S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FQ3 2014 Earnings Call Transcripts

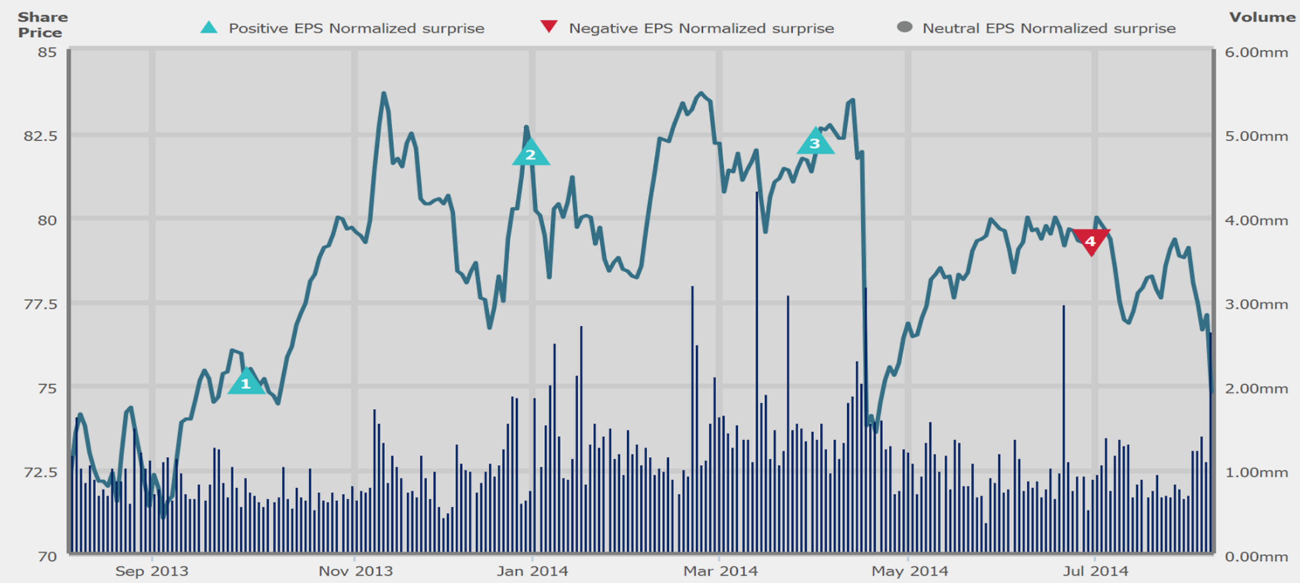
Friday, November 07, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.57	3.29	▲28.02	1.97	9.38	8.75
Revenue (mm)	7919.50	8184.00	▲3.34	-	32501.60	32098.01

Currency: USD
Consensus as of Nov-07-2014 9:33 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	2.11	2.92	▲1 38.39 %
FQ4 2013	2.09	3.29	▲2 57.42 %
FQ1 2014	2.68	3.28	▲3 22.39 %
FQ2 2014	2.85	2.29	▼4 (19.65 %)

Call Participants

EXECUTIVES

David A. Cole
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

ANALYSTS

Andrew Broadfield
Barclays PLC, Research Division

Andrew James Ritchie
Autonomous Research LLP

Frank Kopfinger
Commerzbank AG, Research Division

Janet Christine Demir
Morgan Stanley, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Fossard
HSBC, Research Division

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Vikram Gandhi
Societe Generale Cross Asset Research

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

William Hardcastle
BofA Merrill Lynch, Research Division

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's Third Quarter 2014 Results Conference Call. Please note that today's conference call is being recorded.

At this time, I would like to turn the conference over to David Cole, Group CFO. Please go ahead, sir.

David A. Cole
Group Chief Financial Officer

Okay, thank you very much. Good morning and good afternoon, everyone, also here from the Swiss Re side. Welcome to our Third Quarter 2014 Results Conference Call. I'm here with Matt Weber, our Group Chief Underwriting Officer.

Just a few comments before we open up for Q&A. I'll try to keep them brief.

As you know, I'm pleased to report that during the quarter, the Group continued its strong performance with a positive contribution from all 3 of the business units. Q3 Group net income was $1.2 billion, bringing us to a total net income for the first 9 months of $3.3 billion. We consider this a strong demonstration of our resilience in a challenging market environment.

P&C Re's combined ratio was 76.7% for the quarter, driven by an expense benefit and lower impact from nat cat than we would typically expect. Combined ratio for the first 9 months of the year was 82.7%.

Life & Health Re delivered an improvement in the operating margin to 9.2% in the quarter supported by profitable new business and better-than-expected mortality experience. In the third quarter, we closed one YRT transaction. Meanwhile, we've made substantial progress in our negotiations with other clients associated with our pre-2004 business in the U.S. During the fourth quarter of 2014, we expect to conclude these negotiations and anticipate booking a pretax U.S. GAAP charge of approximately $550 million. These negotiations, once finalized, are expected to support higher earnings for Life & Health Re going forward and will contribute to achieving our return on equity target of 10% to 12% for the segment by 2015.

Corporate Solutions profitably grew net premiums earned by 14.2%, and Admin Re generated strong gross cash of $142 million in the quarter. Due to Admin Re's sale of Aurora, we expect an after-tax GAAP loss of less than $200 million in Q4 2014 and an EVM profit of a similar order of magnitude.

We're also very happy with our investment performance. The Group fixed income running yield was 3.2% for Q3. For the full year, we're still expecting 3.3%.

And finally, our group SST ratio of 249%, this is as submitted to FINMA at the end of October, remains strong and has increased from 241%, as reflected in our previous SST submission.
So without further ado, let me turn to Q&A. [Operator Instructions] Operator, may we please take the first question?

Question and Answer

Operator

The first question comes from Mr. Thomas Seidl, Sanford Bernstein.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

Maybe 2 questions, one on the reserve side. You -- we noted, of course, you increased reserve on New Zealand. Net of this, you would have released, if my calculation is correct, 7.7%. It seems a bit high given the comments from your predecessor that we should expect lower reserve release going forward. I just wonder if you could give us some guidance of how this is playing out in the future. And secondly, I'd like to hear from Matt. I think he's also on the phone, if there's any changes in view on 2015 and '16 based on the Baden discussions on Reinsurance pricing?

David A. Cole
Group Chief Financial Officer

Okay, Thomas, thank you. So indeed, I'll take the first question and then Matt will come in with the second. So in terms of forward-looking guidance on reserves, let me just restate also, I'm sure my predecessors also said, which is that we reserve on a best estimates basis. We try to take every quarter a good, thorough review across the entire book and look to see what our experiences has been -- have been and whether or not there's a reason to change any of our assumptions around those best estimates. Now the fact of the matter is, and has been now for several years, to be honest, that we're experiencing significantly lower level of inflation than we originally costed, and the actual volume of claims coming in is somewhat lower than we would have expected. And obviously, in a number of important markets, there's been some significant changes in the overall legal environment, which has led to a lower level of claims and payments as well. So these are trends that have clearly impacted our previous year's results and has been reflected in some of the prior year positive development that you see. In terms of forward looking, I think it would be appropriate for me to also repeat something that we said before. It remains true today as well. And that is, we don't forecast positive or negative developments for that matter, so we do reserve on our best estimate basis. The fact of the matter is we've seen continuing positive developments across the industry. It doesn't really surprise us given the continuation of the broad macro environment that I just described to you. If that environment were to continue, then it wouldn't surprise us if you would continue to see some reserve releases going forward as well. I do hope everyone appreciates, however, that at a certain point in time, the bucket of prior year reserves will be less empty than it has been in the past, and, therefore, we would certainly expect those prior year developments to decrease in magnitude.

Thomas Seidl
Sanford C. Bernstein & Co., LLC., Research Division

And so maybe a follow-up question. Those reserve releases, are they more related to the 2004, let's say, 2009 range, and more recent years provide less opportunity? Is that a fair comment?

David A. Cole
Group Chief Financial Officer

No, I think it would be fair to say that most of our prior years, not just a specific range, are driving this. There may be 1 or 2 specific years where we don't see it, but I think it's probably fair to say it's fairly broad based. Matt, do you want to pick up the second question?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So Matthias speaking. Let me first start on the insurance side. There, the outlook, starting with property, is prices have been decreasing and we believe this trend will continue. There will, of course, always be some exceptions related to individual segments and related, of course, also to a loss-affected accounts. But on average, we see a downward trend there in the U.S. and also in a good number of markets outside of the U.S. With respect to casualty, it is different. U.S. casualty right now looks reasonably stable, maybe still slightly up. And on the specialty side, it is a little bit a mixed bag. It really depends on the line of business. We see some moderate softening in the engineering line and also with respect to marine business. But related to aviation business, for instance, we are seeing a market that is about to stabilize and could even turn upwards a little bit after the number of losses we have seen in 2014. On the Reinsurance side with respect to proportional business, of course it's pretty much the same picture. And on the non-proportional side, I cannot -- nat cat, we believe the downward trend will continue to evolve. However, we believe the rate of decreases will be slowing down. And the reason is depending on the renewals, we have already seen in some cases 1 round of decreases, in other cases 2 rounds of decreases. And secondly, if we look at the evolution of the spreads in the insurance-linked security market as an indicator for what's going to happen on the traditional Reinsurance side, there spreads have been more or less stable for several months now in a row. So short of the long, we expect to see some decreases but not as large ones as we have seen in the last 1 or 2 renewal runs.

Operator

Next question, from Michael Huttner at JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Two questions. The -- when I met with Mr. -- well, with one of your colleagues in Monte Carlo, the impression I had, and maybe he didn't say that, is that 2015 earnings would be below 2014. I had the impression it was a clear statement, but it's just me, so who knows. And now -- and looking at the numbers now, so you've done $3.55 billion, I think, $3.45 billion to date of negatives, which come in fourth quarter, so the $550 million, the $200 million, and normalized earnings of about $800 million to $900 million. So there's not a lot of extra earnings to come. So the full year looks more or less like 9 months. So is that still a fair understanding that profits would be down from current levels? Or is that -- it was my understanding it was said, so that's why I've raised the question. And the second one is, what is the benefit to earnings of the $550 million of YRT recaptures?

David A. Cole
Group Chief Financial Officer

Mike, I'm going to have -- I didn't really understand the second question. So let me address the first one and then I'll wrap back around and see if I can pick up your second question again. I don't know who you're speaking with or what exactly was said, but it strikes me as rather surprising that someone from Swiss Re would give an indication of profit levels for 2015. Of course, we can talk about 2014, and we see some of the things that have contributed to the overall level of results that we're reporting 9 months to date. And some of those we would clearly recognize as being a lower level of benign nat cats relative to what we would expect. There are some prior year positive developments. So those types of things are out there. We know about them. But I don't think we've made a habit, nor will we start that today, of predicting profits for next year. So let me just be clear about that. In terms of the second question, if you don't mind repeating. I can't [indiscernible].

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Yes, no. I thought you said the -- so you've got the $550 million, kind of, for Q4, these -- the cost of these recaptured yields, and I just wanted to know what the benefit was in terms of higher earnings after that.

David A. Cole
Group Chief Financial Officer

Yes. So as some of you know from our prior discussions, we try to be a little bit careful about how much detail we provide at this point in time given the fact that these are negotiations with important clients and some of them may be listening in as well or, if not listening in, they'll read certain things. So we don't want to undermine our own position, of course, in these discussions. Suffice it to say that when we announced in July 2013 that we had 4 major areas that we wanted to address in order to improve the underlying performance of our Life & Health Reinsurance business, this was clearly one of the major areas. Now we've reported to you along the way the progress that we've been making across all 4 of those levers. Now just to remind, getting the right capital through some capital extraction, working on the leverage of the business, improving the asset mix, of course continuing to write profitable new business and, certainly not least, addressing this pre-2004 business, which would be the business that we recaptured from Berkshire Hathaway. Now we've made good progress there. We've already agreed, with a number of clients, actions related to that business. We anticipate now bringing all of those negotiations with those clients to a conclusion in Q4. And it's on the basis of our current expectation that we recommit to that target of 10% to 12% ROE.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I mean, that's for 2015, the 10% to 12%?

David A. Cole
Group Chief Financial Officer

Correct.

Matthias Weber
Former Group Chief Underwriting Officer

12% really.

Operator

Next question, from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

One -- first question for Matt. Matt, just on casualty, do you still see an interesting opportunity to keep growing in casualty lines? Or has there been any sort of deterioration in pricing? And linked to that, is there any mix effect yet in the reported combined ratio from the growth in casualty? Or is that yet to earn through? Because obviously, the proportion has gone up. But I just wonder if that's affected the combined ratio yet. Second question to David. On capital deployment, I wonder -- I was a bit surprised, looking at the evolution of SST, that the required capital had barely moved. Maybe if you can just give us a sense as to what the moving parts there. My working assumption is that the -- you have deployed more capital organically for things like the Berkshire quota share, some organic growth at renewals and some small M&A. But that's been offset by the changes on asset allocation, particularly the sale of equities. And I'm not sure if the closing of the short-duration position has also had a reduction in required capital. Or is that yet to come through? So just clarify why there isn't more inflation of required capital from organic growth would be helpful.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Andrew, thanks for your question. I believe I recognize the question from last quarter. You asked a very, very similar one. So absolutely, from our perspective, we will continue to look at casualty business on the Reinsurance side, especially on the proportional side in the U.S., where we feel that the business right now is meeting our technical requirements. We manage the business in EVM; but also, under U.S. GAAP accounting rules, we take into account expected loss ratio, the duration, the risk-free interest rate, the capital leverage we have and the investment income we can earn above risk-free, this business meets or exceeds our return on equity target of 700 basis points above risk-free. With respect to the 2014 combined ratio guidance of 95%, the business mix which we have been achieving so far this year is very close to the business mix we had the beginning of the year actually predicted we would be able to achieve. And the pre -- the prior year business is anyway already in our books, so we know that business mix exactly. And the current year combined ratio guidance is 100% in line with the portfolio we currently have in our books, be it from 2014 or from prior year. With respect to future years, of course it's way too early to even start thinking about how could the combined ratio look like, so we will do this in February 2015, when we have the 2014.

Andrew James Ritchie
Autonomous Research LLP

Oh, okay. But is it fair to say there's more mix effect to come then really, I guess?

Matthias Weber
Former Group Chief Underwriting Officer

Sorry, could you repeat because I did not understand it?

Andrew James Ritchie
Autonomous Research LLP

Okay, there's not been -- you said it -- and so there hasn't been really any meaningful mix effect yet and that, that is yet to come given the relative growth of casualty gross written year-to-date versus property in your book?

Matthias Weber
Former Group Chief Underwriting Officer

No, there has been. If you compare the combined ratio this year with the combined ratio last year, of course there has been a mix effect, a mix impact on the combined ratio, and that's one of the reasons why this year's combined ratio is higher than last year's combined ratio. It's not the only reason, but it's one of the reasons. But it has been fully taken into account already.

David A. Cole
Group Chief Financial Officer

Andrew, let me pick up your other question regarding the developments to SST. So just very simplistically, there are 2 numbers to look at. The risk-based capital and the target capital. And what's happened between our April report and our October report, frankly, that our risk-based capital has increased at a higher level, about 6% versus the increase in the required capital, target capital, by about 3%. Now the reason for that is as follows. Basically, we've seen net asset values, driven by the positive results, have increased across all segments. In terms of the target capital there, we do see a little bit of a higher Group shortfall, so reflecting the fact that we are investing and are writing new business. And that's offset somewhat by changes in Life & Health as well as credit risk, and this is following the rules of FINMA. In terms of the second part of your question, so indeed part of what we've done in rebalancing our assets over the course of this year, so not so much what happened in Q3 but what happened during the course of Q1 and Q2, has reflected in a little bit of a lower capital requirement coming off the asset side. I would expect as a result of the further reduction in equities in Q3 as well as the closing of the short during the course of Q3 that, that would have a positive impact on required capital levels, i.e. would lead to a lower level of required capital.

Andrew James Ritchie
Autonomous Research LLP

And that's not yet reflected in the number -- this number that you filed end October?

David A. Cole
Group Chief Financial Officer

That's correct.

Andrew James Ritchie
Autonomous Research LLP

Right. So that would be the short-duration closing and the Q3 equity sales?

David A. Cole
Group Chief Financial Officer

That's correct.

Operator

Next question, from Vinit Malhotra at Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Just -- I just wanted to get a little bit more understanding of when I look at even 9 months or when I look at 3Q, the underlying combined ratios, adjusted for the tax impact and seasonality, are still beating the 95% target, if you like. And if you don't mind, just please shed some light on how -- what's driving that, how would -- your results [ph] are outperforming. And second question is just on the recapture loss, the YRT recaptures. I was half expecting that some of these negotiations also lead to losses, and you did announce earlier there was a conclusion of a negotiation on 1st July. Is it that you're going to decide and take a charge all in one go? Or was it expect-- or should we -- is that how we should think about it? Or why was there no charge at all in third quarter is my simple question.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I will take the first question and the second question will go to David Cole, your 9-month combined ratio question. So on the Reinsurance side, the actual 9-month combined ratio so far has been 82.7%. We experienced below expected nat cat activity. We expect that also -- or we experienced also prior year development. If we correct for these 2 elements, we arrive at 92.8%. And if on top of this we make an adjustment mentally for the release of the Asian tax provision, that adds another 1.3% on top of this. You will see that we are actually very much on track towards achieving our combined ratio guidance.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Sorry, isn't it 95%, Matt? Wasn't it 95%? I'm just -- I mean, you're still 1 point better. I'm just trying to see where it is better in your view.

Matthias Weber
Former Group Chief Underwriting Officer

Yes, yes. So look, if you are a little bit better than the guidance, it's a kind of high-class problem to have. Please do not forget that our business has some volatility. We are trying to address the biggest sources of volatility by pointing some out: Prior year development, nat cats, et cetera. But in addition to that, there is also man-made large loss activity and other smaller sources of volatility. So being 1% point off, that's just the nature of our business. It has happened in the past and it will happen again. And if we are a little bit lower than we expected, we actually take it with pleasure.

David A. Cole
Group Chief Financial Officer

Okay, Vinit, let me address the second question regarding the impact of the negotiations with our clients around this pre-2004 YRT business. So we're talking about a relatively limited number of clients and a relatively limited number of treaties. Having said that, each individual block is a little bit different. And so we've approached these discussions with our clients, looking at the individual blocks of business and the cash flows associated with them, and we're basically conducting these negotiations on the basis of getting, of course, as you would expect, the best outcome for the shareholders of Swiss Re, looking at things from an economic point of view. So not being driven by the GAAP aspect per se. We certainly have it in our mind, but we're really conducting these discussions, the negotiations, on the same basis that we steer the firm, which is clearly driven by the economic view of the cash flows. Now as I think we've indicated in the past, not all of the agreements that we'll reach with clients will be in the form of recaptures. Some of them will be in the form of repricing. We'd also say we don't want to get into individual discussions about the individual transactions. I don't think that's in our interest to do. But you can, I think, bear in mind that not all of the agreements will lead to GAAP hits. Some of them will simply lead to an improvement in the underlying operating performance.

Operator

Next question, from Frank Kopfinger, Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have 2 questions. My first question is on your gross cash generation in the Admin Re segment. So after 9 months, you already report a $615 million contribution, and this is -- I'll regard you as being well ahead of your 2016 target of $900 million. So should we expect that you have to increase your target there at some point or that the cash generation going forward will rather dry out? And my second question is on your asset allocation where you shifted $8.6 billion into government bonds and you almost brought back your short position to a neutral position overall. And the question is, did you overall change your view of rising interest rates?

David A. Cole
Group Chief Financial Officer

Okay, thanks. Well, let me first talk about cash generation at Admin Re. Of course, we've been very pleased with the overall level of cash generation in 2014. You quoted the number $615 million through the 9 months. In terms of our overall guidance, I think it's a little bit premature to talk about increasing the expectation over the course of the 3-year period, so we always talked about $900 million over the course of 3 years. I think it would be fair to say we'll be coming back to this in February. I think we've been pleased with the results that our management actions have achieved so far, and we continue to have a number of ideas about ways we can continue to improve the performance of the business, in the first instance, of course, looking very closely at cash generation as well as looking at the overall ROEs. So I think we've been satisfied with the performance. Some obviously is just a little bit of a timing issue. It's too early to adjust that guidance, but we'll come back to it in February. As for the second question, so indeed part of the increase in government bonds was associated with reducing our short position. So you've seen now we're about $2.5 billion -- sorry, $2.6 million DVO1, which we would classify as, frankly, a typical position. It's not strategic in any shape or form. In addition to closing this short, of course we also -- just a periodic update of our liability portfolio [indiscernible] match that. To the point of our expectation on interest rates, we still expect interest rates to rise, but we now believe that, that increase will perhaps take place a little bit more slowly and perhaps a little bit later than we had previously thought and we simply have come to the conclusion that it no longer makes sense, economic sense, for us to hold that short position. It's just a fairly straightforward calculation. I would like to remind everyone, when you think about the short, to realize that we've put it on in conjunction with the overall rebalancing of our portfolio as we thought it would position us in a very appropriate way to respond to different market circumstances. And I have to say we've been very happy with the way that overall rebalancing has taken shape and has contributed to our results.

Operator

Next question, from Kamran Hossain, RBC Capital Markets.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

I have 2 questions. The first one is just thinking about business mix and the P&C Reinsurance business. What -- how should we think about the kind of the catastrophe loss load due to the business mix change? So, I assume that should have come down. So what shall we think about that on an ongoing basis? And the second one is on Corporate Solutions. Just looking at kind of the underlying performance of the business, it looks a little bit disappointing kind of versus where you wanted to be at the beginning of the year. Can you just give us a bit of color on what's going on there and kind of what you think needs to be changed in order for it to get a little bit better?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to your first question, the cat's loss load for our entire book this year is USD 1.45 billion for the full year on an accident year basis. And this is, of course, distributed across the individual quarters according to a key [ph] that is nonlinear. On the Reinsurance side, for instance, we have 25% during the first quarter, 15% during the second, 35% during the third quarter and the remaining 25% in Q4. With respect to next year, of course it is too early to make any predictions or give any indications at all with respect to what next year's business mix is going to look like, also including the total amount of nat cat business we are going to write. On the Corporate Solutions side, actually the combined ratios we have been seeing so far or the deviation of the combined ratio we have been seeing so far relative to our guidance can be explained by 2 things. And here now, I talk that the adjusted combined ratio after taking it into account could lock on the nat cat side and some prior year development. So the additional factors are man-made large losses and expenses. Man-made large losses -- and please remember our business is volatile. Sometimes we experience good luck, and sometimes we experience the opposite. But if we look at the first 9 months, the man-made large losses are a little bit above our expectations, and this amounts to approximately 2.3 combined ratio points. And in addition to that, our expenses are a little bit higher than the -- we were predicting last year, and the reason is that some of the investments we were planning to do in the future in high-growth markets, for instance, we made some a little bit earlier in 2014 already. And that's the reason why the cost ratio there is a little bit higher. If we correct the combined ratio for these 2 elements, we are absolutely aligned with our guidance of 95%.

David A. Cole
Group Chief Financial Officer

If I may just briefly add to that. That's actually also the reason that in my comments earlier this morning I made it clear that as the Group CFO, I'm actually pleased with the overall developments in Corporate Solutions. It remains on track. I think we're trying to grow in a very intelligent way. So we're focusing on profitable growth, focusing on increasing our capabilities. I think if you look at the 9-month return on equity at the 12.2%, is also an indication the business is certainly delivering its contribution to the overall results. So I can appreciate the question looking at the quarter's numbers, but I have to say, looking at the way that business continues to develop and the opportunities we see more broadly in the Corporate Solutions space, we remain comfortable and even pleased with the way that business is developing.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Can we just come back on the first question? It was -- it's more kind of theoretical. If I may -- in my model, I'm assuming a percentage of catastrophe losses as a percentage of net earned premium in my model. With your -- if we -- without thinking about what your business mix looks like next year, if I may assume that your -- if I assume that your business mix changes more towards liability than property, then is it a safe assumption on that basis that your catastrophe load should come down -- is kind of what I'm getting at.

Matthias Weber
Former Group Chief Underwriting Officer

Yes, so your -- from the information I gave you, you'll know what our -- for instance, our nat cat expected loss, so P&C premium ratio, is in 2014. And if next year, if we shifted more capital from property to casualty, that would automatically, of course, mean that the future ratio between nat cat expected loss relative to the total P&C premium reduces a little bit. Of course, you also need to correct for rate changes, which distort the whole picture a little bit.

Operator

Next question, from Olivia Brindle at Deutsche Bank.

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

So 2 questions. Firstly, just going back to the underlying combined ratio, sorry, looking at this in a slightly different way. If I take your reported loss ratio, back out all the cat losses or the large man-made losses and add back reserve releases, so in other words, a sort of pure current year underlying loss ratio, you're at 50%, which is extremely good, and it's also exactly the same as you had in 3Q last year. And if I look at the second quarter of this year, again it's exactly flat on where you were in 2013. So in the last 2 quarters basically, in spite of pricing pressure, you haven't seen or it doesn't look like you've seen any deterioration at all on that underlying loss ratio, and that just surprises me a little bit. So I'm wondering if there's any explanation you can give to that. And why have we not seen any worsening of that? Because obviously, that number is independent of the comments you've made on large losses and reserve releases. And then the second question is on capital again. And could you give us an update of the sort of the now famous $3 billion? How much have you deployed of that so far in terms of supporting growth in the business? And therefore, I guess, how much remains in that pot? And feeding that into a broader question on capital, based on the SST ratio you've disclosed today and some of the comments you made earlier in the call, it seems like you're going to end up the year again with an extremely strong capital position, suggesting that probably there's further upside to the $3 billion of deployment. I guess I don't expect a precise answer to that, but if you could just give us a sense of how you're thinking about that sort of overall capital return.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So Olivia, I will take the first question. If you look at the combined ratio -- of the combined ratio of Reinsurance, for instance, last year the combined ratio guidance was 92%. This year, the combined ratio guidance is 95%. Last year, at the end of the year, if we correct for all these either good luck or bad luck factors or prior year developments -- and here I would like to open a parenthesis. Prior year development, in my opinion, is still underwriting profit. It's just underwriting profit from a different year in the business. It was written, but it has nothing to do with good luck or bad luck, and it also has nothing to do with a one-off. And, therefore, we can neglect it if it's really underwriting profit, just from a different year. And now I close the parenthesis. But last year, we were quite close to our combined ratio guidance of 92%. And this year, we believe if we correct for -- if we make all these adjustments, we will end up reasonably close to this year's combined ratio guidance. Of course, you're right. The market is softening and there is market pressure. And it affects us also a little bit, and that's one of the reasons why our combined ratio guidance actually increased a little bit relative to last year. However, we are doing our utmost in order to actually stem against this pressure and decouple us a little bit from the market by offering deals which are extremely bespoke, which do not appear in the market, which, therefore, are not subject to the current demand-supply of capital and capacity imbalance. We also are trying very hard to offer services, be a partner of strategic importance to our insurance clients on the Reinsurance side and monetize this. And maybe that contributes a little bit to the fact that our performance this year so far has been surprisingly good. It's a high-class problem to have.

David A. Cole
Group Chief Financial Officer

Okay, let me then, Olivia, pick up your second question, and I actually appreciate you asking, it won't surprise anyone on the phone, I think, that we expected some sort of questions around capital management given our performance and our overall capital position. So just a few things. As a firm, we would absolutely like to maintain a very strong financial position. We've said exactly why that is. We want to be a partner of choice. We want to be able to take advantage of opportunities that develop from time to time in the market. And I think that it's very clear that everyone understands that, that, that will remain the positioning of the firm. Our overall philosophy about capital management is also the same as it has been in our previous discussions. And that's also important because it's important to recognize that we're going to act in similar fashions going forward, as we have in the past, which is that we want to make intelligent investments in our business, investments that fully fit within the strategy that we've communicated and investments that provide an attractive return to our shareholders. Clearly, we've understood from our shareholders that's exactly what they would like for us to do as well. And we'll continue to invest in ongoing sustainable profitability of the business. As so the $3 billion that you referred to, let me just specifically address one word. There's not a pot per se. I know that you folks recognize this. But the $3 billion is just an order of magnitude. It reflects more or less what we did in 2012, 2013. And we said we have no reason to think that 2014, 2015 will, say, be different, so we just gave it as an order of magnitude. More specifically to your question, at this point I think we're about $750 million to $800 million that we have allocated of this $3 billion. There are a couple of individual transactions that you're aware of. There's also just the ongoing organic underlying growth of our business. In terms of forward-looking statements, you're -- indeed, you're right. I'm not going to make a specific comment about any specific capital management, actually we'll come back to that in February. But our philosophy remains unchanged. We want to be consistent and to obviously continue to work on building the credibility. And the credibility, I think, comes from making sure that we stay on track, making sure that we stay within strategy and making sure that when we deploy capital, that we're able to do so in a way that provides attractive returns to shareholders. Now we don't have a mandate to spend money. We have a mandate to run the business for long-term value creation. If we come to the conclusion at the end of the year that we're sitting on a level of capital that once again exceeds what we would like to have in terms of the long-term positioning of the company as a strong financial partner and that more than covers a reasonable expectation of what we would think we could invest over a short -- a relatively short period of time, then we'll look for ways to return it to our shareholders.

Operator

Next question, from William Hardcastle, Bank of America Merrill Lynch.

William Hardcastle
BofA Merrill Lynch, Research Division

Following on from Andrew's question earlier on the mix effect between casualty and property, are you able to give us any sort of quantum of the impact that's happened so far year-to-date? And also, just to clarify, we should expect further -- more of this to flow through into 2015? Now I appreciate there's an investment income benefit as well that helps offset this, but just thinking about the combined ratio specifically at this stage. And then, can I just clarify? Ignoring the nat cat benefits, have the large man-made losses also been lower than what you'd normally expected year-to-date? You made a quick comment on that, Matt, but I wasn't sure if it's below budget year-to-date or not.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to the business mix of the business we have written so far, we actually disclosed the statistics after the Q2 results. And since then, we have written very little business -- additional business on the Reinsurance side because Q3 is just not a very big renewal quarter at all. And for 2015, it is really -- believe it to me, it is too early to make a prediction. So I cannot give any guidance at all with respect to that. Related to your second question on large man-made losses, for the first 9 months so far, if I understood you correctly, so relative -- on the Reinsurance side, relative to our expectations, that man-made large loss activity on the Reinsurance side has been a little bit below expected, and a little bit means 0.5% point across the first 3 quarter. If we look at Corporate Solutions, there it is a little bit different. The man-made large loss activity has been a little bit above the expected value. And there the delta amounts to 2.3% point. This is driven, for instance, in Q3 on the Corporate Solutions side, we had a satellite loss of $58 million; we had a fire at a chemical plant of $41 million; we had another fire loss coming from Australia, $12 million; and a mining loss from Zambia of USD 10 million. On the Reinsurance side, the large loss activity, the man-made large loss activity, almost entirely took place in the space of aviation, the MH-17, the plane in Taiwan, Algeria for instance and also the attacks and the fighting at the Tripoli Airport led to an actual man-made large loss activity of USD 78 million in Q3 for Reinsurance.

Operator

Next question from Stefan Schürmann at Bank Vontobel

Stefan Schürmann

Bank Vontobel AG, Research Division

Just 2 questions. First one, sorry to come back on the SST ratio, but can you just give us some -- the moving parts, the impact from your rebalancing, the impact from, like, the financial markets? And as I understand, I think there's about -- net debt had a positive impact of 3%. Then the second question, just very shortly on the -- basically the new position on the duration management. Are you happy with that position now? Or do we -- so should we expect further measures or actions here?

David A. Cole
Group Chief Financial Officer

So to the second question first, yes, I think it would be fair to say we're happy with the position. To be clear, we were happy with the position we were holding earlier as well as part of the strategic position thinking that we had. The current DVO1 is -- I would characterize as -- is more of a normal type of circumstance and positioning. It may go up a little bit, it may go down a little bit on a quarter-by-quarter basis as our portfolio continues to develop and we write new business and, of course, existing business expires. So I would characterize our current position as a normal type of position. As to the first question, I don't want to get into a really detailed discussion about each underlying driver of target capital or economic net worth. We afforded an increase in economic net worth, of course, in conjunction with our reports also to FINMA, our SST. I think the headline figures probably really covered our economic net worth grew higher than our required level of capital. Our required level of capital went up a little bit due to our overall underwriting activities and went down a little bit due [indiscernible].

Operator

Next question, from Vikram Gandhi at Société Générale.

Vikram Gandhi
Societe Generale Cross Asset Research

The first one is on the P&C Re. Can you share some more details on what's going on with the casualty model, where you said Q3 '14 as well as Q3 '13 included just a strengthening in the U.K. motor? And I believe Q1'14 also had some French motor sort of strengthening. So if you can throw some light on whether this is the proportional business or the non-proportional and what's going on with the pricing there. And the second question relates to the Corporate Solutions, where you had unfavorable prior year reserve development with the casualty. So which line does it lead to? And which vintage?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the first question related to motor. On the Reinsurance side, we had, on the casualty side, some favorable development related to general liability, plus some USD 26 million there. And on the accident and health side, we had $37 million favorable development. On the motor side, we had an unfavorable development of $42 million. The majority of this is, is driven by the U.K., and it is the old, well-known U.K. periodic payment order issue there. On the Corporate Solutions side, we had some unfavorable development related to casualty business as well. And there, it is actually just a higher number of small, uncorrelated losses across a number of geographies and a number of policies. So it's not totally easy to come up with a common theme there other than saying that this quarter, we had a little bit higher frequency of very small losses.

David A. Cole
Group Chief Financial Officer

Maybe just to complete that, of course that was offset by a favorable development on the property side within [indiscernible].

Operator

Next question, from Andy Broadfield, Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Just one question really. I'm trying -- we're at the stage in the cycle where it starts to get slightly mixed messages, we're seeing some very good ROEs, some of it by good fortune, but actually underlying still very good ROEs across the industry. And at the same time, we're being told pricing pressure is very hard. We're getting a very difficult -- your last rate is in -- I think it was about 107%, 108%, indicating there's still plenty of room there. So I'm just trying to understand, perhaps it is the difference you mentioned between your direct proposition and the broker business. But I was just trying to understand a little bit more how much more flexibility there is on pricing for you as you move along. And I appreciate this will be a case-by-case, but as you think about the portfolio, it feels to me like you've got quite a lot of headroom still or wiggle room on price on a portfolio basis. Is that the case how you're thinking about it? Is it really very different across different parts of your portfolio? And how do you intend to present yourselves to the market come January renewals?

Matthias Weber
Former Group Chief Underwriting Officer

So I cannot really comment on the market. We try very hard to beat the market. And in many quarters, we have been successful. And we will try very hard to continue to be successful of doing it. You're absolutely right with your observation that we have some room left related to a technical walkaway, and they're always different by different segments and different lines of business.

Andrew Broadfield
Barclays PLC, Research Division

Okay. So no still on where that -- particularly where the room is? Is that -- I guess what I'm asking is, is the direct business in really great shape? And the broker business, if that's a crude split, is it -- is more at 100? Have you got a split of the portfolio between 115 and 100 or is it actually we should be tightly bound around that index level?

Matthias Weber
Former Group Chief Underwriting Officer

So right now, right, forward looking, it's really too early to give any guidance at all. We will be able to give some guidance next February. But right now, it is too early. Related to the direct versus broker split on the Reinsurance side, approximately 50% of our business is written on a direct basis, 50% is written on a broker basis. And on the Corporate Solutions side, almost everything is written via the broker channel.

Operator

Next question, from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

I had 2 questions I guess related to -- for -- directed to David. The first question will be regarding the process for capital reorganization and extraction. Can you tell us where you stand currently in the process and basically what we should expect in or from 2015 onwards? Because I got in mind that the process was pretty much achieved for all the business line, but today you -- obviously you're bringing something new for the Admin Re segment. So could you just wrap up where we are today and what we should expect going forward? And the second question would be related to your earlier comment regarding maybe a slightly change in scenario regarding future interest rate evolution? You're guiding for a running yield of 3.3% for 2014. How things should be trending in 2015? And will that be, I will say, more or less stable? Or we should expect some pressure on a full year basis?

David A. Cole
Group Chief Financial Officer

Okay, thank you. Let me first start with the chartered capital structure. So indeed, this quarter, we also have updated the overall situation regarding our capital structure, that in conjunction with our half yearly report on our economic net worth. And you'll see that we've continued to make progress since our previous update, which was on the basis of our full year 2013 numbers. So the direction is as follows. Overall, we're seeking to further reduce leverage. You'll see that over the last couple of years, we've already reduced leverage quite significantly across the Group. While we are reducing leverage overall, we're also seeking to rebalance it a little bit better across the different business units. Historically, we had almost exclusively used our Reinsurance business where we had a leverage, and now we're putting a little bit of leverage on Admin Re and a little bit of leverage on Corporate Solutions. We think that also properly reflects -- allows better comparisons with some of their peers and also helps us address overall cost of capital, the weighted average cost of capital in the different units. In terms of forward looking, I think if you look at what we said, we indicated that we would like to position our overall senior leverage within a range of 15% to 25% and as of June, we're about 22%, so more or less in that range. On the subordinated and hybrid side, we had said between 15% and 20%, and we've tracked at 14% as of June. So there's maybe a little bit of room for us to increase that to bring it also within the range. The time frame that we indicated was 2016. This is what we announced in the summer of 2013. We remain well on track to deliver that. I'm very happy with the way that has progressed. In terms of forward looking, we want to be appropriate users of the capital markets and somewhat opportunistic in terms of taking advantage of our strength. So we'll -- we continue to watch the market carefully. I would say you could expect overall continued reduction in the total amount of leverage within the Group, continuing balancing across the different business units and perhaps, looking at it from an overall point of view, a little bit of a higher component of subordinated and hybrid going forward. In terms of your second question, indeed our running yields expectation for 2014, frankly, has not changed throughout the year. In the first half of the year, we had a little bit of a higher running yield that was due primarily to some prepayments on securitized investments that we held. So that drove the running yields in the first half of the year up a little bit above the 3.3%. In Q3 you see that our running yield was 3.2% and we maintain our overall expectation for the year 2014, at 3.3%. I guess it's that time of year where naturally you folks start wanting to think about 2015. But it's a little bit too early for us to start talking about 2015, so we'll come back with our expectations for running yields at a different day.

Operator

Next question, from Janet Van Den berg, Morgan Stanley.

Janet Christine Demir
Morgan Stanley, Research Division

Actually, my questions on leverage have been answered.

Operator

Next question, from William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Just a quick one. When you first talked carved out Corporate Solutions from the Reinsurance division, I think legacy contracts meant that CorSo were seeing an inflated combined ratio and presumably Reinsurance was commensurately flattened. Have all of those relationships now unwind so -- unwound so that we're looking at clean figures? Or is there any ongoing distortion from legacy contracts?

David A. Cole
Group Chief Financial Officer

Thanks, William. Yes, so what -- when we carved it out, we did leave certain reserves behind. And I think it would be fair to say that as we go forward, of course, those reserves run off and it becomes less and less of an issue. It was for that reason that we stopped actually communicating about so-called total financial contribution at the end of last year. So there's still some residual component of that, but I think it's not something that is really worthy of spending a lot of time on. So we're reporting the Corporate Solutions business on a going-forward basis and look to assess their performance based on that.

Let me take one more question. I understand that some of you may have an interest in joining another call that apparently is taking place just a little bit from now, at least if I'm well informed. So let me just take one more call and then we'll end the session.

Operator

The last question for today is actually a follow-up question from Mrs. Brindle from Deutsche Bank.

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

Just a quick one. I was just wondering if you have any exposure to the U.S. long-term care market. So thinking obviously of the recent Genworth announcement and whether there's any kind of read across at all for your business potentially.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So U.S. long-term care is a very difficult line to write. Historically, we wrote a little bit of it and, quite frankly, our experience was not absolutely fantastic. So we -- a while ago, we have stopped writing it. We still have a little bit reserves left, long-term care reserves left in our book, but it is absolutely immaterial right now. We do not actively write this line of business. It is the beginning [ph] of society, but it's potentially also very tricky for insurers to write it. And right now, I feel we have not yet cracked the codes related to coming up with a solution that would [indiscernible] society probably that makes sense for both the insured as well as insurers. And therefore, we are keeping [indiscernible] of this exposure.

David A. Cole
Group Chief Financial Officer

Okay. Well listen, let me just thank everyone for joining today. Obviously, if you have any further questions, we'd be very happy to field them, if you would like to give our Investor Relations team a call, please do so. I think some of you may have picked up from earlier announcements, as of the 1st of January next year, we'll once again have a fully complete Investor Relations team, Philippe Brahin will join us as the new Head of Investor Relations. I certainly look forward to continue working with Philippe and the rest of the team.

So let me now conclude the Q3 Analyst Call. Once again, thanks, everyone, for participating, and we look forward to our engagement. Thank you.

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