transaction in which our offer is in a way competing to increasing capital for our ceding companies. So we're offering that on the proportional basis. And, as I said, as it is less volatile, the marginal depression is probably less than the one that we have in some non-proportional treaties.

I do not see any reason not to believe that our increased rates in non-proportional is not aligned with the one that our competitors have, definitively not. I just wanted to reflect here the fact that despite these strong increase in proportional business because of the surplus relief, we were able to achieve an increase in the quality of our pricing, economic pricing. So the gross in proportional I don't know if you have the figures…

George Quinn
Former Chief Financial Officer

Just about 3-point shift to proportional.

Rene Locher
MainFirst Bank AG, Research Division

And just before an analyst question, I mean when I take a look at the proportional market, so you depend very much on the primary market and our terms and condition. Why is a Reinsurance Company not interested in pushing the non-proportional basis, where you really have the pricing power?

Michel M. Liès

Former Group Chief Executive Officer

We’re not absolutely, not interested in pushing the non-proportional market and we’ve done that quite intensively. I just say that on the capital relief transaction by nature, they’re built on the proportional dimension, which by the way is also and I say that when I spoke about China it's extremely important when you conclude these kind of transaction, that you know the portfolio on which you’ve -- you‘re concluding these deals. And we normally conclude these deals with client that we’ve been knowing for quite a while either for non-proportional covers that we give to them, also for the proportional cover that we give to them, and the analysis of their, the evaluation of their pricing.

So it’s a sophisticated instrument if I may say to replace capital injections. The reason is not always the same for some companies in Europe it may be not gross, it may be simply capital limitation, in China it’s mainly gross. But it is definitively companies to which we -- the history of our relationship give us the confidence that the quality of the business allow us to believe in the margin that we point out here.

George Quinn
Former Chief Financial Officer

It’s an excellent point, of course it also reflects client preferences. So maybe fair to say then they expect it clearly one way. And on the ROE, so is the implied ROE challenging enough target. The -- we said ROE target varies with 5-year U.S. treasury rates. And I guess everyone has their own view on what’s going to happen to interest rates over the next few years. I guess the one thing I’d say here is that there is only one way that we can compensate for lower interest rates and that is to take more asset risk.

So you could have a higher ROE, but you have a lot more volatility and equity and you would probably find on days like January 1, 2012, you would have less capacity to rate some of the business you’ve just written. And having said all of that we would like the ROE to be higher. So I know that people have clear views about absolute levels of return irrespective of kind of where underlying interest rates are.

And I think again some of the things you’ve seen already this year will help improve the ROE over time but this year is going to be a challenge. We’ve got lower investment. We’re going to have lower investment that’s what I expect and it’s not clear that interest rates are going to rise, but if we can continue to do doing an underwriting cycle we’ve seen in the renewal, that’s going to help push this ROE up, and but there is work to do to improve.

Eric Schuh
Former Head of Investor Relations

So we have a queue of questions on the phone as well. So I suggest we switch to the participants on the phone from this and then we come back and there will be an opportunity to ask more questions also from the room. So operator may we take the first question from the phone please?

Operator

First question from Mr. Vinit Malhotra, Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Now, just on this capital very quickly George, is there a change in the $3 billion to $5 billion buffer that you’re targeting because one of your slide does say comfortable -- more than comfortable with the AA level. So I just wanted to clarify that?

And second thing is that this quota share that I picked up on the report that the proportion of business is now 59% of premiums versus 55% last year. Are you comfortable heading this north tomorrow? Or do you have a number in mind where you would say, no more quota shares?

George Quinn
Former Chief Financial Officer

So, on the first one on the no change on the S&P buffer guidance still $3 million to $5 million. Over time you're going to start to see us emphasize more SST. And currently the 2 things are roughly in sync. The models are both economic to some degree but over time as the market becomes more familiar with economic -- economic capital models you'll see as emphasize that far more but no change. On the I guess, on the buffer side of things and quota shares?

Michel M. Liès
Former Group Chief Executive Officer

We don't have a number in mind in which we would just say, well, now we stop it radically. But of course quota shares are competing on the capital with the other opportunities that we have reinsurance and not only in reinsurance. So the way we judge these kind of opportunities that they very often happen quite late, so they can be definitely be compared to other opportunities gives us the choice of investing our capital in other ways if we do not find that quota share are resulting in the margin that we expect.

We have probably more offers. Well we've definitely more offers than the one that we conclude. We're quite a reduced group for these surplus relief transactions and we're simply taking these transaction where they come, but they're competing in matters of capital with other opportunities that we have in all proportional in reinsurance and other opportunities of those that we've outside of the reinsurance. So no classical thresholds above the fact that we don't want to conclude these kind of quota share below the level of profitability that we expect which is the reason why we refuse some of them.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes, the reason I asked is because then their combined ratios tend to move up north as well over time but that was the reason I asked it.

George Quinn
Former Chief Financial Officer

Yes, just one additional point on the quota shares, the -- when we look at how we price this we don't discount capital base. So the capital is what the capital is for these transactions. But we get significant benefit on the expense side. So the marginal expense of running these high volume transactions given the internal effort, given the overrate we receive on the quota shares makes these things significantly accretive to our target. And so very powerful feature and of course it is not new we had it already in 2009.

Operator

Next question from Mr. Jason Kalamboussis with Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

Couple of things. One is, on the non-traditional business you seem to be having some reserve releases you've have more in the second quarter I think and now in the fourth quarter. Is there -- could you give us any sense of if we could be expecting more and generally they seem to be a bit larger than what we see on the traditional business, so just to have an idea? The other thing is on New Zealand on the Law Street [ph]. We have Law Street for pretty much all the Bermudans in the third and in the fourth quarter, now we saw the same thing from some large reinsurance in Europe. Where do you stand on that front?

George Quinn
Former Chief Financial Officer

So, on the non-traditional first, just for everyone's benefit the element of the reserve releases over the course of full last year year that related to nontraditional was about $76 million. And I think while the nontraditional mix is certainly more exotic than our traditional business, they're not vastly different from our traditional business. So as a result you see this, you see -- you find the same feature. So it benefits from the same things that drive the result on the traditional side. So that there is no special factor that it's not the same thing you find on the traditional story just as typically much less premium because of the way that we apply risk transfer testing for accounting.

On the Law Street [ph] side of things, New Zealand, I think all I can say here is we've made the best estimate of requirement. For the claims estimate, there is always a risk if these things move around, there is always a risk that you will receive new information for clients. But as you would expect for these results we've made our best estimate of the actual losses, and the significance that we had in Q4 were relatively modest.

Operator

Next question from Mr. Michael Huttner J.P. Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I have 2 questions. One is George you very kindly went through the one-off so I just wanted to reconcile it. And you mentioned 10 bits in your investment income $150 million; combined ratio 94 and that's worth $1 billion versus your 101. The tax and the legacy net $6 million, the life you mentioned those expense in Admin Re and also in the life that was a net positive to $60 million and $11 million for that, so that adds up to $1.2 billion. You've got a target for 2012 of is 8.5% which is $2.5 billion roughly on your capital so that would, if I strip out these improvements, it would get me to $1.3 billion, and you reported $2.6 million last year but within that you had $2 billion of gains, in other words if I strip out the gains you only get $600 million the starting point and I need $1.3 billion, so I'm missing $700 million. Is your message that we're going to miss earning $700 million this year? And the second question is, on the attritional in Q4 in Q1, Q2, and Q3 had an average attritional so this is a norm that we would have expected NatCats of about 91% a little bit below, you ended the year 93%. So you had a miss of 2 in the last quarter, which is massive when you do it just on the -- I mean the its the miss was for the year but it was all in last quarter, so you have attritional at last quarter, my guess just about 100%. What happened this year ended? It looks like something really was seriously wrong. And I asked that earlier, I add they didn't have -- they couldn't say, and I was really puzzled.

George Quinn
Former Chief Financial Officer

You present it as some serious conspiracy. The challenge with the first part Michael is that you know when you give someone a telephone number and they read it back to you in different blocks the numbers is quite hard to follow it. So I have a bit of the same problem. But obviously I'm not going to see a profit warning today for next year .

If I look at the major blocks of one-offs I think the NatCat is clear, and I think tax is clear given the guidance I've given you, I think the prior development is clear. And I think the things are more difficult to form a view on the, it's in the asset management side. I would expect the gains would contain some part of the investment return but it is relatively difficult to predict exactly what each day and till we have got some significant gains not only from things like the foreign exchange effects that we had in Q3, you really wouldn't expect to occur, but even already an underlying portfolio. I mentioned legacy and then we're back to Life & Health on the review of the underlying performance on life and health. If I normalize all of that with my numbers and I apply 25% tax rate, I don't get a number that would imply a profit warning.

Second thing on the combined ratio, I guess the challenges in which piece do you choose to favor, the 3 quarters at 91 or the one quarter at 93 or rather the full year at 93. So, we had very good performance to be honest through the entire year. We have things that we don't measure when we do the excess Nat Cats and the prior year loss development. There's just a natural volatility that we have in claims for example, in casualty. So it is going to be up and down.

I think we've resisted the temptation all year to tell you that the combined ratio was way better than we priced, so I understand what you may have expected but that was in guidance that gave you. And then on the last quarter, so what happened in the last quarter, so you got 2 things, I think that the -- I think that one thing it's not your mistake, it's like the one thing you might do is when you look at the prior year development for the full year is $1.3 billion and if you look at the total for the first 3 quarters you assume the remainder is all in Q4 and that would kind of make sense in that, but it is not. So we have re-adjusted our view of what was prior to the earlier 3 quarters.

So I think if you're doing the attritional loss ratio using the difference in the loss development between the full year and Q3, because of the information we have given, you have slightly the wrong answer. So, I don’t see a problem to be honest in underlying combined ratio any of the 4 quarters. I think we feel happy with what it is and I think we think that there's some good luck in the an addition to the good or bad luck that we had in the natural catastrophes, and we have gave them guidance on combined ratio for this year reflects our view of where we were and what the impact of the renewal will be on what we were. That’s a kind of the long answer, but I’m not sure I really answered the question, but I have a different view is really what I’m saying.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Yes, I mean the numbers you reported earlier are very different from the number you report now, and I understand you are saying, well, we've readjusted prior year development, but from prior year it’s impossible.

George Quinn
Former Chief Financial Officer

Yes, S&P, the actual prior year development in Q4 is $430 million.

Operator

Next question from Mr. Spencer Horgan, Deutsche Bank.

Spencer Horgan
Deutsche Bank AG, Research Division

Two things, please. First one is, if you can just zoom in on the Life & Health side, George, I think, I am scratching my head even more than normal, just try to crack all the underlying numbers. But I think, if I look at the elements on Slide 29 and then also just for the restructuring cost you mentioned, I still only get to an underlying operating profit in Q4 of about $100 million, is that kind of tally with your thinking? And if so, kind of what’s going on there?

And then, the second point is, just on these capital relief deals, again when you pointed to the price adequacy being slightly lower than average for the book but you were able to confirm that the deals are in excess of the 11% ROE target you talked about in the context of the hurdle rate for return in capital?

George Quinn
Former Chief Financial Officer

So first thing on Life & Health, I agree, it’s a bit of a challenge. So, if you look at Slide 9, and I prefer to look at it for the full year rather than for one quarter because one quarter exacerbates the volatility issue. I think if you look at the result here, 464 and if you look at the benefit we had last year and from the gain on the market-related instruments of VA pre-2000 GMDB FX which is 99. We got a loss this year in total 61. I have talked about the impact on Admin Re, we have got -- I guess I tried to give you an indication, but I think that part of the underlying element of Admin Re that wouldn’t repeat is about $100 million.

I think if you look at the other 2 businesses Life, Traditional Life, Traditional Health. Traditional Health is better than we expect to see it, about 390. Traditional Life is weaker than I'd expect to see it and really those 2 [indiscernible]. So, I think if you look for the full year, mainly Admin Re and the mark-to-market volatility those are the main items that I see explaining the difference between what took place last year and this year.

Investment return has a relatively modest impact if you do the calculation over a longer period, but it is still slightly negative compared to the prior year.

On the deals, so, I sat down and did my own calculation of the actual RoE on the solvency relief transactions that we did. And I guess depending on these, one of the problems that you have with an insurance company is that you can pick any number, different ways of measuring the capital base, they range from the rating capital number, at one end which will be the highest of these transactions to the economic capital at the other end, which will be the lowest for these transactions.

Based on marginal expenses which is the relevant measure to use these transactions would exceed the hurdle rate I gave earlier even highest capital number. If you go on the capital number that will probably be the constrained to the end of the day, which is ultimately going to be the economic one, you could get a number that's far, far above the hurdle rate I have given out there, again because of that expense total.

Michel M. Liès
Former Group Chief Executive Officer

By the way, just on these deal, I'd like to point out that when we spoke about the targets combined ratio 2012 of 94% I never excluded these deals meaning that the matters of quality and contribution to the result, they are definitively following the same judgment of the quality than the rest of the business. So the 94% are not excluding these deals.

Operator

Next question is from Andy Broadfield from Barclays Capital.

Andrew Broadfield
Barclays PLC, Research Division

Two questions. One trend that we have seen this particular reporting period is been around the intangibles like kind of goodwill et cetera and DAQ. And Swiss Re had a particularly large amount of this and from memory the purchase gap accounting that you used to value these to make assumptions around improvements in interest rates et cetera. So I was just wondering what your latest thought is on your VOBA and goodwill and perhaps may be you can address those 2 things slightly separately? So that's the first question.

Second is just on the investment pool. It is relatively difficult to work out what the underlying number is because you have had quite a significant change in volumes from the big acquisitions of GEIS and the various Admin Re deals done in the mid-2000s to the lack of decline premium and then potentially a climb again in premiums for the next 2 or 3 years. Still working out where we are in that cycle and what I should think about the asset base as a call?

George Quinn
Former Chief Financial Officer

So on the first one, so I'll start with goodwill first. The goodwill that we have on the balance sheet is mainly, not all but mainly, P&C deals. And you would measure the recoverability of that goodwill against the overall P&C segment; that's the accounting rule. So given the way that our P&C business performs, so touchwood a lot of times it feels very, very unlikely that you would ever trigger a payment on goodwill and on that particular book.

On PVFB and VOBA, which is mainly again not exclusively related to Admin Re transaction some Life Re deals we've done in the past, again you measure at the highest levels. I mean, we look at the entire Life & Health segment and the relative measure to look out there which really the margins that we look for above the GAAP balance sheet on our economic reporting. So again, if you look back at the most recent information we have from an economic perspective which is a year old now, we have margins of billions of dollars.

Having said all of that we are about to split the business into new segments and that will create new risks when it comes to this topic. So, for example, we got P&C will still be a segment so same rules apply; Life & Health and Reinsurance will be a segment and Admin Re would be a segment. Admin Re is a much smaller part of the overall margins that exist in the Life & Health book so there is a higher risk and that you can trigger an impairment of VOBA and PVFB on Admin Re even if we currently do not see one.

So, I am not telling you we have one but we haven't yet reported but it's just is a more significant risk going forward because the margins on the Admin Re book are typically much smaller than they are in the traditional Life & Health book.

Andrew Broadfield
Barclays PLC, Research Division

Can I just ask a question on that? I am sure I reconciled that your statement and the goodwill and VOBA as to both of them with the -- with your ROE targets as a group, which we have never get back 3 or 4, 5 years in these deal -- some of these deals were done even further, the ROE is somewhat higher. So, trying to understand those 2 things on, I'm not sure I can put it together but maybe it's something we have to discuss offline, but…

George Quinn
Former Chief Financial Officer

Yes, but again, on all of this we use this economic framework that you have seen already that we published once a year as the basis for testing recoverability. So that has a cost of capital baked into it that we think is broadly in line with the market via cost of capital, and we show positive margins across all of the businesses even Admin Re.

Second question on the investment pool, I think though I think that's one actually easier to do offline. I think that requires a bit more of an in depth discussion. If you look at the slides in the appendix in the presentation you get sense of what portion of the assets are for our own account but of course the challenges to try and develop the model that would superimpose the run off of in particular the GEIS deal back in 2006 and then superimpose the build-up of new funds, new assets from the growth that we've being seeing last year, this year and we hope next year after the expiry of the quota share.

I think from what we look at it and what we are seeing higher growth rate than we anticipated but again if I look at our models we anticipated that the turning point where we start to rebuild the asset base would have been about end of 2013. That might come slightly faster because of the much higher volume that we're rating currently but again this year we expect the asset base to decline again rather than rise despite very high growth that we are seeing in renewal this year.

Operator

Next question from Mr. Niccola de la Palma, Exane BNP Paribas.

Unknown Analyst

My first question is on the prior-year reserve releases and to put this topic a bit more into perspective you released the $1.3 billion this year on top of that $1.7 billion roughly went to Berkshire Hathaway and $100 million last year; that's $3.1 billion of reserve releases over prior year's period. Now, this represents almost 7% net of reserves and would have represented if it was all for the shareholder around 7% of positive combined ratio impact on average for the last 3 years. I am trying to understand here how we should think of this going forward and where you think you are in terms of the reserve redundancies compared to 1 or even 2 years ago, so if you are not at the level where we would say that this should be the peer and we gone into a more normal period, how we should think of it going forward given the very sizeable size of reserve releases we have seen now in basically over the last 3 years?

Now, the second question is that is more simply on the excess capital compared to AA just checking if the sensitivity given on Slide 45 on the impact on internal available capital, would you say that it is a fair approximation of how excess capital moves on the S&P model? Nothing is precise but just checking if it's a decent proxy or not?

George Quinn
Former Chief Financial Officer

So Niccola, on first one, reserve redundancies going forward, our reserve movement's going forward, if I start by describing the briefly the process that we run, we have series of a group of regional reserving committees that meet to review the reserve position locally and make recommendations for increases or releases. That is up to our Group Reserving Committee which not only reviews that information but reviews the group's overall reserve adequacy as prepared by an independent team of actuaries sitting in the corporate center.

And so, despite the fact that we are seeing significant reserve redundancies over the last 2, maybe 3 years on a gross basis our view is that our absolute reserve strength has now changed significantly. So again despite the significant redundancy we haven't seen, in our view, it's our view, it's our opinion, a significant shift in the reserving strength of the firm. And in fact I think if, again if you remember some of the comments I made earlier in 2011 around what was driving it, we have seen an absence of claims.

So, our life factors releases that proportions of the IBNR and we expect to see claim notifications to match, and a significant driver of the positive impact in 2011 was the claims just weren't coming in.

Now the going forward part is the more difficult part of this and of course. I'm going to discourage you from assuming that there is going to be reserve for this is going forward. It's already been very volatile during the course of 2011. And all I can tell you, we don't plan for them. I think we are happy that at the end of last year, we have set reserves on a best estimate basis with an appropriate margin, and the emergence of reserve redundancies depends on what happens to claim trends going forward. So, we are happy to have had what we had, but we don't want to project it into the future.

On the S&P side of things, I guess if you look at the sensitivities on 45 with lots of caveats and so, the S&P model is not the same as the internal capital model. It treats the different segments in slightly different ways so you can get some funny answers, but I think in the absence of other information this would be a reasonable basis particularly when it comes to asset risk, which is what this is and to assess the potential impact on S&P. It will differ from this slightly, but it's a reasonable proxy.

Operator

Next question from Mr. Paul Goodhind, Redburn.

Paul F. Goodhind
Redburn (Europe) Limited, Research Division

Can I just press you on the hurdle rate in a bit more detail? I mean, you mentioned, George, that the higher hurdle is S&P. I guess being picky, you might argue with S&P plus the buffer above that you are currently holding. And obviously that presents to factor in the fact that you do have this buffer above the S&P model.

I think 11% is the right number anyway and then, you can give the rate, the rest is about that, you calculate it in a different way, but one could argue that you should be aiming higher than that. And have you ever sort of thought in these high terms about trading off less volume for a higher hurdle rate to ensure that you are generating returns that are high enough to you know you got the market regards as being adequate for the risk that is being taken buying in your shares? I know that's (inaudible) question, but can I get your insights on that? And also, would the actual market let you do that? So, could you write any business that could be independent of hurdle rate rather than the 11, this competition box you are in to that sort of hurdle rate? I guess is being the other point.

And then secondly, on the cycle, you seem to be cautiously optimistic about the cycle, a broadly based hurdle is recurring. That hasn't happened historically without liability, casualty in the pricing turning up, and you're reporting a combined below 100, which suggest that we're far from at the stage where pricing will turn up there. So, how does that sort of square with your more positive cycles yearly is the question?

George Quinn
Former Chief Financial Officer

So, the first thing, apologies, Paul, if I gave the impression when I described the hurdle rate earlier and maybe I confused it when I mentioned the rates of return that we were seeing on the solvency relief deals. The S&P was somehow the capital metric we're using, it's not. We would typically manage our internal accounting model for the capital base. But what I was trying to do is to give you a sense of the returns on the capital employed for those transactions on any basis, attractive to very attractive. But I agree, if you are going to use S&P, given what the firm has said around buffer over S&P, you'd have to use a multiple fee base S&P capital number.

So, on the second piece about the cycle and the returns that we are generating from our reinsurance book, I think that they -- clearly, if you set a higher hurdle rates and I think you've seen some presentations that Brian Gray has given before that there is a distribution of prices in our book. And you can choose the point at which you want to cut off. So, you can set 15% and then you get a lot less volume. In fact the economics would fall substantially until we fix the expense problem and the big capital problem that would result.

I think if I stand back and look at it and the applied cost of capital for all the rest that we take in our economic model is somewhere between 11% and 12%, and that feels like a reasonable rate to apply. And that was the long-term price adequacy numbers that Michel gave, so the 107 starting point, 108 where we end, but we ended the 101 for the new transactions is a multiple of that economic return.

So, we feel that on the insurance sides, reinsurance side, we are actually generating very attractive returns and in the fact, I think if you compare it to peers even on a GAAP basis, it looks very good. And personally I wouldn't artificially now set a higher hurdle. And I think part of the challenge is it goes back to that asset risk. We are carrying typically much less asset risk, so less yield than the peers. And I guess, I would hope that over time we can convince investors that there is a lower ROE that's acceptable because of lower structural asset risk. I understand why people may be skeptical given some of the experience, but I think we are consistent around this, I hope a market would take a different view of the cost of equity. But I think our Reinsurance business certainly the P&C part of it from my perspective performs very, very well.

Operator

Next question from Mr. Brian Shea, Bank of America-Merrill Lynch.

Brian Shea
BofA Merrill Lynch, Research Division

I have 2 questions, and if you wouldn't mind I'd like to add one. George, you just mentioned 101% price adequacy in new transaction, I think I didn't quite catch that if you could just explain what that means. The 2 questions I did want to ask though in addition if you'd permit me. One, we have got a combined ratio expectation for 2012 higher than 2011. George also mentioned that the surplus relief deals are highly value-added and I suppose the way we square these circles is that that the low volatility extracted from these deals must be in the cap rate requirement is pretty small, and I am assuming that's how we reconcile the statements. And if that's so, I guess it'd be helpful to know relative to 20% premium growth that you have achieved in the January renewals, what is your growth in capital required?

And then the final question, the -- George I always appreciate the conversation you have with on new money yields and old yields leaving the book. The 2.1% new money yields in the fourth quarter, I'm assuming that cannot be indicative of where your yield will eventually settle because you are not investing in an indicative way in the fourth quarter, and you said you're putting money in more money towards governments. Is any sense you can give of what that indicative yield is so that if nothing else changes and interest rates, credit spreads don't change, what is the kind of an indicative new money yield that your whole portfolio would settle at?

George Quinn
Former Chief Financial Officer

So exceptionally the 3 questions, first of all the 101% base and so, well, 101 was intended to mean, Brian, was 100% would equalize achievable we believe to be an economically positive return for shareholders. So, cost of capital tax everything baked into that calculation, so 101% means it's slightly more than the threshold we would say and to be economically positive.

Brian Shea
BofA Merrill Lynch, Research Division

I beg your pardon, I think you are saying that you had had done deals at 101%?

George Quinn
Former Chief Financial Officer

Oh no, that's not a combined ratio comment, that's an economic price adequacy comment. So actually numbers above a 100% in this content are positive rather than negative. So on the combined ratio -- so this year's renewal I don't have the additional capital that's triggered by the additional premium growth, but essentially your analysis is correct around what would drive it. So, it's a combination of some expense improvement but given the nature of the risk we've taking there will be less capital because of potentially less volatility in these books of business.

I think if you look at it from an overall perspective, I guess the way I think of it is that -- I don't have an economic number in front of you, I have underwriting profit figure in front of you. But I'll use as a proxy for the time being given that interest rate is so low. If the firm increases its volume and it grows the underwriting profit that it can generate that for me is a positive, it is saying we are trying to increase the absolute economics, and that's what these transactions that we did on January 1, do for us.

On the equity rate on the asset yields so it's a factor of the duration of stuff that rolling off and particularly the mix of assets that are going on as you can only imagine is the same but we were not adding a lot of risk assets. If I look at the overall -- I don't have it with equity but equity is a relatively small part of the portfolio. If I look at overall running yields taking into account cash and the treasury positions would be more or around the 2.93% currently is my best guess.

Operator

Next question from Mr. Andrew Ritchie, Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

Two quick questions. Sorry to get back on the renewals again but what would the combined ratio be the 94 excluding the capital surplus release deals and maybe I am assuming that would have improved quite a lot year on year if we strip out the couple surplus release deals, maybe just give us an indication of that?

Secondly, at the forthcoming AGM will there be any proposals required to allow you to have the facility to pay a special dividend? Can you do that without any changes in the current articles of the company?

George Quinn
Former Chief Financial Officer

So on the first piece, yes, combined ratios has certainly improved. So you have less volume again I don't have a split in my head, Andrew, of what the impact purely on the solvency release deals would be so we'd have to look for it and come back to you.

Andrew James Ritchie
Autonomous Research LLP

What was the volume of the -- within the $2 billion increase, what was the volume of the additional surplus release?

George Quinn
Former Chief Financial Officer

So as a guess a very large part of it may be 3/4.

Andrew James Ritchie
Autonomous Research LLP

3/4 of it is surplus release.

George Quinn
Former Chief Financial Officer

As a rough guess.

Andrew James Ritchie
Autonomous Research LLP

Of the increase?

George Quinn
Former Chief Financial Officer

Correct. On the special dividends – special dividends are like normal dividends that require shareholder approval. So, we don't need a special permission or a change to the articles but would need approval in future to pay a dividend. And so that's doesn't require proposal this time but it would be required a proposal in the future if we are going to pay one.

Andrew James Ritchie
Autonomous Research LLP

So by implication, then you couldn't pay one until after next April?

George Quinn
Former Chief Financial Officer

You couldn't pay one till the next AGM, and in fact in reality we would pay one until after the NatCat season is over anyway. So, you are going to end up in that time anyway roughly in that time period anyway.

Operator

Next question from Mr. Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

Yes, just one question from my side and maybe partly -- you have already partly answered with the previous question, but I was interested about your comment on your performance at the Jan renewals so you are plus-20, and how this compare with your German competitor Munich Re which announced only 2.8%? Obviously, you are not boxing in a very different, significantly different category. I guess that your clients are approaching you for surplus release deals are also approaching Munich Re. It seems to be that both of you have taken a very different approach in renewing the book at the start of the year, at least looking at the gross numbers, the underlying growth number in the books. So, I guess that you also had also a -- I guess you are looking at or how you perform compared to your peers now they've all reported? I was interested to get your view of your performance on a relative basis, and maybe where you have been maybe more aggressive, not in the negative sense, but that we say where you have seen maybe things better than peers. We would be interested to get you view on that?

Michel M. Liès
Former Group Chief Executive Officer

Well, to compare the growth with one of our competitor, you can compare the numbers yourself. I don't definitely believe that we are more aggressive than our competitors. I think we are probably more prudent in the past so we are coming from the base from which probably growth can be a little bit more dynamic than one of our competitors.

As I said on these deals which did contribute definitely and will continue to contribute to some of the growth. The market is much, much smaller than on classical reinsurance which also gives to the reinsurer the ability to probably negotiate the matters of price a bit more than what happens on the other kind of classical reinsurance. I honestly believe that the growth is coming mainly from our ability to conclude these deals and again we didn't conclude all the one coming on our table, and probably the fact that we were on a more prudent basis in the last 2 years because of our cycle management policy. Silence mean that you're convinced? No?

Operator

Next question from Mr. Frank Kopfinger of Cheuvreux.

Frank Kopfinger
CA Cheuvreux, Research Division

I have 2 questions. Sorry also I have to come back on the renewals. The first question is, you showed this price increase of 1% and nevertheless but the portfolio did the underlying combined ratio, if I understand it right, stays with 94%. And this is specifically you showed us also last year. But I would have expected that also the underlying combined ratio of the overall P&C portfolio improves by this 1%. And the question is so what is the rationale behind this stable underlying combined ratio there?

The second question is in respect to the excess capital and also in the same direction as Brian asked already. I think during the course of the year the excess capital declined from $10 billion, now to $7 billion. And so would like to know what the triggers were of this move? And then secondly I would expect the exact capital also declined during the quite strong volume increase during their renewals. If you could also give us an indication where we stand here?

George Quinn
Former Chief Financial Officer

So on the first one, I think Brian's question actually gives you the answer to question number one. So I would say the driver of the why the combined ratio would only stay stable given we have added business, it's something that's actually accretive to underwriting profit as explained in the capital side of the calculation.

On the stable combined ratio -- sorry, the excess capital topic, so declined from $10 billion to $7 billion what drove that last year and what impact will the strong volume growth have some beginning at this year. And so obviously, the main drivers last year were a combination of growth that we saw in the renewal and from the measure of the year onwards. So relatively a modest component, main driver though is assets. And again if you could go back to the comments I made I was looking at shareholders equity, I explained if you take out the interest rate impact you have got about $1.7 billion decline just from the impact of spreads.

So a combination of growth, some additional required capital because of additional asset risk, but the predominant driver is the impact of changes in asset values over the course of the year. So will January 1 have an impacts on S&P capital? It absolutely will. I think probably the best public proxies you can use for that would be the, I guess some of the information that we give around the impact of the Berkshire Hathaway quota share either coming on and going off. And I guess if you look at that we are telling you that if we recapture about $3 billion at the end of this year, beginning of next year and take time to earning to GAAP and that's $1.4 billion and $1.5 billion impact on S&P Capital. It's a much, much smaller impact on economic capital about $500 million.

Eric Schuh
Former Head of Investor Relations

We take one more question from the phone and then we switch back to the room.

Operator

Last question from the phone is a follow-up from Mr. Michael Huttner, J.P.Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I have a question. Given Admin Re's records being a little bit mixed, you are still saying there is a lot cost coming. Can you explain the rationale of actually doing more deals and investing, it only seems like, how to say it, I got it wrong last 10x may be the next time I will lucky, I am not saying is wrong but I don’t understand that’s all.

George Quinn
Former Chief Financial Officer

Okay. So the, on Admin Re, so first of all, to explain what we are trying to do. If we go back to the first quarter results in 2009, I think we said already then that for the rate levels of return we have capital to later deploy in Admin Re, the challenge is that we think it’s a big opportunity coming. We don’t believe that the company has sufficient capital to absorb all of the opportunity, and in particular the company doesn’t really want to have all of the asset risk upon its balance sheet.

David Bloom and Bob Ratcliffe and the team at Admin Re, have been working to try create platform where assuming that we can demonstrate that the returns are sufficiently attractive, we would attract external capital into Admin Re which would allow us to continue to run our business.

I agree that the track record has definitely been mixed. And I think if you look at the different blocks of businesses we've had different laws of success in the U.S. versus the U.K. and in particular of course we ran into problems of Admin Re because of the capital problems the overall firm had at the end of 2008. Admin Re is a place we’re prepared to deploy capital, provided we see the right level of return.

And we also think that may be a significant opportunity because of the pressure with some peoples to sell some of these portfolios. But again, we have limited capacity to absorb the risk. So what David and the team are doing is trying to create the facility to bring an external source of capital into that business, and that has the additional benefit that would further validate the Admin Re business model.

Eric Schuh
Former Head of Investor Relations

Okay. Thank you very much. And may I ask, are there any follow-up questions or further questions in the room? Yes, please.

Unknown Analyst

Yes, Georg von Wyss [ph] with Classic Fund Management. You've said twice in your remarks that what your job is as to allocate capital, control, emphasize that very much because we've all been criticizing this adding this extra layer of cost. Can you tell us specifically what means, please? What sort of -- how will you do that? What sort of targets the business has received? What sort of measurements? How are their bonuses set? And of course where is the group actuarial function, is that still at the group or is actuarial function within the business units at this point to control the reserving?

Michel M. Liès
Former Group Chief Executive Officer

At the group level. And well, actually we will in April be much more detailed about the explanation of the 3 business units, and to all the capital and the assets which are attributed to these business units. So this transparency will probably give us possibility to discuss more in detail your questions at the meeting of April. But definitely we believe the new structure, once really implemented will give us the opportunity to be extremely clear about the target of each of the business units, the target of the group, and the way we split this responsibility between the business unit and the contribution of the group. So that’s definitely something which must be the result of what we will achieve carving out in the middle of April.

The structure is in that sense, perfectly aligned to the strategy. And I must say that is something which is supposed to help us in matters of transparency; it’s also challenging to be more transparent but massively helping us in matter of the finding the targets for the several business units and the contribution that can be given by the group.

And at the group level, the function of, for example, the Group Chief Underwriting Officer is also there to make sure that what has brought us success in the reinsurance piece of our business will also be still applied in the way we do our business in Corporate Solution. We know for example, that in Corporate Solution we have extremely ambitious growth target and this ambitious growth target need to be definitively channeled and controlled by what we are doing at the group level.

So for me, the current structure and the structure that we establish is, simply unleashing all the potential of the company perfectly aligned to the strategy. And at a group level, we need to make sure that we do not duplicate too much and that we also control these dynamic. And I will be probably much more outspoken about the targets once we can speak together in April.

Eric Schuh
Former Head of Investor Relations

Any further questions in the room? That doesn't seem to be the case. So I would like to thank you, everybody in the room and on the call on behalf of Swiss Re. If you do have further questions please feel free to give the investor relations team a call.

And before closing the meeting if you would allow me to just remind you about 3 important dates that are upcoming, Michel in fact just mentioned probably the most important one. So firstly though, on the March 16 we will publish our full 2011 annual report and on the same day we will also publish our EVM results. There will be no conference call, but we will have a short slide synchronized video presentation available in the morning like you have seen for Q3. So George will present the EVM numbers, and then any questions we'll, of course we will very happily answer them.

On the March 22, then we will do something new which is an AGM briefing call. What this is, is a new service that targets more governance oriented investors and stakeholders in Swiss Re. So I hasten to note that this call is not about additional financial disclosure like today; it is to rather elaborate on the upcoming AGM agenda topics and, and therefore, we plan to further improve or corporate governance. The AGM agenda which will be the agenda for the call will be published on the website in March as well.

On the April 17 then, we will hold our Investor's Day in London, and as Michel eluded already that there will be a lot of additional financial disclosure on that day. The financial segments, the new financial segments will be presented with the 2011 numbers split in 4 new ways. It will also have EVM numbers in the new segmental structures ready for you. So this will be a major event for all of us and, therefore, this day will also be webcast live, but you are of course invited to attend in person. And we will provide all the additional information that you could possibly hope for, at least what we assume you could possibly hope for, on the 3 business units and also on the group.
So this concludes the meeting, and we would like to invite all of you who are here in the room to the main building and join us for little coffee or tea. Thank you for your participation and good bye.