S&P Capital IQ

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Swiss Re Ltd SWX:SREN

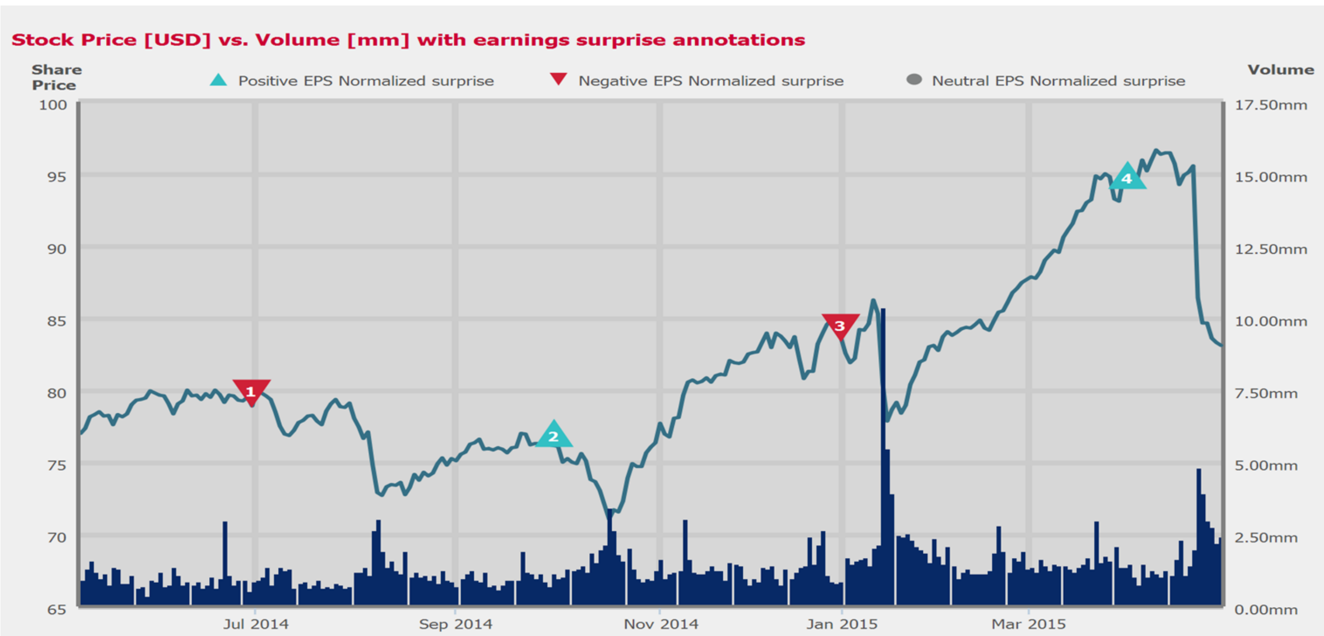
FQ2 2015 Earnings Call Transcripts

Thursday, July 30, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	2.17	2.20	▲1.38	1.99	9.16	9.20
Revenue (mm)	7765.41	7053.00	▼(9.17 %)	8573.95	32010.05	-

Currency: USD
Consensus as of Jul-30-2015 11:18 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	2.85	2.29	▼1 (19.65 %)
FQ3 2014	2.57	3.29	▲2 28.02 %
FQ4 2014	1.23	0.77	▼3 (37.40 %)
FQ1 2015	2.03	3.88	▲4 91.13 %

Call Participants

EXECUTIVES

David A. Cole
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Michel M. Liès
Former Group Chief Executive Officer

Philippe Brahin

ANALYSTS

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Jefferies LLC, Research Division

Andrew Broadfield
Barclays Bank PLC, Research Division

Andrew James Ritchie
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In-Yong Hwang
Goldman Sachs Group Inc., Research Division

James Austin Shuck
UBS Investment Bank, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

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

Vinit Malhotra
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William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

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Morgan Stanley, Research Division

Presentation

Operator

Good morning, or good afternoon, welcome to Swiss Re's Second Quarter 2015 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.

David A. Cole
Group Chief Financial Officer

So indeed, this is David Cole. Thank you very much for joining us, and welcome to our Q2 results conference call. I'm here today with Michel Liès, our Group CEO; and Matt Weber, our Group Chief Underwriting Officer. Our Chief Actuary, Mike Eves, is also joining us today. As you will see, we published a short video this morning on our P&C reserve methodology as well as the usual information we publish around this time regarding our loss triangles.

Let me just start with the brief overview of the results we published this morning. So you will see in Q2 2015 group, net income was $820 million, bringing us to a total net income for the first half of $2.3 billion, which is up by 11% versus the comparable 2014 period. Both the Q2 ROE of 9.5, as well as the half year ROE of 13.5, we believe, are continuing proof of the group's strong financial performance.

You'll see in all business units made a profitable contribution to the solid Q2 results. P&C Re reported a good underwriting result, successful July renewals with attractive price quality. Life & Health Re's performance remain on track with an ROE of 14%; Corporate Solutions delivered profitable results and remained focused on the quality of this portfolio; and Admin Re generated gross cash in line with expectation. I have no doubt all of you will also notice that all 3 business units have now paid dividend up to the group during the first half of the year. You'll recall Corporate Solutions paid $200 million dividend up to the group in Q1 and during Q2, Reinsurance paid $3 billion and Admin Re just over $400 million. So with that, I'll hand it over to our Head of Investor Relations, Philippe Brahin, who will introduce the Q&A session.

Philippe Brahin
Thank you, David, and good day also to all of you from my side. [Operator Instructions] So with that, operator, could we please take the first question.

Question and Answer

Operator

[Operator Instructions] The first question comes from In-Yong Hwang from Goldman Sachs.

In-Yong Hwang
Goldman Sachs Group Inc., Research Division

Two questions from me. Firstly, on your reiteration of your 90% -- 97% combined ratio guidance, adjusting for one-off nat cats and man-made loss variation in the first half, I think you get to an underlying combined ratio of 99.6%. So it would have to be a substantial improvement in the second half to get to the 97% for the full year. Just wondering what gives you the confidence? Is it just seasonally lower commissions, trends you see in the business that you wrote this year or something else going on there? Secondly, on the buyback, as far as I can see, the 1 billion share buyback for this year has not yet started. Could you share any kind of thoughts around your thinking around the timing and yes, the reason why you haven't started yet?

David A. Cole
Group Chief Financial Officer

Okay. So I'll ask Matt Weber to address the first question and then I'll come back around regarding the buyback.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the 97% combined ratio guidance relates to Reinsurance only, the guidance for Corporate Solutions is 98%. The reason why we are confident is the following. If we start with the 103% adjusted combined ratio this quarter, we have a higher amount of large man-made losses. They amount to approximately 2 percent points, 1.6 percent points to be exact. In addition to that, you know we adjust our premium on a quarterly basis based on nat cat seasonality, and the second quarter is a quarter with a low nat cat expected loss. So we decreased the earned premium relative to if we just took a linear approach. This leads to a situation where the cost ratio relative to the decrease in premium is higher, for instance. We also have more earned proportional business than we do have than non-proportional business because most of the nat cat business is written on a non-proportional basis. This amounts to approximately 3%, 2.8 percent point to be exact. In addition to that, we have a one-off unallocated loss adjustment expense charge of 0.6%. So if we take this all into account, we get to 98%, instead of 97%, as per our guidance. And now you need to take into account 2 things: if you look historically, our combined ratio pattern, you'll notice that during the second quarter or in the second quarter, we always are a little bit higher with our P&C combined ratio, compared to both written and adopt at year end. And secondly, 1% relative to approximately USD 3.5 billion is $35 million, that's a relatively small number compared to the limits we put out on individual risks. So what I'm trying to say, in addition -- with all the corrections we are doing, we will always have the remaining natural variability from one quarter to the other quarter. And that's the reason why we believe it would be completely unnecessary and actually wrong to adjust our combined ratio guidance. So we continue to be comfortable with the 97% on the Reinsurance side and see no need to adjust the guidance.

David A. Cole
Group Chief Financial Officer

Okay. Thank you, Matt for, I think, a very detailed, excellent response. I hope that satisfied. No doubt, there's a lot of group of questions. We'll get around that, but we'll see. Coming back on the second question on the buyback. So as I think all you know, we received approval from our shareholders meeting this past April for a up to CHF 1 billion buyback to be concluded in advance of the shareholders meeting in 2016. We've communicated a little bit earlier this year that in terms of actually launching the program, we would be unlikely to do that prior to the end of Q3. Basically, we want to see how loss and profits develop over the course of the year. It would be a little bit premature perhaps before the windstorm season in North America. Obviously, we also look to see what opportunities we have to invest it, along with our strategy and attractive returns. So I would just indicate to you not to expect -- most likely not to expect any further communication around that prior to the end of Q3.

Operator

Next question comes from Kamran Hossain, RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

I've got 2 questions. First on -- and I think you will be grateful it's not on the underlying loss ratio, it's just on Admin Re. So seeing you've taken 400 -- just over $400 million out of the business and upstreamed it to the group, and I know your target over the 2-year period, it was $600 million. Can I just ask is there any scope to further reduce that amount of cash from that business? And I guess, kind of some color on how Solvency II discussions or kind of what's happened with the model so far would be useful there. Second question is just on Corporate Solutions. It sounds like you're going to hit the lower end of your $4 billion to $5 billion premium volume for this year. Are we looking at the end of the growth phase for Corporate Solutions? And if so, understand there's about 4 percentage points of the combined ratio, course A, linked to kind of the growth phase, so how soon might we see that kind of backing out?

David A. Cole
Group Chief Financial Officer

I have to say the last part of the question, I wasn't able to understand. So if you wouldn't mind when you first started talking about Corporate Solutions, could you just repeat that?

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Yes, of course. So I understand there's about 4 percentage points in the combined ratio at Corporate Solutions, that are kind of baked in for kind of growth initiatives. So I was just wondering how quickly that we might see that reverse out of the course A combined ratio.

David A. Cole
Group Chief Financial Officer

Okay, okay, thanks. I think I understand that you're referring specifically to the expense levels, I believe so. Let me first start with Admin Re and then we'll wrap back around to Corporate Solutions. So yes, we are very pleased to have received the $400 million dividend during Q2. We had previously communicated that over the period 2015, 2016, we would expect something in the order of magnitude of $600 million. So clearly, we're well on our way to that. A little bit too early to give any updated guidance in terms of the remainder of the period 2015, 2016, but certainly, you could expect us to do so toward the end of the year. We do make continued good progress in terms of preparation for Solvency II. You'll have seen that we were doing some rebalancing, readjustment of our asset portfolio in the first half associated with the Solvency II. We've rounded that off at this point in time. I guess as most other insurance groups in the U.K., we have very engaged, very intense discussions with the PRA, but we remain comfortable regarding where we're going to land those discussions. So I guess in terms of capital extraction and our capital deployment, the nature of that business, of course, is that we do expect to throw off capital. The possibility of us injecting capital, I think, should also not be neglected by analysts or investors. The nature of that business is that we seek to acquire profitable new blocks of business. So as and when we'd able to secure such a block, we would also be willing to invest capital back into that business. Coming to your comment about the -- I'll use the word baked in, that you used. So indeed, we do recognize a higher expense level now which shows through on the combined ratio that we report for our corporate solutions that's associated with the growth of both footprint as well as product capabilities, that's an ongoing initiative. It's not something that will end this year, for instance, it could well be another couple of years. But we certainly would expect over a period of time in reflecting the business mix, of course, so that those expense levels do come back down to levels more comparable vis-à-vis its appropriate peers.

Operator

Next question comes from Thomas Seidl, Bernstein.

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

Two questions. One on the pricing. I think you commented you had a successful renewal and you said that the pricing of the book is now 105%. It's just a clarification here, but does this mean, because on a year-on-year basis, it's down 3% but it's stable as of January, does this mean that the price softening is equal to what we saw at January 1? Or does it mean you were able to renew the book at July 1, basically, at flat rates? That's my first question. Second question regarding your priorities for the group, 2015, the update you gave on Slide 17, we note that, basically, you have taken away the previous point saying you want to grow regular dividend and you put up an emphasis on allocating capital risk pools with attractive revenue and income stream. So I wonder what we should read into that. Any comment would be very helpful on that.

David A. Cole
Group Chief Financial Officer

Thanks very much, Tom. So let me first hand over to Matt.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the 105%, what it first means is you're probably aware of the fact that the January renewed treaty business written out of reinsurance amounts to approximately 2/3 of the total renewable business. So 2/3 of the premium volume renews January 1 and the remaining 1/3 renews during the other quarters. And this means the year-to-date price quality or rate efficacy, if you will, is heavily determined by the January 1 business because it just has a huge amount of weight. Or in other words, in order to increase [ph] from the 105% on a year-to-date basis, the July business would have to be significantly different from 105% in order to really have an impact. So that's probably the more formalistic quantitative mathematical answer. If I try to answer your question qualitatively, I would say, one of your options is probably reasonably close to the truth. The rate decreases we have seen at the end of July renewals have approximately the same order of magnitude as the rate decreases we have seen during the January renewals. And now you can say, "Wait, this doesn't sound right to me because everybody is saying rate decreases have started to come down a little bit. Is this not true for Swiss Re?" And the answer is it's absolutely also true for Swiss Re. And the way how to make sense of this is the following. In the January 1 renewal, you have significantly less nat cat business and significantly more man-made business that has experienced historically less rate erosion than the nat cat business. And during the July renewals, we have a significantly bigger proportion of nat cat business. So if I say, qualitatively, the rate decreases of July and January business are about the same, have the same order of magnitude, this means that nat cat business renewed during the July renewal, which, historically, experience significantly bigger decreases. These decreases have toned down to the level of the rate decreases we have seen on other business. And that's the way how the whole thing fits together. I hope this answers your question also qualitatively to your satisfaction.

Michel M. Liès
Former Group Chief Executive Officer

So I thank you for your question. It will give me the opportunity to eliminate any kind of potential confusion. We didn't change anything in the philosophy of dividend. You remember, first priority is the classical dividend, for which we definitely want to keep it at its level or grow it at the speed at which we grow the business. The second one, opportunities existing to invest the capital to our appetite; the one that we choose; the one that mother nature decides. And the third one, which has been for the last 3 years, is this extra dividend and which, maybe in the future, the share buyback program is giving back money to the shareholders in case definitely, there is no other way to invest this money according to our appetite. No change in that respect and thank you for that question, allowing me to underline that.

Operator

Next question comes from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Two questions. On the growth, the very strong growth of 31% at the renewal. Maybe I'm a bit soft, but if I grow this much in the market, which I don't think is very much, then I must be doing something to assist the business, some kind of incentive, or I don't know, maybe you can give a little bit of background. It's a very nice number but it's so big. And then the other question, and this is something where -- do you remember, Michel Lies, at a lunch a while back, you kind of said, maybe in the future you will say how wonderful our Life business is and how difficult the non-Life is. Would you be tempted, given the life is actually delivering over your target ROE, to raise the target ROE? I think it's 10% to 12% you reported. I'm not sure whether it's 14% or 16%. And yes, that's it.

Matthias Weber
Former Group Chief Underwriting Officer

Okay, answering the first question. The growth is -- on the year-to-date basis, all of the growth can be explained by large and tailored transactions. If we look -- if I call all the business that is not large and tailored, if I called that business transactional for a moment, if you just look at the volume from transactional business, which is subject to the market-wide demand supply-induced price pressure and market softening, then actually, our volume has decreased. However, we significantly overcompensated for this by writing additional large transactions and tailored transactions, which are significantly less exposed to these demand supply market-driven market softening. That's the reason why on the one side, we fully understand the concern behind your question, but on the other side, we are also very confident answering these questions and actually quite proud about this exceptional growth coming from exceptional business.

Michel M. Liès
Former Group Chief Executive Officer

Michael, thank you for the question on Life. Definitely, the Life return 10% to 12% was courageously put on the table by Christian Mumenthaler and Alison Martin -- I should say Alison Martin and Christian Mumenthaler, mid-2013 to just explain what we want to achieve in 2015 after the work done in the 18 months between mid-2013 and end, 2014. I think it was courageous. We are in this range. I appreciate massively your trust in the Life business to ask me just after 2 quarters if it's now time to move that. I would say, not yet, if I may answer.

Operator

Next question comes from Anasuya Iyer, Jefferies.

Anasuya Iyer
Jefferies LLC, Research Division

My first question was on the investment side. You said your realized gains went down because -- with the increase in interest rate, but I understand that the reinvestment yield remained unchanged at 1.6% versus quarter 1. I'm just wondering why that is and why it's not gone up. And second question was just on the man-made losses. I wonder if you could help me understand a bit more about whether this is concentrated in a handful of claims, or if it's widespread? And whether the exposure could be more in the following quarters?

David A. Cole
Group Chief Financial Officer

Okay, thanks very much. So let me take the first one and I'll hand it over to Matt for the second. So actually, there are 2 aspects, I think, when you look at the results on the investment side. The first, you asked about the unrealized gains and the reduction. That, of course, looking at the entire balance sheet and just bringing it to the current market value, based on the macroeconomic, primarily interest rate moves but also credit spreads moves. But the clear major drivers here is the interest rate's moves. That's just looking at the entire balance sheet whereas the reinvestment level looks at actual transactions that we did during the course of the quarter. The reason that, that number is as it is, is because we used a good bit of our cash during the course. We used cash in the course of the quarter for 2 specific reasons. We obviously paid out $2.6 million of dividends during the quarter, and we've invested about the same level, a little bit less, about $2 billion or so into relatively shorter duration government bonds. And I think that probably influences the reported reinvestment yield. Matt, you want to...?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. With respect to the man-made losses, it's probably easiest if I just talk about the losses we have seen and experienced on the Corporate Solution side, and the reason why I picked Corporate Solution is for this business, you need the ratio between large man-made losses and earned premium is significantly bigger than this is the case, for the Reinsurance side. As a result of each, of course, also the quarterly volatility coming from that angle is significantly bigger, depending on whether we are seeing a little bit more or a little bit less of these large man-made losses. To give you a little bit of feeling on the Corporate Solutions side, we expect that large man-made losses of the order of USD 73 million and what we experienced is $114 million. It's actually in percent of what we expect but not a huge difference. It's less than 50%, although it's approximately 50% more, so that's the natural volatility. But it impacts the combined ratio by almost 5 points. So that's something to keep in mind. And these losses, which we experienced during this quarter are spread all over the world. Actually, including the air and space. They include the space loss, then the famous Mexico oil platform, which was burning, which we all know was Pemex. Then we had Latin America sure enough. We had the plane crash in Spain, and we had an additional refinery fire, all of which were larger than the $10 million threshold, which, on the Corporate Solutions side separates the large losses from the not-so-large man-made losses. So it's -- the message is, it's well spread. It's not one super large, it's more 5 or 6. Fairly large one above the threshold and yes, if you expect 4, on average, sometimes you'll see 5 or 6, and sometimes, you'll see 2 of them and that explains the reason why sometimes we say we had a below average amount of large man-made losses and sometimes, we have them above average demand.

Operator

Next question comes from William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

First of all, back on the July renewals, I understand everything that you said, Matt, but at the end of the day, the business you're writing cannot be brand new business to the markets; you must be taking it from somebody else. And so to the extent that you think it's attractive, can you tell us if it's 105% price adequacy, in your view, what would have been the expiring price adequacy from the point of view of the companies that are letting this business go? I mean, you must have some kind of view on that. And then back slightly to Michael's question about the great life results, can you give us an indication? You we're talking sort of $550 million to $600 million in absolute terms was your original profit ambition for this year, where do you think we are by the first half? I mean, because, obviously, you benefited from capital gains and the rest of it. So would you just suggest we halve that, or are you actually ahead of where you intended be? And possibly, asking the same question in a different way: your 11% margin, operating margin in the second quarter, to what extent is that inflated by good luck? Or can we actually plug that in as a sustainable figure?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I will not answer your first question and the reason is it cannot really be answered. The reality is, since the growth comes from large and tailored transaction, most of this increase is actually one-off business and brand new business. And a new need comes up somewhere and these new needs has to be or can be addressed by a new and unique solutions. Therefore, there is no expiring price and that's the reason why I cannot answer your question.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

May I just come back then and ask how much of the growth has come from broker-placed business versus directly sourced?

Matthias Weber
Former Group Chief Underwriting Officer

Let me quickly check, give me a second. Can we answer the second question during this time? I will...

David A. Cole
Group Chief Financial Officer

So, Will, I'll give a shot at the question about Life and Health. So what we said, as Michel indicated in the summer of 2013, is that we would like to achieve, on a sustainable basis, return of equity of between 10% and 12% on the then 50 equity base which was approximately $5.5 billion. And these are for referring to the existing equity base, so just to kind of take out a little bit the very significant up and down impacts that are rising or shrinking interest rates we have on the level of equity coming off the back of unrealized gains. So I think that's clear to everyone now. If you look at what we achieved in the second quarter, so a headline ROE of 14% but we've provided similar, it's the way we did in Q1, backed out some of the things that perhaps are good luck, or other things, we have good luck and bad luck in every quarter as you know. And we get to an underlying ROE for the quarter of about 11%, just the north of 11%. I think, for the first half, we're sitting at -- right at 11.4% or 11.5%. So I think what I'm trying to say is that we're on track. Our businesses are always going to be characterized by individual quarters where you have a larger mortality on individual lives or not. But what I'd like to say is that on an underlying basis, off the back of the steps that we took during the period 2013, 2014, and just to remind everyone, it was the capital structure, the leverage of the segment dealing with the pre-2004 business, getting right asset mix in place and of course, continuing to write right attractive new business. Those things, I think, will continue to support the profitability of the business going forward. And as Michel said, it's a little bit too early for us to talk about moving the target. Let's just hit the target. We're on track.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Sorry to come back to it, but the 11 to 11.5 that you mentioned, is that on the originally equity base of 5.5 or that is on the current equity base?

David A. Cole
Group Chief Financial Officer

It's on the original equity base of 5.5 which you have seen with the interest rate just moving up a little bit during Q2. The actual reported equity for this segment is only 5.7, but it's on the 5.5.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Answering the second half of your first question. Both channels contributed to the growth on the large transaction and tailored business side. The direct channel is a little bit stronger than the broker channel.

Operator

Next question comes from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

First question is for Matt again. I was looking at your business mix renewed and renewing here to date, and I see that casualty, which grew last year, is actually down slightly or flat in terms of proportion within your portfolio. I mean, do we not -- is casualty still attractive? Is this just a function of the fact that some of the large deals you did happen to be in properties, your specialty areas? Maybe just comment on kind of where you see the casualty weighting from this point and whether it still seemed to be an attractive area for you? Second question, thanks for the additional presentation on the reserves this time around. I see you've suggested that you're in the 60th to 80th percentile of the best estimate range as of the end of 2014. Where did you sit at the end of '14 versus where you sat at the end of '13 within that range? I mean is it stable, are you up a little bit? Towards the upper end of it? Or just any sort of cause of indication would be useful.

Matthias Weber
Former Group Chief Underwriting Officer

Andrew, thank you for your question. It's a very good question Casualty, remember, 2 or 3 years ago, when we said that we will start again to grow casualty. We also said, we will not grow it explosively, we will step gently on the accelerator. And that's exactly what we have been doing. Remember the split between large and structured transactions on the one side and transactional business on the other side. If I look at the transactional business, I see that we have continued to grow casualty moderately, as we have been doing it in the past. However, if you look at the total premium distribution year-to-date for 2015, these casualties moderate. Gentle casualty growth is camouflaged by individual large transactions and tailored business, which are not on the casualty side. So you kind of hinted at and gave the answer to your question already correctly.

Andrew James Ritchie
Autonomous Research LLP

Is it still an attractively priced area? I mean as it become -- obviously, a lot of your peers are trying to grow casualty as well.

Matthias Weber
Former Group Chief Underwriting Officer

Our view is unchanged. On the casualty side, 50% of the volume comes from the U.S., for instance, and in the U.S., the underlying rate levels right now, they are approximately stable compared to rate levels pretty much everywhere else in the world in all of the geographies and segments where prices have been going down. So the relative attractiveness has been shifting from other lines and other segments to the casualty. And that is still true.

Michel M. Liès
Former Group Chief Executive Officer

Andrew, this is Mike Liès. To answer your question on the range. We stayed pretty much in the same level for the last couple of years. It varies quarter-by-quarter when you look at it, but it seems fairly constant around the same level. And I think, the other point I would add, despite the sort of strong reserve releases over the last periods, we are staying roughly in the same strength. When we analyze the reserve each quarter, it's staying in roughly the same place, at least for the last few years.

Andrew James Ritchie
Autonomous Research LLP

And can I dare to ask where are you within the 60 to 80s? Should I just assume halfway or...

David A. Cole
Group Chief Financial Officer

We're in a good spot in the range.

Andrew James Ritchie
Autonomous Research LLP

Okay. 79.9% then, right?

David A. Cole
Group Chief Financial Officer

Thanks. I appreciate your sharp eye. I see that subtle move on the casualty side. I have to compliment your eye, Andrew.

Operator

Next question comes from Andy Broadfield, Barclays.

Andrew Broadfield
Barclays Bank PLC, Research Division

Two questions I would like to ask. One is just around Admin Re and also in the context of the buyback. The tone seems to be more committed or certain around Admin Re. So you took about an 18-month timeline there about closing some transactions. I think, it's the first time [indiscernible] the call, you're being so certain about timing. And also around, actually, some -- and I'm sure that you mention about the -- again, the priorities of investing as well. But in the context of the buybacks, and I apologize this is one long question, but in the context of the buybacks, would they -- it sounds to me that you would potentially not do a buyback if you thought there was potentially large Admin Re deal or other deal to do. And it sounds to me like there is or are potentially some significant Admin Re transactions which are quite well developed, and these take some time actually come to fruition. I don't know if I can get away with that being one question. If you could give clarity on that. And also a second one, and you can either ignore it or not. The second question is, just back to this growth, to try to understand where it's coming from and if it's not coming from competitors per se. Just trying to understand what that new business is. Is this consolidating multiple lines from -- for clients that you're doing and, therefore, you can do it in size? And your advantages is that so solvency deals and, therefore, it is genuinely new business. Because I've noticed and I'm angling for a compliment like Andy got last time, that actually you had a slight shift to U.S. and business away from Europe on those pie charts, this is just -- it's not so strategic[ph].

Michel M. Liès
Former Group Chief Executive Officer

Okay, Andy, I'll take the first one. And I suppose Matt will take the second one. I would be massively boring with my answer to your first one because if you were expecting a clear agenda of activities before or after share buyback or no share buyback, you will probably leave with my answer a little bit frustrated. But I repeat the order that I say without going into too much detail, definitely the classical dividend then opportunities and then what used to be extra dividend and then share buyback. The only thing that I can add to what I said before, I won't invent an opportunity in the middle just for the pleasure of killing the share buyback option. So when we speak about option to invest our capital, apart of the one where mother nature is playing a role, it's definitely one corresponding to our appetite. But I'm sorry, don't expect for me that I give you more details about the 18 months and about what we are supposed to say at the end of quarter 3 or beginning of quarter 4 on the share buyback.

Andrew Broadfield
Barclays Bank PLC, Research Division

I guess just on that, in terms of timing, the share buyback commitment or otherwise or proposal for the AGM next year, there's a timing in doing that in 18 months. So I'm just wondering if we could get to the end of this year and you could still be holding on just because there's still some potential vested[ph] interesting transactions that still haven't come to fruition, is that a possible scenario?

David A. Cole
Group Chief Financial Officer

Andy, there are lots of different scenarios. The authorization from our shareholders is valid until the next AGM, April 2016. So we have, I think, an opportunity to look at how the businesses are developing, the opportunities to invest that Michel was describing, just underlying. And the deal, we're not going to invent opportunities to invest simply to have the pleasure of investing. It needs to meet our financial hurdles, as you've heard before. And we'll come to a conclusion later in the year as to whether or not it would make sense to go ahead and launch something on the share repurchase side. So our intent is to maintain a very strict capital and management approach, we've outlined that to you before. And I don't think anything that we said today should lead you to conclude that we're changing that.

Matthias Weber
Former Group Chief Underwriting Officer

With your follow-up question, you're definitely in the range of 3 questions now. But I will answer, if I didn't, somebody else will ask the question. So the spectrum of solutions that I described with the label large and tailored transactions is extremely broad. And I will have to give you a very, very long answer to go into detail here which I do not believe I should do. But it includes everything, ranging from longevity swaps to some tailored multiline transactions, external runoff transactions or large property quota shares driven by the desire of an insurance client to seek more of their nat cat exposure. So the range is very broad also geographically.

Operator

The next question comes from Xinmei Wang, Morgan Stanley.

Xinmei Wang
Morgan Stanley, Research Division

Xinmei Wang from Morgan Stanley. Just 2 questions, please. Firstly, just following up on the casualty line. So your comment that it's sort of okay in the U.S. but you're saying that increases in specific areas. Would you be able to elaborate a bit on what sort of areas you're seeing increases, which lines and what sort of magnitude, please? And then my second question is sort of on the theme of consolidation in the primary players and, particularly, in the U.S., increased retentions there. I was wondering if you could comment on how you think Swiss Re is best placed in this environment, please, and whether you think if there could be any potential knock-on impact on pricing there.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So I take the first question related to casualty. It is naturally, obviously, more geared towards the U.S. than the rest of the world, just by the sheer size of the U.S. market. And approximately 50% of worldwide premium comes from the U.S. And typically, the growth there comes from general liability and motor business, and a little bit of professional liability as well. It definitely does not come from pharmaceutical business, that's aligned, which we absolutely, really, from the bottom of my heart and all our hearts, don't love at all. And it also does not come from the workers' compensation side. And I can give you also an order of magnitude by describing it as moderate growth.

Michel M. Liès
Former Group Chief Executive Officer

On the second question, Xinmei, maybe -- Michel here. First, as a player, we say it several times that in our activities, there is one which is definitively based on potential acquisition, that's Admin Re, that's definitively the name of the game. We were never sorry to say that also in the profitable growth story of Corporate Solutions, we do not exclude analyzing opportunities. In Reinsurance, definitively, we do believe that we are even convinced that we have quite an efficient platform. And I must say on the Reinsurance side, I do see actually 2 types of activities, one is a little bit more defensive and the other one, which is probably trying to -- well, not trying -- it's capital coming from outside the industry, probably inspired by a model which has been created 4 years ago by somebody based in Omaha. Now what is the effect of mergers on the primary side on us. This is something we are quite used to, and it's simply underlying, probably, the interest of our regional and national diversification when we speak about client hearings. We have clients, which are the globals, something like 50 worldwide; so-called large clients, something like 200; and then 3,000-plus clients, which are called regionals and nationals. And they are definitively, probably a little bit more less volatile in their request of Reinsurance than the top 250 and that's also one of the reasons why we expanded our activity successfully, by the way, in the last 2, 3 years. Successfully, especially in the U.S. and that's one of the reason why you see this 30% increase in July. So in a way, not a lot of surprise on what is happening on the primary market and its consequence on the Reinsurance and simply enhanced interest to make our client portfolio as diversified as possible, but we started that already a long time ago.

David A. Cole
Group Chief Financial Officer

If I may just add 2 more brief comments before we go to the next question. First is just that I hope you all realize that, also, whenever our clients get involved in significant transformations, whether it's related to their solvency regime they'll comply with or corporate development, as we've seen now announced over the last 0.5 years or so, typically, that also presents opportunities for a company like Swiss Re. The companies will look at our portfolio, they'll think are we optimally organized, are there some concentrations we want to deal with, parts of our portfolio that may or may not be as attractive as we thought they were previously. So in and of itself, these types of developments also open up opportunities for us. Even when companies, indeed, look at their overall purchasing approach, how they deal with the reinsurance market, I think it probably plays to our strength as we see some of these concentration going on. And second thing, I do this quite somewhat tongue-in-cheek. But Andy, let me just also compliment you for your sharp eye. You kind of passed over that one, but indeed, exactly the same 1% change in the portfolio of mix. So I guess, an equal compliment is due.

Operator

Next question comes from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Just a double question on the renewals again. The first one, I saw that in April, you had some late uptick in the volume. Can we just, I think, from $1.5 billion to $1.7 billion of volumes, can you sort of maybe indicate what it was or in terms of segment or geography? And the second one now, including all the renewals, can you give us an indication how much of the business now is proportional, how much is nonproportional and stable, please?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with an aspect to the first question, there are actually 2 reasons that explain this $200 million. The first is coming from FX changes. The U.S. dollar is now stronger than it was 3 months ago. And the numbers have been restated using very recent FX rates. So that explains a part of the increase. And then we have a little bit of late renewal activity going on and late notification. However, it was actually not very big. It's just the April renewals, volume-wise, it's not a huge amount to begin with. So relatively small changes in absolute U.S. dollars leads to larger changes in percent of the base. With respect to the business split, overall, right now, proportional business amounts to approximately 2/3 of the total volume, facultative business is of the order of 10% and the rest, somewhere in the high 20s that is nonproportional reinsurance business.

Operator

Next question comes from James Shuck, UBS.

James Austin Shuck
UBS Investment Bank, Research Division

Two question from me, please. I wonder, could you just comment a little bit about the outlook for longevity risk? Obviously, with Solvency II sort of working its way through the system, presumably, we're going to see more and more supply of longevity risk, and I'm just wondering what your appetite is for that and where you see pricing, how you actually assess profitability on it as well might be helpful. And then secondly, on the Admin Re side, I mean I kind of -- I also picked up the fact that you seem to have more confidence in the pipeline and rather than necessarily linking this with the dividend, I just wanted to understand kind of what's driving that because you talked about an 18-month period. I mean, it seems we're in a sort of standoff at the moment, particularly in the U.K. market. There's lots of closed books, and no one's actually doing anything yet. And it seems as if it's going to take one player to make a move. And then all of a sudden, the dominoes start toppling and then lots of things start happening. So could you just comment on how you see that market? Whether my interpretations are the right way to thinking about it, or whether kind of your 18-month confidence is completely separate to that.

Matthias Weber
Former Group Chief Underwriting Officer

I'll take the longevity question. So we do have some appetite for longevity risk at the right price. And the reason why I have to emphasize at the right price is the following. Once you write longevity risk, by definition it stays on your book for a relatively long amount of time. And while we have a very big balance sheet, we can write only so much. So we look at it as capacity, which we -- different to nat cat capacity, which we tend to renew on an annual basis, that's not to the same extent possible on the longevity side. And the good thing is we do have capacity, which means we do have appetite for it. But knowing that once we write it, it stays on our book for a while, we have minimum price standards enforced, and business that is below these standards will not be written by Swiss Re. In the long term, I believe longevity risk will become bigger and bigger and since eventually, it will become really, really a problem, not just for society but for also for the pension funds and insurance and reinsurance companies. And that's the reason why I personally believe that in the very long run, price levels will probably rather increase than decrease.

David A. Cole
Group Chief Financial Officer

Thanks, Matt. If I may, I know some of you will recognize you've been hearing that from us now for a couple of years, so just to underline, the Solvency II will be upon us shortly, that no doubt will have some impact on clients under that regime and similar types of regimes will be coming into force elsewhere. But this idea we anticipate quite a significant demand for that capacity coming at us over the course of the next decade perhaps, I think, is once again underlining our longer-term approach and our discipline in terms of how we apply our capacity. So just underlining this. That's a message you've heard from us before but we are open for business on the longevity side.

So the Admin Re pipeline, so there's nothing concrete about 18 months. The gestation period of these transactions can be a little bit longer than some of the other business that we write across the Swiss Re Group. But if you just look at the level of changes that have taken place in the U.K. over the course of the last 12 months, both from a regulatory point of view but also from a tax point of view and other changes in the pension environment, you can imagine that we've had quite significant and even intense dialogues with many, many players, clients in the U.K. market over the last period of time. And we feel as though we're now getting to the point where some of those clients are ready to make decisions, and we feel that we're extremely well placed in order to be an active consolidator in that marketplace. Now we haven't been standing still over the last couple of years, we've been investing in our platform and improving its operational capability but also scalability. So we remain confident that we are a buyer of choice. I think we maintain very solid relationships with both the sellers, the clients here as well as with the regulatory environment. And we continue to demonstrate everyday that we're treating our customers, the policyholders fairly. So we remain confident that we're well positioned for what we anticipate to be significant change over the next 18 months.

Operator

The next question comes from Vinit Malhotra, Mediobanca.

Vinit Malhotra
Mediobanca - Banca di credito finanziario S.p.A., Research Division

Vinit here from Mediobanca. Actually, I did want to ask about buyback, but maybe I'll let it go for now. But on the reserve release, [indiscernible] presentation, in the end there is this comment that we could expect -- if claims remain benign, we could expect reserve releases to come in at levels lower than previous years. Is it some kind of a message that we should start expecting some kind of normalized levels [indiscernible] in your guidance? So that's the first question. The second thing is a bit more minutia question. The realized gains in [indiscernible] and interest rate derivative gain in the second quarter. And I'm a bit curious that $157 million or so gain that have been showed in the quarter when interest rates are not going down really. So what kind of structure is this? If you could just comment quickly, it will be useful. And on the buyback, I'm only curious at, at least, Admin Re. Over the last 2 years, the Admin Re has been geared to -- there are so many initiatives to get third-party capital and asset class. So just a magnitude that it could actually impact your buyback decision is a bit of a surprise. Just a comment.

Michel M. Liès
Former Group Chief Executive Officer

Okay. Vinit, this is Michel Liès, I'll take your first question. I think on reserve releases, we've seen a lot of reserve releases over the last 2 years primarily because claims have been lower than expected and the actual methodology that I've tried to explain on the video sort of takes the time where you get from your originally priced loss ratio down to actually what your experienced loss ratio is. So that's given the gradual release of these reserves. I think prices have come down over the last few years, but the expectation is that if there remains any margin, that's going to be much lower than in the past. So I think, just logically thinking about how things operate, yes, I mean the expectation is the reserve releases, these are going to come down because prices have adjusted over the last few years. And I think the other thing I'll mention if actual experience turns out exactly as we expect it, as all these portfolios were not there, there really will be no reserve releases or whatever. So once we're confident with the level of our reserves and confident with our pricing, we expect that the current claim trends continue, particularly with inflation and other factors that affect the amount of claims we pay, then I think that, that statement is a very valid one. We are exposed on the reserves, the changes in trends, particularly inflation which does increase the claim values, and effects of reserve releases, it also affects the interest rate side of our balance sheet as well, by the way, we only look totally at reserves. But if current claims continues then we don't see a change in that sort of trend. We don't see ourselves, at least, in the short term, moving to an adverse development position.

David A. Cole
Group Chief Financial Officer

Okay. Let me pick up the other 2 parts of your question, Vinit. First, on the gains. So a part of the gains, of course, are coming not from the fixed income side, but from the equity side. If you look at the way the interest rates move over the course of the [indiscernible], you've also seen some ups and downs in terms of interest rates. But indeed, at the end of the day, we also benefited from some bond positions that we had sold short. So as interest rates rose, we actually were able to pick up some gains in those positions. Coming back to your third question around Admin Re, so I don't know if I can add a whole lot to what I just said. Listen, we remain committed to this market, it's core to our overall strategy. We remain open to potentially involving third-party capital. As you know right now, we have bank financing. I think we've earlier indicated we're preparing for any potential capital markets debt issuance sometime in the not-too-distant future. And as and when we would indeed be successful in concluding our transactions, there's a possibility that we as yet will bring in third-party capital, so the messaging around that has not changed.

Operator

We have a follow-up question from Mr. Michael Huttner.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just 2 questions. One is these large deals, I forgot the name, they're not large structure but something else, but the -- are they multiyear or will they fall off next year and then we'll have minus 30%? I'm exaggerating, but -- and then the second question is on the potential deal appetite. Is the right number to think about when we think about this, the amount in the other column in your balance sheet which net of $2.6 billion of principal, is about $4.8 billion?

Matthias Weber

Former Group Chief Underwriting Officer

Okay. I'll deal with the first question. We call it large and tailored transactions, and some of them are single-year and some of them are multiyear. We have both.

David A. Cole
Group Chief Financial Officer

And let me pick up the second, so I like your math. We have at the group what we refer to as Re capital, part of which, of course, is indeed invested in our principal investments portfolio so not as liquid. The rest of it is relatively liquid and readily accessible to us. We maintain that for several different purposes, including a little bit of reserve for future dividends as well as potential investment in our various business units.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And the figure is $4.8 billion?

David A. Cole
Group Chief Financial Officer

That number, at least, is roughly correct. It's $4.7 billion.

Operator

[Operator Instructions] The next question is a follow-up question from Mr. Andrew Broadfield.

Andrew Broadfield
Barclays Bank PLC, Research Division

There was a comment in the detailed P&C, a breakdown on the reserve, [indiscernible] reserve on the motor in U.K. front. I was wondering whether you can give just give us a little bit of color on the -- what's driving that? Is it one-off? Is it catching up on a trend you started to see? That would be helpful. The second question is on longevity, just your comments around longevity. Longevity because of the nature of it, the sort of cumulative aggregate exposure. Every time you [indiscernible] business [indiscernible]. How do you think about those limits in the context of the group? And how are you planning to manage not to get too carried away, given that by your own expectations, pricing should only really be moving upwards on this particular risk.

Michel M. Liès
Former Group Chief Executive Officer

Okay. Andy, I'll take the first question. I think didn't quite hear you properly, but I think you're referring to the PPOs and probably that comment on Slide 13, same reserves for U.K. motor increase during 2014. Yes, I mean as you're aware, in the U.K., in recent years we've seen more motor liability claims being paid as annuities rather than lump sums. And that has quite an impact on Swiss Re, at least, from a U.S. GAAP reporting point of view. If we pay a lump sum, that's basically the present value of future payment, and it gets paid out today and it goes off that balance sheet. When it's annuity, it's obviously a series of payments that we project into the future. There's an inflation assumption in there. It's the same as a lump sum, but it just doesn't get discounted back. And since we are under the U.S. GAAP, we don't discount, it has quite an impact on the actual cash amount that we're going to pay because, effectively, we're not allowing for the interest in the future. So one thing we've been tracking for a few years is just what sort of proportion of claims are being paid as annuities and how much is being paid as lump sum. That very much varies according to size of the claim. So the smaller amount tends to still be paid as lump sums, but the larger amounts, say, a few million, yes, there's an increased propensity to pay as annuities. Our analysis in 2014, they came to the conclusion that there were slightly more annuities than we previously assumed, so we pushed up that propensity, that's what the assumption means and, therefore, that had an impact on the reserves because we assume more annuity payments rather than lump sum.

Andrew Broadfield
Barclays Bank PLC, Research Division

Okay. So not really an economic thing, just more [indiscernible].

Michel M. Liès
Former Group Chief Executive Officer

On an economic basis, they balance out basically.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. With respect to your question on longevity and how do we -- how big is our appetite in terms of exposure. We actually look at 2 exposures. One is the shortfall. And if I gave you the shortfall number, it actually wouldn't help you at all because you would need to know the multiple behind -- the multiples that calculate the shortfall and without knowing that, you could not develop a feeling for what this means. And that's the reason why we also look at the present value of future claims on the longevity side. And we do this on the longevity side as well as on the mortality side, recognizing that there is some degree of potential offsetting that might be possible between mortality and longevity. It's not a complete hitch, but there is some anti-correlation going on. And at the current price level, we say we want the present value of future claims on the longevity side to be significantly smaller than on the mortality side. On the traditional life side, and that makes sure that we don't get carried away with respect to the exposure we are assuming. Please be assured that we have a very well-defined exposure measure framework in place and limit as well and referrals and governance around this.

Michel M. Liès
Former Group Chief Executive Officer

Okay. Thank you. It seems that we've come to the end of our Q&A. So you can obviously join any member of the Investor Relations team if you have follow-up questions. With that, I'd like to thank you again for your participation today.

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