S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

FY 2010 Earnings Call Transcripts

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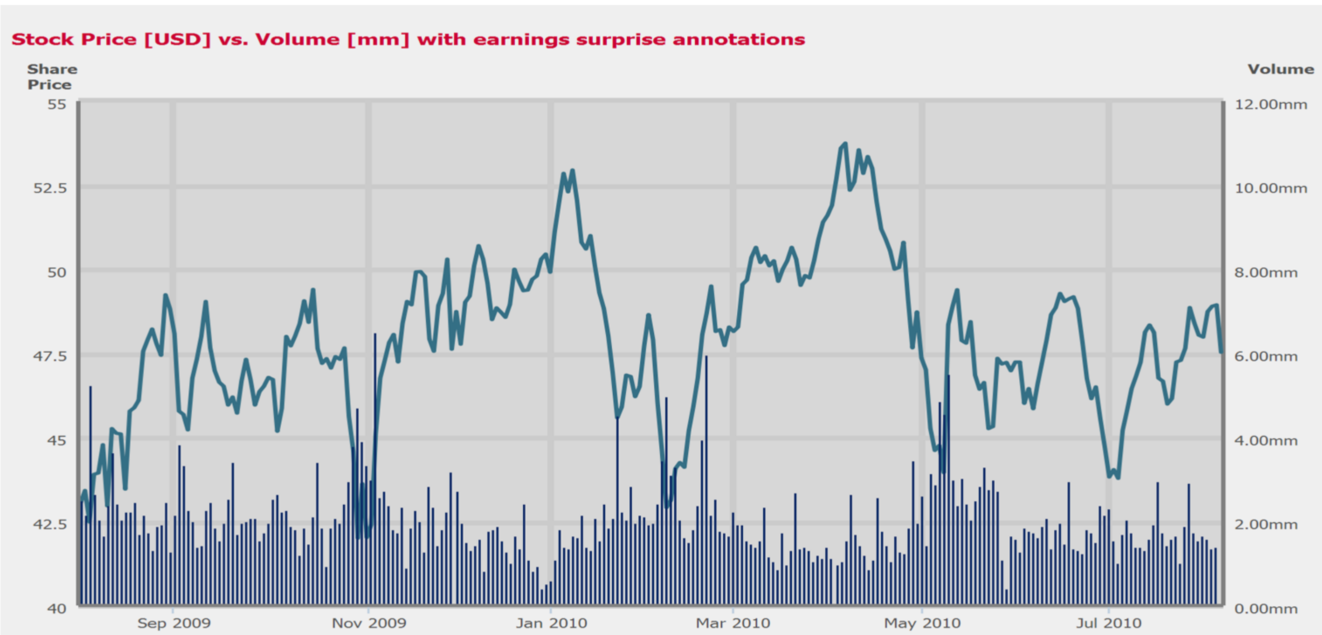
S&P Global Market Intelligence Estimates

	-FQ3 2010-		-FQ4 2010-	-FY 2010-	-FY 2011-
	ACTUAL	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
Revenue (mm)	5590.58	4857.60	5947.89	23614.06	23763.06

Currency: USD
Consensus as of Feb-09-2011 2:15 PM GMT



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EXECUTIVES

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Group Chief Financial Officer

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William Hawkins
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Presentation

Susan Holliday

So good afternoon, everybody and welcome to Swiss Re's Full Year 2010 Results Meeting. I'd also like to welcome those of you joining us on the phone and who're watching the webcast. And before we start on, I'd like to remind you that we are conducting a survey or Investor Relations, Ranzib (ph) is conducting a survey for us today to get feedback from this event, and those of you who are in the room will have received a form to fill in when you arrived. And for those of you on the phone or on the webcast, you will be sent one back e-mail after the event. So thank you very much for participating in this.

As you can see from the screen, we are going to start off with Stefan Lippe, the CEO, giving an introduction and after that, George Quinn, the CFO, will go through the results and financial targets. Then Stefan will cover the January P&C renewals, the change in the corporate structure, and the outlook. And finally, we'll have time for Q&A, both with questions in the room and also on the phone. And we have Brian Gray and David Blumer with us here also for the Q&A.

So with that, I would like to hand over to Stefan.

Stefan Lippe

Thank you, Susan. Good afternoon, everyone here and good morning and good night to those who are on the other sides of the big waters. This is an exciting time for our company. Today we're announcing a very strong result for 2010. We're also making news today announcing plans to change Swiss Re's corporate structure.

These changed our fundamental, but they are also leading to next step in the way we run our company. This new corporate structure provides many benefits in the way we set our clients and in the way we present ourselves to the outside world, to investors, to regulators, to you and to other stakeholders.

Let me start by highlighting the process - progress we have made in the past two years. For those on the phone, I'm now on slide 5. Swiss Re has come a long way. If we start our capital strengths, at the end of 2010, we had around above $10,000 - no, $10 billion over the S&P requirement for the AA rating. In fact, S&P says Swiss Re capital is above the AAA level and you know both S&P and A.M. Best have increased the rating outlook for us.

We also have strengths in our client franchise. This is clearly demonstrated by last month's strong renewals. We have become increasingly more efficient managing our cost. Our Fit to Compete program is now closed this year it delivered savings of 420 million Swiss strengths exceeding our targets. Underlying the legacy process is essentially complete and going forward, we will no longer report separately on the legacy portfolio. We terminated and repaid the convertible instruments issued to Berkshire Hathaway, and as you know, we did this ahead of schedule.

Over the last two years, we completely turned around our performance, but perhaps more important we also invest a lot of time and effort shaping our future. Last June, we shared with you our strategic priorities. Then in October last year, we emphasized the importance of these priorities by strengthening the representation of our business units in the senior management level and today, we announced the next important step adjusting the company's legal structure to support our strategic priorities.

In a few minutes, I will go with you through these plans step-by-step, but before we do so, I'd like to hand over to George, who will first show you the financial figures of 2010.

George Quinn
Group Chief Financial Officer

Thank you, Stefan and good morning or good afternoon depending where you are. So as Stefan indicated, I will run quickly through the numbers. I will talk briefly about capital and targets, and give a back step on for the remainder of the presentation.

I'm on slide 7, if you're following this on the telephone or online. We reported strong growth net income up 74%, leaving $900 million for the full-year 2010. But I think the more meaningful number is that we strip all of the impacts in the CPCI and by all the impacts, I mean, not only the termination cost, I mean, the foreign exchange impact, post termination and the coupon pre-termination. So it gives you a fairly good sense with a clean P&L would look like $2.3 billion of income after tax on that measure that equates to another reverend (ph) 9%.

The business results are good. We see continued very strong results from P&C, good results from life and health especially in the fourth quarter, and a good result from asset management. I'll touch on each of the businesses in a second.

Legacy derisking goals, it actually have been achieved and then no longer report on this as a separate activity of the firm. Shareholders' equity was flat overall in the year, 25.3 billion that goes through internal capital generation, we have observed to the near $4 billion cost of the termination of the CPCI.

Book value per share measured in dollars is up by about 12% and just over $74 per share, which would create something around 69 francs per share by the end of 2010. All of this has led us to make a proposal that the dividend should be increased to 2.75 per share, and it will be paid from reserves from capital contributions. And as a result, that will have tax at franchises for some of our investments.

I'm going to move on to slide 9 in the presentation. The property and casualty premium volumes reflect the stories that you have had several times through the course of 2009, 2010. It actually impacted the decisions that we took at renewal mainly on January 1 last year. So there is no new news on this page. Operating income is down through a combination of lower investment income because of lower yields and higher-than-expected natural catastrophe claims.

In contrast to the prior year, let me add, last than expected, this year we have had higher and I'll talk about that again more in a second. And just to point out this point that we have provided estimates for the fourth quarter and first quarter Australian floods and we revised the New Zealand earthquake estimate in the fourth quarter and there is also an estimate, and the estimation be on cyclone Yasi, another Australian event.

Combined ratio obviously is impacted by all these claim events and the excess, not catastrophe claims, are meant to both and three points above the expected level last year and the prior year, we've had four points below the expected level.

Let me turn to the lines of business. On the lines, the only point that commented - having commented already, liability is high and that's mainly due to the - our estimated claim coast from the Deepwater Horizon event in 2010. And the other one I'll point is credit, where we see a substantially improved result, which comes largely from the restructuring of that business that we did on January 1 last year.

Life & Health, Life & Health is on Slide 11. If I eliminate the impact of foreign exchange and the impact of the legislation deal that we entered into the beginning of last year, we actually have underlying growth, which again you have seen through most of 2010 already. We have by about 3% on a like-for-like basis. We have got growth in traditional life in the Americas and in Asia, and growth in traditional health particularly large transactions in Asia.

Operating income shows a substantial rises up by 18% and the components, especially the 2009 number are somewhat overtime. But we started to see an improvement in underlying performance of Life & Health, which is substantial during the course of 2010. If you look at the various components, mortality is better than expectations, but not as good as it was in the prior year. And morbidity is similar in both periods and similar to expectations.

I have mentioned investment income. We actually have a positive impact from variable annuity and pre-2000 GMDB in comparison to the lowest last year. And of course, we don't have the benefit that we had in 2009 from the arbitration award that you're familiar with from last year's disclosure.

The benefit ratio rises again through the absence of the one-time benefit from the arbitration award and from the higher, but still good mortality cost in 2010. Asset Management, Life & Health has produced good results for 2010. The overall portfolio is $144 billion at the end of the year, if we exclude that part of the portfolio as a policyholder to take the investment risk.

The fixed income running yield, which excludes cash in short term was just over 4% for the year, similar for the quarter and impairment is way down and impairments for the year is about 300 million compared to 1.4 billion in the prior year. Return on investments is 3.5%, all of the asset classes are positive. We had also posted throughout the year and posted in the fourth quarter. Total return including the impact of the increases in values of assets that were recognized income is about 6.5% for the full year.

Legacy, I won't cover the whole year story on legacy again. I just add that we completed another large commutation in FTV, which impacts the fourth quarter, but the long - the short version of the long story is that Legacy as a discussion point is over. I think we've achieved more than we had planned from de-risking legacy. As a result we no longer report this as a separate activity of the firm.

Total equity as I mentioned earlier the beginning and end shareholder equity number is flat $25.3 billion. They have cost that disguises the fact that the firm has absorbed $4 billion cost related to the termination of the CPCI which is reflected both in the 2.7 billion you see here on the slide on page 14 and then the impact on the income statement last year.

Page 15 capital adequacy, our overall capital adequacy significantly exceeds any external requirements. We're about 200% on the Solvency Test and on Solvency and the green is on threshold for as for solvency test starts at 100%. And we also estimate that at the end of the year we had more than $10 billion more than the minimum required for AA rating. And as you saw prior to the year-end both S&P and AM based have a nice and a positive outlook for the rating.

Slide 16 very the strong capital position of the firm allows to take the next step in the dividend. We've announced a proposed rise to 2.75 francs per share and this will come in the form of tax-exempt distribution. As a result the rise in dividend for some shareholders will be substantially higher than the headline change would imply. And for others the absence of the holding which is some on the fictional cost. An important point to note here is that the - I mean, no future legal changes with the firm has substantial capacity for further or future similar distributions. 9.8 billion Swiss francs before the payment of this proposed dividend.

This would cover several years' worth of dividends even allowing for reasonable growth and dividends. We have also announced (inaudible) package today information on number of capital emotions that we are intending to propose to the shareholders, where there will be a substantial improvement and simplifying and increasing the firm's flexibility. And we're looking forward to discussing them with the shareholders over the next few weeks.

Let me turn to targets on slide 17. We are establishing new targets, in fact a broader sweater targets today, which is based on a significant effort we're focusing through over the last six months, and establish some of the context before going to the figures. And I think we believe that we have certain opportunities that are relatively unique, and we believe this kind of lowest outperformed both on volumes and margins over the next five years. But one of the small number of reinsurers that participate in the high-capacity bespoke and to the market for global clients.

This is an area that our organization is especially adapted to surf and this is an area that's been very successful for a very demanding client group. This is not new for us and this is a competitive age that we expect to maintain. As you have seen whether we managed premium volume, we managed casualty in particular far more aggressively and the peer group over the last five years. Therefore, we believe we have the greatest opportunity and cash during the markets terms.

Life & Health is bit more balanced, we will get more growth one through the introduction of more economic models within Life & Health. And the economic recovery although slow or stimulate demand, but it will be partly offset by register sessions under the same new economic models.

We also expect growth in emerging markets to continue and more importantly, we expect to see margins in these markets improved. We will also maintain the efficiency that we have worked so hard to gain over the last two years. Overall, we'd like to be less reliant on macroeconomic factors and why we can't entirely eliminate them, we'd like to put the firm in a place, where they matter less to the future earnings prospects of the group overall.

On targets, I'm on slide 18, there are three; first is an average or we target for the next five years. And we've established a 700 basis points over the five-year U.S. government bond rate. If I do the calculations, if I take market views on the average five years U.S. government bond rate will upgrade that would equate to 11% ROE.

We are also setting targets for EPS annual growth and gross and economic net worth share also an average of 10% each over the next five years. All these targets have doubled, say model and they're almost regranted, and its - if I look at each of them the economic net worth per share for each one, you will see as the more challenging of the three. Where none of them is easy but we think that credible but on precious targets.

Slide 19. I am going to give you a short and probably slightly complicated summary of what's in here, so apologies in advance. So this is necessarily a short summary of how we get from where we are to where we go in the future. And all the numbers on the page are positive, which makes it easy to actually show on a chart. That of course in reality there are many more moving parts and some of them are negative.

For example in P&C, we would expect to see some moderate price pressure over the period. But not in old lines of business. So for example, the comment on casualty, you would expect casualties break up, and that's what allow us to reenter the cash to market in a formal significant fashion. The quota share will expire at the end of 2012. And that will bring 25% growth in our P&C business. So then P&C will try to model both mix and margin, economic margin effects. Because over the same period that you saw in the earlier page, we expect interest rate to raise and we expect that have a negative impact on the combined ratios.

So the combined ratio will rise purely because of the rise in attrition rates. But at the same time, we expect to see more investment income from risk free sources unless we have allocated P&C. Finally, we are going to have declining asset balances in P&C over the period. This will reduce the volume of assets that we earn income and that's also included in the P&C component of our model.

Our anticipated tax rate, will also be slightly higher than the one that you see in 2010. And again with on the same inflated that estimate for the P&C contribution. Life & Health is constructed in exactly the same way. The third component here, the interest effect on shareholders equity and dividends, interest effect on shareholders equity is mainly just that. So the impact by the reduction and equity because of rising interest rates, but also because the net effects of deleveraging.

So we expect to carry a less leverage into the future. Of course you have less assets that will be earning income. From that same, but we also expect that the funding cost will rise in lined with interest rates. Finally, and for the easiest one, I should have started here. The asset allocation effect, this is simply the average pickup over the five-year period from the already announced changes in asset allocation. This isn't a signaling further appetite for asset risk. So it's a moderate change on corporate bonds and on equities.

The only thing missing here in the entire page is capital management other than dividend. And for the best way to think about capital management for the time being is this is the hedge, if the opportunity that we see doesn't demand. Don't take this as a signal that we are alluring target levels of return, the thresholds that we have on the same day as they were last year. So we think, we have room to retain more risk through the quota share and we can't go casualty, just note account price levels.

We're focused on improving returns and capturing earnings growth, but if we can't get the returns that we want and we need, we will undertake from the capital management. Let me hand you back, Stefan.

Stefan Lippe

Thank you, George. For those on the phone, we are now on page 21. Despite challenging market conditions the New Year is off to a strong start. We have seen very successful renewals for Swiss Re. Most important we grew our top line by 14% in the P&C Treaty business.

January 1st, 6.8 billion were up for renewals. 73% of it was renewed unchanged and on this block, you see it here on the middle on the slide we had a 10% gross in share of wallet, which is reflected in the 7 percentage points as was written increase on renewal, this means the block which is in change, we could increase our share wallet with the clients.

So overall this 14% translate into an absolute amount of premium gross of $1 billion. This gross was mainly driven by increased demand from large clients for tailor-made solutions. But we also increased client demand especially in so-called high-growth market including Asia.

Gross is important, but we look for quality gross. And as you see on page 22, once again and you know this for quite a while, discipline underwriting allow us to outperform the market. This is a part of our D&A. We estimate in this renewal season, the markets rate declines by 4 to 7%.

We were able to outperform, because we only saw 2% decline on our part. Just mixed up slides here. Now it's very easy to grow business even you ignore the combined ratio. It's also easy alone if you shrink to greatness to have only $1 topline with the great combined ratio. But the trick is to do both in the same moment.

Growing your business by 14% combined with a combined ratio of 94, and you know with 94 we are fully in the comfort zone where we still earn a lot of money in this area. And this is exactly what we made in this renewal.

Now let's turn to the slide 23. We spent the last two years setting our house in order. Now it's time to forget the past. For us 2001, 2011, no, I'm talking in ten years back is a fresh start. And I think, we are sitting in the power position. We have excellent capital strengths at powerful client franchise. We're taking a very conservative positioning of our asset portfolio, George just talked about this.

And we continue to improve the ways we manage our costs, admittedly we've been obsessed with improving performance. But at the same time, we also reexamined every aspect of our business. How we do it? What we do and why? That homework led us to the roadmap you will see on slide 24. This roadmap we introduced to you last June, we identified our three major businesses, reinsurance, Admin Re and down their corporate solution as our core businesses. And we set the goal to be the leading player in our industry.

Last October, we did the second step. We sharpened our focus and realigned our leadership to strengthen the representation of key businesses at that very top of the house in the executive committee. Three individual EC members now represents the three business units. You might recall there was a time we had only amongst the seven EC members one guy, who felt responsible for client market and the second one, if you add Brian as the Chief Underwriting Officer for that.

Nowadays, we have found them sitting there. Now in this last step, we are now taking is very simple and straightforward. First strategy, then management and now they get the right legal structure they need to do that business.

We plan to create a new holding company, the current Swiss Reinsurance Company will be replaced by Swiss Re Limited. The new entity will be a Swiss listed company. Reinsurance, corporate solution and Admin Re will ultimately take the form of three legally separate groups, all directly held by the holding company. Each business units has its clear distinct machine.

Reinsurance, the largest part of our business aims to be the world's leading reinsurer. Corporate solution, we think a key opportunity for our growth will be a lean global player in the commercial industry business. Admin Re strives to provide stable and diversified earnings as a recognized force in the closed life market.

Let's now quickly go to slide 26 to discuss the objectives and benefits of this structure. First and foremost, it's about a sharper focus on our clients. Each business unit will be free to adopt the uniquely tailored approach to its markets, while executing with maximum efficiency and minimum internal bureaucracy.

Second but very, very important is transparency. This simplified transparent structure provides new insights into the metrics, to assess the performance of each of the businesses. We will see all the financial parameters including capital allocation, allocated assets, as well as taxation. We believe investor will welcome the fact that each business will have its own penal account, its own balance sheet. And that will be the way we will report the results.

On the heels of economic crisis, regulators are looking for the best way to supervise large cross-border insurance in the reinsurance groups, like us. Greater transparency will certainly help us here. Hand-in-hand these transparency goes another key driver for us, and this is accountability. Management of each business will be fully accountable for everything. The entire performance of each business unit, and again in clearing all the financial results, capital asset allocation, simply everything.

The next important motivation for us to go for that was the increased flexibility. We aim to create a greater flexibility to manage each business unit in a distinct, but appropriate fashion. For example, in today's admin Re environment, if there is an good deal outside, how our structure today, and it is a very big deal, we might have to say no, because we don't like to take a huge - two huge block of financial markets, which are usually going as (inaudible) on our own balance sheet.

In this new structure, we now have the option to look for different fundings and for example, can ask if the opportunities in a market go beyond our capabilities to ask for third party capital of funding in whatever form, because now we have a clear identified differentiated unit.

And of course in this structure, we get the flexibility to let us deploy the capital to the tailor made need of each and every unit. Nowadays the total cap as the big part and we have to allocate more or less artificially. And the benefit for our clients out of this, and the investors and for us is are quite compelling. And we are seeing the time is right to do the step and to prepare for the future.

I'm on - for those on the phone, I'm now on the page 27. We - over the next three years and even beyond that, significant drivers for growth in our industry and in some cases especially for Swiss Re. We expect the P&C market to harden in 2012, 2013. That creates opportunities for both entities for the reinsurance part and the corporate solution.

As George already mentioned, the quarter share with Berkshire Hathaway expires at the end of 2012. This also represents a growth option of 25% in the P&C business and this option is unique to its history. The lingering impact from the economic crisis, a new regulatory pressure will likely increase industry demand for capital and then, of course, for capital and solvency relief instruments, Swiss Re is well prepared to deliver.

And if this happens, Swiss could provide growth in all the three areas. It could be the simple quarter share in P&C, it could be a life quarter share or it could be on an old book of life, prison and admin Re deal. So all three might profit from a certain situation. As the global economy continues to improve, you can see increasing demand for insurance and reinsurance. But here in this area asset management could provide significant return as we move, as George already pointed out, to more our mid-term asset allocation we already announced in 2010.

So here in five separate scenarios, you can see how at least one or two of our new entities can benefit. So it seems whatever the direction of the global economy takes in the next few years, Swiss Re is well positioned to profit. And moving forward in these times, I'm just tried to design a little bit, I tell you, size matters. We're one of the privileged few, where the capacity required for really big deals, really big transaction, which are also in most of the cases the more profitable ones.

Let me come to my last slide 28. In summary, the New Year started well. We have seen successful renewals, strong growth complemented with a compelling combined ratio. Our strong capital position allows us to significantly drive our business and at the same time allow us to reset our dividend policy to what we call the normal dividend and as George always said, the Board of Director will propose a dividend of 2.75 Swiss Francs through the General Assembly in April. And this year we will establish and implement our new group structure, aligning our business priority. It is meaning increasing accountability, transparency, and flexibility of our business model, which in turn will allow us to improve our returns and capture the future earnings growth, I'd try to distract you.

Thank you for your kind attention. Now I hand back to Susan for the Q&A.

Susan Holliday
Okay, thank you, George, and let's now take some questions from the phone, so operator, could we please take the first question from the phone?

Question and Answer

Susan Holliday

Okay. Thank you very much Stefan. So now we are going to move to Q&A and obviously, we have - we'll take questions from here in the room and also from people on the phone. So because of that I'd like to ask that everybody please wait for the microphone and please can you give your name and company name and could we also absorb the usual convention of two questions per person. So we'll start off with any questions in the room, if there are any. Okay, yeah.

Fabrizio Croce
Kepler

Fabrizio Croce of Kepler. My question is about the Berkshire, quota share deal. Actually it's correct that you will have enhanced growth by 25%, but as well this deal tended and it pass to be a good inflation protection, and as well as protection against large claim. So here the question is, will you enhance your retrospection in order to offset this additional risks?

George Quinn
Group Chief Financial Officer

Yeah, should I answer.

Fabrizio Croce
Kepler

I have another one, please.

George Quinn
Group Chief Financial Officer

Okay.

Fabrizio Croce
Kepler

If you don't mind. So and about the running yields as well. I saw that there was an erosion of the running yield, so as well that you are improving your net equities exposure in order to offset part of it. So the question is will it be enough or will you do even more of this. I mean you say that you will go for more risk. The question is how much more risk do you need in order to really bring up the return - the running yield to a satisfactory level, and as well in that question how do you see the realistic growth because I saw that you have an enhanced it but it's only a little enhancement so far.

George Quinn
Group Chief Financial Officer

I'd take the easy two ones, the quota share and what does this mean for our reinsurance politics and then asset management charge and David might go to that. Perhaps I have to clarify a misunderstanding the quota share has not the main - have not the main purpose to protect against large losses by against inflation obviously, ADC, the address development cover. This is a huge protection against both a deviation from old liability claims and our cost inflation, if inflation would drive the claims cost up, then because the full cover is there for us and then Berkshire has to pay it. So the quarter share just takes 20% of the premium, 20% of the claims, no specific cover for let's say large claims. But the answer to your question is no. If we don't do the quarter share, we adjust as well as assuming we have still a good excess capital and we can swallow the additional top line, which we anyway have in our house, is not yet adding any personal accompanying and I was not - was adding any type of reinsurance.

George Quinn
Group Chief Financial Officer

Well, I'll start with the running yield. Dave, you can comment on the asset allocation. So running yield actually benefit slightly towards the end of the interest rate rise. So that adjust the volume of the assets and in fact we're in running yield in Q4 similar to the one for the full year, 4.1%. And we are moving the asset allocation to the medium-term plan that we announced last June and maybe David can comment on where we stand on that.

David Blumer

Yeah, absolutely. Thank you, George. We have continued on our path to actually reach our medium-term plan. We have set that we look for a medium-term target, for example, corporate bonds between 10 and 20%. I think we're well on our way to be in that band, but also on the equity side, we have started from a very low basis to slightly increase for our medium-term plan. We're certainly not rushing into anything but we are well on track to reach our medium-term investment plan. When it comes to real estate, we take that they are very prudent stands and continue our investments or small reinvestment (inaudible).

Fabrizio Croce
Kepler

Could you may be elaborate a little bit on growth and some of your peers showed nice deals in China, whole account things to do, experience something similar. The second question on Admin Re, could you maybe give us some hints or insight in the potential pipeline and maybe how much further interest rates have to move out before you get back into deals here? And maybe also on your focus, does it seem that UK and U.S. markets are targeting other markets here?

George Quinn
Group Chief Financial Officer

I'll start with Brian.

Brian Gray

Brian. So on renewals, yes, we did have the good renewal, as Stefan said there was growth in two main areas. One at tailored solutions for our corporate clients and the other is in large 70 quota shares in Asia, yes, some of that did come from China. I think to me what's important is that in both of those cases that consisted of the Pie getting bigger. So, was business that was not placed in the market, either at all the previous year are not in the same way of the previous year?

George Quinn
Group Chief Financial Officer

David joint cycle, haven't we?

David Blumer

Yeah. So they are looking at a healthy pipeline, that is emerging continuously, we're looking at transactions, which of course will have to meet the group's criteria and the group's targets. Of course the UK and the U.S. are the most mature markets when it comes to close life book transactions, but there are also other interesting opportunities arising. For example in Continental Europe.

Fabrizio Croce
Kepler

Interest rates?

Stefan Lippe

Interest rates are an interesting challenge because they don't really effect the economics. But they do change the way that is presented to the market. So, interest rates will rise the cap value effects I think much less pronounced seller. So I can't give you a rise in industry level that we've unlook the market as David said. This is a use of capital, it competes with other users of capital in a very disciplined pricing more than we imply.

Susan Holliday

Okay, Tim, so another question in the room?

Tim Dawson
Helvea

Yeah, it's Tim Dawson. Just coming back to renewals on the price adequacy evolution that you've showed. Is there any distinction between the price adequacy if you liked your plain renewal lock and the sort of new sort of special deals that you can do, question one. And question two, comes back to the sort of ROE target, and you mentioned, if you don't get sufficient opportunities there in the share buy backs would be considered. I'm just trying to get the sense of your thinking when you couch the target relative to a five-year rate, but you've also said that you are assuming five-year rate is going to be significantly higher than it is today.

Just to get a sense of your thinking, if the five-year rate is still sort of somewhere in the 2, 2.5% range over a medium term. In that environment would you consider a 9.5% ROE, acceptable and therefore - business of that, that sort of pricing will be acceptable and therefore no buy back or would that change your thinking? Another words, is there a kind of - is there a sort of undertone of an absolute level you also have in mind as well as that -as well as that margin?

George Quinn
Group Chief Financial Officer

On the price adequacy that there is nothing fundamentally different about the new transactions or threshold where we've approached in, this is same as all our existing business. It is the case that tip everywhere on large solvency deal.

They can't be larger volume relatively lower margin. That is not unique to these particular one's that, that is common to most large solvency transactions. However, the approach is absolutely consistent what we have find in rest of our work.

Brian Gray

The second base found the question on interest-rates, this is a quite tricky one, because the- due to the income statement, you look at the overtime the interest rate endpoints are recently balanced. So for example we would have seen them only when we look at P&C going forward. That we target certainly the economic margin, just for industry movement. And we super impose change in interest rates on the asset portfolio and on the reported combined ratio.

Will that be seen that doesn't match precisely, in time over the period is a watch. So what drives the growth in this period isn't the rise in interest-rates. It's finding new sources of business, at the right level of return. It's the non-renewal of the (inaudible) at the record share. It's continuing and fight increase in the growth level we've seen on the life and health business and it is the re-risking that we talked about with David on the asset side. So interest rates can cause a delay and the investment income side versus the P&C business especially they move to casualty, but if you look at it over a long enough period of 5 years as it is quite long enough. Interest rates are not the main driver.

The interest- the recently interest rates components in that target is mainly because of the balance sheet. So that any number can shift around significantly, because of the movements in interest rates. And in fact, if you go back to that slide, and you look at that small picture we broke up which was designed to try and give you some reference point for the breakdown is at 2%. The interest-rate impact on equity will be a slightly larger than that piece of that would imply. So as the- as a big end point on choose equity, therefore big endpoint on reported and we can change that- are we as a result, but no in income, less much less than income.

Operator

Thank you. Our first question is- from Michael Huttner from JP Morgan. Please go ahead.

Michael Huttner
JP Morgan

Thanks a lot, I am just on the announcing the - a new stocks that mean, we have a new set of accounts, and therefore break. As we've had, think about three years, especially I'm not pressured I think that was three years in the way you approach and the second on the corporate solutions, can you say how big that is at the moment and how different the margins in the economic are from the standard re-insurance business. Because it's normal ported at the moment. So. (Inaudible). Thank you.

George Quinn
Group Chief Financial Officer

So I'll do the first one, (inaudible) he is going to answer the second one. By default, it will end up with me. The - yes, apologies, Michael, you're going to have a new change, a new segment presentation. So this has been a - and well we have - and people say it over a considerable period. What we're trying to do is this is what Stefan described. I think that - do you think if the conversations that you know - you plural and I have - we tend to describe the business model that doesn't meet with the way that analysts not investors tend to use this. So part of the reason - part of the reason is fundamental change as this will tend to some examples, other insurance companies that you would be familiar with.

There is a particular challenge in this one. I think in the past that we've change the segments, we've restated normally a considerable amount of (inaudible) to try and give you a reference point and it will be extraordinarily difficult to do that here. But we're going to go through a process obviously that involves information of some new companies, some significant change in the corporate structure and we need regulatory approval for the rewiring of the intergroup relationships to try and simplify things. So this topic will come back to the end of the year and brief you ahead of what you are about to see probe in 2012. But you won't see the structure managed during this year. The 10-year regulatory approvals for the formation of companies and for the change in intergroup will take a minimum several months. But I'm hoping that at the end of it despite this new change that have a better connection with our investors because that we are far more transparent. There will be no allocated assets, there will be actual assets, there will be an actual balance sheet and there will be actual equity. And that will allow you to reach I think better conclusions sort of how you're doing? Corporate solutions.

David Blumer

I've tried this question but you will not get exactly the answer you are looking for. But from a top line perspective we take roughly 20 billion top line, out of which round about 11, 12% is corporate solution. So I only can tell you because I have to put bonuses behind the different entities but I know how they are ranking and I can tell you that the normal P&C business, treaties or reinsurance and the commercial business were overall quite in the range - in the same place of a quality and economic terms.

This is how we measure internally and again I have to rank them and compare and plan what they delivered. So those had a very good year there. So and - of course, the commercial, this is mainly P&C business and was quite comparable with the overall mix of all the regions in the reinsurance business. Maybe I'd just add on to your point on the economics. Economically, there is no reason why it should look substantially different, it is a similar severity risk kind of business. Clearly, it is a cyclical business because it is the large corporate accounts, which are heavily broken therefore quite cyclical, but the underlying should not be substantially different from what we strive for in P&C reinsurance.

Susan Holliday

Okay. Thank you very much. And operator, could we please take the next question.

Operator

Our next question is from Andrew Broadfield from Barclays. Please go ahead.

Andrew Broadfield
Barclays

Good afternoon. Thanks, George. Two questions. Just on the asset allocation has come back about, it's a simple question. But if look your asset allocation versus year mid-term guidance you gave last year, the only - the cash and short-term assets between them rather about where they should be. Corporate bonds about where they should be, structured assets are little high. But it's the - the bonds have different government bonds glow and do you got a quite a pickup in other, quite a high number in other which I think was a repos. I was wondering whether you might be able to explain a concern that's right, there is really a movement into government bonds, which is the remaining move from other. And within that, what that repo I think it's 248 billion there is something to do with the Berkshire deal or something else. And the second question is on the surface capital position. So you outlined 10 billion as a surplus above AA. I think you mentioned something like 5 million is being a sort of normal scenario and that is on the conservative side if you like.

That means it's genuinely 5 billion, which you think you can use and some say it will perform in the next year or two. And now I'm just trying to conceptualize that in terms of how much there is in size of your business on thinking the Berkshire deal, when you announced it, so the Berkshire quarter share when you announced it was 20% of your business and was about 1.75 billion of capital. And with that sort of scaling may be imply you could (inaudible) it wouldn't go into P&C, P&C business by 70%. So I'm just trying to - that seems like a pretty big number and I'm just trying to understand quite well you need to keep that 5 billion or maybe that more may be (inaudible)?

Stefan Lippe

So let me start with asset location. And I guess, we run stream into the surplus capital and in that case, I will also handle. So I think the more precise and more direct on the asset allocation, the two areas that we signaled, they have seen movement on corporate bond and on equities. So you have seen some growth in corporate bonds last year, mainly through the removal of the hedges. But I think through the course of the remainder this year, you will see a further move on corporate bonds and maybe another change in allocation. Again, mainly from cash short-term and some governments towards the corporate bonds of something in the 4 or 5% range.

Andrew Broadfield
Barclays

Great.

Stefan Lippe

On top of that, you have seen already in the annual report that we've started tax on equities to the portfolio. I think by the end of the year, we have a - it's quite a bit less than 1% allocation in the portfolio. And but that could over the course of this year and again, as David said, when about to rush into this but we'd see only - we have to say that - say three to 4% allocation. Those are the main things that will drive the change, and investment income due to asset allocation. And on the capital side. You're absolutely right. So for flu business, as we imply a rise in business. It's extremely unlikely in the short-term. I think the thing that's driving us again there is no question in our mind that we are going to come - we're about to come and for a 5 billion buybacks. So whatever we do is going to be measured anyway.

But I think the key driver for the time being is we're just ahead of a major change in the solvency regime in Europe and it's not entirely clear what that is going to bring or what that will cause some of our clients to do. And therefore it makes sense to be cautious ahead of that. And then we have I guess clearly say of what this means slightly later this year, and then after we've seen that we would be able to reassess our plans. But at this stage, we decided to be cautious on the capital side, where there is opportunity.

Unidentified Company Representative

And I answer this question from another angle, really again about the new business and a little bit directing back to I think was slide 27. First of all, and this is public knowledge than Europe some companies out for sale in the insurance market with some many billions of top line which are looking for new home in the form of IPL or in the form of a takeover. And let's very positively assume for our industry.

That overall the capital will not be increased, but we can be sure, the capital allocation to different business will be different.

The tendency is clearly and this makes economically a lot of sense, that business was a long tail like casualty business and pension business in life might carry a higher capital burden than in the past, we say flip side some of the short term life term business or property business less. But this alone as no entries will -drive a significant let's say demand for capital relief and we're living in time and we're competing with new money for the banks, because often unfortunately for us I think, we've (inaudible) visit banks. But if the banks and you saw in Switzerland significant increasing capital requirements as not much capital in the market left for supporting insurance industries.

So the power of capital derivative of the quarter share at the Admin Re is there and is no secret clients already talking today with us about these situations and we all of course don't know what the most appropriate reinsurance measures to be applied because we don't know how the solvency so called standard formula works. The very moment, this is cleared. Both sides can go off their books and I can tell you even in my best dreams I think that we will not see a reduction in capital requirement in our market and we are not fancy at the moment for many. So we, the financial market, financial industry so I think the offer we have to bring to the table is very healthy.

This is only one segment. The other is and also nobody challenged me up to now 2012 to '13 change in the cycle. Again, I might be - and if because I believe in economic sense of business. Look, it just take the U.S. P&C business. At the end of the '10, the insurance market will have a combined pressure of I don't know 105 to 108, if I take house last year's runoffs on the claim side. This means they finance the account on the pricing by runners of the past and higher bond yields they are - whether they realized them in the balance sheet.

And I tell you if you have a combined share of 108 and five-year yield in $1, up 2%, nobody can show may calculation that you even make your cost of capital. So let's face the fact, you can't cover it with and put a lot of fog around it, but this fog was settled. And I tell you the reality of the 2011 balance sheet will tell the world, they have to do something else. And if this is accompanied or not by new regulatory and what is not important, this trust would boost it further. But this alone make a big change. As George pointed out, we have consciously shown on more than two sets of our casualty U.S. business.

And our clients like us to be there, because in casualty, we like the guys with the big capacity, who stay for next 100 years. So we can easily triple our business there, if the price or weather should be. And as we were the first to walk out, you will be then in the right moment on to working. So if I say this, I think the question is, do we have ideas what to do with excess capital the clear insight - please yes, and it would be very stupid now to do a quick high share buyback and on the other hand in roughly half a year we know what the - your commission decides and we know the large Omnibus II is a nice name. Is saying first quarter certain it has to be applied. So there is no time that people can even if they buy some time for it - for let's say- some adduction with the U.S and things like that. Forget it, if people know, what their capital needs are - they take care that they get direct, they act together. And this moment that why we start now talking to our clients to be there when they need us. Though not just silently comment, but then start the fine-tuning of the instrument. This is the real world we are living in.

Unidentified Company Representative

Brian you would like to add to that?

Brian Gray

No, it's good. Right.

Andrew Broadfield
Barclays

Can you just come back quickly on the - quickly on the asset allocation, and maybe to ask offline, but the numbers you've referred to in terms of the split into equities and all that and into the other. And then quite tally with those in the accounts. I know you've got different disclosures in the presentations but -

I just wonder whether perhaps it looks to be like your corporate allocation is shifting - corporate bonds allocation shifting and if you have old cash and investments anyway. Which is I think in the middle of your target range. And your quoting all this is...

Susan Holliday

I will take this one because I haven't to be sitting next to the right piece of the paper. So -

Andrew Broadfield
Barclays

Okay.

Susan Holliday

The corporate bond is 14%, which - but it's the range between 10 and 20, so we have plenty of room as we've said to increase that somewhat and we would intent to do. So to go to your question about although that one is a bit hard to predict because it's mainly to (inaudible) and it depends on what the value of that happens to be when on the day that you strike the balance sheet.

Andrew Broadfield
Barclays

Sure.

Susan Holliday

But, just to be clear, that you mentioned earlier about the repayment for the CPCI. The CPCI is in short-term debt on the liability side of the balance sheet and in cash effectively on the asset side of the balance sheet at the end of December.

Andrew Broadfield
Barclays

Okay, thanks a lot for those and I'll start later. Thanks.

Susan Holliday

Okay, thank you very much. Could we take the next question, please?

Operator

Thank you. Next question will be from James Quin from Citigroup. Please go ahead.

James Quin
Citigroup

Yes, I have a question around the EPS target, please. I think that you've clearly outlined how the starting point from last year excluding Berkshire was 6.6. But then you could also walk you there was some exceptional items in last year's numbers that would probably not be repeatable. I think- I'm thinking here off the realized gains on the bond portfolio and on my sort of back of the envelope type of analysis on these gains. If you would back both out you would be looking at an EPS of probably more or like 4.8 or somewhere there thereabout for 2010. So I'm just wondering in the context of trying to get the EPS up about 7, which is obviously the logical progression, yeah, if you - in the 10% growth target, I'm just wondering what are the principal moving parts around that. And in particular, if you would see an average investment return for this year run about 3%, which obviously is where the rough running yield is, which you see that 10% target is sort of off the agenda for the time being, is it really dependent on getting the average investment yield up fairly pretty significantly from where we are at the moment.

Stefan Lippe

So I think, I will take that one, James. To start with (inaudible) doesn't require to jack up the ROI significantly from where it's today. As you point out, I think ROI rate is higher than the running yields and of course, we have a portfolio that is designed to deliver more than just running yields. So there has to be some gain some component in the future investment income, otherwise you wouldn't invest in equities of the - I guess, the implied dividend yield that we get from that portfolio.

If I mention what normalized and underlying earnings seasonable shipment, I guess - I have done the same thing that you have done. I agree that you might back-up some of those gains, but I think you would also back up for example some of the negative impact of P&C, the employee also backup some of the famous foreign exchange hedging impact that we had last year that was negative. And think - there is precisely a wash when you watch through the numbers but it's fairly close. So I don't think if you adjust 2010 for things beyond CPCI or the impact of the CPCI that you can actually different answers, I don't think that we actually have a much lower starting point in the one, the EC implies of course the challenge that we have is that some of these things close volatility. In particular FX hedging issue which has been a pretty volatile over the last couple of the years. This is an area focus for us and I'm trying to find ways to eliminate this from the results. But if I do like for like comparison, I don't end up finally from what you see.

James Quin
Citigroup

George, could you - (inaudible) I'm not sure, I can see where that is coming from, because within the gains number I am taking out all of the FX noise and all of the gain items, which are other than those which are the in the - obviously to life policyholders. All of that would be out there. Around the P&C side, I mean the combined ratio of 93 - 3.9 is, it bang on really with your target. So I guess I am not sure I can see where the positive things are within your new numbers that would go against the lower gains number.

George Quinn
Group Chief Financial Officer

Yes, this is - I guess, the problem is in 3.9 is banged on for this. There is no bang-on for last year and part of its interest rates. So again it is a wash income versus the change in the combined ratio. So I think if you're trying - if you try adjust last year, you do need to adjust combine ratio for the backlog from that account.

On the game side, it comes back to the point do you need to increase the ROI substantially from where we are now. The answer is no I don't think you to. There will some change as a result of what we see in terms of asset allocation overtime. The running yield is about 3%, but that doesn't mean that we are relevant for some games in the portfolio. But you would too if you're going to invest an asset class like equity that for asset 2% dividend yield.

James Quin
Citigroup

I'm just thinking I mean - the 94 is because we are talking about this year, so that option isn't going to be probably the part of your expected 10% growth for 2011. So I mean again I just - is it - I don't the games with something we can debate. But are there any other moving parts that you would see, where you feel that you would expect a marked improvement in performance this year and the last year.

George Quinn
Group Chief Financial Officer

So I think - so I guess I'm avoiding giving guidance on Life & Health. I'm not giving you disclosure on Life & Health, so that you can your number. And P&C, we talked about the combined ratio impact. Games, I think it will be slightly low, I would know as much as you have just done, and because there is a negative impact from time, which you also need to (inaudible). Tax rate, we expect will be higher, but even when I adjust for this, I get back to a similar level, is not the same. It's similar to the one we brought.

Susan Holliday

Okay. Thank you, George. Can we move to the next question, please.

Operator

Certainly. We're moving to William Hawkins of KBW. Please go ahead.

William Hawkins
KBW

Hi, thank you very much. With regards to your P&C reserve development, obviously could be in the third quarter. Can you explain why there hasn't been any further positive development as you re-assessed what the end of the year. And as a tricky question in most of your accounts you show in the reserve rolled forward prior year development of 575 million which is - can be low, higher than the about 100 million you have disclosed. So if you just help me just understand the technical differences between the two, I will be grateful. And then secondly, with the (inaudible) corporate structure, if you have this holding company structure implies during the troubles of '08, '09, do you think you will be better or worse of the most specifically would you point in.

George Quinn
Group Chief Financial Officer

So there will be decision on the team on the - fit no question on the reserved - why don't we get reserve bill in Q4 haven't seen very positive plan through Q3. We typically do a major reserving study in the third quarter to try to avoid a lot of volatility in the fourth quarter of the year. So there is no reason why we expect a given movement just not why you have at that point last year. And on '08, '09 I've seen that what you've really mean, is this is a more efficient structure from the fungibility of capital and the ability to move liquidity around the group. The short summary is there is no as efficient as the one we've got today. It's not dramatically different, but we are trying it's a trade off to the idea. As a price to be paid for additional transparency clarity of what we're doing, and some of that comes in the corporate finance side. So it's known as effective when you don't have the main operating companies, the top company in the group. But the main operating companies - the top company is very hard to slice and then turn into the individual businesses. And so it will come some moderately negative impact on fungibility, but it's not dramatic.

William Hawkins
KBW

Thank you.

Susan Holliday

Okay. Thank you very much. Can we move to the next question, please.

Operator

Certainly. The next question is Paul Goodhind from Redburn Partners. Please go ahead.

Paul Goodhind
Redburn Partners

Yes. Thanks. Two questions, please. First on the investment income and (inaudible) will talk about the absolute level of the recurring investment income rather than the actually yield. And can you I guess George talk through the three main moving parts and (inaudible) whether these offset each other. You've got the lower volume effect from your level of business, volumes have lost two or three years. You've got the shift in the mix a way from long tail to short tail, both of which have a negative effect possibly quite a large one on the level in that income. And then you got re-risking on the general bond and yields coming through as well.

Do you think (inaudible) and that you'd expect that to be a positive vision of your recurring investment income on the two-year view or would that still be shrinkage in that figure? First question. And the second question relates to page 22, slide 22. Your risk adjusted plans adequacy, the 106 you are sharing in 2011, what is the hurdle rates of 100, what's that calibrations own in terms of return on capital, so we can just gauge what level of return you actually achieving and is that calculated net of diversification benefit on the capital side and those of return have allowance overheads in the central of that? Thanks.

George Quinn
Group Chief Financial Officer

So, I'm going to do the first one and Brian is going to have the second one. On the first one, I'd - in order to give you a projection for absolute levels of investment income for obvious reasons. And I'll talk you little bit about the - I guess the plan and the volume effect. So what I guess what I would see is that the volume effect in the investment income will be more substantial than the impact of the asset derisking. And I think it could be doubled the side of the impact. So the volume impact is much larger than the asset derisking, so it goes to partially offset. It's no enough on its own to cover. Brian?

Brian Gray

So, on the price adequacy, first they are on the consistent basis both the 108 and 106. So we have not struck in a change in hurdle rate as part of that that there is certainly a like-for- like. They are - that's an internal metric, which through its application is calibrated to the ROE targets that we had for the group, so they yield 12%. You cannot translate it directly to say 100% is exactly 12%, because this is done on a gross basis, we do have some less recession costs and you cannot make a direct link. But they are constant year-on-year and they are consistent with our early target.

Paul Goodhind
Redburn Partners

Thanks.

Susan Holliday

Okay, thank you. Can we move to the next question please?

Operator

Our next question is from Michael Klien from Nomura. Please go ahead.

Michael Klien
Nomura

Yes, thank you. Actually most of my questions has been answered. But just want to do a follow up on the general renewals, could you may be help us understand your price experience in terms of minus 2% what we have versus what we have heard from PS and also may be in respect to what you are seeing in terms and terms and conditions. And secondly, also on the corporate structure I'm still somewhat startling understanding the key motivation understand that it should help you find that some larger deals. So does this mean that actually M&A risk has been increasing and also I understand that capital funds ability is decreasing? So from our shoulders perspective, what are the key potential benefits of the new structure? Thank you.

Stefan Lippe

Price quality, first of all I'm quite comfortable, with our price quality in our underlying structural combined ration both in absolute terms and also relative to the competition. Price levels in our view were clearly down at renewal, the metric that we give is an internal metric - it's one of the ones we used to evaluate each transaction that the 2% that you see what around up to 2% is a - is really the aggregate of all of over individual transactions across the groups. So I think it's a fairly robust measure, it is not a simple top-down estimate. It is also consistent with our forecast for the combined ratio, so whether it's may if had slightly better prize experience that's great and I guess that will show as well.

On the second point on the why you are doing the (inaudible) I repeat some of the stuff for you. I think the need (inaudible) the M&A risk, I don't see the M&A risk has changed as the result of this and I guess the funding aspect, as Stefan highlighted is something that we mentioned already in May of 2009. So I think all we think we're doing in that aspect is following through them what we said by then.

On the capital fundability I can't really do with any more than repeat what I said a few moments ago to Will's question and that's there is actually no debt with some minor loss at the efficiency from the structure. But the trade for that minor loss efficiency is far greater clarity on the individual businesses.

Michael - you and (inaudible) remains whether once worth the other, is certainly from the conversations I have had over the last couple of years. It seems clear to me that it is a considerable frustration around how we present the business and this feels certainly to me as though unable me to connect more directly with the investor base on what the individual business are doing, what assets we actually have on the balance sheet and what equity is actually allocated to them.

Susan Holliday

Okay. Thank you, George. And so we'll take couple more questions from the phones. Operator, can we have the next question please.

Operator

Certainly, Madam. We're moving to Brian Shea from Bank of America. Please go ahead.

Brian Shea
Bank of America

Good afternoon. I had two questions please. First of all, could you just clarify please your comment ratio assumptions that we're, I think you do touch it on this a little bit when you were discussing the slide 19. I suppose if you're assuming that the risk free bond yield goes up by roughly 160 basis points from where we are now. We use a standard rules some of that about three to one, then for the margins to stay constant, we would be just assuming that the combined ratio would go up, I suppose by about four to five points from where we are right now. And on the other hand, you talked about slightly reduced margins. Does that mean the client share goes up by that kind of automatic five points and on top of that, there is another reduced margins. So just how are you - if you just clarify how you're kind of thinking through your combined ratio, not sure we should call the forecast or just your assumptions over this coming five-year period. And then the next one, we talked about investment quite a bit already, but just to clarify if new money is going in at about 3%. I guess until bond yields go up a lot further, it seems that 4.1% running yield achieved in Q4, we should expect that to be coming down the short time with that math, does that math work? Thank you.

Unidentified Company Representative

So Brian on the last question, yes. It does. On the first part of the first question I think the final part of your summary was swollen. So there is two components that we see in combined ratio, one is the economic margin change and so some price impact and then second piece is the impact on the reported combined ratio from the interest rate move, Stefan I think you want to add.

Stefan Lippe

Yes, one point where in this situation the market will react I think differently in the relationship in between yield increase and higher combined ratio very quickly afterwards. So Brian and George was mentioned in our economic model we take it, we take the economic target, and then you can take that combined ratio or the yield as available and the other follows. What we have seen especially in the U.S. market is yield went down and combined didn't go down. So again, let me a little bit be optimist in saying where now the yield goes up, this is needed and there is no pressure on that combined ratio to go further up because there is no room above 105 as I said.

So going forward, even if the yield goes up, I think there will be a significant delay on the combined ratio side to follow because again you are not in the winning zone yet. Usually economically of course we know this one to three relationship 100 basis points yield up you can reduce, you can increase combined ratio by 3% have above the same economics. But this didn't happen when on the write down on the yield because combined stayed very high. So I think we should not now assume yield going up automatically, combined ratio goes up further because otherwise there would be no impact.

George Quinn
Group Chief Financial Officer

The one thing I should add those a model (inaudible). I have an absolute margin improvement of course that has been the nail of these things. We should see it differently.

Brian Shea
Bank of America

I didn’t catch the last thing you said, your model assume could you just repeat that?

Unidentified Company Representative

So Brian so - as interest rates go up, combined ratio moves with interest rates, but we’ve seen an overall pure price improvements. So you get to the same answers, it's different, it's great through the pure price improvement. But we model interest rates to combined ratio.

Brian Shea
Bank of America

Okay, okay. Thank you.

Susan Holliday

Okay, thank you very much. So we will take one more question on the phone please.

Operator

We are moving to Andrew Ritchie from Autonomous. Please go ahead.

Andrew Ritchie
Autonomous

Hi, there. I - just still little confused on your capital management, can you just clarify first of all, the dividends that you said at 275 I’d see that’s the cost of roughly $1 billion. Should I compare that 275 to what you think is a sustainable EPS, you are growing of a base of 6.6, it just seems a very low payout ratio on top of the front that you want to retain a little bit excess capital. You are in effect saying. It is going to generate a lot more capital as well. I just want to clarify how you thought that 275 five was a sort of restoration to a normal level.

And in conjunction with that I am still confused on the timing of any further couple of merging actions. Because the implication seemed to be perhaps there will be clarity obviously to the half year although I do think that’s generally whatever (inaudible) banking and but in any case, you would rather hold on because you think it might be a hard market in 2012. So these capital management hedges as you described, George, we got to wait till 2013, before you would implement them or at what point do you sort of make a reassessment on that front?

And the second question, Admin Re getting separate into a separate company, does that mean that any meaningful transactions going forward. You will seek third party financing, not with refinancing and that it will be easier if Admin Re is a separate company?

George Quinn
Group Chief Financial Officer

Okay. I take the dividend question, so I try to express in my slides and what I said is that the step we had have taken should read the full step back to new normal. It means if you just compared to the share pricing minimum before we are announced it was 55 by chance 50% of this was exactly the 275. This was one guidance we had in the discussion with the Board. So that the 5% yield, normal means if we would like to grow dividend is earnings pressures. And again we - that’s why we have come to calculation you should assume that a 100% payout ratio but you should rather take a figure round about 2 billion type of I'd say, normalized earnings this year and then put this 900 million dividend against this and so that's under range in between the 30 and 50% payout just to give you a range.

Andrew Ritchie
Autonomous

So, you're happy to retain a $1 billion capital for the year, for the next three years on the top of the existing capital?

Unidentified Company Representative

What you have said is - it's not wise as it would be wise significant new information which might regret significant gross opportunities over the stones now to do without this information in a state now and that we know the state corporations will revisit each and every year and I will tell out workers from now we are much smarter concerning these cross probabilities that we are seeing I had it happens and by chance I would just like to remind you against what you have seen is most about our comparison we did already grow in this rather (inaudible) 14% which is a billion in itself I saw some 700 million capital. But again, it's really a question we would like to be harvested and the rest of its out and again nobody is it that we would like to sit the next three years on excess capital - on growing excess capital.

George Quinn
Group Chief Financial Officer

Admin Re, can you repeat the question because the first one I missed?

Andrew Ritchie
Autonomous

I'm just trying to understand if that was a hint that you would seek third-party financing for future large deals and I mean it has been discussed in the past, does it make easier, is that possible reservation for doing this?

Unidentified Company Representative

Yes, absolutely. So, in fact again if we back in May of 2009, we highlighted fact that in Admin Re, we still see some opportunity and avail a number of investors are highly (inaudible) part of this change now on the trace the ability to try to different funding. So it gives the transparency required and I think investors to make their own minds up. So I think that is one of the reasons why you see it. We think there is an opportunity out that may offer returns that are attractive but could not be financed by Swiss Re balance sheet on its own.

Andrew Ritchie
Autonomous

Buying potential again we suggest that require less capital going forward the what is required during the last three or four years?

George Quinn
Group Chief Financial Officer

So, a part of the capital planning is an assumption that David and David Blumer in his new role as the head of Admin Re will be sending a check to the holding company each of the next few years.

Andrew Ritchie
Autonomous

Okay. Thanks.

Susan Holliday

Okay. Thank you. Good to know. So we're coming soon to the end of our time, but is there another question here in the room?

Operator

Yeah, (inaudible) please.

Unidentified Analyst

Hi. It's George (ph) from Classic Fund Management. On your targets on slide 18, I'm just doing a simple calculation, I guess where I can't square how you grow your EPS 10% a year payout, I think make an ROE of 11% payout roughly or third of that and then grow your EPS 10% a year in a business that plans capital? How does that work out, you know, the simple?

George Quinn
Group Chief Financial Officer

You will not retake if your - you are making an ROE of 11% that mean and you're paying out roughly a third of it that means you retains something around 7.5% of your earnings that you capital goes up to next year 7.5%. Therefore, how much more business you can write, you can't write 10% more business.

Unidentified Analyst

All right. So, you're look at an average over the period, George.

George Quinn
Group Chief Financial Officer

You write - as they if you look at the actual points and of course we are trying to avoid giving the points to avoid giving forecast for each of the next five years, then we start really on (inaudible) you go up through the eleven average, probably in the midpoint of the pattern test of all over the top the reasons you describe?

Unidentified Company Representative

So, in five years you hope to be a doing a lot better than the average of 700 basis points over risk free.

Brian Gray

Yeah. On a point basis, yes you have to be at the average calculation on notebook (ph).

Unidentified Analyst

Yeah, okay. And so, the average calculation of 11 also takes into account that you assume a risk free rates are going to rise.

George Quinn
Group Chief Financial Officer

Correct, the average, we assume - and I think its broadly consistent with what economic committee is also the average five-year rates over the five-year period, obviously over the five-year period 4% from 2.4% today.

Unidentified Analyst

Okay. And then second question if I may. You guys carry around the $17 billion of so called operational debt, which isn't cheap. And your assets tend not to really make 5% just on their the face value sort of on the cost of flow type of calculation. What exactly do these $17 billion fund, and is that are you making money on that?

George Quinn
Group Chief Financial Officer

So operational debt covers a whole multitude of different operate. So it can be the finance and assets. And we also some have some reinsurance transactions that our reinsurance in form but are transformed into operational structures to get capital went through. The vast bulk there is financing, typically for legacy things we've done in the past. That part of the plan and part of the reason why the volume effects of investment income is substantial as that we expect to run down leverage over this period. And gave up the assets that were financed through it, that should bring significant benefit to the firm also in the same period.

Susan Holliday
Okay. Thank you. Do we have another question in the room? No, okay. Thank you very much everybody. And I would like to invite people here in Zurich for tea or coffee and to join us just in the main building over there. I would also like to remind you also fit in that survey forms. And to remind you that we do have an Investors Day here in Zurich on the 25th of March where we will cover the 2010 EVM results and also give more information about the new corporate structure and about the main business units Reinsurance, Corporate Solutions and Admin Re. So I'm looking forward to seeing lots of you there, and then thank you very much everyone for your participation.