S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

FQ2 2011 Earnings Call Transcripts

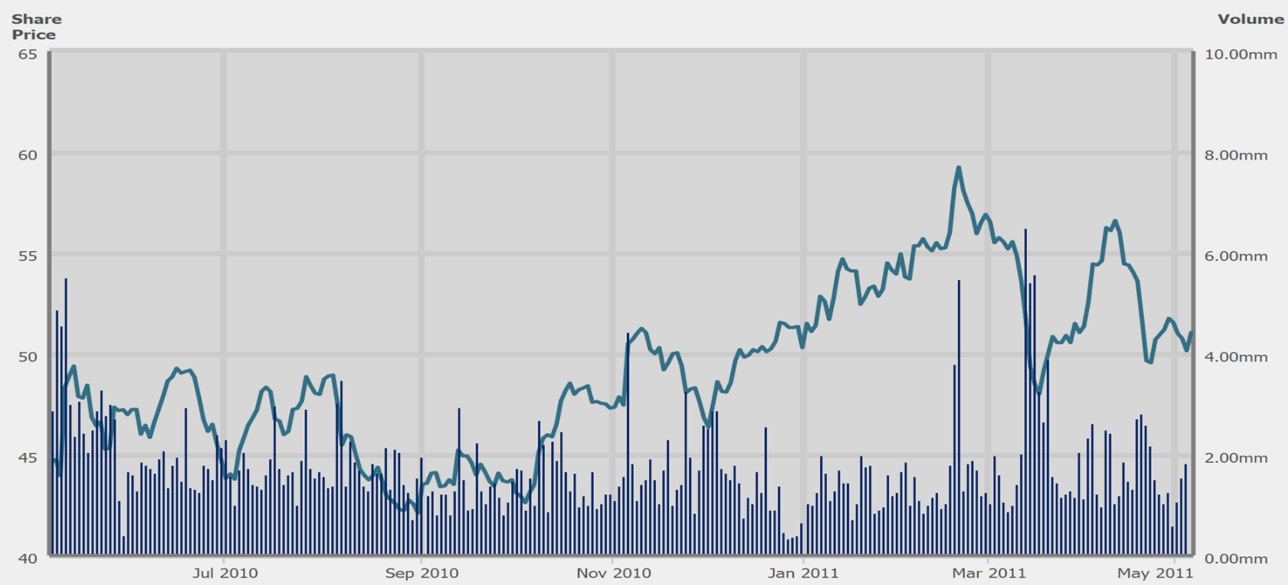
Thursday, August 04, 2011 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-		-FQ3 2011-	-FY 2011-	-FY 2012-
	ACTUAL	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.50	-	2.47	3.15	7.15
Revenue (mm)	5201.57	5667.66	6717.91	24177.47	25245.41

Currency: USD
Consensus as of Aug-04-2011 9:13 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	-	-	-
FQ3 2010	-	-	-
FQ4 2010	-	-	-
FQ1 2011	-	-	-

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Eric Schuh
Former Head of Investor Relations

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Stefan Lippe

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JPMorgan Securities Ltd.

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Nomura International Plc

Spencer Horgan
Deutsche Bank AG

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Bank Vontobel

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HSBC Securities SA

Vinit Malhotra
Goldman Sachs International Ltd.

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Keefe, Bruyette & Woods Ltd.

Presentation

Operator

Good morning or good afternoon. Welcome to the Swiss Re Second Quarter 2011 Results Conference Call. Please note that today's conference is being recorded. At this time, I'd like to turn the conference over to Eric Schuh. Please go ahead.

Eric Schuh
Former Head of Investor Relations

Thank you very much. Good afternoon and good morning, everybody. Also from the Swiss Re side welcome to our second quarter 2011 results conference call. George Quinn, the CFO and Stefan Lippe the CEO are going to run through the results including renewals and outlook. After that, we'll have time for Q&A.

So, with that, I'd like to hand over to George.

George Quinn
Group Chief Financial Officer

Thanks, Eric and good afternoon and good morning to everyone on the phones.

I am going to start on slide four of the presentation. So as you have, no doubt, seen already today we have reported a very strong result for the quarter, net income of $960 million. This is an annualized return on equity of 15.6% for the quarter.

Property & Casualty business has not only produced excellent operating performance, as you've seen the combined ratio is 78.4%, we've also started to see some growth as the prices in the market started to rise. And I will touch on both of these topics in more detail in a second.

Life & Health is solid. In fact, the traditional life and traditional health businesses have performed well, but this is partly offset by higher expenses in Admin Re.

Asset Management is also very good. The return on investment for the quarter is 4.3% and probably in the current environment one of the more important issues is that we have no significant exposure to peripheral Eurozone sovereign credit.

Book value per share measured in dollars rose slightly ending the quarter at $72.37, or just about less than CHF 61 per share.

I will turn now to slide six. As I mentioned earlier, the performance for this quarter for P&C is excellent. I think it's been about two years since we last reported growth in our P&C business. That was the beginning of 2009 which was, I think, the last time that we really saw a clear movement in prices. And today we've reported a headline increase in premiums earned of 12.6% or probably more relevantly at constant rates of exchange of 7.1%.

And if you look in more detail at the Q2 report, you will see that gross written premiums has drawn at far higher rates and one that is more consistent with the renewal picture that you've seen. And this is a clear sign that you're going to see continuing growth and premium from us for the remainder of this year.

I think if you look at the impact of some of the events in Q1, and if you look also at the model change that's been introduced by RMS in the U.S., we see a number of items that clearly drive an improvement in prices.

We've seen some new capital come into the industry but some of this replaces capital that's been lost and not all of the new capital has been obviously deployed. Some of the existing players in fact have reduced capacity. As prices have risen this year, we've deployed additional capacity, and we have the ability to deploy more if conditions warrant it. Underwriting discipline is still critical as the price improvement is not uniform, and we won't change our philosophy on cycle management. But the trends are positive, and we expect the gradual firming that we've seen so far this year to continue.

This feeds into the operating performance, and operating income is up nearly $1 billion and that's a combination of the consistent very strong underwriting performance and a very significant positive impact from prior years. All of this, obviously, more than offset the impact of lower interest rates and the negative impact that had on allocated investment income.

On the reserve releases, I will touch on that in a bit more detail in a second when I turn to the lines of business, but the overall impact of reserve release in the traditional P&C is about $330 million pre-tax or about 12 points on the combined ratio and is a further $50 million of positive development from the non-trad or non-traditional P&C business.

Natural catastrophe experience was also a bit lower than expected in the quarter, lower by about 1.5 points and as a result the underlying combined ratio is around 92%. You can see an analysis of the lines of business on slide seven. Now, all of the main lines have produced very strong results. Property is 76.3% for the quarter and this again is a combination of the good basic underlying performance, later than expected natural catastrophes, and in fact the largest events in the quarter were the tornadoes in April and May which for us have resulted in net claims of just over $100 million.

Property has also benefited from prior-year reserve developments, and this is a result of resolution of part of the outstanding issues around the subrogation of the WTC claim. This is a benefit to property of about $79.

One additional point I want to draw your attention to is that the estimates that we made in Q1 for the nat cat that we saw leading up to the Q1 result release are broadly unchanged. We have seen some movements in individual losses, but the overall estimate that we have is broadly in the same place.

Casualty was 86.5% for the quarter. Current price conditions are still not very exciting at casualty, but we've seen a very large benefit in the quarter from prior-year reserve development, and this is mainly due to pretty straightforward absence of claims. It's mainly a European phenomenon, partly Asia, and in fact the overall effect - the overall prior-year positives were somewhat reduced by some modest strengthening of workers' comp in the U.S. and the liability component of motor in the UK.

And you can see the impact on workers' comp and the accident and health combined ratio. Positive development has been a feature of the results recently, but you should be very cautious about treating this as a trend. It's still coming from the hard market years principally 2002 through 2006.

Specialty is also strong with a combined ratio of 70.3%. As you can see, credit continues to be no specific exceptional results. The experience is very good and other specialty is also strong but includes the impact of a partial satellite loss in the quarter. So overall from P&C, excellent results and really excellent execution from the team.

Slide eight is Life & Health. It's a much tougher market for Life & Health, growth is much harder to come by but you see a continuation of the relatively modest growth rate that we've seen over the last several quarters from both traditional life and traditional health.

Large transactions continue to become a more significant feature in this market as the session rates on the traditional business show a tendency to decline. Again the drivers of the relatively modest growth are the U.S. and Asia. Overall, the growth in traditional life and traditional health business are entirely offset by the natural wealth of the Admin Re portfolio.

Opening income is up 13%. Again traditional life and traditional health have performed well, and if I exclude the loss from Admin Re, operating income of nearly $200 million. Mortality experience was good and there is also a small but positive impact from model change in the Life result and Health is also very strong. The various mark-to-market products such as variable annuity in the pre-2000 GMDB book had a very limited impact in the quarter and in fact it's almost entirely due to movements in Swiss Res or in credit spread.

Admin Re, as you all have seen, is relatively weak and reported a loss of $30 million for the quarter, mainly driven by expenses, and most of this has come from cost we've incurred in restructuring the business ahead of the corporate realignment that will take place in the beginning of next year. This will put the business on a more independent footing and it's important to make sure that we can maintain the cost advantages that Admin Re has had in the past.

There will be more of this to come in the second half, although we will also see some cost related to the recent Admin Re transaction. We will recognize the transition and migration cost as incurred and in fact these costs are no longer items that we can capitalize under the accounting guidance. So we will have a short-term negative impact from expenses before we see the profitable impact of the most recent transaction in next year's results.

The benefit ratio as a result of the movements in mortality and morbidity improved slightly to 87%. Asset management is also very strong and operating income is over $1.3 billion and the return on investments is 4.3%. And current income is higher, but it's slightly boosted by private equity or captive assets in the quarter.

And realized gains are also slightly above normal than invested current levels. And the running yield has remained - running yield and fixed income has remained at 4% which is also a little higher than we would have anticipated. And if I had to - we look at new money investment rate, that's lower in Q2 around 3% compared to Q1 but the investments rolling off also had a much lower yield than those that rolled off in Q1, the number was 3.2% and the reminder of the fact that we maintain the running yields is due to the impact of UK inflation on our index-linked accounts.

The key message here is that asset management has produced a very good result but not necessarily one that we'd expect to see repeated in the same level through the remainder of the year.

And payments are also very low, as you can see on the slide, $24 million, in slide nine. And as also stated on the slide, we are close than neutral on duration. A total return of 8.1% also benefited from the fact that obviously as interest rates fell the value of our portfolio rose.

Slide 10, as you can see here, shareholders' equity has actually risen over the quarter from $24.4 billion at the end of Q1 to $24.8 billion at the end of Q2. The very strong result for the quarter and the impacts of interest rates on our assets have more than offset the significantly increased dividend that we paid back in Q2.

On slide 11 just before I hand you over to Stefan, I will give you a short update on the progress towards the new group structure. I think, as you know, more than 98% of our investors have accepted the offer to exchange the old Swiss Reinsurance Company shares with the new Swiss Re Limited shares. The SIX stock exchange in Zurich has now approved the de-listing of the old Swiss Reinsurance Company shares subject to approval by the competent authority of the court, and we expect to see a decision from the court in the fourth quarter this year.

With that, I will now pass you on to CEO, Stefan Lippe. Stefan?

Stefan Lippe

Thank you, George. Good morning, good afternoon, everybody. I would like to first comment on the July renewals and then conclude with the summery and then the outlook.

I will now start on slide 13. Let me first talk about market trends in general. To state it upfront, they have really started to turn. During Q1 results, I said that we expect the turn of the market to arrive faster in light of the natural disasters which struck the first three months. I am glad to report now that market conditions are definitely improving, prices have gradually firmed since January.

We see increased demand for peak nat cat exposures at improved terms especially in Australia, New Zealand, but very importantly also in the U.S. Non cat business has improved since January and is now largely flat. Low interest rate means more available capital and therefore competition is strong in insurance markets. The order of the day therefore remains disciplined underwriting. In summary, the market has started to turn, and we are expecting further improvements within the next six to 18 months.

Against this background, let's now turn to our attention to Swiss Re and how we did in the recent renewals. For this we turn to slide 14. The July 2011 treaty renewals were a big success for us. We increased our top line by 8% on our property casualty treaty book and this at constant FX rates. In particular, we increased enough capital writing in the higher-priced post-event periods. We completed two important P&C run-off transaction with our clients Zurich and Ageas, formerly called Fortis.

We could do these transactions because opportunities arose and because pricing level were attractive. These transactions are also a testimony to our client franchise, clients were facing a problem and we could provide a solution to that. When it comes to casualty business, however, we remain defensive, quite often it did not meet our pricing requirements. Leaving such business untouched and saying no is exactly what disciplined underwriting is about.

So we had a very successful July renewal just as we had successful ones on January and April 1. We were able to significantly grow our top line with quality business. This means top line grew and our risk adjusted price adequacy improved by five percentage points. If you look into the different types of business and geographies, such as proportional or non-proportional businesses, all regions like Asia and the U.S. and Europe, you can see that this price improvement was a pretty universal one. With now three rounds of renewals completed this year, let's look more closely on their combined result.

For this, we turn to slide 15. Starting with the left side of the slide, the 100% indicates the total of what was up for renewal in our treaty portfolio at the respective renewal dates. Leading now from bottom up, you can see that with each renewal we exceeded the 100%. This means with each renewal, we increased our written premiums because we could grow our share of wallet or because we could renew at better prices or quite often because of both.

In summary, and for this we turn to the right side of the slide, I am proud to report that we managed to grow our total treaty portfolio by 20% in this year, while we maintained the quality of rates. Please note all this 20% increase is due to business growth, not to due to foreign exchange rate movements. The left and the right bars are calculated at a constant foreign exchange rates. Where did all this growth come from?

A lot of growth in this period came from China. You may recall that we already talked about China when we reported on our successful January renewal. In April, we completed another solvency relief deal in China, so a quarter share treaty.

It should be mentioned here that our premium growth goes far beyond China. We also grew our premiums in mature insurance markets such as Australia, Japan but also in emerging markets such as Vietnam. Our business in Asia measured by net premium earned grew from 11% in 2009 to 15% in 2010. And for 2011, it looks like we are moving quite a bit closer to 20%, there is more. In another very promising market, Brazil for example, we recently bought a primary P&C company.

You can look forward to a solid developing story here from us. So to go back to the numbers, we are looking to 20% more business from increasingly diversified sources at pretty much similar good expected economics compared to the first six months last year or roughly $2 billion more premium. This is one of the ways we have successfully deployed our excess capital. With tailwind from these successful renewals, we are well positioned to achieve our financial targets to which we are committed ourselves at the beginning of this year.

You can see this from slide 16. In February 2011, we announced new five-year financial targets. Let me start by reminding you that we will not be able to meet these targets each and every quarter, as we work hard to achieve these targets over the next five years. As you remember, the first-quarter result was impacted by large nat cat losses, but now with the good results of the second quarter, we are back on track.

To remind you, the first target is a return on equity of 700 basis points over the risk free average over five years U.S bond. This would be just short of 9% as risk free rates being as low as they were at the end of June. We managed for the second quarter of 2011 that this value stands at an excellent 15.6%.

The second target earning per share growth on average 10% per year over the next five years is also met comfortably with earning per share of $2.80 for the second quarter. For the third target, the economic net worth target, we do not have any value yet. These figures as, you know, are calculated on an annual basis only.

This brings me to my last slide, the summary and the outlook. Our Q2 results are exclusive step in the right direction, but I'm confident that more steps of this nature will follow. We've shown very strong financial results across all business segments, and I am very happy to report these to you. As with the Jan and April renewals, the July 1 renewals were successful leading to a total growth of the treaty portfolio of 20% or $2 billion and that is without sacrificing on price. We've seen a very good investment performance. Also we have and will continue to have a conservative asset portfolio structure.

We have only minimal exposure to Eurozone peripheral sovereign debt of $78 million, $0 million in Greece. By the way this roughly $80 million is 0.05% of our total assets. By the way, the stronger Swiss franc is not a threat to us. First of all, we are asset liability matched, so the business is not impacted. Secondly from an admin cost point of view, the majority of our costs are not in Swiss francs because of our global business model with people in all major markets.

We delivered the first deals from our deal pipeline, an Admin Re deal in June, the transfer of 300,000 policies from the British arm of Alico and several P&C run-off transactions, amongst them Zurich and Ageas I already mentioned, which we were able to underwrite with the benefit of hindsight. This is a methodology how you can participate in casualty business which you don't like to sign in other fashions, but here you know what you are doing and you determine the price yourself.

Due to our excellent capitalization, we are strongly positioned for the cyclical upturn in prices, which we now see happening. We promise to you that our priority is to deploy our excess capital in profitable business, and you have witnessed the first $2 billion in extra P&C premium had unchanged economics. Likewise, we do not see other topics like regulatory changes out there or cat models updates, although you've low yield environment really as a threat rather than the opposite.

There can be opportunities if we seize them with innovation and entrepreneurial spirit. As an example, take our just award winning and ground breaking deal of the year in Life & Health longevity securitization.

Let me close my underscoring by underscoring two main points that I want you to take away today. Firstly, we have delivered a very strong performance in Q2 despite the volatile environment, harvesting the fruits of our disciplined underwriting and our conservative asset management approach. Secondly, Swiss Re is a growth story. Our total P&C treaty portfolio rose by 20% in the first half of this year, that is, $2 billion more in premiums.

This is quality business including new business at good economics. This is real cause, not ethics effects. It shows how we utilize our excess capital by supporting growth opportunity. This is a solid base for further action, and I hope you agree with me that we are on a good cause to delivering on our five-year targets.

With that, I would like to hand back to Eric for the Q&A.

Eric Schuh
Former Head of Investor Relations
Thank you very much, Stefan. Let's move immediately to the Q&A and in the usual way, please people restrict themselves to two questions each. Operator, could we please take the first question?

Question and Answer

Operator

(Operator Instructions) The first question comes from Malhotra Vinit of Goldman Sachs.

Vinit Malhotra
Goldman Sachs International Ltd.

Oh, hi. Thanks very much, Vinit from Goldman. Just very quickly on this government debt, so you had gains of $224 million I picked up. And - but then I also heard a comment that you bought a couple of billion of government bonds back again. So I was just wondering very simply where did you buy the (inaudible) I imagine. You must have sold some of the periphery, but you bought somewhere else and just if you could talk about that.

And just on your debt slide, which is actually page 46 of the appendix, I don't see that you - I remember that in May you have because of the change of control clause of the new legal entity you have also redeemed around $1 billion of subordinated debt in. Is that not factored in, or has that been refinanced, or and why I ask is because that's obviously an important question from the capital point of view? Thanks very much.

George Quinn
Group Chief Financial Officer

Just on the first one, Vinit, what you are really seeing is really the normal, mainly almost turnover of the portfolio. We didn't actually have a lot of peripheral exposure before the quarter so the deals were not actually driven by proposal of government credit that was causing us to turn. It was more the sort of the natural investment process we have on the right side and the acquisitions would be in the main areas where we've been growing the business. So it will be in a U.S. book, it will be a Asian book or elsewhere where we have more growth.

There is no real - I don't think there is a real story behind these two aspects. It wasn't the sale of peripherals, the normal investment process, the normal turnover of the portfolio.

Vinit Malhotra
Goldman Sachs International Ltd.

Okay.

George Quinn
Group Chief Financial Officer

The question was on debt on page 46, so there were a couple of issues, so one was we had a - we made an offer for a redemption of some of the U.S. securities that was triggered essentially by the restructuring that we announced. That's been partly taken up and the remainder of that will be dealt with in the second half of the year.

We've also had the SUPERBs be redeemed in June. I think in total I may get the number slightly wrong, but I think the overall impact is about $1 billion. There is probably another $600 million or so to come from the remainder of what's due to mature on the - on this older U.S. transaction.

Vinit Malhotra
Goldman Sachs International Ltd.

Yes. Thank you. It's just that I didn't see the effect between 1Q and 2Q for that U.S. bonds, and I was just wondering if it was a refinance, or whether you would show it later or that was basically the question

George Quinn
Group Chief Financial Officer

Oh, I think if you're asking more generally we have not yet refinanced anything, so far to the extent that we have redeemed or allowed to mature, we haven't refinanced it. But - even though our long-term aim - long-term - not even long term, short-term and long-term aim is to reduce the leverage that we currently have. You will see us partly refinance some of this, and we particularly like to see if we can upgrade some of the hybrid capital structures and the current capital base, but the overall aim is to reduce the leverage that we have on the balance sheet over the next four to five years.

Vinit Malhotra
Goldman Sachs International Ltd.

All right. Thanks very much.

Operator

The next question comes from Horgan Spencer of Deutsche Bank.

Spencer Horgan
Deutsche Bank AG

Thank you very much, it's Spencer Horgan from Deutsche Bank.

George Quinn
Group Chief Financial Officer

(Inaudible).

Spencer Horgan
Deutsche Bank AG

Haven't really reversed my name. Two questions, first is, George, I apologize slightly for this one because I know you wanted to get away from answering it quarterly, but could you give us a rough indication pro forma for the renewals of where the capital adequacy of the Group is on a S&P type view? And the second one is could you elaborate a little bit more on these reserve releases? I know you said the majority of it related to European liability, but is that coming from any particular line or any particular geography? Or is that fairly broad based? Thanks.

George Quinn
Group Chief Financial Officer

So on the first one, your introduction was completely correct. I am going to resist the temptation to give a very free example based on capital. I think from the information that you have, so you saw the overall increase in treaty premiums, as Stefan talked about the $2 billion rise, and I guess if you apply kind of normal factors kind of maybe 50%, 60% sometimes depending on the length of business, we've added some asset risk mainly around the equities in the first half of the year.

And from net income perspective things haven't changed much. We're back slightly in the black after the combination of the Q1 and Q2. So there's obviously been a capital reduction as we've deployed capital and the renewal and a relatively modest reduction as we've deployed capital also on the asset side, but we're still very strongly capitalized.

As I mentioned earlier, we did deploy more if I - you probably see it in the appendix if you look at some of the risk numbers, we have deployed more capital on some of the key perils at April 1 and July 1, and we'd be completely comfortable deploying more capital if prices warrant that. But we are in a very strong capital position, the impact of the growth and the asset re-risking had a relatively modest impact on what we reported at the end of last year. But I won't give you a formal update again until the end of this year.

On the second topic of reserve releases, I think if you look at, I will break it down into kind of probably three or four key areas. I think some things are very straightforward. So on the property side, we have a positive impact from the resolution of an outstanding legal issue. I mean that's a - I think as I mentioned in the comment it's about $70 million of positive impact on property.

Liability is really two separate stories, so this hasn't been driven by a large reserving exercise. We're simply seeing the like factors in Europe predict much higher claim emergence than we've actually been seeing. I think when we look into it, it's not isolated to a particular territory or a particular line. It's very broad across liability in Europe.

I think that from what we see our best guess at this stage is that it's a combination of, number one, we're seeing much less of a large liability losses that we've seen in recent periods. And in addition to that we're seeing probably a lower claims incidence, maybe partly because of lower inflation that we're seeing at the moment. So a combination of these two things seem to be driving this current experience, but both of these are relatively mechanical.

In fact in the one area where we've really done the annual reserving work which was on workers' comp in the U.S., we again strengthened reserves which you've seen in the past, and that again was in response to what we see around experience and a need to strengthen the tail factor, but the overall story and one that's been pretty consistent over the last couple of years, is we have very positive experience on the reserve side.

I didn't mention credit, on the credit side of things, credit is typically pretty short scale, so you wouldn't normally expect to see a lower reserve development, but we were cautious in 2009 and 2010 because of the experience that we'd seen. But we're going to the point today where at least for the periods we are looking at, the picture looks pretty developed and at this point we felt we had to make an adjustment to reserves and therefore we released on the credit side, pushing the combined ratio down to below 40%.

But it's not a single issue, it's very broad based although it's mainly European and partly, to a small extent, in Asia also, and if anything the U.S. is not really a significant contributor to this currently.

Operator

The next question is from Huttner Michael from JPMorgan.

Michael Huttner
JPMorgan Securities Ltd.

Hi, there. I have two questions. The first one is on the Admin Re. I hadn't factored in that it was going to be so expensive to change legal entities. I just wonder if you can talk us through the process of - to change a legal entity and just get a new company. It sounds as if you've been - and also maybe give a feel for how much more there is to come. It sounds like there's about $100 million in total, and I can't - I mean $100 million in the UK these days buys you a lot.

And then the other thing is, on slide 23, and this is probably my understanding this is very, very low. It shows net claims of $1.9 billion for the nat cat. I had in memory for nat cats for Swiss Re somewhere around $950 million, maybe $1 billion. Can you - has it really doubled? Have you actually doubled your peak exposure in the space of a year I guess? And should we then adjust the combined ratio we use for nat cats from 6.5% or 6.6% to somewhere around 10%? Thank you.

George Quinn
Group Chief Financial Officer

Okay. So the short answer on the second one is no, but I'll explain in more detail in a second. You actually have a kind of different measure, Michael. I'll try and explain what it actually means. On Admin Re, we got a combination of two or three things going on the Admin Re side. So the team is trying to establish a more independent organization. I think you know that one of the key drivers for the restructuring was to put Admin Re on a footing where it could attract external capital.

And it's not an attractive way to finance that business in future. And as a result, they've been investing, they've been expanding money to establish a platform set for that purpose and that's part of what you see in Q2.

Second thing you start to see, you can see more of this in the second half actually is on deal costs. I guess it's been quite a while since we got a significant Admin Re transaction and back in the old days, which was not long ago, you'd typically capitalize the immediate cost of it as part of the deal. Now, that's no longer done. So in fact there's an element of this that it's definitely going to continue into the second half and most of the transition and migration work related to the deal we had with Alico will take place in Q3 and Q4. So the immediate impact from that deal this year will be negative to income before it turns positive next year.

So you will see some continuation of this, but it's principally driven by - there's a need to have Admin Re more standalone. I would expect that when we are done, you'll see an entirely different expense picture from Admin Re, one that's more consistent with I think what we were more familiar with several years ago.

On 23, so what we are seeing here is different from the expected claim by them - which is one that you referred to because the $951 billion, I think as most people know, at the beginning of the year, we typically give some indication of what the anticipated natural catastrophe claims burden would be all things being equal and you're absolutely right it is around that level.

Slide 23 is different, because what slide 23 is trying to do is to show you what - with the same confidence level in this case it's an 80% VaR, what may you see once in five years on average. And what we're trying to illustrate here is that the volatility that we are currently seeing is not that unusual.

And in fact because of the nat cat risk that we take even with that $951 billion level of expected loss, if the statistics are perfect, you will get something that exceeds what you see on 23 on average once every five years. And of course these claims don't prolong in nice even chunks, but that's a - it is a way for us to try and illustrate what normal commerce volatility might look like.

Michael Huttner
JPMorgan Securities Ltd.

Could you just maybe say where we are this year relative to that chart?

George Quinn
Group Chief Financial Officer

Sorry, say that again Michael?

Michael Huttner
JPMorgan Securities Ltd.

Where are we this year relative to the slide?

George Quinn
Group Chief Financial Officer

Where are we this year relative to the slide, so we've had - we had 2.325 in the first quarter and we've had two tornado losses in the second, so we're somewhere around the $2.4 billion, so we are outside of that 80% confidence level currently.

Michael Huttner
JPMorgan Securities Ltd.

Excellent. Thank you so much.

Operator

Your next question is from Broadfield Andy with Barclays Capital. Please go ahead.

Andy Broadfield
Barclays Capital Securities Ltd.

Hi, there, Andy Broadfield. Two questions, please. Just on the liability side, I am just trying to get a bit more of a sense of what the underlying number should be for those liability lines. They've been running, I think from memory, in the sort of 100, 110, 115, I think on the casualty, from memory, correct me, and over a period of time, I don't think there's been lot of reserve movements around. So I just wanted to understand a little bit about what that underlying is and how we should think about that?

And the second question is on the growth side of things, I'm trying to perhaps artificially capture whether that growth is partly a consequence of Swiss Re sort of, for lack of a better phrase, finding its mojo again, and I think its balance sheet is back in some sort of conspicuous health, et cetera, and just sort of rediscovering your natural place, if you like, and how much of its genuinely just a sort of new push into new worlds and new clients?

George Quinn
Group Chief Financial Officer

I'm just trying to explain to Stefan what mojo means.

Andy Broadfield
Barclays Capital Securities Ltd.

Do you need some more time?

George Quinn
Group Chief Financial Officer

No, no, we're good, we're very good. And so on the casualty side, I think given the current mix that we've got and interest rates really in current level is around 105% market is probably where you'd roughly expect it to be. It will be a bit volatile quarter-to-quarter.

On the second issue, so I think I'll let Stefan answer that. You really asking, Andy, how much is it that we've got past our problems two years ago and we now have a balance sheet that clients can see is strong and it makes them more willing to do business with us. I think that's what you are really asking, isn't it?

Andy Broadfield
Barclays Capital Securities Ltd.

Yeah, much better, yes.

Stefan Lippe

Yeah. I have a very simple answer to that, Andy. If simply we apply the same methodology concerning our cycle management, how we adjust the business, but now due to the events the market has turned and we kept our powder dry and now we are in the harvest phase. So it's no change in methodology, it's just the same and we, as you might recall, we even had excess capital of $6 billion or $7 billion in the middle of '09, so quite a while ago. So there was no concern from the clients on that side, but now we go for the business we like and we get it.

George Quinn
Group Chief Financial Officer

Just one comment for the operator. For some reason, she managed to get all the names reversed and I see the next person in the queue as Fabrizio Croce, he is supposed to be Croce Fabrizio.

Andy Broadfield
Barclays Capital Securities Ltd.

Okay. So just to clarify so really you don't understand or talked about your franchise value at all. It's genuinely about you think about your underwriting cycle management.

George Quinn
Group Chief Financial Officer

Yeah, I think absolutely. I think the, we obviously, I think we are in a good position at the right time. As Stefan said, we got very strong capital base, we've been relatively unaffected by the major events and we are in a position to support our clients provided the prices are there.

Stefan Lippe

And yeah, I think if I may add, you can also a little bit talk about the competitive environment. First of all, some competitors you could read in the public domain had so huge losses that they said they had this drawn. For the first time, we saw in the April renewal in Japan that some people left the playing field and clients are very happy, we stepped in for very reasonable price and the same happened in the July renewal. So, this is one reason some are leaving the playing ground. They have used all their nat cat capacity already and some of those guys rely on retro capacity, which is not extremely expensive.

And other phenomenon is these, what I mentioned, capital lease type of contracts. To do these deals, you have to have the capacity of some $100 million top line you can easily take and now not so many markets around to do so. There's not even a handful of markets who are on these deals. And this is why there is a situation where clients have huge demand and supply at the moment is shrinking. I can tell you, for the next renewal season you read - you'll see that even more capacity will disappear, because of this we're learning from the pause from insures and reinsures. Some obviously are surprised by the claims.

They, let's say, estimated much lower than they are today first in Japan and also in the Australia renewal some guys are surprised by higher claims. And this will be brought in front of the clients and the renewals, we will see in January, in April and in July next year. So from this perspective I'm extremely optimistic that on the price side and there will be quite some movements because some guys might reduce their capacity or have to drastically increase their prices.

Andy Broadfield
Barclays Capital Securities Ltd.

Okay. Thank you.

Operator

The next question is from Fabrizio Croce of Kepler.

Fabrizio Croce
Kepler Capital Markets SA

Good afternoon. And I have actually only two questions, one for George and one for Stefan. I'll start with the one which is, understanding questions about rate. It's on page 15 and here you give out the two, the three different renewals around and the total figure in terms of growth. But the question is, if you could deliver us as well the detail about how the prices moved during the three renewals, and as well if you could do it for the total so far.

The second question is, if I added up properly, you have some two-thirds of your fixed income portfolio, which is currently exposed to U.S. and UK. I know that you have also business in those country and so you have to have exposure to that country, but are you not worried in these days a little bit about this huge exposure to these two geographies. And how are you - are you doing at all something in terms of hedging or are you only doing that through ALM?

George Quinn
Group Chief Financial Officer

So I think what we'll do is actually Stefan is going to take the first one and I'll take the second one.

Stefan Lippe

Yeah. So, the first one was about page 15. So, if you recall in January renewals and market overall rates went down in rate adequacy and also in our portfolio it was a slight shift downwards. April renewal was like that that prices went really up mainly driven by the earthquake in Japan and it depends on the risk management of different market participants, because we put relatively high burden on the fact that after earthquake there's a higher chance of aftershock event. We haven't seen it yet, but this is why we said, even if price went absolutely up, we think the rate adequacy was slightly diminishing minimum on the nat cat.

So then in April where in this area, let's say, from our starting pattern still very reasonable, but with this slight tendency downwards and July is a clear tendency upwards. As I mentioned, the rate adequacy in July went up five percentage points. Overall, the biggest part is coming from the non-proportional and a tinier part is coming from the proportional.

At least if I now sum up all the three renewals and differentiate between non-proportional and proportional, it's more or less the same because the non-proportional rate adequacy if I add up all the three renewals, it was 1% up and the proportional over the same period was roughly 1% down. So, it's more or less a wash. So, you see the turn of the market at overall and you can compare with our good combined ratio we used to show, it's the same type of economic. And now we're using more of our excess capital which was idle at the moment for doing this business. So if you take into account, the economics overall are much better than before.

George Quinn
Group Chief Financial Officer

On the second issue, for this year, you are absolutely right, so we have, a very substantial part of our businesses either U.S. or UK. And it's our customary practice to, we said replicating portfolio equal to duration match and government instrument in the same currency. So we have a large proportion of the book investment in U.S. treasury or UK gilts.

I think the challenge here is that there's no better place to put your money unfortunately. I guess, the view everyone has is sovereign credit and the risk involvement has changed over the last couple of years. At least in both of these countries, I think there are a number of different tools that the treasury or the exchequer can use to manage the risk. And in fact I think if we were to look to put the money somewhere else, we'd actually trade significantly more risk for the firm overall.

The one place that we have remained reasonably cautious is in the out of the U.S. or the UK bank exposure that we have in the corporate bonds. And in fact that's one of the few places where we've actually maintained significant hedging. You remember that maybe about a year, 18 months ago we had a very large hedging program on the corporate bond portfolio. And the only significant part that we maintained is mainly directed at UK and U.S. banks that are in the corporate bonds.

Fabrizio Croce
Kepler Capital Markets SA

Okay. Thank you.

Operator

The next question is from Michael Klien of Nomura.

Michael Klien
Nomura International Plc

Yes, hello. I have two short questions if I may. Firstly, I remember at the beginning of the year you were talking about your expectation that is going to create a lot of opportunities.

And could you maybe give us an update where we stand here? Do you have more visibility whether this is going to come through maybe already for the January renewals? And the second question is going back to the reserve releases, thinking about what you said about the liability side and that you have seen lower claims incidents coming through, should we think about this as sort of a kind of one-off event, which resulted in reserve releases, or do you think there might be a trend emerging which therefore might mean that there should be more reserve releases coming through?

Stefan Lippe

Okay. I'll start with the first and give a half answer to the second. So we got opportunities? Yes is the clear answer and now some details. We had three examples of the three we published where we, let's say, had closed deals out of our deal pipeline, one Admin Re deal, it was the first after some 24 months or something like that.

And then we have what I've said quite some P&C run off deals and two were in the public domain where clients would like to get rid of old type of business and there we can do casualty business with it and underwrite it with the advantage of hindsight because it is old business, we can look at it so the surprises should be known. And this were large deals we have done, also smaller ones.

On the other hand, you can say that the capital lease, we did quite some capital lease in China, is just the same thing that will happen in Europe. It solves the - two will come to the, let's say, the final measures. At the end of the day there's nothing different, so you can say we just had to test run how to deal with capital lease type of situations and this time we started in an emerging market not in the mature market we should follow. These are just good data points of all.

You might recall last two quarters there was a nice split where we put opportunities, there was the cyclical turn this has started and as I said in the presentation there will be - so I expect in January, April and July due to the known facts there will be still from the known nat cat losses further pressure on prices up. And of course as the yield is now further down, I think this put enormous pressure on used casualty business to get now more reasonable, because as you know one point more yield down is roughly worse. You need three points combined ratio less and we are saving here still five, about combined ratio in the U.S. where nobody makes any penny.

Okay. Half answer to those words. And again this is - now George was a little bit more than I might be now. There is a certain hedge in this artificially low yield on the side of runoff of long latent claims, because actuaries when they put out their guesstimates for the next 10, 20 years what kind of claims we might face and how the reserves will develop, first of all they take the past and look at the frequency. And as George said what we observe these days is frequency, we observe in the late '90s in the very early 2000s. We don't see them at the moment. This means we have to replace every quarter in our books the long term estimate with what really is happening.

On the other side, as far as the amount is concerned, these claims over this time are calculated with inflation and superimposed inflation because most of these claims are bodily injury claims, which are, let's say, have to be treated this fashion. It's now already three years in a row, the yield is artificially low, this means it dampens inflation factor in these claims. And this triggers to some extent a systematic type of run off profits in our portfolios. But again you cannot take it for granted. It can be that the frequency goes up and be artificially up and then this reduction in amount might be compensated by increase in frequency, but at the moment we're seeing both, reduction on the so called inflation side and the reduction on the forecasted frequency side.

George Quinn
Group Chief Financial Officer

The one thing I would add Michael is that obviously we project our results in term even though we have a volatile business and for the second half of the year I kind of have an estimate of zero for future reserve releases, so I think as Stefan said it's a very, very difficult thing to estimate and I'd be very cautious about assuming that we're seeing trends on that for the time being.

Michael Klien
Nomura International Plc

Okay. Thank you.

Operator

The next question is from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley & Co. International Plc

Hi, it's Maciej from Morgan Stanley. I have two questions of course. The first question I have is just drilling down into the price adequacy that you're seeing in the renewals. At the start of the year I believe you increased your, if you like, your target combined ratio from 93% to 94% and you grew your premiums by I think 14% in January if I remember correctly. Correct me if I'm wrong.

Now you're seeing prices rise by 5.7% in July. I'm just wondering what figure should we take as your, if you like, your target combined ratio? What adequacy are you achieving on an underlying combined ratio basis? I mean is it going to be 93% next year, 94%? What is it you're currently seeing? What should we be thinking about that?

And the second question is you mentioned that you had solvency relief quarter shared treaty deals coming out of China. I just wonder, first of all, I mean just could you explain a little bit because first of all is that a large chunk of the 20% growth that you've seen? And if so how sticky is that business? Is it possible that these companies will grow their own capital and then reverse that, or do you think that's something that is a business structural growth story coming out of China?

Stefan Lippe

Okay, first the combined ratio. We correct from 93% to 94% as a result of the reduction in rate adequacy in January in our portfolio. This was driven by based on January renewal only. You and I are now smarter because we have seen the July renewal, you can say that July renewal has reversed at the end of the day the - let's say the reduction by one percentage point because now it's more or less flat compared as to what it was before.

So if I would have known at the time, I would have said 93%, not 94%, so as a forecast. And something we also have to take into account, our estimates always assume the normal burn of nat cat. And you can track in the past when there was no big event, the outcome is usually better but this is because we have the normal fraction of the big event in each and every quarter and each and every forecast. But again, with the - in hindsight, I would say it should have been 93% after I finalize the July renewal.

And the other question, in China, what were the main drivers, first of all, the Chinese companies were growing, but most important thing was there was an intervention or strong wish, but this is from regulator that they have to put real capital behind their business. So it was both, it was a change in requirement of capital structure and the other was growth, because some of these companies are growing annually by 30%.

Maciej Wasilewicz
Morgan Stanley & Co. International Plc

And do you have insight as to how sticky that business is, whether it was a one-off we need a lot of capital right now kind of deal, or whether it was more of a from now on with Swiss Re as a partner we're going to use them into the future type deal?

Stefan Lippe

So, first of all, usually these deals are on one-year basis, so it means as every deal can be canceled the next year, but we have to face the fact, if somebody is needing now capital relief and usually the reinsurance format is a little bit more effective than going to the capital markets, because otherwise they would take this route, so they get, so it means and it is common they are still growing by 30%, there is high motivation to keep these type of countries of course if you find it cheaper somewhere else, it is as risk.

And you might recall in 2010, in January, we on our side reduced by $300 million these type of business, because they have taken more drought, which is a good business and have just left the property, which is the second best business, so to speak.

George Quinn
Group Chief Financial Officer

And I think also, Maciej, it's, I think it's hard to predict this from one quarter and actually even one year to the next, but I think if we look at the longer-term trend in China, it's absolutely crystal clear what the trend is for growth. And I think from an economic perspective there is a commonly held view that China will become one of the largest, if not the largest, economies over the next several years. And China, today is already just about the third largest insurance market.

Stefan Lippe

So for us it's the number three insurance market after U.S. and UK, and our economists are predicting that in 10 years, China is the second largest insurance market in the world. So as a reinsurer we then rather should have this country also as your second or third type of country you aim to be properly diversified.

Maciej Wasilewicz
Morgan Stanley & Co. International Plc

That's very clear. Thank you.

Operator

The next question is from Brian Shea from Merrill Lynch.

Brian Shea
Merrill Lynch International Ltd.

Good afternoon. I had two questions please. First, they both relate to investment income. George, on the - you were very helpful in talking about where new money is going and a bit of which it's rolling off. I guess just to keep things simple, if we assume that interest rates and credit spreads stay where they are today, well, what does the averaging down effect mean for your fixed income running yield? Is it as simple as the 4% in Q1, heads down towards that 3% new money rate or the more complicated mechanics going on here?

And then, secondly, to combat that averaging down effect is there any ability to re-risk? When I look at slide 44, I think, yeah, slide 44 it looks like where you are versus your target asset allocation is you're pretty well matched up. If anything the risk profile maybe needs to come down a little bit by increasing cash, but I just wonder if in fact I've got that wrong and there is some room to re-risk? Thank you.

George Quinn
Group Chief Financial Officer

Yes, I think on the first one, Brian, I think it's probably as simple as you stated, so if interest rates stay where they are and we invest new money, you get to that level and there's no way to avoid that.

However, I think, just going to the second one, if interest rates do either fall or stay where they are there has to have an impact on prices in the market. There has to be some form of additional returns so that the sum can generate the right economics. We are pretty disciplined on how we approach the pricing and the discount rate that we apply. In Europe, we apply a blend of the AAA sovereigns, so if we write business in Italy, we apply that rate and not the Italian government bond rate, but certainly if interest rates stay low or get lower, we would certainly expect the market to respond in the underwriting side and extract more value there to make sure that we get an adequate return for shareholders.

Brian Shea
Merrill Lynch International Ltd.

The re-risking?

George Quinn
Group Chief Financial Officer

Oh, sorry, re-risking, yes. I completely forgot it. So, I think, if we see this, I think it's hard for me to see how we compensate this on re-risking. I think, if we look at it today, other than the guidance we given already around things we've largely done which were expansion of corporate credit and we broadened corporate credit a bit to include, for example, some covered bonds, some fund brief. And we may also do some of the new securitized product if we see that emerge in the right form, but we'll stay within the limits that we've given.

On the equity side, I think we're quite happy with the relatively limited equity allocation that we currently have in the current market conditions. But, today I don't see us pushing the asset risk in the current market to try and compensate a lower yield. If we have to take a lower yield, and we will look to try and recover it on underwriting.

Brian Shea
Merrill Lynch International Ltd.

Okay. Thank you very much.

Operator

The next question is from Jens Luckmann from Redburn.

Jens Luckmann
Redburn Partners LLP

Hello. Thank you. I just had two questions on your solvency relief and also the growth target for the year of 20%. How big was that, would that be if you strip out all solvency relief deals? And also what is the capital intensity of that business in terms of required capital in percent of premiums? Thank you.

Stefan Lippe

To the first question, I don't have any details now, spilt in what type of contract provided to the 20% but this major part was capital relief. As I said, we grew our business in Japan, in Australia, and Vietnam. So there are other areas only when I talk about Asian areas. And as far as capital intensity is concerned, you are right with your question. So the capital intensity is lower than the average because it's proportional business which usually has a capital intensity when measured against the top line and depending how the structures is it might even be lower than normal proportional business so to speak.

But you can apply the normal proportional type of capital intensity. This might be one-third or something like that whereas overall of our mixed portfolio it will be rather 50% to 60% with a mix of one-third at non-proportional and two-thirds proportional roughly.

Jens Luckmann
Redburn Partners LLP

All right. Thanks.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette & Woods Ltd.

Hi. Thank you very much. First of all, I'm interested in your corporate solutions emerging division. Within the 20% growth rate year-to-date, what was the growth rate that corporate solutions would have experienced? And should we be expecting any similar restructuring expenses? I don't know if they're already being booked and just hidden in the reinsurance group, or if they could come out in 2012, restructuring expenses all like what we've seen in Admin Re?

And then, secondly, I'm sorry it's even shocking I have to ask this given your experience, but can I confirm that when you've us your exposure to peripheral Eurozone sovereign debt there's not any synthetic exposure and that's hidden from these numbers via CDS underwriting of these markets? Thank you.

Stefan Lippe

I will start with the corporate solution. By chance I know that figure because it's the same corporate solution on the premium growth was in the second quarter, the same as the total P&C because corporate solution is only P&C, so it's sitting in P&C. And I checked whether they had a specific impact and no they were fully in line with the other.

George Quinn
Group Chief Financial Officer

And the second part was expenses, well, you're actually right, the corporate solutions are spending some money but it's been fully absorbed than the P&C.

Stefan Lippe

In the combined ratio.

George Quinn
Group Chief Financial Officer

In the combined ratio result you see today, so there is a slight negative impact from corporate solutions that you don't really pick up because it's not as visible as Admin Re. And on the last piece, have we written any synthetic structures that give us exposure to peripherals? No, I am not aware of any.

William Hawkins
Keefe, Bruyette & Woods Ltd.

That's reassuring. Thank you.

Operator

The next question is from Thomas Fossard from HSBC.

Thomas Fossard
HSBC Securities SA

Yes. Good afternoon, just one remaining question on my side. Just on the Life Re side, George, could you quantify the quantum of expenses to run we should expect Q3, Q4 this year just to make life simply a bit more simple for us in terms of forecast for '11? Thanks.

George Quinn
Group Chief Financial Officer

So, compared to what we're seeing today, the restructuring element will fall but the transition and migration piece will actually get large on the second half. So, I'd expect it to be similar, may be slightly lower level in Admin Re for Q3 and Q4. It depends a bit on the FX but roughly that type of level.

Thomas Fossard
HSBC Securities SA

And regarding the deal related expenses for the (inaudible) transaction?

George Quinn
Group Chief Financial Officer

Yeah, that was included in my comment.

Thomas Fossard
HSBC Securities SA

(Inaudible)

George Quinn

Group Chief Financial Officer

With that that additional factor in the second half, somewhere around the same level, maybe slightly lower.

Take the next question please.

Operator

Excuse me, sorry. The next question is from Andrew Ritchie from Autonomous.

Andrew Ritchie
Autonomous Research LLP

Oh, hi there, just two questions. Can you just give us a bit of qualitative comment on your confidence on the 1Q large loss nat cat loss estimates? I mean, there's been a small deterioration in New Zealand, I think about 10%, which is a lot less than most of your peers. Is there anything you can tell us that's different about your exposure in that country, as far as you know, versus the industry in general, or just give us some qualitative comments as to your confidence level in those loss estimates now versus at the end of Q1.

Second question, just on the Swiss franc, just to clarify, obviously I understand you're economically matched. It's kind of irrelevant. The two aspects that I'm curious about, could you clarify and confirm the ADC cover provided by Berkshire Hathaway that is denominated in Swiss francs I think. Could you just confirm that that is the case? And if that is so would that create any change in the recognition of when you recognize a positive prior year.

And finally on the Swiss franc, at what point would the strength of the Swiss franc start to govern your dividend considerations?

Stefan Lippe

Okay this was roughly four question, so...

Andrew Ritchie
Autonomous Research LLP

Sorry.

Stefan Lippe

...I take the first one and you take the other two, George. So the confidence with the claims, first of all, if we take the fourth quarter 2010 and the first quarter 2011 with all the - the two Christchurch earthquake or the floods and storms including Japan of this total complex is roughly then you're talking about roughly $2.5 billion original estimates we made.

The net deviation before foreign exchange is $20 million. You see we had quite some addition on the second Christchurch earthquake and we had $20 million on the Japanese earthquake, but we had a reduction in all the floods and the storms so the net was $20 million and you have then to add $30 million for impact from foreign exchange. So this is below 1% in original currency deviation. That's why I think there is no big movement.

And you can look in the past. Take just Chile earthquake, we were very early out with the high figure. We had to add 26%, others had far more than 100% in the process. This time it seems to be that it's repeated now but there might be different process how to approach this. So I cannot comment the others. But the others are going up, of course, this always alerts us. We look on the figures, but we found no reason to change our estimates.

George Quinn
Group Chief Financial Officer

On the Swiss franc, so the - on the ADC, I guess the one key thing you need to be aware of is that we actually have fixed exchange rates for the major components of the loss reserves even though you've seen Swiss franc become stronger which would in theory imply some larger limit because we've agreed fixed exchange rates going in to avoid some horrific derivatives, foreign exchange issues, the limit is relatively stable, even if we see these significant exchange rate swings.

On the topic of dividend, I think we have to have a lower, a stronger Swiss franc than we have now for a lot longer, I mean, I don't mean months, I mean years before we're really going to suffer a significant challenge in the dividend. I think you can never say never but today I just - I can't contemplate that given the level at which we set the dividend last year and given our dividend plans for future years, that this exchange rate issue would become a major pressure on the dividends. I think it'll be more of a traditional issue that for us we've got - we got a good starting point. The companies are all capitalized. It's too early in the year to talk about dividends for this year, but I don't see the Swiss franc strength being a major source of concern at the end of the year.

Andrew Ritchie
Autonomous Research LLP

Okay, thanks.

Operator

The next question is from Marcus Rivaldi from Morgan Stanley

Marcus Rivaldi
Morgan Stanley & Co. International Plc

Good afternoon, everybody. George, can I just ask a quick question to clarify one thing on a comment earlier. You talked about maybe looking to upgrade your existing hybrids. When you look at what's out there there's no call dates on those until sort of the middle of this current decade and beyond, and so just wondering what your - how you would go about looking to upgrade those hybrids.

Secondly, just obviously looking at your peak exposures, particularly interested in your North Atlantic hurricane 1 and 200, how that's shifted year-on-year, if you could maybe talk a little bit about that, and also how you are looking to manage basis risk I guess around with ILS. That I think looks to have forms a much greater part of your protection around that.

And then just, finally, just in regards and mainly just is around the U.S. economy, what's your thoughts on your securitized product exposure on the investment side to that market? Thank you.

George Quinn
Group Chief Financial Officer

So the first one, so the comment I made earlier was around the partial refinancing of hybrid material over the next few years, so the - again the key theme here will be a reduction in leverage as part of the Group's financial modeling for the next year, next several years, in fact it's baked into the target that we announced last year.

I think what we really like to try and do here is increase the, I guess, the capital component, hybrids obviously a partial recognition but we think that the market over time will develop appetite for additional features that will improve the equity credit potentially that some of these structures get. I can't really say more on that to-date nor imminent but it's something we are exploring, and we'd like to do in due course.

The second issue -

Marcus Rivaldi
Morgan Stanley & Co. International Plc

So before you just put on, I mean just looking at some of your hybrids there the core life starts from sort of 2016. Would you look to try and accelerate that process then, and is that what you're thinking about doing?

George Quinn
Group Chief Financial Officer

It's possible, we've got some that are coming up straightaway, but you are right, there is a big gap in between. So, it depends on market opportunity and we'll what comes up. If we think it fits and it makes sense on the capital structure given the financial target that the firm has that we may, but I can't make any commitment or...

Marcus Rivaldi
Morgan Stanley & Co. International Plc

Okay.

George Quinn
Group Chief Financial Officer

...any real comments about 2016 (inaudible). The second question in my mind which is around - I think in North Atlantic hurricane (inaudible).

Marcus Rivaldi
Morgan Stanley & Co. International Plc

Not linking peripheral Europe to hurricanes, no. It was more a question just looking at the net exposures that you're running there, not how the North Atlantic 1 in 200 loss scenario sort of (inaudible) this year, and within that you seem to have a greater reliance on your hedging around ILS. So a quick one please on what - on the increase, and the net exposure, and gross exposure at the 1 in 200 level, and how you're managing or comfortable with the basis system that might be apparent in the ILS.

George Quinn
Group Chief Financial Officer

I think earlier in the year Q1 call, and I think you also saw already at January which is a fairly significant U.S. renewal component, we have deployed more capital this year, it's absolutely clear and that's picked up in the extreme end of the return period you see it for the (inaudible) page 24 in the presentation. We did have significant hedging. Again that's - it's not new and it's not unique. We do have basis risk, we are a big users of ILS and in fact if you look at the...

Stefan Lippe

25.

George Quinn
Group Chief Financial Officer

(inaudible) you get a summary of the types of cover that we use. Of course the core share is in there, but beyond that we actually like ILS type securities because of the absence of credit risk. We are familiar with managing the basis risk. We actually charge capital for the basis risk that exist in these structures and we've been doing this for a considerable period. But there is risk that causes the loss falls in the wrong places that wouldn't be as effective as we have assumed in the models, but we try and do this with no bias. And we've had some experience, but I guess it's yet to be really tested and (inaudible). I don't know if you want to add anything to that, Stefan.

Stefan Lippe

No, sir, as you said everything.

George Quinn
Group Chief Financial Officer

Last question was securitized product. I think your particular focus was U.S. securitized product that we still have on the balance sheet.

Marcus Rivaldi
Morgan Stanley & Co. International Plc

Yes.

George Quinn
Group Chief Financial Officer

Now, what to say about this stuff, I guess it's a long time since we - well, not a long time, but (inaudible) since we had a question on this one, we were very active in Q1 on sales. We took advantage of what we saw as an opportunity for relatively narrow rally in the market. I think it seemed pretty clear to us that there were some risk, not around the sovereign credit issues that we've seen but just looking at the pipeline of some of the stuff that we knew was coming to market.

Now we pushed a lot of stuff out in January at very good prices. We took some gains on that in Q1. I think from the quantum of the portfolio now, it's not a huge source of concern. Obviously, if we do see a double dip we'll see from this portfolio, but it's nowhere near the size that it was even a year ago. And given the cap position of the firm, we can easily manage (inaudible). It's still very short duration. This is not really a major source of concern for us today to be implemented.

Marcus Rivaldi
Morgan Stanley & Co. International Plc

Okay. Thank you.

Operator

The last question is from Mr. Stefan Schuermann from Bank Vontobel.

Stefan Schuermann
Bank Vontobel

Yes. Good afternoon. I have two questions as well. On the Admin Re pipeline, maybe I might have missed that there may be just could you update us on the pipeline and if we should expect more modules to come over the next few quarters? And then the second question is on the Swiss Solvency Test basically just a general update here as well in two regards, first of all. I mean, now are we any closer to an approval of your internal model with the regulator, and also maybe do you plan to publish any ratio in the near future?

Stefan Lippe

Let me take the first one, of course we have a pipeline and as you know mainly Admin Re plays in the regions Europe and then mainly UK and U.S. and of course clients are in talks with us. You just saw a deal, but of course we don't give a forecast what happens in the next quarters there, but there are talks and many people, as I said, in the general discussion about cat relief. In Europe, people are looking for what the final measures for solvency (inaudible) will be especially on the life side and this might then even figure additional type of talks in this area. But there are permanently talks on issues and there is more offer than we will accept because not every deal is to our liking.

George Quinn
Group Chief Financial Officer

Okay. On the second one, Stefan, the SST issue, I think that no real change here, so no way any company actually having the final approval, but I think as we said on a couple of prior calls (inaudible) obviously indicated, we should get on with it. Obviously, SST is in effect from the beginning of this year, and we're using the model that we have discussed. So we've made a lot of progress what we think on most of the key issues, but we don't have that final approval yet and that's entirely the (inaudible).

Stefan Schuermann
Bank Vontobel

Yes (inaudible).

George Quinn
Group Chief Financial Officer

On publishing the ratio, I think we will publish it in due course. I think one of the things we're looking for is exactly what public disclosure will be required of SST eventually because I guess that at some form of report that would have to be made public at some stage. I can't make a commitment today, but it's a topic we're looking at. We know that other companies that apply SST are publishing, and we will do this in due course, but I can't say a date today.

Stefan Schuermann
Bank Vontobel

Okay. Thank you very much.

George Quinn
Group Chief Financial Officer

All right, great. Well, thank you very much everybody. I'm aware there is quite a few further questions on the queue. We are running out of time. Hence we have to end the call here. Please feel free to give the Investor Relations team a call, and we'll answer all the questions that are still outstanding. There is two very quick announcements I would like to make.

The first is there will be an Investors Day on the 17 April, next year, that's a Tuesday, and it will be in London, and we will have all the details that you need and want to know about the new corporate structure, how this will work both in financial terms and also in strategic terms, the entire management team will be there to guide you through the day and answer your questions and talk to you.

And secondly, a quick one on the procedure for this call in Q3 just as a pre-announcement what we're going to do is the presentation part of this call, we're going to pre-record that and it will be online at 7:00 AM in the morning. This is following feedback that we received from you. We will give you more flexibility to listen to the presentation part in a slide synchronized manner or in pure audio, when you have time and then in the afternoon there will be a live call of course and it will be only Q&A. That's why it will be short and hopefully it will be an improved way of doing this for everyone.

Okay. With that I'd like to thank everybody for listening and we'd like to close the call. Have a good day.

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