S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

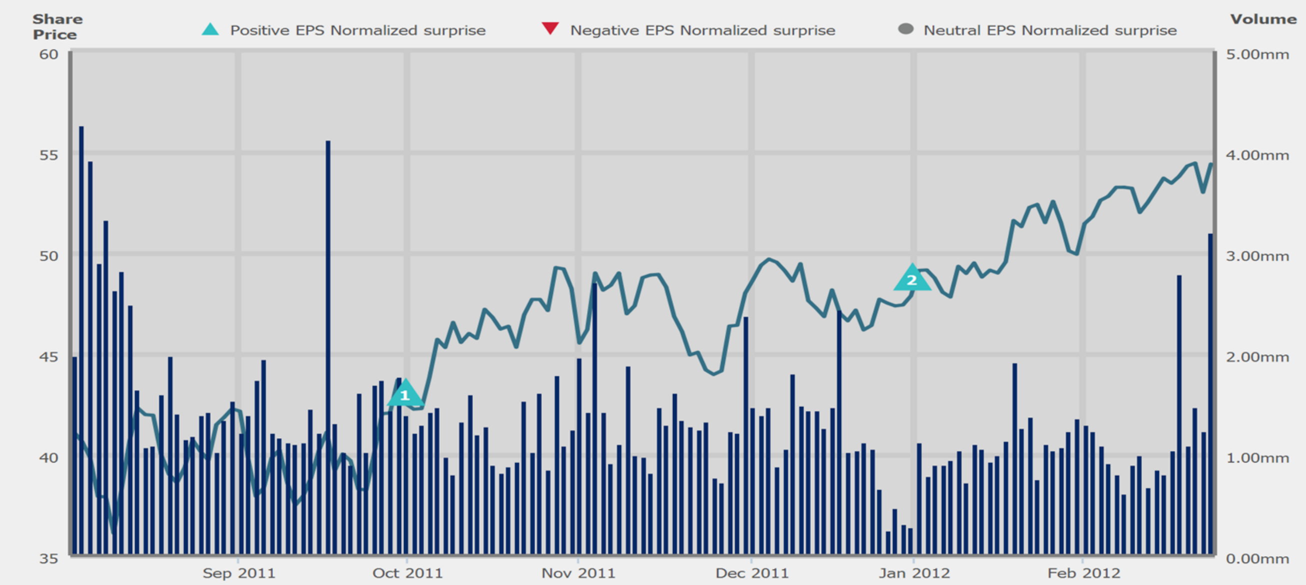
FQ2 2012 Earnings Call Transcripts

Thursday, August 09, 2012 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-	-FQ2 2012-		-FY 2012-	-FY 2013-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	1.94	0.02	-	6.30	7.48
Revenue (mm)	6554.64	6184.20	-	29315.35	31796.05

Currency: USD
Consensus as of Aug-09-2012 12:21 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	-	-	-
FQ2 2011	1.50	-	-
FQ3 2011	2.27	3.93	1 73.13 %
FQ4 2011	1.64	2.76	2 68.29 %

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EXECUTIVES

Eric Schuh
Former Head of Investor Relations

George Quinn
Group Chief Financial Officer

Jean-Jacques Henchoz
CEO of Reinsurance - EMEA & Regional President of EMEA

Michel M. Liès
Former Group Chief Executive Officer

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Frank Kopfinger
CA Cheuvreux, Research Division

Jason Kalamboussis
Societe Generale Cross Asset Research

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Michael Klien
Nomura Securities Co. Ltd., Research Division

Spencer Horgan
Deutsche Bank AG, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Fossard
HSBC, Research Division

Thomas Seidl

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

[Operator Instructions]

Good morning or good afternoon. Welcome to the Swiss Re's Second Quarter 2012 Results Conference Call. Please note that today's conference is been recorded.

At this time, I would like to turn the conference over to Michel Liès, Group CEO. Please go ahead.

Michel M. Liès
Former Group Chief Executive Officer

Thank you. Thank you very much. Good afternoon or good morning everybody, and also, from the Swiss Re side welcome to our second quarter 2012 results conference call. I'm joining our Group CFO George Quinn for the presentation and the Q&A session. You have watched the video already. Well, I assume you have. And before we're going to jump straight into the Q&A session, I'll hand over to George for some very brief opening remarks of the financial results. George?

George Quinn
Group Chief Financial Officer

Well, thanks Michel. All right good morning or good afternoon to everyone on the phone. Just before we start the Q&A, I would like to take this opportunity to summarize again the key messages on the Q2 results for you. So, we have - we're driven by a strong P&C result. And we're reporting a good underlying ROE if you exclude the impact of the U.S. Admin Resale of 14.5%. In reinsurance, we've had successful year-to-date renewals with volumes up by 24% at higher prices. But as you also know as a result of the sale of the U.S. operations of Admin Re, we've increased the gross cash generation target by $650 million.

Second quarter of 2012 has also seen a very good investment performance of 4.5%, albeit one that's significantly driven by realized gains. And we have a fixed income running yield on a year-to-date basis that was stable at 3.5%.

Also during the quarter, we've redeployed $1.2 million of capital from life and health reinsurance to the Group. As you heard already from Michel and his piece of the video presentation, we're going to seize the opportunities that present themselves going forward. And I will reiterate again the importance of the financial targets to us, and as we go along that process, as the operating key measure like the only measure of success.

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

Eric Schuh
Former Head of Investor Relations
Thank you very much George. So, we would like to turn to the Q&A. And as usual, could people please restrict themselves to two questions each. So, operator could we please take the first question.

Question and Answer

Operator

The first question is from Jason Kalamboussis, Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

Just to start with couple of questions. The one is - first one, corporate solutions you indicate that on the basics on the Slide 10, you give a 78.3% the combined ratio if you do the various adjustments between corporate solutions and P&C Reinsurance. Could you give us the same figure if you do the same adjustments on P&C Reinsurance, please? And the second one is on the life reinsurance side. I want to understand on the - clearly what we saw today the $1.2 billion, it seems to be different from the $1 billion you referred to you on Slide 19 at your Investor Day that is going to be redeployed and which you think could be available by the end of 2013. So, could you talk a bit about how you're going to do that further one reduce that front loan that one further billion from life reinsurance. And as a quick one if you can just comment on the - we had again minus 58 on pre-2004 businesses, is it how can we should look at that developing over the next quarters?

George Quinn
Group Chief Financial Officer

Okay, so Jason on the first one corporate solution I haven't done the calculation, but it will be completely but let's say so, if you take the delta on corporate solutions multiply it by the premium that will be impact you do say of P&C Re, because there is no other place for it to go, it's a switch between those 2 businesses. There is no other thing involved, I haven't done the calculation.

Life Reinsurance I'd say you're completely right that the dividend that you've seen in the second quarter $1.5 billion of total from reinsurance, $1.2 billion from the life and health piece. That's not the target that we set at the Investor Day for improving the capital efficiency. So, we've seen capital rise fairly rapidly in the reinsurance business and we took action to take out some of the excess in the second quarter. I think you can see the results of that. But the work that we've started, excuse me, on the life side is ongoing and if I think that if I won't see the first benefits of that until early next year so, what we're really focused on there is we're looking at the most capital intensive parts of the life and health reinsurance group and we're looking to see if there are ways that we can either transfer the risk to jurisdiction that would be less capital intensive. We're looking whether those alternative structures for example involving securitization and other ways that would unlock some of the very high level of capital that's currently tied up in life and health reinsurance since one of the reasons why you those lower ROE. So, that's what we're working on.

On the pre-2004 U.S. business when we had the Q1 discussion I mentioned there that we expected to see that impact continue through this year. I think it's relatively hard to predict the number precisely quarter-to-quarter they can bump around a bit. But it's going to be negative and in contrast the other things we've highlighted like mortality or model variation where I think we'll see it move within the historical ranges I expect to see the pre-2004 business impact firmly in the negative end of the range.

When we get to the end of this year we'll get some relief I expect by next year and that will also, will also hopefully benefit from the work that we're currently doing to test ways in which we can change some of the way that the premium changes the anniversary point for these contracts to see if we can get a better balance between the characteristics, the people who maintain the policies versus those that lapse. We think there is a tipping point where we can actually maintain a more attractive cash profile on this business but we're working on it. But for the remainder of this year, I expect to see more of what we've had this year. Next year should be different and on top of that we're working hard to make sure it's different.

Jason Kalamboussis
Societe Generale Cross Asset Research

So when you were talking about minus 10% ROE I mean now we're at a run rate of minus 18% or something like that as an ROE. The minus 10% is what you think that you would like to achieve basically through this year and next year?

George Quinn
Group Chief Financial Officer

No, I did - I would not content myself with, as I would not express that as a satisfactory ROE. I think this would be very hard to turn us into an ROE that's positive but I think that we need to do everything we can to get it back to something that's hopefully better than the minus 10% we talked about on the Investor Day. So minus 10% on this business is not a limit of the ambition.

Operator

The next question is from Daniel Bischof from Helvea.

Daniel Bischof
Helvea SA, Research Division

Two questions please. Firstly on P&C Reinsurance where the admin expenses seem to be quite low at 92% of premiums. You mentioned lower expense in motor and specialty lines but were there any special items or is this low level stabling your view? And then secondly on pricing in P&C Reinsurance in the outlook statement today you were saying that you expect further price increase going forward. What makes you confident that this trend will continue especially as you also know that the capacity continues to be high?

George Quinn
Group Chief Financial Officer

So I'll take the first question, Daniel, and Michel will cover the second. So on the first, I think we're doing what we can to be more efficient on the expense side. But I think we'll see mainly those efficiencies come through some of the growth that we got. So I'm not anticipating sustainable lower expenses in P&C. Some of the impacts that we're seeing in Q2 are more of one-off nature than a sustainable item. So for example a variable comp has an impact we award variable compensation party based and economic performance and the economic performance given the asset market movements in the second quarter is fuller, therefore that low is the accrual. But the -- I don't think you've seen a sustainably lower level of expenses on the P&C side. Michel?

Michel M. Liès
Former Group Chief Executive Officer

Yes on the pricing really because of course of the claim activity and I - we observed that when there is claim activity there's naturally a price increase. I would nevertheless say that independently of the claim activity the current yield environment is of course bringing probably a little bit more in casualty than in property. But definitely it will be bringing people to take a lot of attention to this simple equation premium minus claim minus constant in some lines of business and in some big regions that should bring them to a clear conclusion.

So we're just expecting this effect of clear conclusion. So it's more a kind of logical approach about the pressure that the market our clients those who are receiving from their stakeholders on the return that they can guarantee with the current level of price and the conviction that something should happen there.

Operator

The next question comes from Michael Huttner from J.P. Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And on the underlying combined ratio the 94.6%, and I just wondered if you could basically it hasn't improved from last year and it's worse than Q1. So I understand when you say, "Well if we include nat cat business, the combined ratio wasn't that bad," what I seem to understand is that the attritional is not including that? It's kind of, I mean it's obviously earning money. There's not an earning huge, huge return and you're making pretty much all your return in nat cat and it's not just you, but I think [indiscernible] had something similar. Is that a fair view that the attritional the basic business is, it's kind of sticking not, we've not so much that's happening there? And the other one is on the huge cash flow to the parent, the 1.575 in Q2 and the $900 million special dividend that we have in redeal, so that's the 1.675, therefore $2.575 billion. So I guess the $2.6 billion pressure would be, is this all a bonus to you? And in which case I would congratulate you. But is it more seriously, could you say something about the prospect for a special dividend or capital repatriation and the balance versus more investment?

George Quinn
Group Chief Financial Officer

All right. So, first thing on the underlying combined ratio. And so, I just briefly for those who haven't seen, I guess we're above the guidance that we gave of 93. And we've made it clear this morning, that that's driven by it's actually nat cat seasonality. I think it's absolutely crystal clear Michael that the natural catastrophes expose parts of our business particularly the U.S. by far the highest ROE performance. I think that's probably not surprised anyone. I wouldn't write-off the rest of it as insignificant. I think we get decent returns in that business. I think it was different this quarter from prior quarters.

I think we've told frequently about good luck bad luck on our nat cats and I think we all - I think everyone recognizes this mood good luck bad luck and purely the nat cats. And this quarter, I guess it contrast to prior quarter; we actually have a reasonable amount of claims. And we've some kind of large manmade stuff in the quarter. And so I think it's not just purely attritional. I think we've seen a pickup in the stuff that you've to expect from time-to-time. So, I agree that property net cat is a very attractive line of business, as it has to be given the volatility. But I think the rest of our book performs at the benchmark levels that we set at. So no much mood to say than now, in the attritional stuff. So, on the dividend - so the one fact I can say was absolute certainty Michael is that we're not going to $2.6 billion bonus. That's for sure.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I would have become your friend.

George Quinn
Group Chief Financial Officer

Yes, you on the call, well lot of people I suspect. So, prospects? I guess you knew I'm going to say this. So, I'm going to say it anyway. At this point of the year, I wouldn't start to manage expectations around ordinary dividend or special dividend. The - we've got still quite a chunk of what's typically the most active part of the season so far for us, and even though it's been quite, I think we've all had experience that things can change rapidly. I think the company has laid out pretty clearly its preference for the use of the capital or excess capital within the firm. And nothing I can say today that would answer any question that you would have around ordinary dividend or special dividend, other than come the end of the year, I guess we'll have a clear sign of what we intend to do.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

George, just you mentioned in your slide back in your presentation in the morning the really unrealized gains of I think it's Slide 36 or something like that and you also expressed the intention to realize these gains. So it's the $1,025 million loss could be materially lower than even the $860 million you mentioned. Are these gains -- are these unrealized gains mostly in bonds or which one we would expect. So can we safely assume that a very large portion of these would come in and you would see materially lower than 860 and that's the first question? And second question is on the pricing, I've seen that you restated the renewals, now could you just summarize the year-to-date price move? And accompanying that a sub question is now that we have a 24% YTD growth is are we still in the same path that the economic capital or the SMPs capital requirement doesn't increase even after the revised Jan and April volumes that we've seen?

George Quinn
Group Chief Financial Officer

So thanks for the questions, Vinit. So first of all for everyone Slide 35 which is on the Appendix of the presentation we've highlighted the fact that upon the completion of the sale of the U.S. Admin Re business or REALIC. Under the accounting rules, so there is no choice this is no harvesting games we're required to recycle the unrealized gains net of tax and net of shadow adjustments through the P&L. If we did it end of Q2 it would have been a $596 million post of impact.

But as you see in both of them the loss on the sale and on this impact, on this other partially offsetting component, it will depend on interest rates at the point the deal closes. So I guess the way I think it is that I mean if interest rates fall further, the lowest will get larger and the benefit that we get from recycling the unrealized gains will also be larger, so there is an element of balance. And it works both ways. So that if interest rates rise, the lowest will fall and the benefit that we get, so I think the thing I would say with reasonable certainty on it is that we should end up with a lowest that's beneath the $860 million in the P&L that we had announced at the point that we had reached agreement with Jackson National. But it would be, it's very hard for me at this stage to predict what the components are because it is very difficult to predict volatility and interest rates between now and closing. I think we probably do try to even update when the transaction closes and we would try to take advantage of that to make sure that everyone has the same information, that makes sense, by not surprising people at the end of the quarter.

Pricing. So on the pricing sides I think the gains we've given so far in pricing for all the renewals so far in the year stands. So we're not altering the pricing guidance or simply saying to you is that we got that more than we expected. So the rate improvements that we've highlighted for the renewal so far stand. We just got a bit more volume than we had estimated when we had given you the initial information.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Sure helpful. So just to clarify that even if you did include more into the April renewals for example the 17% would still have specific standing?

George Quinn
Group Chief Financial Officer

Yes it would, pretty right.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

You got more business different business into the - for just REALIC?

George Quinn
Group Chief Financial Officer

Yes, and I think the roughly the increments spread over the 2 new is 50-50. So I guess your sense of which comes in at the higher rate and which comes in at the slightly lower improvement we saw back in January.

On the S&P point obviously the growth in the year is very significant but the increments but at least in the context of other premium volumes it's not particularly huge. So it will have an S&P capital impact but it would be relatively de minimis in the context of Swiss Re's required capital under the S&P model so that that delta, that update has no significant impact.

Operator

The next question is from Spencer Horgan from Deutsche Bank.

Spencer Horgan
Deutsche Bank AG, Research Division

Could I just ask you a few things on the P&C Reinsurance side please? The first one is I guess over the last couple of years we've seen some quite large quota share treaties in the market based on volumes at a number of reinsurers. And I guess you guys had an extra sensitivity there as well but we sort of heard from you, that you're in the way to highlighting that some of those particularly from China are starting out to roll off the books and be canceled. And so I just wondered what was your kind of outlook there? Do you expect the same thing to happen over the next few quarters? And the second one is just a point of clarification on the renewal slides you point to 3-percentage point improvement in risk adjusted pricing on the July renewal. Does that include the impact of interest rates so is it a technical change and I think it probably isn't so if I'm right that isn't can you tell us what the sort of net economic change would be?

George Quinn
Group Chief Financial Officer

So on the first one on the large quote shares difficult to predict at this stage. So I think, we've looking at China first, I think our view has always been and we said earlier this year already that while the longer-term growth prospects in China pretty clear, it will be lumpy year to year. So it is relatively difficult forecast today, what we're going to see by way of premium volume from China at the end of this year. Our team are working on it but the renewals obviously come out very late and yes it's hard for me to give you any real guidance around that at this stage.

There other quota shares that we've in the book that you've seen already, I think we've a reasonable degree of confidence that we can rewrite some of these contracts. At this stage I want to avoid giving a prediction for volumes on January 1. What will now is far most as I say is what happens when pricing dynamic, if prices move in the direction that we expect we'll deploy as much capital as we can. But as the guidance on China or the other areas, I don't know yet. But there is quite a lot of event risk around these because they aren't large contracts. Michel will add a few comments.

Michel M. Liès
Former Group Chief Executive Officer

Just what I'd like to add on the fact that probably one of the main engine especially in Europe is also the introduction of solvency too. So it will probably also depend on the speed and what kind of delay may happen on that sense. And in some, if I may say emerging market and China is not different. We cannot, it's not on the equation of our risk appetite. I think the deal that we've concluded, if concluded convinced that they're corresponding our risk appetite and we're much, and we're not too many able to conclude these kind of deals, but I cannot totally anticipate the reaction of as I may say the supervisory authority in China realizing that a lot of the big Chinese clients are financing their growth through reinsurance treaty with international reinsurer. That may bring to some change of rules. And so that's also an element, which is adding if I may say to the volatility. Our risk appetite is I'm seeing that will calibrate intensively by signing this treaty. But it's not the only element affecting the potential repetition of this volume.

George Quinn
Group Chief Financial Officer

On the renewals point, Spencer, the figure that we've given is more than 3% is economic. So it's post the interest rate movement.

Operator

The next question is from Thomas Seidl from Sanford Bernstein.

Thomas Seidl

Two questions on Life please. One on the sale of Admin Re business. I would like to have a bit more detail if possible on the type of business you sold and how it compares in terms of economic profitability versus the remaining Admin Re book or is it better than average, is it average, or is it below average? And the second thing is on the profit level of the Life in Slide 9. Again we see a quite a variation of mortality so is normally an item you would consider quite stable and in forecasting it's one of the most stable things in actual science. So why is it, this is so showing so much variance?

George Quinn
Group Chief Financial Officer

So, the first one on the Admin Re side of it, the - kind of way that we manage Admin Re the piece that we sold is probably has a slightly lower return than the average of Admin Re. So in fact quite far from the impact is reducing the capital deployed in Admin Re but we expect to see a pickup on the average performance. I think as also we're retaining some parts of the book in the U.S. which were pieces that fellow stayed at the bias risk appetite, but in general I'd expect Admin Re's all things being equal so no change in asset allocation, same book and run-off. It actually had a small improvement in returns committed around 100 basis points, but Admin Re of course still will have a relatively low performance in those we can reinvest and faint, a rare opportunity.

Thomas Seidl

And what type of business is that? George if you could tell something about what is it that you still look at?

George Quinn
Group Chief Financial Officer

I think it's hard so to charge Admin Re is, Admin Re is a group I think a combination of 55 different transactions. So, it's probably more easy to characterize what is nodes, but it's a combination of a series of and a fairly traditional U.S. closed life blocks that we've acquired I guess over the course of the last while I guess a 11, 12 years under our ownership and may be 5, 6 years under the prior ownership of the prior owners. So, it's a typical U.S. life business, mortality variation, Jean Jacques?

Jean-Jacques Henchoz
CEO of Reinsurance - EMEA & Regional President of EMEA

Yes, maybe just to comment also on maybe one point it was not only on the size of pick and choose by the buyer, if they've been size of pick and choose by the buyer but mainly also taking into account the portfolio that they have. So, please do not draw the conclusion that the business that we kept is the worst of the pack by far not there are some group business, which are probably above average. So, there is definitely no anti-selection in the business, which remain on board in the U.S.

On mortality I tend to review that it should be the most stable element of any actuarial competition and total mortality at the beginning of the year 2000 there were quite a lot of innovative product in matters of preferred risk in which a lot of insurer we're able to change from one carrier to another so, each year you had a new offer and there were in some case, some kind of anti-selection because the right of renewal was given more to the insured and the insured was sometimes taking this right at the right of leaving. So, you had some effect of anti-selection and which brought some of the insured mortality to come a little bit nearer to the population mortality. So, it's more a kind of product specificity than any kind of mortality trend in the global population in the U.S. or elsewhere.

George Quinn
Group Chief Financial Officer

There are 2 other features; I guess part of our business model that also drive that volatility that may be different from what we see elsewhere. So again almost exactly the same time that Michel has referred to, we stopped buying retro coverage. So other than the deal I think everyone knows about that we've done with large asset rates, we have very available retro protection on the Life & Health book, and the reason for that I guess is the volatility that we have on the life side well it can be irritating and trying to explain what's going on, is tiny and compass until what we can see on the P&C. So, it made sense and I think makes sense for us to retain that.

Second and last point I'll make is that the part of our business proposition to our major clients is on individual single life risk capacity. So we will rate very large single risk remittance on individual names and that's not the driver of this quarter, but it has been the driver in periods before. So I think if we had a primary life insurance group with a number of policies that we have but with the characteristics that primaries have, I agree with you it should be very stable. But I think for the reasons that Michel gave and for these other 2, there is going to be more volatility in here than you find in the primary sector and may be also elsewhere most of the reinsurance.

Operator

The next question is from Michael Klien from Nomura.

Michael Klien
Nomura Securities Co. Ltd., Research Division

I guess I have a one question a little bit of a follow-up to an earlier question, but may be ask you in a slightly different way, and specifically you wrote down your PVFP as part of the sale of the Admin Re business in the U.S. by $649 million. This means that there is still something like $1.9 billion of PVFP on your balance sheet for Admin Re business. And could you guide me because there is a little bit of an indication of you how this PVFP looks from an economic perspective and all the related on this from an accounting perspective, can you help us understand what would need to happen for this to be further impaired or may be what kind of process and timing you follow for such impairments? And the second question is with respect to the investment mix. I'm looking at your targets and investment exposures by your various groups here quite always still cash and cash equivalents, you also mentioned tools that you have still a shorter duration, what is your strategy in terms of re-risking in the coming quarters?

George Quinn
Group Chief Financial Officer

So on the first one, I guess you're right; we're left well with a significant balance on PVFP. From an economics perspective I think we told as rebound Investor Day and it still remains true, the - if you look at the economy margin, which would be the determinant of a loss recognition event for the risk that we've to write down the PVFP on an accelerated basis. We had margins of about half a billion at the end of last year so it's one of the challenges that we've in the new structure is that I think you're all aware that we have very substantial margins across the global total life and health exposure we have. The Admin Re as a subset is a relatively small proportion of it. So that's number one.

So we have the higher risk of loss recognition. So what would drive you into loss recognition I guess, from what we do and the test that we do if we had a decrease in reinvestment yields of 100 bids in all future years of the portfolio that would bring you down to much closer to the level we have a risk of loss recognition. If you had stated view that lapses would move by 10% in all future years, that's a pretty significant shift for this portfolio or on the longevity side of it because Admin Re contains most of longevity exposure and 10% rise in longevity in all future years and that means for 30-plus years compared to the current assumptions would also drive that same risk.

From a timing perspective we try and monitor it pretty much every quarter, but of course we do as a big study around the year-end. So that's when we've a really good basis on what is to judge things.

One additional thing I would like to highlight is apart from the loss recognition risk that we have in the P&L, you also have a shadow loss recognition, so a risk that you would reflect the impact of unrealized gains and equity and the impact that they would have on PVFP amortization through equity. That's more of an interest rate discussion. So that's a question of what yields would assume when the business was done, and what current yields, just because there's a higher risk of shadow loss recognition and there is a P&L loss recognition. The two-fold the same process, it takes even with a relatively modest margins that we have on an economic based on timing I mean it still takes a fairly large shifts. Those shifts are certainly more imaginable than they would be for example in the life and health business we've to have incredibly large moves to generate loss recognition. And one other thing, worth a point, the PVFP asset amortizes reasonably quickly. So the one flooded dispute over the next 5 years, so it's a small positive.

On the asset allocation side of things, I think you're right, we still maintain a pretty heavy overweight on the cash short-term government side of things. And we've reinvested nets about $1 billion in corporate bonds in the second quarter. And that's main reason for the fact that the running yield is stable, despite the fact that interest rates are full and further in the quarter. We intend to do more of that. So, if you go back to apologies again, what we said around asset allocation at the Investor Day, midpoints would imply purely for credit, fairly significant additional amount of credit and we've to take it, still relatively moderate risk profile, I think in the context of the peer group. But may be $3 billion, $4 billion $5 billion more in total credit exposure than we've currently. I think you see is, we start to do more of that in the second half. And that will obviously help the running yield. And we've talked before about the fact that running yield has been - and I think I estimated in Q4 of last year that the running yield to be moving down, if you can simply annualize the Q4 impact by about 24, 25 basis points. I think if you look back over the last year it's clear that the actual impact in the last 12 months is slightly higher. So maybe, 30, 35. I think in the second half, for the reasons I gave around asset allocation shift, we'll see that, at least that not estimate 6 but per quarter probably full temporarily, as we adjust the asset allocation. I think running yield will still come down a bit, all things being equal. But not as much as the 6 per quarter or 12, but this would suggest it's somewhere between the 6 and 12 is my best estimate. But again it will depend on the exact timing of when we take decisions to add some risk to the portfolio.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

Just one thing, back on the life and health reinsurer. And I think referring to some of your earliest comments. You've been talking about loss recognition event. And during the Investor Day, when you were talking about the pre-2004 business, you seem to be acknowledging that in order to reduce those losses you need to take a very significant GAAP charge. But you were also acknowledging that in accounting terms it was almost impossible to do that, because of the margins you referred to. In your comments now, you seem to be implying that you've worked something out that is getting to enable you to improve the margins on this business from next year. And so maybe I'm getting completely confused, but could you elaborate on that and could you also just clarify that whatever you're thinking about would lead to an improvement would require a visible loss recognition event before the margins improve?

George Quinn
Group Chief Financial Officer

Thanks, Bill. So the apologies if I had confused this further on this. So where to start, in a way that's going to make it clear. It doesn't require loss recognition for us to improve the profitability of the pre-2004 book from GAAP perspective. So I think you've seen what's happened this year we're reaching the -- I guess the crest of the wave of this particular problem for and this time piece where you see the height of we should less analogies I'll make it clear. So we've seen the higher the problem for the 10 year anniversary product this year therefore I expect even if we do nothing from a GAAP perspective the problem would get smaller next year and it would stay a bit smaller and start to build again as we come up to the 15-year anniversary.

So you're going to have this all things been equal again you've this strange sort with pan on GAAP where you would reach the peak of the problem things would get better and then when you start to claim the cover again you reach the peak and so on, until you fully extinguish the block and of course we've some TAM 30 products in this business that means if we do nothing we're going to have those sheet required lot to come.

Now what can you do other than say the presence is not very good write off all the PVFP and DAC or DAC in this case and use resets the assumptions. Well, I think the most obvious thing that I think we could do is that if you look at what's causing the problem today the challenges we're seeing more lapse than we expected when we had I guess both the products in 10, 12 years ago. So we've had too optimistic a view, the retention of the business and the mortality of the people to stay in the product. Now, the reason the people lapse is because premiums raise by significant multiples. So and may be you go from paying as a rough $100 and all of a sudden you got a bill for $500 or a $1,000 is the kind of thing that's designed to make the TAM, 10 years.

All right. So the issue that we're facing just now is that we assumed something that was going to be profitable in the post level 10 period and we're fell the suffering from is the fact that the only people who pay these premiums are those that have no other choices i.e. they can't buy insurance at this price anywhere. So we're charging on economic levels even with these very high multi-clients.

So the question for us and the thing we're looking at is so what happens if we look more sensibly at the rate entries is there a tipping point where you've less lapse you maintain a better portfolio and therefore you keep a higher margin. It's a relatively complex thing to do we can't continually shift prices we cannot the contractors won't permit that. We've done some of these on Admin Re, because Admin Re has as we've had the same problem, which is not as visible. To test kind of what might work and then we need to work with our clients who have told us the people that own this business in the first place to find a way to see how we implement this. So we've a team whose only job is to be focused on the management of this enforced piece and I think there are things that we can do along we're sure of loss recognition if even that was possible that would have us improve the profitability of this book, hope that was reasonably clear.

William Hawkins
Keefe, Bruyette, & Woods, Inc., Research Division

I think so. Are your cadence interests naturally aligned with you in that regard?

George Quinn
Group Chief Financial Officer

Not entirely. So the - so obviously really is contrast because we take most of the risk, but again it's obviously an economic exchange so you try and find a tipping point and make sense and you work at how you share the benefits. So I still think there is something that we can - I think we're all convinced here those things that we can do to improve this, but do not involve giant red house [ph] .

Operator

The next question comes from Fabrizio Croce from Kepler Capital Markets.

Fabrizio Croce
Kepler Capital Markets, Research Division

I've just 2 questions. The first one is about Admin Re. I think it's through the disposal, the Europe disposal it's one of the first time it effectively generates sensible value to shareholders. And so my question is why not sell off the entire operation and particularly where is by the message on page 19, where you're saying that you're focusing on new transaction growth, even acquiring more business instead of going in the direction we just took over the U.S. part of the business? Second question is if you could give us an outlook of the claims going on for Q3. So if you could give us some sense on how severe the entire D&O risk is in terms of LIBOR scandal or some growth update in U.S. or we had just communicating to us that they had compensated million claims or even about the recent hurricane in Asia. So even some quality of that statement you already have?

Michel M. Liès
Former Group Chief Executive Officer

Fabrizio on Admin Re, I think your question is actually a global question about life, life business not only on Admin Re. We definitely do believe that the Admin Re model makes a lot of sense. But of course if the life business is in a tense situation as what we observe in the current yield environment it's a bit more complex than in a situation which is more favorable from an yield standpoint but I firmly believe that the U.S. business was growing really too low in matters of return with no hope of recuperation in short-term but I firmly believe that we've in the U.K. and in Continental Europe opportunities but a lot will happen in the next two three years depending a little bit about the speed at which things like Southern C2 are implemented in restructuring by our clients. And I do believe that we will have opportunity to acquire portfolio of life business, which are definitively achieving our returns and complimenting our efforts to our clients. So for me Admin Re is logically a little bit victim of the attention that we observe on the life business that Admin Re as a model makes a lot of sense and is seen as a growth potential on the side of the Atlantic.

George Quinn
Group Chief Financial Officer

On the claim side of things on LIBOR and potential D&O claim I guess three four years ago we went through a review of D&O international situations we've changed the way that we cover this and therefore we don't see this as a major risk to us. I think most of this problem will be retained by the banks depending on what happens there. But certainly at this stage don't foresee a significant loss for Swiss Re.

On the drove issue and the impact on crop and agro business in the U.S. I think our book is mainly non-proportional. So we see this as for us at least mainly a Q3 event. We don't have significant amount of proportional business and it depends of course exactly how bad it gets and what we see this stuff comes to market, we see market prices, yields et cetera. So it's going to have some kind of impact. Again at this stage well the more of a topic than I think D&O and LIBOR will be, I would expect that we could absorb it within our normal expectations for the quarter. But of course we haven't seen it fully develop yet. So at this stage I can't really give you more guidance than that until we get to the end of the quarter.

On the other events as you're right, we're seeing some typhoons we got some floods either individually or collectively none of these so far at least looked like significant events for us.

Operator

The next question comes from Frank Kopfinger from Cheuvreux.

Frank Kopfinger
CA Cheuvreux, Research Division

I have one question coming back on the unrealized gains of $596 million on the U.S. Admin Re deal. Could you give us some sort of sensitivity, are we talking about 10 basis points, 20 basis points, interest rate increases until these unrealized gains are done, or on the other side are you doing some actions to lock them in already now via derivatives also? This would be the first question.

The second question is on your reserve releases. Could you elaborate a little bit on the driver behind it? You said that what’s driven by the claim situation, but could you also elaborate about what about inflation environmental whether this is also driver or not?

George Quinn
Group Chief Financial Officer

Yes, okay, so the I don’t have a devial one number for this piece. I guess the main reason for that, Frank, because I think of this is the as the net. So, I have got the loss one move with interest rates, the assets in the balance sheet will move with the interest rates and, therefore, I am expecting that within some boundary there should be some balance from it. And that’s not guaranteed, but if interest rates fall the loss will rise, but the benefit that we get from recycling gains will also be larger because the assets will also have increased. So, the 2 things are connected is what I'm saying.

I don’t have a sensitivity that we guide you for the individual components and we have no intention of hedging. I mean this is an accounting impact. If we hedged from an accounting perspective we would actually have to take risk to make the accounting look flat and it doesn’t make any sense. This transaction should complete in this quarter and then this issue will be behind us. Once we have it we will communicate so that people how clarity ahead of the formal Q3 release.

On reserve releases, I guess, if I look was what we got in the quarter, I mean, the core part of the story is identical to what you have had before. So mainly casualty, I mean it's like 2/3 casualty. It's coming mainly from 2006 and prior. It's across most of the geography regions but with a particular emphasis on Europe and Asia. We got some small positives from property. So, I think you have seen already in the material this morning, we have updated the estimate for Japan and we have had a small positive partly offset by a small negative on New Zealand but property is about 1/3 of the benefit.

If I look at liability and we try and judge what's driving I think the discussions we have had before around our best guess today could be because this is not as changing of years, they require reserve. This is simply the expected claims, which are dictated by the like factors and our triangles are not matching up against actual claims, and from what we can tell one of the drivers of that is inflation. So, we are seeing less inflation than we would have included in our pricing assumptions, which are carried into the reserving. But again, you've heard me say this several times, everyone should be really cautious on the reserve side, we had small negative in Q1. At some point this has to go away, I think that it seems to be concentrated in the more well-developed years, and I don't think anyone have the same confidence that we'll see significant post of reserve development from for example 2009, '10 and '11.

Operator

The next question is from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays Bank PLC, Research Division

Just 2 quick questions actually. One on the cash flow back to the capital the cash position you're up to. Okay, the - is it fair to say that you are not going to pushing capital up there, you then intend to push it straight back down to the same legal entity. So, given that the Life & Health and in P&C we fit together, if you are pushing out $2 billion of cash up to HoldCo and then I'm assuming you wouldn't then think about pushing that down to the same legal entity? And that's my first question.

And the second one just on the investments as well, I think we've had a reevaluation to the book, there is a shrinking balance sheet and over the last few years for various reasons with GIS being [indiscernible] in the Berkshire Hathaway deal. And I think we are hoping that leads to stabilization point not long from now. I think it's stable-ish to slightly down in the hospital and then with large gains. But is it fair to say that we think even the growth you've seen that we're probably at a tipping point here, and we're just trying to see that balance sheet starting to play again?

George Quinn
Group Chief Financial Officer

So, yes, is the answer for the first question, Andy. I think obviously we - before the dividends take in or we are looking at the business plans, we are looking at the expected growth from a pure organic perspective. And therefore, we have no immediate plans to move it back down. But of course if the Reinsurance team or the Corporate Solutions team or the Admin Re team if any of these groups come up with a use of the capital that we think we've been interesting shareholders, then we'll push back it back down to any place it has to go, but we obviously we wouldn't have taken it out today, if we had an immediate expectation of recycling it back in say Q3 or even Q4.

On the investment side, so, we are working to try to improve that disclosure so that we can actually give you some sense of the, I guess, the net new money flow in a banking context. I think it's relatively difficult to work out given the market moves and the exchange rate moves, which move in the opposite directions. I think the balance sheet is still shrinking slightly. I think we are now approaching the tipping point. I think it's not going to be this quarter or next, but we will see in 2013. And at that point, we will start to see the asset base rise that will help the investment income. And if you think back to the presentation I gave at the Investor Day in April there was a component of that walk that I gave on the EPS, which is all around an expectation not only of asset allocation shift whether we would see the asset erosion stop and in fact reverse in the planning period of the target period that we've set. But I think next year rather than this year.

Andrew Broadfield
Barclays Bank PLC, Research Division

Okay, so I will just come back to the cash flow thing. So, it is - is it a fair assumption that with the information that you have today and that letting out like kind of will change, but today the cash going out to HoldCo has got no targeted purpose at the moment?

George Quinn
Group Chief Financial Officer

No, so, I mean the -- I am sure our business units are looking around various opportunities, but I have no immediate demands on that cash.

Operator

The next question is from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

I have 2 quick questions, firstly on Admin Re. Could you just remind us about the sort of lumpiness profiles that were of the remaining - the expected cash emergence $2 billion or thereabouts up to 2016, I mean is that to happen in 2015 and 2016, or can we sort of expect, divide that by sort of 4 and expect that kind of trajectory of cash emergence? I guess it's interesting there wasn't much cash emergence in Q2 because of U.K., so I was wondering is that kind of a one-off and we should expect a more smooth pattern going forward?

And secondly, sorry to go back to the capital management kind of debate or question, I guess a very simple question. When I look at the video comments by Michel and yourself, you talked several times about renewals year-to-date being much stronger than expected and the opportunities to grow very stronger than expected, which obviously has required you to deploy some capital. I guess the counter to that is, am I right in saying that your capital generation would have been significantly higher year-to-date than you would have expected in your planning assumptions? In other words, the capital you generated both from strong earnings, but also sale of Admin Re such that your SSP ratio is now back to - the pro forma back to may be 230% near sort of high.

So may be just comment, talk about the balance between what you expect to deploy and what you generated and how that made the challenge of deploying surplus capital harder?

George Quinn
Group Chief Financial Officer

So on the first part, Andy, on admin re side and lumpiness, if we take the base case, we're going to get -- so the base case being $1.9 billion, we get $900 million allowed to be in dividend or in some other form or structured backup to the holding company, you get $900 million and when the transaction closed expected to be Q3. And then I think you look at the rest of it being broadly smooth over the period. So that will slightly decline towards the end of the period but it stays fairly flat and it's fairly regular. So, it's not very lumpy other than that bullet payment at the start if you like.

Capital management, I think the summary is reasonable and in fact its' reflected in the as dividend you've seen in the second quarter. So, we have generated capital faster than expected so they - the firm hasn't used it as rapidly as it - I think you've used it more quickly than we had expected at the beginning of the year but we generated it more quickly than we expected at the beginning of the year too.

I want to signal one, I guess, one particular note of caution. So, I think like I said, when all appreciates the capital basis some more sensitive to the financial markets. We've seen a reasonably strong performance, I guess, net through the year so far. But I think we'd be relatively cautious about how we deal with the element of which the capital has been substantially improved by asset movements. I think it wants to avoid that we would rapidly use that with the risk that all of sudden we may have a shortfall if markets I mean best as buffers that we had a shortfall of the market was against.

So, I think your summary is correct. We've had a stronger than expected growth but we got stronger than expected capital generation. I won't give you precise figures but obviously from a capital perspective and much stronger position than we had anticipated being at this particular point.

Eric Schuh
Former Head of Investor Relations

A quick housekeeping comment we have a very long queue of questions and we go to run the call a bit longer until 3:15. We'll take as many questions as possible but my apologies if we won't be able to take all. Next question please.

Operator

The next question is from Stefan Schürmann from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Just a short-term question on the duration management, I mean, you [indiscernible] shortened duration bit on the TVO, one was 2.2 I think during the first quarter down now minus 8.79 in the second quarter. I assume that was driven by the basically disposal of government bonds and used in some small investments in two corporate bonds. The question is just should we expect this to continue? Is that you sort of shortened out on basically duration and the GAAP opening of it?

George Quinn
Group Chief Financial Officer

The sure answer is almost something new, Stefan. I think from a historical perspective we have a reasonably white gap already on duration. Duration mismatches are pretty capital intensive and I think even though - I guess the general market here is not very expensive from an investment income perspective to be short. Equally I don't think they are really convinced we are going to see major moves anytime soon on this topic. So from a duration perspective the thing widened in Q2 because we had benchmark updates, so we actually lengthened in view of some of the liabilities and that would drove quite a bit of a change that you see here.

If we have - I look forward to I guess the Admin Re business is slightly long compared to the group. So it may find when we dispose of REALIC, the short duration position get larger, but at the same point we've given asset management some trigger thresholds to actually reduce the gap that we have. So, if we hedge some of those triggers we would fairly rapidly reduce and in fact it's not inconceivable we would end up back at the $2 million level relatively rapidly that you saw at the end of Q1.

Operator

The next question is from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

I have got 2 questions, the first one would be on the when it was July renewals, you indicate you have taken as an page of increasing prices in the causality lines. Could you tell us where it has come from, which client specifically? And potentially if you could tell us what is management expectation currently within the group regarding casualty lines writing when you are currently may be or would you like on working on your next on the writing plan?

The second question will be on the health side, and at least in your comments that you have incurred some additional expenses for new strategic initiatives on the health business. Also on the strategic map you [indiscernible] the health business as a long ways longevity. Could you tell us a bit more what you are trying to seek in the health segment and have got you know back of my memory some painful development in the past as well?

George Quinn

Group Chief Financial Officer

Okay. On the casualty, a big part of the renewal actually midyear is mainly USO, a very large carrier who tend to spread their renewal over the year. So if you had to concentrate probably on a geographical area I would say it's U.S. Type of business probably on the classical liability, corporate liability that you would expect to see raising. I must say that I preferred now not to mention any kind of date about the potential raise of liability rates in a more massive way. We have done that for quite a long time. I think all the rationale would be there, but they have been there for quite a long time also to see the increase. I simply believe that in the current yield environment now more or less the reserve has been exhausted that something should happen, but I would prefer not to mention it would happen now, next year. But honestly if everybody's logic it should happen between now and probably the end of next year at the latest, if the environment is not changing.

So I know that we've said that for quite a long time, and we have still some reserve probably available. At that time I get the impression that anything logical would bring these line of business to grow again in matters of price, but as expectation that's not provision that's expected.

Second question was about?

Thomas Fossard
HSBC, Research Division

Health.

George Quinn
Group Chief Financial Officer

Health is a line of business in which we believe that mainly in emerging market but not only the emerging market there are some opportunities in which we can find a lot of people potential able to distribute product but not having the product known as that you can bring to the table. So it is not purely a reinsurance scheme it can be definitely also a minority investment game taking into account that a lot of the people who have the distribution power do not have the product development power and that's something which we do see some opportunities in emerging markets be it Southeast Asia, be it even India, be it Latin America. There are probably in reinsurance some opportunities also developed market especially in the U.S. taking into account the changing environment in America in matters of health care.

Operator

The next question comes from Brian Shea, Bank of America-Merrill Lynch.

Brian Shea
BofA Merrill Lynch, Research Division

I wanted to ask of the potential for further reserve reduces. And George, I know you have already addressed this, but let me just try it in a different way. The European business '06 and prior from which you've been taking releases, is that mainly extinguished now or is it still a possibility for A, to come in better than E, as - if there are further claims to come in, are we kind of getting down with that business? And secondly on the U.S., I do not believe you have taking many releases from the U.S. Is that because this business is still immature or it is just not showing the propensity for releases?

George Quinn
Group Chief Financial Officer

All right. So, the easiest part, the first question is the U.S. So, U.S. hasn’t been show the same propensity. In fact, if you - and I know you follow this. If you look back over the last couple of years, I mean, we have had focus of positive they've been rapidly absorbed by pockets of negatives and negatives typically at the upper hand for most of the last 2 or 3 years. If I look at the U.S. book, the 3 As challenge have been workers comp, medical malpractice and from time-to-time A&E. we've put quite a bit of money into medical malpractice over the last few years. And touching the law would, it looks as though that problem seems to have been dealt with.

On the workers comp sides, I think there still has been - we've taken some fairly large reserving actions. I think, we did on last year in Q2, we had one the prior year. And so, we thought that we have as small negative in workers' comp in the U.S. this quarter but it is much, much smaller than we have seen before. So I guess the optimistic part of me thinks that I am hoping we are going to see the same trend on workers comp that we have in medical malpractice.

But having said that, even if we have plugged these 2 problem areas, I am now convinced we are going to see a lot of positive offering from the rest of the U.S. book. So, I do not see as an issue of maturity.

On the European and the Asian side of it, could you have the same A2E impact, you could. Obviously, the book is far more mature than it was. So, the potential is declining over time, but they are still significant reserves there. With that, I have given all the cautionary statements. Could it happen positively, it could. Would I be really surprised if we had a small negative in a particular quarter, I would not. I mean that's probably all I can say on reserving.

Operator

Your last question for today is from Michael Huttner, J.P. Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I have 2 questions. One is on the corporate solutions. The 1578, the way I look at it is the 78 is your back book, which is doing really well. And the 15 is in new business, which is a bit more challenged. And then, in this context of the new business which is listed by the new legal entity being less profitable, it does bring the question in my mind why grow it, but I don't know and what the outlook is. It looks to me as you're gaining market share, which others don't want? And then on the PML that I noticed is you've had a because you published 2Q 2012, that's a massive increase in market share in Japan which is pretty much which you signaled, and also an increase in California. So you seem to be growing quite quickly at the moment particularly in the 50-year range if I'm right. Could you maybe give an idea of where you're initial, very profitable net cap business where you presence is like?

George Quinn
Group Chief Financial Officer

So on the first, I think you've been more than a way behind fair to Corporate Solutions, Mike, I think the - if we go and look at the first 3 months of the year, I mean the page is entirely different. I think the challenge is the Corporate Solutions is a - it's small, it's growing, doesn't have the extended balance sheet yet that it would have had if it hadn't been a carve out. So it would have been a much larger reserve base with much more investment income. And we are going to see volatility. I mean one of the value prepositions in Corporate Solutions had, which I think maybe a wee bit different to some of the other players in the state, is the - they like Swiss Re in general offer significant net capacity. So, it means you're going to see volatility. So in this quarter it's a 105, if we normalize for the nat cat. So we take out the small negative with their development. But there are pretty significant man made losses in the quarter for Corporate Solutions. The - note the size that we report in that table in the appendix. But for Corporate Solutions obviously even smaller than this can have a much bigger impact.

By the way you've commentary at the start about 78 versus the 105 is spot on. On the kind of what's our preference, kind of why you seeing us grow in particular areas. So you called Japan, you've seen us be pretty transparent about what we're doing there. On California, I guess California can vary quite a bit. But in the past our exposures have pretty heavy entrance by the level to which we support California and earthquake authority. I think if anything we've seen rates on that particular market. I mean, the California quake rates generally probably declined slightly over recent years. We don't have strong preference if we can find a place to deploy the capital at rates that are above the hurdle rates, we will. Its just - I think the exposure number you see this morning is simply a function of the portfolio that we currently have as supposed as to us deliberately shaping a particular direction. I mean, it would be wonderful if we could have our portfolio evenly distributed across all the pair homes. But of course given where the risk come from just not feasible.

Eric Schuh
Former Head of Investor Relations

Thank you very much, everybody, for taking the time and listening to the call and asking questions. If you have further questions, of course feel free to give me a call or anyone else in the Investors Relations team. With that I would like to thank everybody for listening and we'd like to close the call.

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