S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

FQ1 2011 Earnings Call Transcripts

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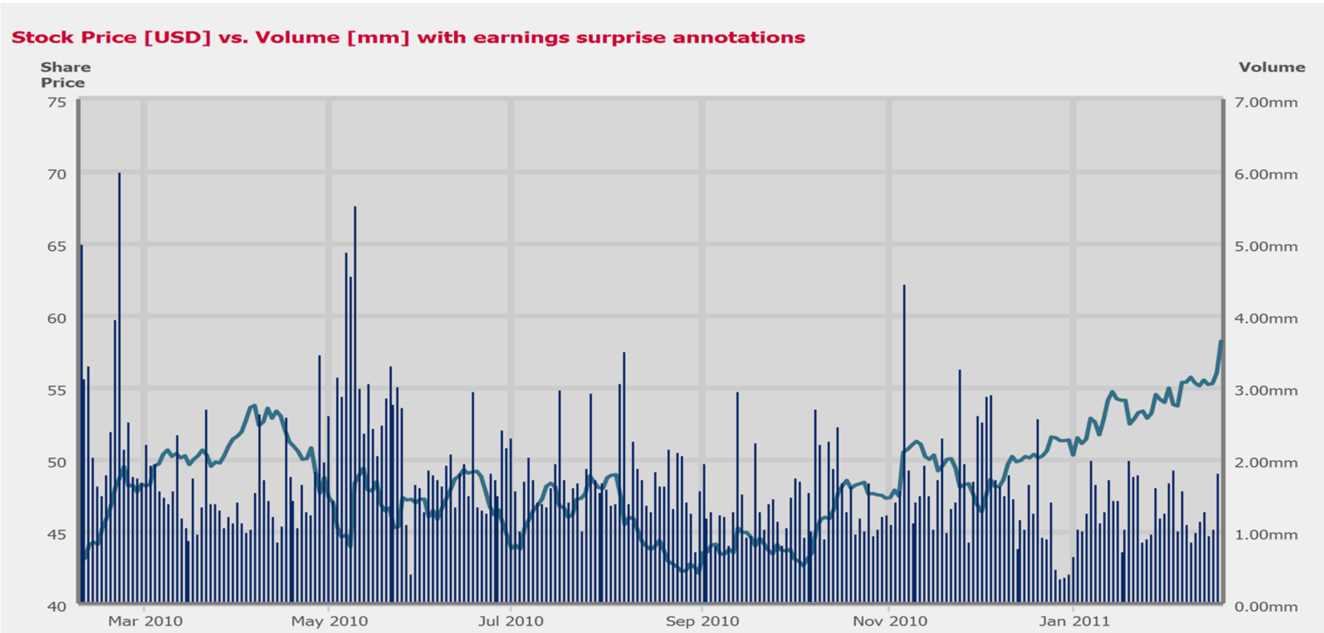
S&P Global Market Intelligence Estimates

	-FQ1 2011-	-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
Revenue (mm)	5433.94	6435.60	23751.00	24477.08

Currency: USD
Consensus as of Apr-29-2011 8:24 AM GMT



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Operator

Good day ladies and gentlemen and welcome to the Swiss Re's First Quarter 2011 Results Conference Call. For your information, today's conference is being recorded.

At this time, I would like to turn the conference over to your host today, Mr. Eric Schuh. Please go ahead sir.

Eric Schuh
Former Head of Investor Relations

Thank you very much. Good afternoon and good morning, everybody, and also from the Swiss Re side, welcome to our Q1 results conference call. George Quinn, the CFO is going to run through the results of Q1 and after that we will have time for Q&A. So with that I would like to hand over to George.

George Quinn
Group Chief Financial Officer

Thank you, Eric, and welcome to your first Swiss Re results call. And good morning, good afternoon, and good evening to everyone on the phones. I will run through the first quarter 2011 results and then I'll touch briefly before the end of the presentation on a few other relevant topics.

I'm going to start on slide 4 in the presentation. As a result of the natural catastrophe losses that we had pre-announced and that we've seen in the first quarter of 2011, we have a net loss of $665 million for the quarter. This compares to net income of $158 million in the same quarter last year. This has also resulted in our P&C business reporting a combined ratio of 163.7%, which is probably the highest level we've seen since we started reporting on a quarterly basis. Despite this, I think the underlying performance of P&C remains excellent and I'll explain more of this later.

Life & Health had a weak result in the first quarter, principally as a result of less favorable mortality. Asset management, on the other hand, has had a strong quarter with a return on investments of 4%.

One point to note that's not in the slides is the tax rate. We had a high tax rate in the quarter, while this is obviously good news in the context of a loss within quarter one, it's not actually good news for the year overall. The tax rate is based on the sources of our projected income and for the full year and this is the same that we expect a rate for the full year somewhere around that same level.

And of course, at this stage, even given the result of Q1, we anticipate a profit for the full year. So it can pass into a normal expectation of 23% to 25%, we are going to see a higher rate that maybe as high as 28%. And this is principally due to the fact that much of the natural catastrophe losses that we've seen in the first quarter are expected to end up with the parent company in Switzerland.

Book volume per share is just over 65 Swiss franc and turning from about 69 Swiss franc at the end of last year. Overall CAP position remains very, very strong and it's going prove to be a significant advantage here not only in our ability to absorb the loss in the first quarter, but also leaving us very well positioned to take advantage of what we expect to be improving market conditions.

I'll turn to slide six. Property and Casualty has produced strong underlying results, but this of course has been overshadowed by the extent of the losses from natural catastrophes in quarter one. From a volume perspective, we see a reduction in premiums just under 8%. But you can also see the impact of the renewal already in premiums written which are up by just under 12%.

It will take another quarter or so before we really start to see the full impact of the strong performance in the renewal come through in the earned premium. And premiums earned were also impacted by estimate updates from clients and typically we've seen clients reduce their own estimates for premiums. This is a fairly typical soft market phenomenon that contributed about two points to the reduction in earned premium.

All things being equal, we expect to see flat or slightly growing premium in Q2 and then see the full effects of the renewal and growth being more apparent in Q3. Property and casualty has produced an operating loss of just over $1.2 billion and this again of course is due to the nat cat losses. The quarter is mainly all about nat cat and this is evident and this combined ratio of 163.7%.

And one very important point to note, our estimates for the losses from natural catastrophes are unchanged. Just a reminder, there $100 million for the first quarter Australian floods, $225 million for Cyclone Yasi in Australia, the second Christchurch earthquake is $800 million and the Japanese earthquake and the following Tsunami, our estimate is $1.2 billion.

I think we are a bit beyond the pure model stage for the loss, but we have very limited client information at this stage and that information that we do have is itself subject to significant uncertainty. As a result, our own estimates remain subject to significant uncertainty and I think this is likely to persist for some time.

We do have positive development in the quarter and about $160 million or about 6 points. And if you adjust the reported combined ratio both for the positive impact of the prior year and the excess losses from natural catastrophes you would get a result of about 90% for the combined ratio. This is much better than the pricing expectation that we reported back in February, but I would caution again seeing that this is the new base. This is only one quarter and there are other variable elements in the P&C result beyond just nat cat.

Slide seven sets out the lines of business. Property, as you'd expect, significantly impacted by the nat cats. Casualty has a very good result. This is a combination of positive prior year effects and strong performance in the quarter. The positive prior year is at least partly due to the fact that we're not seeing the loss experience that our like factors would imply A versus E or actual versus expected claims is running positively and this benefits the prior years.

Difficult to determine precisely what drives this, but some combination of less claims and probably less inflation currently within those same claims are the main drivers of this positive experience.

Specialty is good overall, similar to the quarter we reported same quarter last year. Again, partly due to the prior year effects, offset by other specialty, which of course includes marine and which is also impacted by nat cats.

Overall, just to repeat, we almost certainly have some good luck on the manmade loss rate and I would note at this early stage of the year, attach a lot of significance to the outperformance in the underlying combined ratio.

Slide eight, life and health. Life and health has reported a weak result and this is a little disappointing, particularly when compared to the prior year. Revenues were up by 3%, which follows the pattern that we saw for most of last year of low to mid-single digit growth. Most of the growth this quarter comes from traditional health in Asia. But we are seeing demand in the more developed markets, especially the U.S. Weak and, in fact, recession rates are declining currently as insurance clients retain more risk as their own capital positions improved, especially on the life side.

Large individual transactions have become more prevalent and this is a pattern that is likely to continue. In combination, this is not unexpected, but it does creat an additional challenge.

Operating income is down quarter-on-quarter at $144 million. The main difference is compared to the same quarter last year, the impact of VA and GMDB and mortality. And in fact, in both cases, the first quarter of 2010 was probably more favorable than you would expect, whereas the first quarter of this year is slightly more negative than you would expect. But you would generally expect life and health and mortality to be favorable.

There's more detail in the appendix to today's presentation and you can see there that mortality/morbidity in comparison to last year is about $40 million less favorable, whereas the impact from derivatives, VA, GMDB and B36, is about $55 million worse than last year. Everything else is modestly to slightly negatives, so model changes, investment income allocation, PVFP, amortization, et cetera, and taken together, this has depressed the result for the quarter.

I don't think there's anything that signals a trend in here, we're seeing volatility from quarter-to-quarter in prior periods, as you know.

Slide nine is asset management. Asset management has produced in comparison to the same quarter last year a higher return on higher operating income. Operating income is up 31% to $1.2 billion; the fixed income running yield is marginally lower than a year ago and slightly down on Q4 last year. The main driver is foreign exchange, although the runoff and the sales have securitized in the first quarter also had an impact. New money was invested around 3.7% in Q1.

The sales of the securitized into the market really did contribute to income but more in the form of capital gains. The asset allocation changes are nearly complete, but overall are probably about halfway through the changes that we announced on the credit and we're little bit more than halfway on equities. The duration of our assets and liabilities is broadly managed.

The increased income is reflected in the ROI and FX and impairment are relatively small issues in the quarter. The total return is impacted, of course, by the impact of rising interest rates and unrealized gains. And we have a total return for the quarter of 1.5%.

On slide 10, you can see shareholders' equity and we move from $25.3 billion at the end of last year to about $24.4 billion at the end of Q1, and of course, this is principally due to the net loss for the quarter and the impact of rising interest rates and unrealized gains partially offset by foreign exchange effects due to the much weaker dollar.

Let me turn now to three other topics before I end this part of the presentation. I'll start with renewals in April. I think as you would expect both rises in premium volumes and prices in the April renewal, volume was up by 5% in April. And overall, the growth in treaty volumes in the year-to-date is around 13%. The earthquake-exposed lines in Japan, generally saw a rises up to 50%, although, some individual contracts, so much larger rises whereas the non-earthquake-exposed business rises about to 10%.

One very important point to know and is on slide 11. There is a higher risk in the post-earthquake period from aftershocks and we have adjusted our costing to take this into account. And as a result, the headline economic price falls from about 114 or 114% to about 109% after the seismicity adjustment. Let's take a look at this the net impact of all the nats cats in the first quarter we believe will accelerate the market hardening.

On slide 12, just a reminder, on the new Group structure, you can the timeline for the various changes that will take place, knowing in the exchange offer period and this will end on May 17 and were asking shareholders to exchange their current Swiss Re shares for shares in the new holding company, Swiss Re Limited. This is a very important step towards a simpler and more transparent structure. The next key date is May 17th when the exchange offer ends.

Slide 13, financial targets. The first and probably most obvious observation is what we did not achieve our targets in Q1. They're not quarterly targets and some volatility is to be expected from period to period, but I think it is important to look at them every quarter as we report and look for trends.

A bit tricky to find a lot of trends in the first three of a five year period, but I use the comment, I would draw your attention to would be the one that the target is a more challenging as we get to recover the loss from Q1, there is no reason at this stage to assume that the losses over the five year period will be exceptional even if this quarter is.

However, despite this, if I can pay that to at least my own personal assessment of trends compared to February, I think that we have proving on a slightly more positive basis than we were then. Also in slide

13, for the sake of clarity, we've given the economic net worth per share starting point, $89.7 US per share because we didn't have this when we reported the targets back in February.

In summary, on slide 14, as a result nat cats, we have a net loss for the quarter, despite this we remain confident of our targets and the underlying trends, if anything appear to be slightly more positive than they were back in February, when we announced the targets. Asset management has produced a good result and made good progress in adjusting the asset allocation. There are other states as I mentioned earlier to complete the asset allocation change and this is lately to be completed over the remainder of this year.

The growth that we saw in the January renewal continued in April and the price trends we think are now giving better signals for the future. We expect the losses from Q1 combined with other factors such as continuing low interest rates and other industry changes, for example, the introduction of an RMS 11 for nat cat models to accelerate the market hardening that we had previously foreseen for 2012, 2013. With this backdrop Swiss Re's market position and capital strength is a strong competitive advantage and we believe that we're well placed to take advantage of the improving market conditions.
Thank you very much. I'll give it back to Eric.

Question and Answer

Operator

We will now take our first question from Fabrizio Croce of Kepler. Please go ahead.

Fabrizio Croce
Kepler Capital Markets

Yes. Thank you very much. It's Fabrizio Croce, actually. And the question is about additional claims, which could materialize in Q2. We had plenty of tornadoes in the U.S. and we had also some claims repercussion in the Asian room. And so here the question is, could you indicate how big actually the additional losses could be in Q2? Second question is about the positive claims we've experienced in casualty. Here, if you could please attach a figure as well.

George Quinn
Group Chief Financial Officer

Okay. So on the first point, Fabrizio, for the tornadoes, from the market losses from tornadoes is probably a reasonably significant event for the primary insurers but given the figures that have been reported, I wouldn't expect that to be a huge event for reinsurance. So it would have some impact, but at this stage I wouldn't expect that to be particularly significant given what we know today. On the positive claims experience side, we don't breakout the individual pieces. I think if you look back at prior information we've given on casualty, I'll give you sense of what we think the normal run rate would be on casualty, but it clearly has a positive impact in quarter one of this year.

Fabrizio Croce
Kepler Capital Markets

Okay. Thank you.

Operator

Thank you. We will take our next question from Andrew Broadfield of Barclays Capital. Please go ahead.

Andrew Broadfield
Barclays Capital

Hi, George. Just two quick ones. Just on the asset mix, I'm just trying to think, you are moving towards the top end of your sort of risk range for asset mix I think. I'm just trying to understand a little bit about how much that is a case of utilizing quite significant surplus capital still and how much of that is just a pure opportunistic approach, given the yield to getting on government bonds, et cetera. So that's the first question.

The second, just on the reserving side. Are you able to give us any more clarity as to where that's come from? Just thinking looking back and thinking to the adverse loss development protection you bought and you've released a significant amount versus certainly your European peers, I think, over the last couple of years on reserves in total. Is that something that you expected three, four years ago, or do you think it's just, as you mentioned earlier, the lower inflation environment frequency? And is there any recovery on the adverse loss development? I have some recollection that there was an eight-year trigger or something on that. I might be wrong.

George Quinn
Group Chief Financial Officer

Yeah. So, it's complicated to see the two questions.

Andrew Broadfield
Barclays Capital

I'm sorry.

George Quinn
Group Chief Financial Officer

That's okay. We took a decision last summer that we change an asset allocation and if I, David presented the Investor Day we had in London in June. And I think David and his team has just gone through a fairly thoughtful and careful approach of taking time to access, typically ex-general managers around who is investing money and where to. So I don't think we feel the pressure of the excess capital to find asset risk, most of it fairly immediately driven by current yields that was driven more by a long-term view of what may happen in the financial markets and therefore looking at best position for our asset portfolio would be to produce the best result. So, we're getting quite close, but not far away.

I think on the equity side, there's probably a bit less than $2 billion left to invest and may be kind of up to $3 billion on the credit side. And then we're done for at least the current view that we have. Of course things can change but that's kind of what we're planning to do on the asset side. On the reserving side, where to start, first of all did you expect three to four years ago what we had, we would have done that and we'd have booked a giant reserve release as we had expected, and so the best time to know.

You're absolutely right on the ADC, there is feature that allows us to cancel the ADC, eight years after inception for a return premium of $400 million, a CHF400 million. More generally, I think probably, I think we posted our [EBIT] before, we just explained very briefly our philosophy.

We take a fairly mathematical approach so we look to be around best estimate. It's not quite best estimate because, of course, the mathematics don't cover all the risks. And we think that's extremely important to keep the kind of the pricing reserving - so the pricing costing - sorry, costing reserving linkage intact and therefore, to feed back into a view of what we should charge clients. There was not big reserving exercise in Q1 that drove the release that you saw. This was mainly good news in terms of what we saw in actual claims versus the claims that we would expect to see. And that's probably the best I could do on that for the time being.

Andrew Broadfield
Barclays Capital

So are you essentially saying it's coming out of relatively short-tail consequences, my interpretation of your last comment?

George Quinn
Group Chief Financial Officer

No, not quite. So the - typically, also for it to be prior year, it has to be the stuff that requires a couple of years to develop, which would typically mean casualty. And it's the longer-tail business where we're seeing more of the positive development come from. And it's the stuff that's now developing bigger like factors. If you look at our casualty book, probably one year in the like factor for development is 5%. So what we're really looking at here is probably kind of 2007,2006, 2005, et cetera and earlier really driving some of this.

Andrew Broadfield
Barclays Capital

And sorry, just to confirm, the cancellation is CHF400 million. You pay CHF400 million and get your $2 billion back?

George Quinn
Group Chief Financial Officer

No, no, no. We cancel the contract, the counterparty no longer has any obligation towards us, and we receive that cash sum in return.

Andrew Broadfield

Barclays Capital

Okay. Okay. Got you. Thank you.

Eric Schuh
Former Head of Investor Relations

We take the next question please.

Operator

Thank you. Our next question comes from Paul Goodhind of Redburn Partners. Please go ahead.

Paul Goodhind
Redburn Partners

Yes. Hi. Thanks, George. It's really a question - on your sort of cycle language, you've sort of turned it up a bit in terms of your sounding more optimistic now than you were so at the beginning of the year. And I'm just wondering if I look at slide 11 and you're talking the price adequacy. At April, it got worse taking into account the increased risk of aftershock, as you mentioned. And if the conditions were ripe for a turn in the market, it seems to me the one time that you expect there to be a real price increase would be the first renewal season after the events that we've had in the first quarter. And obviously, it hasn't happened in terms of achieving a real price increase. And therefore I'm just a bit baffled as to why you're still using lots of upbeat language about a turn in 2012 and 2013.

George Quinn
Group Chief Financial Officer

Okay. So you only had one question, is that deliberate?

Paul Goodhind
Redburn Partners

Yes, it was. Yeah, I'm being scarce with my questions.

George Quinn
Group Chief Financial Officer

Okay, alright. So the - and I think you're absolutely right. We are being more upbeat in our outlook. So I think, first of all, and kind of why did we see a much more massive rise in Japan. I think two things. One on the earthquake-exposed parts of the Japanese risk, we saw very substantial rises. I think the April renewal clearly for Japan was complicated by the fact that, of course, the event occurred very, very close to the actual date. And as you probably know, we make offers to clients not all in the last day. Someone made in the weeks running up to the renewal date. And where we made offers that clients had accepted, we obviously honored those acceptances. I think the things that make us more bullish - and I'd be a wee bit cautious.

I'm not going to predict a massive hard market from the next renewal date that we have. But I do think that all of the - if you look at all of the changes that are taking place and all the things that were potentially negative indicators before, which still remain today, and I look at the industry commentary and, in fact, not only from the reinsurers - and, of course, we have a vested interest on the outcome but even from clients, you now start to see commentary great expectation for July 1.

And I think just to repeat some of the things that we've obviously suffered significant losses, but I'm aware that the industry is very well capitalized and, of course, we're one of them. But we have other changes going on, for example, at the RMS 11. It's not clear what impact that's going to have precisely at this stage.

But, again, if you've been listening to the U.S. calls clearly U.S. primaries from last week, you can see the concerns expressed there around what that means for big risks, what it means or what you may have to buy in future. So, I think there are a number of positive signals, some of which didn't necessarily exist when we had the February discussion that would make us more positive than we were then.

Paul Goodhind
Redburn Partners

Thanks.

Eric Schuh
Former Head of Investor Relations

Thank you. Next question please?

Operator

Thank you. We will now move to Vinit Malhotra of Goldman Sachs. Please go ahead.

Vinit Malhotra
Goldman Sachs

Yes, hi. Thanks, George. Actually my question was on that slide 11 as well, but I think I have the answer. So I move onto one more question. The 12.3% ROE on your stated underlying or on a normalized basis, this compares to 9.2% at full year '10. Could you quickly just give a feeling for what certainly pushed this underlying reported number by three points? Thank you very much.

George Quinn
Group Chief Financial Officer

Yes, sure. I'm going to pick three things. So I think you see a very stronger ROI in the result today, which is probably a wee bit higher than we would expect to see on a continuing basis. I don't think we'd expect to see quite as much capital gains in the results you've seen today. If we expect to see improvements we'll be able to maintain, for example, the running yield of the current income component.

We've got some positive development that has a pretty significant impact and in this quarter we are seeing better impact from pricing than we had anticipated in February. Again for the reason I mentioned earlier, probably due to a combination of good work, but underwriting team, but maybe some of the natural volatility that would occur and claimed quarter-to-quarter. I think we have the main drivers and I think would explain the difference between what we saw end of last year and what we're seeing today.

Vinit Malhotra
Goldman Sachs

Great. Okay. So the actual underlying number might still be somewhere around the full year number. Is that a fair thinking or just a wee bit better or, you see the point is that I know the 90% was one-off or maybe too good for the quarter or there were some gains here or there, I mean, can you just give me a sense there would be just useful. Thanks.

George Quinn
Group Chief Financial Officer

If you give me, I'm going to resist the temptation to give the underlying.

Vinit Malhotra
Goldman Sachs

Underlying, okay. Fair enough. Thanks very much.

George Quinn
Group Chief Financial Officer

I hope there is enough transparency in this that you guys can identify the blocks that you can place a view on us to whether you think as sustainable or not. Then what we're trying to do here is just fairly simple extraction of the nat cat excess only. That's the only thing we're taking in here.

Vinit Malhotra
Goldman Sachs

Fair enough. Thanks, George. Thanks.

George Quinn
Group Chief Financial Officer

You're welcome.

Operator

Thank you. Our next question today comes from Michael Huttner of JP Morgan. Please go ahead.

Michael Huttner
JPMorgan

Thank you. I had two questions. One is the capital position. You used to give a figure, which then faded and then came back. And the last one was the $10 billion. I just wondered whether you can an update or a feel for what's happening there. And then on the life, I've been trying to understand from the appendix slide. It stays on underlying figure. I'm really puzzled and I'd welcome any kind of help. If I look through the numbers, I see that full year last year, if I adjust for the items you listed, is about $790 million. I know there's a bit of a gain in there, so maybe $740 million. Q1, however, if I adjust for everything I get to $150 million. So that's a big difference. One would multiply out to become $600 million and the other one is $750 million. So there's $100 million difference and I'm just wondering, has the portfolio changed or am I missing something? Thank you.

George Quinn
Group Chief Financial Officer

Okay. On the first one, Michael, I apologize in advance. I know we gave a capital number today. I think we explained last year. We're trying away from giving a quarterly update. I think that you can make reasonable guesses given the impact of net income for the period on what may have happened to the cash position, but we are still in a very, very strong position. I think we should expect.

On the life side, probably the thing you're doing, if you look at the appendix, is I think you're probably zeroing the life and health mortality component and I wouldn't do that. Because of the accounting, you actually expect to get positive mortality impact. And I think if you back over the last couple of years, I think though a combination of the presentation today and I think probably the Q3 presentation last year, you can see that two-year period and we have about nine quarters of mortality movement and you could make some estimate of kind of what maybe more typical by the way of impact even if it is period to period. That's the difference between your 150 and a number that we have in my head, which will be a bit higher.

Michael Huttner
JPMorgan

Thank you.

Eric Schuh
Former Head of Investor Relations

Can we take the next question, please.

Operator

Thank you. James Shuck, Jefferies has our next question. Please go ahead.

James Shuck

Thanks very much. Hi, George. I wanted to return to the reserve releases if I could. I appreciate you don't want to give too much detail away on that, but I did just want an indication about the more recent accident years. So could you give an indication about 2009 and 2010 and whether you're actually seeing any positive development from those years, please? And then my second question, was just on your growth at the April renewals because you're up very solidly in the January renewals, up 14% or so. And then April was only up 5%. And I appreciate the pricing may not be quite where you want it, but it is still positive and you still have excess capital. And I'm just surprised you didn't grow by more than that at the April renewals. Thank you.

George Quinn
Group Chief Financial Officer

So on the first one, short answer is that we haven't taken any significant reserve releases from the more recent years just because like factors just don't really permit it because the two more recent years, that you mentioned have fairly developed a pretty minimal degree at this stage. It will take several years before they really start to have an impact on the expected versus actual reported in the numbers.

So what's really driving the positive impact we're seeing here is, couple of years, I think I mentioned in response to maybe to Andy's question earlier. So certainly for 2005 and earlier I think typical years as already expect to see some positives from. On April it was only 5%, I guess, I'd point at two things. One is the comment I made earlier around the timing of the event, first is the renewal, and I thing the other thing I would say, is from talking to our clients and underwriters I get the impression that client relationships in that particular region tend to be deeper and longer lasting. It can be a bit difficult to make significant shifts in share.

And that's probably why you see some of lower growth in April than maybe you've seen in January. But that's a case, I think a part of it. But I think despite that, I'm pretty happy with 5% growth given the way things turned down in April. I think if we go back to the view that we had already - even back in February, people would have been potentially more pessimistic more is that when prices are higher. But 5% is okay.

James Shuck

Sure, okay. Thank you.

Operator

Thank you. Your next question today comes from Michael Haid of Cheuvreux. Please go ahead.

Michael Haid
Cheuvreux

Thank you very much. Hi. Two questions. First of all, on P&C reinsurance, your gross premiums written in P&C grew by 12% net on premiums minus 8%. And I've never seen such a difference, such a material difference as in this quarter. Could you explain a little bit the mechanics of this development and how do you expect the higher growth of the gross premiums will come through to the net earned premiums over the next quarters? The second question is on Life Re. You said that the mortality developed worse than expected. Is this only specific to the first quarter, i.e. is it coincidence or is it part of a trend? And in what part of your portfolio the development of the mortality was so worse than expected?

George Quinn
Group Chief Financial Officer

Thanks, Michael. So on the first one the very short answer would be that I think one of the things you haven't seen this elsewhere is that, we tend to manage the top line more aggressively. So we're very disciplined about how we deploy capital and therefore you're placing larger changes in our top line than you may see elsewhere. So that's clearly an important starting point to have.

The second thing is of course last year, we cut premiums significantly. We started in the January 1, when there was a significant rise because of the incidents of the attachment of underlying contracts for our clients that growth is start to kick-in more and more as we move through the year.

So short summary would be that look at the projections that we have, Q2 I expect to see a flat to slightly up, everything else is equal. So foreign exchange and other client updates and then to see the growth really kick-in Q3. I think if you want to explore in more detail, give the IR team a call and they can walk you through the some of the model that we use for premium important and that will give you maybe a deeper insight.

Michael Haid
Cheuvreux

But in the end, this higher growth of the gross premium written line must come through or through the P&L, especially because you eventually also want to increase the retention?

George Quinn
Group Chief Financial Officer

Absolutely, so what I tried to say was look for Q3 this year.

Michael Haid
Cheuvreux

Okay.

George Quinn
Group Chief Financial Officer

Second of all, on mortality in trends, the bad news is that, well we'll get bad news mortality was less favorable and almost every single region for us in Q1. I don't remember having seen that before some, there is no particular standard feature for me. I don't - I wouldn't attach a trend to one quarter result unless there was something very unusual in it, so I don't see a trend in this and if I think if you look at the information are (inaudible) in the appendix, you can see that you get some kind of variability eroded into mortality but mortality is typically a much more positive and more positive that we're seeing today.

Michael Haid
Cheuvreux

So simply as that. It was just bad luck?

George Quinn
Group Chief Financial Officer

Well, bad luck, and particularly for the people that died, yes.

Michael Haid
Cheuvreux

Okay. Thank you very much.

Operator

Thank you. William Hawkins of KBW has our next question. Please go ahead.

William Hawkins

Thank you, George. Yes, just one question, please. Could you elaborate a little bit on the fall in investment income, particularly in the P&C division? It seems to be significantly greater in percentage terms in the fall overall. Not necessarily surprising because it's a short duration portfolio. But it's still a pretty steep fall year-on-year and actually quite a steep fall on the fourth quarter. So if we take the $360 million investment income in P&C in the first quarter, can I annualize that? Is it going to get worse? Can you just sort of talk a bit around that? Thanks.

George Quinn
Group Chief Financial Officer

I can't really detail the changes. So we applied the normal methodology that we apply. So we're looking the especially the moving average for the duration that P&C has. There's a move down in interest rates in the quarter it will be move (inaudible) quarter but it's replacing period in the past whether its much higher interest rate, I think if you want to dig into much more detail where we need to do offline with the IR team, I don't really have that a detail answer to that question. I think the (inaudible) I think as you fully appreciate it's an allocation issue rather than a absolute issue for the Group overall. This doesn't impact the Group's overall investment return, but it impacts the proportion that it allocates to P&C. So apologies that's not even answer a bit. If you want to give IR ring, we'll try and give you something more detailed.

William Hawkins

Yes, thanks.

Operator

Thank you. We will take our next question from Stefan Schurmann of Bank Vontobel. Please go ahead.

Stefan Schurmann
Bank Vontobel

Yes, good afternoon. Two questions. The first one on your, basically, nat cat losses. Just maybe could you explain us the difference what Boucher stated on the 20% quarter share. They show like a $700 million. You show basically a different figure. You might not be able to answer that, but maybe give us a hint here what the difference is and should be or why it is? And the second one shortly on life mortality again. Can you maybe elaborate where the life mortality trend comes from? Is that like a negative trend you have seen in the U.S. or is that all over or European?</TAG>

George Quinn
Group Chief Financial Officer

Yeah. Okay, Stefan. On the first one, you're absolutely right and I can only guess but my guess would be of course in this case, Boucher should need to make an estimate, what we think our gross losses and they will be aware as you would be that, we have some for example, ILS and other protection and what we are stating publicly is the nat positions or nat of the quarter share and nat of other attaching coverage that we have. So we haven't given that we have. So we haven't given anything to Boucher that isn't in the public domain and in fact we haven't completed and started the formal Q1 reporting. So my guess is that we had an estimate for the gross loss might be and right number for their share but there is no changes as I mentioned earlier to our estimates.

Stefan Schurmann
Bank Vontobel

Okay.

George Quinn
Group Chief Financial Officer

On the life and mortality side, again, I don't see any negative treads. We get - we had volatility period to period, from location to location, really unusual feature I would draw - but again, I don't think it has great information content as the - just about all of our regions we're reporting less favorable mortality than they have previously. But that can happen and it did happen this quarter.

Stefan Schurmann
Bank Vontobel

Okay. Thank you.

Operator

Thank you. We will now take our next question from Brian Shea with Bank of America/Merrill Lynch. Please go ahead.

Brian Shea
Bank of America/Merrill Lynch

Good afternoon. I had two questions, please. First of all, if I could just ask about the outlook for the running yield. George, I think you mentioned in response to an earlier question that you're hoping to keep that flat at the 4% level. I'm guessing that maybe part of that answer includes an assumption that interest rates will continue to go up. If I could just ask - if you just keep everything flat and can we just take the running yield achieved in Q1 of 3.7% and other things equal, your running yield would move down at that level, or is it that the calculation is a bit more complicated than that? And then secondly, I just wondered if you have the risk appetite to grow your exposure in Nat Cat. I know you've got plenty excess capital, but I just wondered with your risk limits if you have the appetite for - not for premiums developing - I'm sure they will because of pricing, but if you have the appetite for your exposure to go up as you approach the renewals? Thank you.

George Quinn
Group Chief Financial Officer

Yes. Okay. So on the first one, assuming interest rates are flat, we assume that we can maintain the running yield. The 3.7% that we see in Q1 is really a feature of the - kind of the mix of investments that are changing. I think in future periods we'll see more of a bias probably towards the equity and credit change that we announced earlier. So I think our view at this stage is that we can maintain that flat, even if we do see decline in interest rates, but you're absolutely right. If we continue to invest at 3.7% eventually the portfolio will of course, yield 3.7%.

On risk appetite, we're actually within our current risk limits for Nat Cat. So we would have the ability to grow it if we have the ability to deploy at the right prices. I think you can also see, if you look across the market, if you look at the size of losses that we're reporting compared to our peers, we don't appear to have over lined in a particular market, so we would have the ability to deploy more capital. And it's not really to do with the excess. It's more to do with our current risk tolerance and what that implies for risk limits in the Nat Cat market. So if we saw an increase in demand at the right price in July 1, we would deploy more.

Brian Shea
Bank of America/Merrill Lynch

Okay. That's very clear. Thank you.

Operator

Thank you. We will take our next question from Andrew Ritchie of Autonomous. Please go ahead.

Andrew Ritchie
Autonomous Research

Hi, there. Just one question, actually. One of the kind of - the rationale behind the targets you set in February was you were talking about, at some point, starting to grow your casualty property gain, which has obviously been reduced considerably. You haven't really mentioned the environment for sort of long term. What are you currently seeing in casualty unless pricing improving anywhere sufficiently for you to start writing that business again?

George Quinn
Group Chief Financial Officer

Excellent question. So I think that the - if we drilled into the bullishness, I think we still expect to see it turn, but I would be more cautious on the short term on casualty. I think we haven't yet seen the market change that we think is needed. I think we've seen some improvement in some areas. And we've deployed more capital this year on casualty than perhaps we have before. But we haven't yet seen casualty really make the movement that we want to see, but we still think its coming. We think the changes that we see in the property side will have some impact on casualty. So on this subcomponent, I'd be a wee bit more cautious in short term.

Andrew Ritchie
Autonomous Research

Okay. Thanks.

Eric Schuh
Former Head of Investor Relations

Can we take the next question, please?

Operator

Thank you. We will now take a question from Spencer Horgan of Deutsche Bank. Please go ahead.

Spencer Horgan
Deutsche Bank

Thank you very much. And the first one is - in terms of casualty business, obviously, it's been a topic for quite a few years now. I mean, how comfortable are you that the costing of this business is correct? And the reason I ask that is that is that my memory may be flakey, but I think back in the mid to late 2000s you were pulling back on casualty business quite aggressively. And as we look at it now we see sort of substantial reserve releases coming out with the business you did write at the time. So I'm kind of wondering whether actually the costing was wrong and you sort of missed out on some opportunities by pulling back on that business. And then the second question is, obviously there's a lot of moving parts in terms of how the pricing outlook looks in terms of property cat and casualty and spans on safe. But if we look to the priced combined ratio that you've expected for this year in January renewal of 94%, is your expectation really that that number can move materially if we look to 2012? Thanks very much.

George Quinn
Group Chief Financial Officer

So I'll start from the first one. So I think you're almost right. In my view in comparison to yours would be that the reserve releases are not been driven by '08, '09 or '10, I think we're seeing much more of it as the more broadly noised hard market period for casualty, which is '02, especially, '03, '04. '05, maybe '06. And I think the jury is still out on the more recent years.

Operator

Ladies and gentlemen, pardon the interruption we are experiencing a momentary interruption in today's conference call. Please standby and the conference will resume shortly.

Thank you. We currently have a question from Spencer Horgan of Deutsche Bank.

George Quinn
Group Chief Financial Officer

Spencer, are you there?

Spencer Horgan
Deutsche Bank

Yes. I'm sorry I didn't realize it's such a weird question but…

George Quinn

Group Chief Financial Officer

That wasn’t really my tame to avoid answering it. I thought you’d hung up for a second rather than we’d hung up. So on casualty the not review off I think we hung up just as that was in I think most of what we’ve seen is coming out of ’02, ’05 or ’02 ’06. I think it’s too early to declare a view on what are the more recent years are going to be like. But certainly there are other external reserve response, which we’ve, have consent particularly about ’10, ’09 and maybe ’08. But we’ll see how they come to this one.

Spencer Horgan
Deutsche Bank

Yes. And I just have memories of you pulling back on casualty in earlier years but that could be my faulty memory.

George Quinn
Group Chief Financial Officer

No, you’re right. I think the point I want to make is, I think we clearly over-costed casualty in this period, kind of ’02 through full year ’06. So we didn’t get the price quite right. But currently it benefits us.

Spencer Horgan
Deutsche Bank

Yes.</TAG>

George Quinn
Group Chief Financial Officer

And you’re right. We did pull back all ready from 1st of July one renewal in the U.S in 2006. It’s not particularly to cut U.S liabilities in that stage. So I don’t know maybe the timing will prove in the end to be little bit early. But given the prior characteristics in casualty market, I think we are growing at their (inaudible) area on that and we are a bit late.

When the moving parts, and I think if I understood question correctly, you asked me to forecast the combined ratio for 2012 or…

Spencer Horgan
Deutsche Bank

I didn't put a question bluntly, but if you wanted to have it that way.

George Quinn
Group Chief Financial Officer

Just a temptation. Clearly the comments that have made today is the same that some has a (inaudible) have a more positive outlook and on pricing as things clear as we expect I think I would hope that we would come back after the end of 2011 was a more positive year what we can in expect in 2012. But obviously a bit too early to start talking numbers.

Spencer Horgan
Deutsche Bank

Yes. Fair enough. Thank you. Thanks very much.

Operator

Thank you. We will now take a follow-up question from Andrew Broadfield of Barclays Capital. Please go ahead.

Andrew Broadfield
Barclays Capital

Yes, hi. Thanks for taking this quick one. Just on the slide seven in the appendix, the life and health, the operating income breakdown. The PVFP expected amortization has been a little - it had to be accelerated and I - if I've understood this right, this is effectively because of the way that you calculate your PVFP and the yield you're getting on your assets is not enough to meet what your PVFP assumes is your long-term returns. And do you think now your asset allocation is sufficiently or will be with your other plans - going to be sufficiently high yielding to slow down that accelerated amortization? I think this goes back even into '09 as well where you had to accelerate the amortization is faster than anticipated.

George Quinn
Group Chief Financial Officer

Not quite up to range as the discussions coming that can drive the change in the time of period amortization. The challenge for us is again we have a self inflated problem that invest in income allocation does not take into account the impact on PVFP. So for example in the U.S. if we have changing in the portfolio and we had a particular change in Q1, which I will mention in a second that will drive changes in PVFP amortization because the gains or losses recognized on the asset side are not actually credited to the segment.

And that will be fixed with the change that we have in Q1 2012, but unfortunately we have to live with what we created here. The small change that we had in Q1 was we executed the time strategy. We had some capital losses, which were approaching expiry. We had some capital gains in the portfolio they happened to be actually on the life side and we took them. There was a net economic positive for the firm overall but it had the impact of the small acceleration of PVFO on the life side. That’s why you see that is negative number here. This isn’t really an overall yield this year and sufficient yield to amortize the PVFP.

Andrew Broadfield
Barclays Capital

So you said all expectations be that this is now a neutral impact or the PVFP is only as expected now.

George Quinn
Group Chief Financial Officer

But I think ordinarily, but I think if you look at slide 17, if you won’t believe me but you wouldn’t expect it fully to be expected a deviation zero as supposed to what we have actually seen here.

Andrew Broadfield
Barclays Capital

Okay. Thanks.

Operator

Thank you. We now have a follow-up question from Michael Huttner of JPMorgan. Please go ahead.

Michael Huttner
JPMorgan

Thank you very much. I just have two. One on the admin re. Can you say, since you're going for all the change of putting a new group structure, what is your - what's happening there in terms of deals or appetite or whatever? And then, in terms of the dividend, one new thing since you mentioned it very kindly at the investor day, is - or maybe not so new, but it's accelerated - is that the - it will cost you more in dollars to pay the same dividend in Swiss francs than - and I just wondered how this affects your view of the dividend at the moment. I know it's early days, but you were kind enough to talk a little bit about it at the investor day.

George Quinn
Group Chief Financial Officer

On the first one (inaudible) today the most advanced on the changes as they are working at high speed and in fact they have a origination team looking at various deals as we speak. We are actual do one this year again, I don't know so was going to the willingness of buyer and seller and the price that can be achieved, the return can be achieved but our team is very active and kind of looking potential transactions. And I think we would like to do something but only at the right level of return. And on the dividend Michael, I don't think if intensive (inaudible) swiss francs we must pay dividend in swiss francs by law. The - I guess if really some seismic shift in exchange rates and we will be found on the [door] as in that then maybe in the very long term we have some impact, but the day - if not some that causes me any concern to be completely frank.

Michael Huttner
JPMorgan

Got it. Thank you.

Operator

Thank you. We will now move to Maciej Wasilewicz of Morgan Stanley. Please go ahead.

Maciej Wasilewicz
Morgan Stanley

Hi. It's Maciej from Morgan Stanley. I've got two questions. The first question is that on your dividends again, but more specifically on the potential for a buyback or a special dividend, I guess the first question is which would you prefer? If you were going to excess capital distribution, which you highlighted is a possibility in the past, then what would you do? Would you do a special dividend to take advantage of the tax benefits under the Swiss withholding tax changes or would you do it in a form of a buyback to give you capital flexibility? And the second question would be, I guess like - previously, whenever you talked about whether or not you would return any excess capital to shareholders, it was always framed by whether or not the - there were good business conditions that you could take advantage of instead and that your preference was to take advantage of good business conditions if that was an option at the time. I guess - what do you see now? The business conditions you're saying have improved quite a lot, especially in P&C. Do you think the probability of returning excess capital to shareholders is therefore maybe a little bit lower? Or do you think, given the sort of enormous level of excess capital, we should still keep that as a possibility in our minds?

George Quinn
Group Chief Financial Officer

And on the first one preference again, we are talking high potential here at (inaudible). So I'm not forecasting either one of these and I think that the from a (inaudible) long run cap both mechanisms available to in fact normal dividend and buyback. We actually buy back any particular point in time is determined by your second question and that's the ability to deploy excess capital.

And I think that we are more bullish and a number of people commented on the (inaudible) kind of market trends and slightly pricing changes in future. I actually think if a buyback became left over that would actually be a very good thing because we we've been very disciplined on how we would deploy the capital. And I think it's generally always better if the company can find ways to deploy the capital at rates that are economically attractive. I think from an overall perspective you set back in February, we were optimistic of the ability to deploy capital across various things that we saw would drive some growth.

And today, and actually we don't feel less optimistic and in fact there are some sayings that maybe our optimism was well (inaudible) and if anything I feel that we are optimistic today of our ability to deploy the capital. Again the buyback and capital repurchase of the shareholders is I think a reinsurance company in particular is a very important part of discipline. If you cannot find right now there was a return it's a very important feel to have in the (inaudible). But that is a good news it is that we think (inaudible) attractive opportunity ahead of us in the quarter.

Maciej Wasilewicz
Morgan Stanley

Thank you.

Eric Schuh
Former Head of Investor Relations

Operator, can we take the next question please?

Operator

Thank you. Our final question today comes from Thomas Fossard of HSBC. Please go ahead.

Thomas Fossard
HSBC

Yes, good afternoon. Two questions for me. On the Japanese loss - on the Japanese quake loss, I guess you'd have to say that it's currently still a model loss estimates. We've seen some of the big players in the markets such as the larger Japanese Mutuals putting out some loss numbers in the market. Also GM putting a notice that they got $1 billion, or could have a $1 billion loss in terms of (inaudible). How are you confident that your $1.2 billion loss on the Japanese quake as a mode of use, I would say, realistic and enough cautious estimates? That's the first question. The second question would be on your risk appetite for nat cat. If you were to grow up to the maximum risk limits of 3.3% for writing nat cat, how would that will bring you to -- in terms of nat cat premiums, in '11 you're shooting for $2 billion of nat cat premiums. What would be the upside is you were to fulfill your risk appetite? Thanks.

George Quinn
Group Chief Financial Officer

Yeah okay so the - on the second one first of all I don’t have a - I can’t give you a figure for that. Those who pertain on the composition of the business that we wrote and there are progresses versus growth. And I don’t know the answer to that today. We think in terms of when we come to limits in terms of the risk limit and no premium driven tylically they are driven by exposures. And on the first one on the Japanese loss estimates are (inaudible) that because we are carefully doing the call that the loss estimates not only in Japan (inaudible) supplies to price chart and typically any natural catastrophe and loss that we have.

There is only a significant (inaudible) we made them and that’s still generally remains true today. I mentioned on the comment that, I think beyond the pure model loss, you’re right that this information in the market from some of the larger clients will see. You can imagine as that information becomes available to us, we review against the information that was included in the estimate that we have and if we sell that information looking a change of the overall loss materially we would inform the market. So at this stage, just to reiterate, we have no change of the Japanese loss, but it remains inherently

Operator

We have another question from Michael Haid of Cheuvreux. Please go ahead.

Michael Haid
Cheuvreux

Thank you very much. Just one question. I am still trying to wrap my hands around the life health operating income. And on slide seven of the appendix, you provided great insight into some drivers of the operating income in life health. I added all these components up and subtracted it from the operating income and the remaining part of this -- this remaining item shows still a significant variability. What is not included in the components in slide seven?

George Quinn
Group Chief Financial Officer

I guess, we tried to group the major things together, Michael, but you’re right, there are other things that can take place. I think the thing that you’ve to do, I think it was back to the response I gave to Michael Huttner earlier. There’s not a living qualitative data available to the market. And I think, if you walk to those eleven quarters, I think you can form the use over a longer period, some of the expected impacts would be, and again - just to repeat. I think the - we have to be careful particularly in the mortality and morbidity compared to expectations. Well, most of these you'd expect to be zero in a given quarter, that one you would know, you would expect that to be positive because of the way the accounting works.

So, I think my advice would be that, look at the two years, I'm trying to avoid getting to the mistake of giving guidance for this, because I think you expect a few guys form your own impression from this data as to where you expect it to go. But if you look at the derivative part of IVAPs, if you look at the recapture competition recession, if you look at the model change and assumptions if you look at investment income allocation PVFP and the very long run, I would hope that each of these would be zero, if not positive, mortality difference because of the results that we're seeing today are based on expectations that were several years ago. And of course our knowledge of mortality has improved significantly and in fact so has mortality trends, so we expect less lost cost from mortality today then perhaps we did when we wrote some of this business for example in 2000 to 2001.

Michael Haid
Cheuvreux

Yes. Okay. Thank you very much.

George Quinn
Group Chief Financial Officer

You're welcome.

Eric Schuh
Former Head of Investor Relations

Okay. Thank you. Thank you very much everybody as there is no further questions and I don't appear to be any. Please feel free to give the Investor Relations team a call, if they pop up later in the day. I would like to thank everybody for listening and operator, we'd like to close the call now.

Operator
Thank you ladies and gentlemen that does conclude today's conference call. Thank you for your participation. You may now disconnect.