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Swiss Re Ltd SWX:SREN

FY 2013 Earnings Call Transcripts

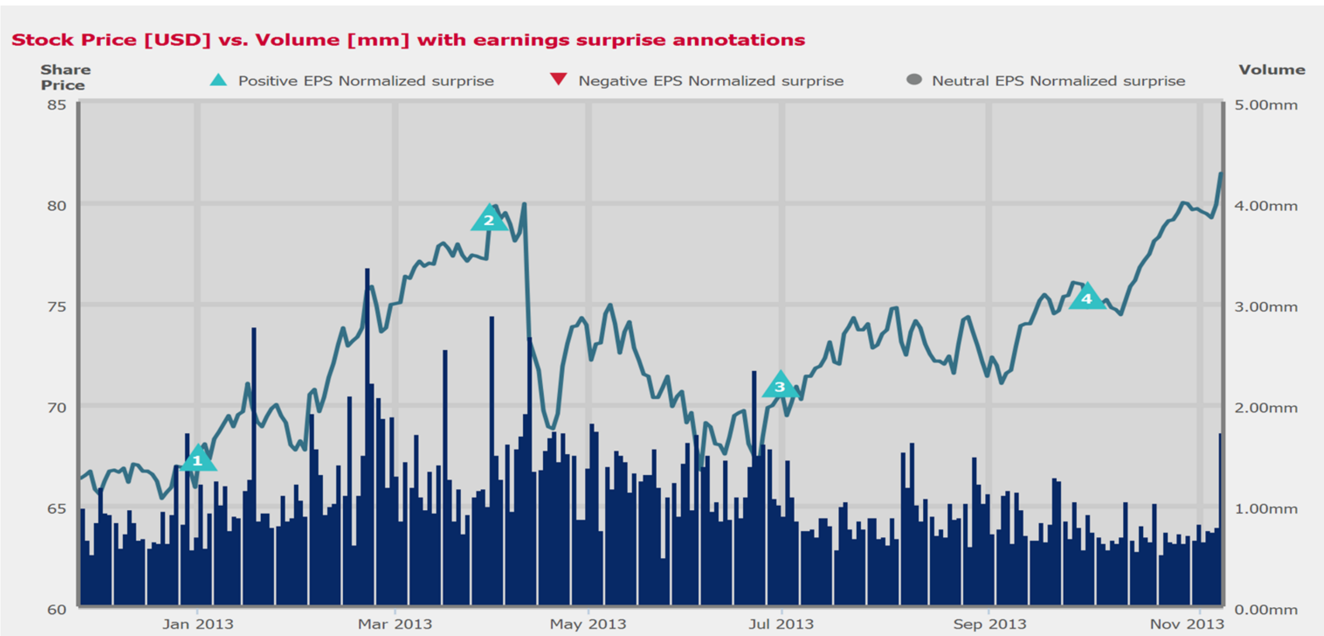
Thursday, February 20, 2014 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-		-FQ1 2014-		-FY 2013-	
	CONSENSUS	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS	SURPRISE
EPS Normalized	2.09	▲57.42	2.63	▲22.39	11.06	▲12.12
Revenue (mm)	7294.00	▲36.34	-	-	33688.79	▲9.54

Currency: USD

Consensus as of Feb-20-2014 10:25 AM GMT



Call Participants

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Former Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

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Former Group Chief Executive Officer

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Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's 2013 Annual 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 Michel Liès, Group CEO. Please go ahead.

Michel M. Liès
Former Group Chief Executive Officer

Thank you very much. Good morning and good afternoon, everybody, and also from the Swiss Re side, welcome to our 2013 annual results conference call. I'm here with George Quinn, our Chief Financial Officer; and Matthias Weber, our Group Chief Underwriting Officer.

Today, we reported an excellent group net income of USD 4.4 billion towards which all business units have contributed. The result was driven by sustained high profitability in Property & Casualty Reinsurance and very good performance by Corporate Solutions and Admin Re. Life & Health Reinsurance delivered a reduced profit, was impacted by reserve strengthening in Australia.

In our video presentation I talked about the January renewal outcome and the combined ratio guidance for our P&C businesses. I also gave you strategic update in Admin Re and Principal Investments, and I summarized the group's priority for 2014, which are an evolution of [indiscernible] for 2013.

I'm very confident that our flexible business model will allow us to achieve both our strategic and our financial targets, so growing both our dividend and our business profitability. Our focus is firmly on these important goals.

With that, I'll hand you to our Head of Investor Relations, Eric Schuh, who will host the Q&A session.

Eric Schuh
Former Head of Investor Relations
Thank you very much, Michel. Now I'd like to turn for the Q&A. [Operator Instructions] So operator, could we please take the first question?

Question and Answer

Operator

The first question comes from Jason Kalamboussis from Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

The first question is on the combined ratio guidance. In 2013, you talked about the difference between the 92% that was the original guidance and 93%. And you said that the difference was we have to take into account some restructuring and some higher attrition losses. So a couple of questions on this. First of all, on the restructuring charges, I was not aware of those. Can you please elaborate, or are you likely to have any of those in 2014? Then if we look at the attritional losses, can you quantify if in there, there is an impact of softer prices that we saw in [indiscernible] 2013 notably through the summer? Because also then you're focusing that comment and saying that it was due to man-made losses. And also when I look at -- when we look at the 2014 guidance, that's for 95%, you based it on 93%, which I don't understand in the way that you -- if there were things like one-off be it on restructuring or attritional, I would have thought that you would base it on the 92% basis. So that's the first question. And the second one is on the Christmas shopping spree you did in Asia and Brazil. I think the market struggled to understand the third one. So the stake in China Life. I must admit that I struggled a bit to understand is the 2 other ones for the following reason: I would have thought that the 10% to 15% stake position is ideal to develop a business relationship with those companies, but as hard as I tried to get such an answer from you, you seemed to be guiding to 2 investment angles, since you argue that for growth, both sides have deep pockets so they don't need necessarily need the Reinssure [ph] if you want, for combining them in a strong growth direction that could be coming, which brings me to the following one, don't you find investments where there is a strong short to medium-term rationale of business development with the target company? So apologies for a bit long questions, but hopefully you...

George Quinn
Former Chief Financial Officer

Yes, I think it is clear enough, Jason. So I'll start with the restructuring piece, I'll give it to Matt, then, and he can give you chapter and verse on the combined ratio, then Michel will cover our so-called Christmas shopping spree. On the restructuring charges, we've made some significant changes in Germany, with our Munich office. It's about quarter of one complete --1 combined ratio point. I mean, restructuring is one of these things that can come along from time to time. It hasn't typically disturbed the combined ratio in the past, not because that happens very frequently, but it can happen. But of course, it's not the thing you expect to occur. But I mean, Matt, you got more comprehensive view of combined ratio?

Matthias Weber
Former Group Chief Underwriting Officer

Okay, this is Matthias speaking. We came early last year out with a guidance of 92% for the business unit Reinsurance. What actually then happened was we incurred the combined ratio of 93.6% after correcting for nat cat, the good lock on the nat cat side and for prior year development. What is the difference between the 92% and the 93.6%? It's actually a large number of relatively small items; the restructuring charge is one of them. We incurred a little bit more-than-average, large man-made losses in the current accident year, which means in that second year 2013. And on top of this, the loss ratio went together with the loss ratio, of course, so it's a combined ratio, both a little bit higher than anticipated at the beginning of the year because we incurred a little bit more rate decreases at the 6-1 and the 7-1 renewals than we initially anticipated. So if we correct that 93.6% for the one-off items and take them out, we believe exposed the underlying true combined ratio is 93%, more or less. How do we get from the 93% to the 95%? A number of changes, the 2 most important ones are portfolio mix changes and rate decreases. I would say roughly 75% of the difference between 95% and 93% is due to the rate decreases, which we have incurred already in our portfolio and which we expect to continue to incur for the rest of this year. During the renewals and the remaining half, the point is caused by a mix of our portfolio. You see in our presentation in the Appendix as an example, our weighting shifted a little bit more towards more casualty, and casualty typical comes with a higher combined ratio. And this is an example what contributes to the higher combined ratio as a result of a change of business mix. Michel?

Michel M. Liès
Former Group Chief Executive Officer

Thank you, Matt. Jason, I'm not totally sure that we'll answer your question, but okay, I will do my best. On the -- first, I would just like to point out that the fact that these 3 investments came in the frame of 5 to 6 weeks is actually due to -- well, it happened like that. Some of them have been definitely on our pipeline for more than 6 and one for more than 12 months, so please don't extrapolate anything in that respect in the fact that we concluded all these 3 acquisitions in the frame of 6 months. We are definitely convinced that these acquisitions are the way to participate to the evolution of high-gross market in matters of insurance that we did identify through these acquisition. I would say access to risk that we will not accessed through the classical business units that we have. And we are, in that respect, deeply convinced of the long-term value of these investments. And I just also want to insist on the fact that these investments are included in our midterm targets in matters of equity investments. So it's definitely also part of our asset management. But I don't think that we could have accessed some of the risk that we accessed through these investments by other channels and the one that we did choose. So I probably partly disagree with you on the fact that it has -- you have difficulty to find the strategic reasoning behind them.

Jason Kalamboussis
Societe Generale Cross Asset Research

Okay. So there is a business rationale for at least the 2 of them. You find that there is a business rationale, so that means you do think that through these stakes, you can -- if there are growth opportunities, that will have help you to get involved, that the reinsurers, on the underinsured [ph] rather than having those that have the majority, if you want, saying, look, we have the pockets, and we do not need you necessarily to -- am I correct in understanding that you already are -- there is a strong business rationale still within these 2 -- at least 2 of the 3 investments?

Michel M. Liès
Former Group Chief Executive Officer

No, we are trying definitely not to mix what we do on the Reinsurance side and what we do on the investment side. The 2 things sometimes combine perfect, but it's definitely not in order to consolidate our reinsurance policy that we are doing these investments. It's in order to assess the risk to which we wouldn't have access. It's, I would say, the Reinsurance is a Corporate Solutions pillar.

Operator

The next question comes from Tom Dorner from Citigroup.

Thomas Dorner
Citigroup Inc, Research Division

So my first question is on reserve releases. You had another large released this year, and you always guide that we shouldn't assume that when we think about the sort of underlying profitability. Are you going to stick to that guidance, or should we sort of offset some of the deterioration in the underlying combined ratio with perhaps more of a regular expectation for reserve releases? And then the second question I have was on M&A and the Principal Investments. I just wanted to be clear, so when you say that there won't be any new investments that aren't funded by divestments, you're effectively saying you're not planning any more sort of material Principal Investments for now? And I also wanted to check, I think in the past, you talked about potentially doing transactions to sort of bolt-ons for Corporate Solutions, is that sort of included in that guidance as well? And if I can sneak one in, you mentioned in the presentation on the Principal Investments that you measure their progress on growth in underlying book value. Is that something that you'll be sort of sharing with us to try and assess how value-creative they've been?

George Quinn
Former Chief Financial Officer

Tom, I'll take 1 and 2b, and Michel will take the second one. Reserve releases, the guidance stands. So we don't anticipate further reserve releases. And as we said before, we don't plan for it. And I think it's still a cyclical business, but guidance remains the same. Other the -- last piece, the book value we think is the most appropriate longer-term driver for these things, I mean you'll see the benefits of it in the group's balance sheet, I mean, when appreciate it, some of these are actually private investments. So I mean, I can't promise that every single quarter, we can give you full transparency on everything. But I mean, 2 of them are public, and you can see them just as clearly as we can. But book value growth is the transport target. Michel?

Michel M. Liès
Former Group Chief Executive Officer

Well, your conclusion is probably not wrong in the sense that we say that we are at the top of the range that we allow ourselves for these type of investments. Probably the question is the definition of the now, but we definitely do not want you to extrapolate on the pace of the fourth quarter to think of the activities that we may have in the year 2014. So it will grow when the group grows. It will grow by potential divestiture in the Principal Investments portfolio. But these 2 conditions need to be accomplished to release some free capital to invest for the next investment that we want to achieve. The Corporate Solutions plan did include, until 2015, some potential inorganic growth of relatively small companies, mainly in high-gross market. These are not extremely material, a few hundred million investments. And this one is not reviewed, it's still part of our strategic planning for Corporate Solutions until 2015. We do not have any immediate activity in view and not only immediate in ranges. In that respect, we believe that we can invest the capital in the structure that we have in an extremely efficient manner and we don't have still no activity in that respect.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

So my 2 questions, first is on the non-life profitability. What is the offset that you think the confidence to say profitability or ROE changed a little bit and in the [indiscernible] assumption of interest rate increases? Or why am I asking because you've kind of guided somewhere a flat, running yield outlook. And then we see a deteriorating combined ratio outlook. And then I'm trying to figure out what is the offset. And second question is on the growth initiative of $3 billion capital. I know it's not new, but could you just remind us once again about how much of that is likely to be cash and how much is just soft capital? And obviously, my motivation is to try to understand where we are 12 months from now in terms of deployable capital of cash. That's the way which you can choose to answer accordingly.

George Quinn
Former Chief Financial Officer

Thanks, Vinit. I'll take both of those. First of all, on -- what's the offset? So I guess there are 3 -- I guess 3 more obvious parts of offset. So when we post the targets before, I mean, you probably remember that we did the presentations back in June, I mentioned that we had allowed for some deterioration. We certainly hadn't allowed for the level that we've seen on the January 1 manual, but we'd allowed for a piece of it. So part of it was baked in already. There's the other 2 aspects that are available to us to offset, one is that we mentioned the $3 billion as second, so I'll come on to that. Notice that the $3 billion hasn't changed despite the fact we've cleared another special dividend. So in essence, we're actually, today, promising essentially more capital flexibility than we had announced back in June. The last piece is the way that we've reduced the investment income by running short duration on the asset side, and that's performed really well up to now. If we reverse that at some point over the course of the next 2 years and we expect that we would, that would be a reasonably significant contributor, given if you take year-end interest rates as an example. I mean, I think it's really important to bear in mind that, I guess, the scenario that I laid, it wasn't intended to projection. I mean, the environment is clearly tougher, but that scenario that I laid out wasn't intended to drain every single option that the company had. And we think we retained significant flexibility, which is why you see as we reiterate what you've heard today. On the $3 billion itself, so obviously, a large -- very large piece of it can be cash because if it's not, we're very restricted in how we can deploy it. So if it is illiquid, you'd be forced to find growth only in, for example, Reinsurance or Corporate Solutions, and that's too limiting. So given the cash profile we've seen for the businesses, given the dividends that we anticipate to see in the early part of this year, given what we hope for next year, we think we have full flexibility around that $3 billion.

Operator

The next question comes from Maciej Wasilewicz Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. I've got 2 questions. The first question is on the shifts into casualty at 1-1. I know that on a 1-year view, you could argue that yields are higher and potentially even in parts of casualty rates are better, but if you look on that on longer view, maybe a 2 or 3-year view, yields are probably still lower than they were and rates might not even be as high as they were 3 years ago. I'm just wondering what changed, what changed your mind about casualty that made you go into it in such a big way? Is it that there's a capital benefit that wasn't there a year ago, or is it that you actually think that the business is now more profitable than it was a few years ago so you should grow into it? The second question I have is on the capital deployment again. Given that your Principal Investments is more or less capped for now, you can define that how you will, in [indiscernible] Reinsurance, the growth option seemed a little bit constrained, in Life Reinsurance, you'd argue the same. It's difficult to see how you can deploy $3 billion over a 2-year view even, given those constraints. Perhaps can you unpack the most likely trajectory for where that $3 billion could go, maybe even if it's in ranges? I know Admin Re will be one of them, but $3 billion is a lot for Admin Re, so if you can give an answer there.

George Quinn
Former Chief Financial Officer

So Matt will tackle number one, and I'll tackle number two. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. First question, why did we go into casualty in a big way, using your words? I would like to first adjust these words a little bit. We did not go into casualty in a big way. We are expanding our casualty writings in a controlled way, and the rationale is very simple. By comparing property versus casualty, then we are seeing on the property side, especially related to the cat-exposed portion within property, relatively major decreases in price quality. On the casualty side, we are seeing pockets where the price quality is actually going up. We are seeing pockets where the price quality stayed more or less flat, and we saw also pockets where the price quality decreased a little bit. But on average, the price changes on the casualty side were significantly smaller than on the property side. As a result of this, a number of deals on the property side dropped below the threshold of profitability, and we decided to protect our portfolio and let this business go and not renew it. On the casualty side, this happened to a much smaller extent. In addition to that, we were able, especially also in the U.S., to produce some additional business, which were not on in the past, and this additional business came with a sufficient price quality and expected profitability for us to write. So that's basically our rationale and the reason why we shifted a little bit away from property, more into casualty. But please believe me, it's a very controlled shift, by no means, if we go into casualty in a big way.

George Quinn
Former Chief Financial Officer

So Matt, on your second point, on the capital deployment, it maybe was -- just going back to the 2 presentations where we talked to this before, which was both of the Investor Days 2011 and 2012. I mean, that number was calibrated to our view of a hypothetical buyback. That sets the benchmark of the capital deployment. We have a plan that we presented to our board where we have earmarks for various investments that we believe we can make in our various units during the course of this year. As you point out, none of them are particularly easy. The environment is fairly challenging. And as you've heard already, in some areas, we are limited by our risk appetite. But I mean, for reasons you could probably appreciate, I'm not going outline them one by one nor give you ranges. I mean, the one thing that, I guess, we've gotten accustomed to is that plans in this business on a 12-month horizon have a habit of changing. I guess the one thing I can assure you of is that we remain committed to our financial discipline, and we'll only deploy the capital in new business if the new business achieves the hurdle rates that we've previously stated.

Maciej Wasilewicz
Morgan Stanley, Research Division

So the $3 billion, perhaps I can ask this $3 billion, you've already mentioned inorganic growth potential for CorSo. I don't know, I guess, maybe you can't answer this, but is inorganic growth a significant component of the plan, or is it mainly inorganic growth that the $3 billion is earmarked for?

George Quinn
Former Chief Financial Officer

So I mean, I think Michel gave you a sense of what was planned for CorSo already. I think he even got to quantify it and put some brackets around it. I mean, Admin Re, I don't think it qualifies as organic necessarily, but it's fairly close. And we are prepared to invest more money in Admin Re, again, if we can find transactions at the right rates of return. I mean, beyond that, I'm not prepared to go.

Operator

The next question comes from William Hardcastle from Bank of America Merrill Lynch.

William Hardcastle
BofA Merrill Lynch, Research Division

Regarding the surplus over the S&P AA rating, I'm just trying to marry up the $3 billion to $5 billion target that you have. And should I take the $3 billion dividend off of the in excess of $10 billion, as well as this $3 billion in capital deployment in order to marry them up, or am I taking too much off there? And regarding this combined ratio guidance, could you -- obviously, part of the mix is due to the casualty shift. It's important just to have an idea of what the average duration on that casualty portfolio be. Are you able to say what specific casualty it is and what the average duration that will be?

George Quinn
Former Chief Financial Officer

I'll do number one, and Matt, explanation number two. So in S&P numbers, the S&P number, they're more than $10 billion above the minimum for AA. It's before the dividend. So I mean, as you look into the year that comes, you need to allow for the payments yet to be made. Matt, on the combined ratio?

Matthias Weber
Former Group Chief Underwriting Officer

I think the duration of the casualty business -- so as a rule of thumb, I would use something in the area of 6, 7 years, approximately, typically, motor business comes with a lower duration, especially in Asia, not necessarily in Europe, but in Asia, it is the case. And general liability is a little bit longer and workers' compensation business is extremely long. But we have -- we continue to have pretty much no appetite to go long on the workers' compensation business side.

Operator

The next question comes from William Hawkins from KBW.

William Hawkins

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

Can you help me with the maths on the Life side and just give me the guide what operating margin yields in your new definition, you think is consistent with the 10% to 12% ROE? That would be kind. And then, yes, I'm just interested, again, on the subject of the switch of your business mix in the P&C. Am I thinking about it the right way to say that if you shifted 10% of your portfolio from property to casualty, and that's led to a 50-basis point increase in the combined ratio? The combined ratio that you're writing the casualty at is only 5 points higher than the combined ratio you were writing property at. That seems to makes the math, but it sort of implies that there's less of a difference between casualty and property that I might have thought.

George Quinn
Former Chief Financial Officer

I guess as a form of habit, I'll do number one and then you do number two. So on the operating margin, I mean, believe it or not, well, I haven't actually tried to reengineer it. I guess if I was going to do it, and I guess we should've done. The way I would do it is as follows. We have seen in the market value volatility-related items are 0, so that's VAG and DDP [indiscernible], et cetera. I would take the 10% to 12% ROE that we have for 2015, and I would tax it. And that should be broadly what the operating margin would be. But apologies, I haven't calculated in advance. Matt?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. The portfolios piece, I use casualty as an example because it's a very obvious one and one that is easily visible to you because we are showing to you the pie chart that compares our 2014, 1-1 renewal business split with the respective pie chart of the expiring business. However, it is not necessarily the only shift in our portfolio we are experiencing. So your math would be correct if it was the only shift. But this assumption is not entirely true. For instance, one effect which is a little bit challenging for me to describe, but I'll try it the thing while using the following. You know we have the Berkshire Hathaway quota share in place, and this quota share expired at the end of 2012. This Berkshire Hathaway quota share was structured so that we could see individual risks and treat this on a risk-attaching basis, which means the contract, the treaty that was written in Q4 2012 could be seated in its entirety to the Berkshire quota share, which is why it has an effect also in 2013 and even in 2014. And the reason why it has also an impact in 2014 is the following: Typically, our product offering, these themselves are written on a risk-attaching basis, which means we could seat in Q4 a pro-rata treaty to -- in Q4 2012 a pro-rata treaty to the Berkshire Hathaway quota share and that lasts in Q4 2013, which means that policy that was written in Q4 2013 could still be seated to this pro-rata treaty, which was seated to our Berkshire Hathaway quota share, which is the reason why we have exposure and an impact also in 2014. The difference between pro-rata and non-proportional is non-proportional is most of the time written on a losses occurring basis, which means once the treaty period is over, the exposure is over, whereas pro-rata treaties are written on a risk-attaching basis, which means off the expiration of the treaty, there is also the runoff. As a result of this, in 2013, we had the bigger Berkshire Hathaway impact for proportional runoff than for non-proportional exposure. And this impact will go away largely in 2014 as a result of each, retained a little bit more product by exposure in 2014 than we did in 2013. And that contributes and that dilutes a little bit the clear logic of your calculation and of your argument. I don't know whether I was able to make myself clear. It's not easy. I'm happy to follow up if you have a wish to do so with me.

Operator

The next question comes from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Two questions, please. The first one on Corporate Solutions. I was just wondering where your confidence comes for the 4 percentage point improvement between the underlying this year that actually was incurred and the guidance next year? And second question on the P&C Reinsurance, on the absolute size of the claims reserves, and they came down another 5-or-so percent this year in absolute size and it's come down, I think, 20-up percent in the last 4, 5 years. Clearly, Berkshire Hathaway treaty has something to do with that, and also some of your shrinkage during that period as well. I had kind of anticipated this year would be relatively flat, and clearly, it isn't. Should we expect next year to be growth again, or is this still going to be a 2-year turnaround, particularly as your portfolio is starting to move at a slightly longer duration versus [indiscernible]? I would've expected to have a more compounding impact from the asset side of the balance sheet.

Michel M. Liès
Former Group Chief Executive Officer

CorSo, for you.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So I'll take the CorSo combined ratio question. So basically, you were asking how do we get from the 99% 2013 actual normalized combined ratio to the 95% 2014 guidance. And the walk is relatively simple. It's driven by volume growth, which significantly exceeds the anticipated growth in expenses. And that more than explains the 4% reduction in the combined ratio. On top of this, we believe we will experience a little bit an offset by price level changes, which we think we will also experience on the direct insurance side for Corporate Solutions. And together, these 2 effects add up to a reduction in the combined ratio of 4% points. That's how we get from 99% to 95%.

Andrew Broadfield
Barclays PLC, Research Division

So I guess on the pricing side, I can't quite tell whether you're say that's going to get better or worse?

Matthias Weber
Former Group Chief Underwriting Officer

So on the pricing side, the -- so the volume side helps us. That reduces the combined ratio. I was saying it -- in our anticipation, it is expected to reduce the combined ratio by more than 4 points. And part of this, however, will be offset by an anticipated softening on the price side and together, these 2 effects amount to a reduction in the combined ratio of 4 points.

George Quinn
Former Chief Financial Officer

Okay. So I'll do the second one. On the reserving side of things, I mean, you listed some of the drivers in the past, so Berkshire Hathaway being the most obvious, our own cycle management starting in 2008. Also, I think an important factor to bear in mind, I mean, not more recently, but certainly in the not-too-distant past was the runoff of a fairly large chunk of the GEIS acquisition. Now on the balance sheet side of things, I tend to focus less on the consolidated claim view because you've got a number of moving parts and then, obviously, which foreign exchange and focus more on the cash flows. And for me, the cash flow is paying to give you a better indication of what's happening, it terms of the asset balances of the group. And we're certainly starting to move back into positive cash flow overall. You see that partly reflecting the cash flow up through the group to the holding company. I mean, that's the best I can answer that question for the time being, Andy.

Andrew Broadfield
Barclays PLC, Research Division

So your point is it's positive now, so you should be more positive next year?

Michel M. Liès
Former Group Chief Executive Officer

Actually, with that trough, so you'd expect it to improve.

Operator

The next question comes from Kamran Hossain from RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

I've got 2 questions. The first one is just coming back to renewals. Volume, 6% down there. And in terms of thinking about that 6%, was that all which you used to kind of return thresholds not being met or were there some contracts that actually met those thresholds that you lost now out on? Second question, just to touch on Admin Re, seems like you're open for business again in the U.K. Would you rule out any European transactions there?

George Quinn
Former Chief Financial Officer

So Matt's going to do the first one, and we'll leave it between me and Michel we'll handle the second one.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to the 6%, a portion of the reduction is explained just by rate decreases. So in terms of exposure reduction, our exposure reduced but it did not reduce by 6%. It's reduced by less. With respect to the rest, it is a combination of either return thresholds not being met and, in some cases also, terms and conditions. Please remember softening does not only happen on the price side. Softening can also happen on the [indiscernible] side. And we definitely have encountered [indiscernible] which softened to an extent where we had to decide that we can no longer support this [indiscernible] for a number of reasons, for instance, misaligned interests with the insureds or of things like this. So it's a combination of multiple factors.

George Quinn
Former Chief Financial Officer

On the Admin Re, let me just make a comment before Michel. I mean, it comes -- it's really nitpicking but the -- I mean, I guess, we don't see it as open again. I mean, we were open for business last year. We would've been very happy to do a transaction, but I guess, the reality of trying to run multiple processes at the same trend just defeated us and it wasn't impossible. But we are open for business. Michel, on the [indiscernible].

Michel M. Liès
Former Group Chief Executive Officer

Well, definitely, the experience of last year brought at least something positive. It is the conviction of the value of the platform in the U.K and the focus on the U.K. for the next 18 to 24 months definitely can be the result of these conclusions.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

So no plans for European transactions?

Michel M. Liès
Former Group Chief Executive Officer

Sorry, I didn't get that one.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

So no plans for European transactions at the moment?

Michel M. Liès
Former Group Chief Executive Officer

Transactions will definitely be not part of our focus. By the way, U.K. is part of Europe, if I remember well.

George Quinn
Former Chief Financial Officer

That depends, Michel.

Operator

The next question comes from Michael Huttner from JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I have -- I think the first one is for you George and the second maybe for -- so if I think about your move to Zürich, and I assume this was done with full consent, support [indiscernible] from board of Swiss Re, is it a case of "We need to help our neighbors; they're nice neighbors; we do a lot of business with them, here have our star, we'll kind of almost lend him to you?" In other words, a kind of within such a strong position, it's an easy move for us. Or is it more driven by the idea that if you move there, you can maybe aim to become the equivalent of Michel Liès in the not-too-distant future? And then the second question is on the -- you kind of saying, well, you'd expect the market to remain soft or to continue softening, I don't know, for the renewals coming up. Could you give maybe some light on what, how you or where you expect this to soften or how much? That would be really helpful. I'm assuming, and I've kind of not done a lot of the numbers, but implicit in all those is softening, which isn't huge. It's about 2% or 3% sounds like a good figure but -- it's the question.

Matthias Weber
Former Group Chief Underwriting Officer

Just on the first one before giving the word to George, Michael, first, you always ask easy questions. And I didn't know that George wanted to become Michel as well.

George Quinn
Former Chief Financial Officer

I don't know how many different kinds of trouble an answer to your question could get me into. I mean I'll take it as a compliment.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Always a compliment.

George Quinn
Former Chief Financial Officer

Yes, the -- I mean, appreciate it. I've enjoyed my job here as CFO. I mean, you've heard from me before my reasons for going. Debbie Cole will be a wonderful replacement for me, and I'm looking forward to being the CFO up the street, but that's the limit of what I'm going to say today on that job, Matt.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. Expectation on the price level side for the rest of 2014, I would say on the nat cat side, we will probably see a softening, but the softening which we are going to see will be significantly smaller than the softening we saw at the 1/1 renewals. And the reason is if you look back to 2013 -- in 2013, the softening started -- the market softening started to become evident basically with April 1 renewals, which means the cat business that is going to be renewed April 1, 2014, has or will have experienced already one round of market softening. And the 6/1 and the 7/1 cat renewals will have experienced already one round of massive market softening. As a result of this, I would expect to see a softening, but the softening will decrease probably substantially over the course of 2014. But you know how it is with forecasts, it's very hard to forecast into the future. That's just a reflection of our current thinking. On the casualty side, it depends a little bit what is happening on the reserve development side in the industry. We expect sooner or later, probably rather sooner than later, the cookie jar with the excess reserves will be empty and it will be recognized that the cookie jar is empty. And once this is happening, it will lead to earnings pain on the casualty side, and we believe that will provide a floor to rate changes on the casualty side. With respect to specialty lines, there, actually, we have seen already in the area of engineering and for instance, a stabilization of the rates, driven by losses, which happened in the past. Our expectation is rates will probably be flat for the rest of the year, maybe even increased a little bit. Aviation, their rates will continue to be driven by the occurrence or nonoccurrence of big disasters. So absent the big disasters -- absent the big disaster, I would expect their rates to continue to erode as we have seen in the past.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

That's lovely. And you wouldn't be able to say how much of your cat renewals is in the 3 periods, January, April and June/July. Is it like 20%, 20%, 60%?

Matthias Weber
Former Group Chief Underwriting Officer

So are you asking what is the distribution of the renewal premium across the quarters?

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Just for cat.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So in January, it's roughly 2/3 of our book, so I would say maybe 60%, 65%; April is approximately 10%; June/July is approximately 17%; and the rest is distributed through the month in the second half of the year.

George Quinn
Former Chief Financial Officer

And that's for all of the treaty business, not just cat.

Matthias Weber
Former Group Chief Underwriting Officer

That's correct. That's correct. Cat is a little bit more concentrated towards the middle of the year. So we have a higher portion of cat renewals that will happen in June and July.

Operator

The next question comes from Andrew Ritchie from Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

Just 2 points of clarification. George, I think with reference to an earlier question, talking about the 2015 EPS target, you said it is tougher than your original assumptions. You're -- you did build in an erosion of property cat margins, but I just want to clarify, are you saying that, that erosion is greater than you expected, but the resilience of other classes and/or the ability to redeploy more capital has offset those pressures? I'm just trying to understand how much tougher it is, and are we on the point where you're kind of seeing there's still room for pricing to fall or how much kind of room you have? I just was a bit confused by your answer to that earlier on. Related to that, capital management, just a clarification, I'm assuming the broad target is still a combination of $3 billion to $5 billion excess on AA S&P and an SST of

185%. I guess, the S&P is more the binding constraint for now. And to clarify on that capital front, so a sub-question referring to Coco, the Coco's, I'm guessing, haven't yet got approval as part of SST?

George Quinn
Former Chief Financial Officer

All right. So, answer to the first one, I guess, I was trying to imply that we believe we have enough flexibility for the time being to offset what we're seeing in the P&C market, so I'm trying to imply we believe we still have flexibility to achieve the target. On the capital management, your summary is spot on. And so we do have those targets and S&P currently is the constraint. On the Coco's side of things, we don't yet have approval for recognition from Finland. That's not because there's a particular problem. I think I mentioned before, it's because of the innovative treatment that we had stopped [ph] and the time that was required for the regulator to be comfortable and either then approve or disapprove it. We don't yet have that approval, and I don't really expect that to be forthcoming in the very near future, but we do expect to see credit for that in our capital model in due course.

Andrew James Ritchie
Autonomous Research LLP

And the S&P, these are going to be the only other items -- obviously, the dividend has to be netted off -- are the life and health restructuring and the final tranche at the Berkshire Hathaway, is that right?

George Quinn
Former Chief Financial Officer

If you only took the negative things in the income statement for 2014. That's a bit -- that's a slightly -- that's a negative -- I mean, the -- yes, but it was -- we have an expectation of making money this year is what I meant.

Operator

The next question comes from Michael Klien from Nomura.

Michael Klien
Nomura Securities Co. Ltd., Research Division

I had 2 questions as well. First would be again on the capital return or your approach to capital return. Probably, hopefully, a quite simple question. Now, at the moment you're paying the dividend from additional paid-in-capital so it's exempt from withholding tax. If I understand correctly, at the end of 2013, there's about $5 billion balance. So if you paid a current dividend and special dividend, that will be about $2 billion, which then means that you will have probably exhausted the amount of additional paid-in-capital by the end of next year. Does this change in any way your approach to capital return via dividends or would this then change although -- towards buybacks? My second question would be on Admin Re, hopefully, although, very quick. You're talking about on the presentation that you're looking to use leverage to finance potential growth here. How should we view this in the overall group strategy of actually reducing leverage?

George Quinn
Former Chief Financial Officer

On the first one, I guess, my answer is relatively rapid. I mean, every year, we start with the intention of looking to deploy the capital that we have available to us. So, I mean, we haven't discussed what the approach will be once we've exhausted the tax-free capacity that we currently have, but your numbers are correct. On the leverage, essentially, what we're doing today is, again, flagging what we had -- something, I think, we had said already at the Investor Day back in June. So even as the group leverage comes down substantially, which really means Reinsurance, we expect to add some leverage both to Admin Re and, in fact, to Corporate Solutions over time to normalize their leverage structure. But that will still result in an achievement of the net target we had of more than $4 billion reduction by 2016. In fact, we are by far most of the way through that already. We'll give an update when we publish the economic numbers with Q1 because, of course, the economic numbers are the basis for the metrics that we've set for that.

Operator

The next question comes from Stefan Schürmann from Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I have 2 questions. The first one on Admin Re. I feel like you're -- basically, ROE guidance is more positive intended than it was. If you can just maybe give us some idea what makes you more positive here that the investment side and any other issues in here? The second one, on the Principal Investments, I understand you're moving to group items. I think it was knocking off roughly like $4.4 billion of investment income to nonlife. Is that more or less the figure we should basically take from one segment to the group item segment going forward or is it a bit less? So sort of giving a feel on the running yield of these items.

George Quinn
Former Chief Financial Officer

Stefan, so I'll try both of those. So on the first one, on Admin Re, you're absolutely right. We deliberately made a very modest change in the guidance and that's because of what we think team can achieve and, in fact, at least partially achieved through some of the operational improvement. They've been leveled already. I mean, to put it in context, I mean, low- to mid-single digits is not the limit of the ambition, but it's certainly an improvement over the expectation that we had before. On the Principal Investments side, I mean, just to clarify that, that change took place already Q2 last year. So Q3 and Q4 on a standalone basis at P&C Re already does not have the benefit of those returns. And that's -- I mean, I haven't tried to calculate the number and it will be a bit volatile because of the nature of the assets. But, I mean, if you look there and compare it to the prior year, that will be the best source of, I would say, estimate the impact. But you've already seen most of it during the course of 2013.

Operator

The next question comes from Olivia Brindle from Deutsche Bank.

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

A couple of questions, please. Firstly, on the capital fungibility side, you've previously pointed us to the group shareholders' equity as an indication of the sort of immediate flexibility that you have on the capital. And so that number is still about $5 billion and less $1.5 billion of private equity, which, again, you've mentioned previously, suggesting $3.5 billion of immediate flexibility. And you did say that, that was something you might be looking into improving. So I'm just wondering whether there's been any change or progress on that front. And if not, what sort of time frame might we expect for that improvement to come through? And secondly, on Admin Re, just to clarify, are you still potentially looking to engage third-party partners given that you have been unable to get, I suppose, the right valuation relative to what you feel is right? Does that make it effectively less likely and you look to do that and we should realistically expect that this will now stay on your books going forward? And then if I may also just very quickly on Corporate Solutions. You mentioned a $91 million gain on derivative accounted weather in nat cat. That's about 1/3 of the profit for that division. So I was just wondering if you could give a bit more color on that and how stable that is going forward?

George Quinn
Former Chief Financial Officer

So I will try 1 and 3, and Michel will comment on Admin Re. So on the capital fungibility first, your numbers are spot on, with one exception, Olivia. So remember that we did the Principal Investments. So the 3 investments that we announced back in October and November time, FWD, South America and New China also were paid from that pot. So the liquidity of that pot dropped as a result of that asset allocation. Having said that, though, we're going to reload the thing the course of Q1 and Q2. So we are anticipating significant dividends from most of the operating units. We've given guidance already on Admin

Re and what you can expect there and we also expect reinsurance, subject to regulatory approval, to also make a significant payment. So that's really what I was referring to. So, I mean, I don't think you'll see it all by the end of Q1, but certainly by the end of Q2. You will have seen the cash replenish at the holding company, and I think capital fungibility continues to be extremely strong. On CorSo, you're right to highlight this. That's not the most sustainable component of CorSo's earnings. In a normal year, I mean, it wouldn't be $90 million. I wouldn't want to give guidance for that particular item of the earnings statement for CorSo. I mean, it'll be a lot less, probably even half of that typical period. But it's -- I mean, I guess, it's a derivative form of a traditional business. I mean, it's the traditional risks that we take. But for some clients have to be written [indiscernible] and that's why you see it there. And it was a very strong REIT year for CorSo on that business last year. Michel, Admin Re?

Michel M. Liès
Former Group Chief Executive Officer

Yes, actually, the short answer is yes. As we've said, Admin Re is definitely an important part of our strategy in the core business. We simply do not think that financing 100% of the acquisition does add a lot to the strategic dimension. And it's something which has been achieved during 2013, thanks to the work done by the team is the conviction that we should not compromise on the conditions in which these third-party capital should come in. So still solidly convinced of the strategic importance of having these third-party capital, but also convinced on the price which should be paid.

Operator

The next question comes from Frank Kopfinger from Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have 2 questions. My first question is on the price decline during the renewals, the 3.6%. This takes into account also the interest rate movements, can you give some guidance where this figure were to end if you were to exclude these interest rate movements? And also, whether you could give some guidance how this splits into -- looks for the non-proportional part of the business and the proportional book? And my second question is also following -- a follow-up on the insurance derivatives and the cost of business. Could you give some guidance whether the overall increase the volatility of the segment or not? So if you have a benign nat cat experience, which is good for the combined ratio, but that this will also shift the realized gains on the P&L?

George Quinn
Former Chief Financial Officer

Okay. So as usual, Matt, number one and number two.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So the price quality change of 3.6% includes interest rates. It includes nominal price changes. It includes exposure trends, loss trends and it includes also changing terms and conditions. So as such, it provides a full economic view. At this point, we are not disclosing the individual components of the 3.6%, but they are all included.

George Quinn
Former Chief Financial Officer

Frank, on the second one, I mean, I haven't looked in detail at the capital model to whether or not it's diversifying. I know, I mean, I suspect it must be partially correlated. I mean, the derivatives are mainly weather-related. So there must be some correlation to some of the more weather-related natural catastrophe exposures that cause the runs. I mean, that's probably the best I can answer this question today.

Operator

The next question is a follow-up question from Jason Kalamboussis from Societe Generale.

Jason Kalamboussis
Societe Generale Cross Asset Research

Yes. I think that Admin Re, I just only had one question -- in addition to what was asked. It is on the -- when you have moved to, say, mid-single-digit ROE, does that include the re-leveraging you're planning to do or that could take you further? And also, what is the component that brings you from -- is it the asset allocation that brings you to the 5%? And also, more to understand if it's possible it is when we're looking -- you're saying that you could do a transaction. I mean, clearly, for Admin Re, you do need to do a transaction to kind of feed the machine as what we say. So does it -- what sort of, of course, it will depend on price. But would that give us a further increment if you want on the ROE outlook that you will have? And the final thing is just around again the same thing. And so you have -- you are going to upstream on an incremental $200 million dividends from Admin Re. Where is that coming from? And could we -- are we going to be getting -- on what that is dependent now, are we going to get some good positive surprises like that every now and then because maybe it changed to all going the right direction but not always able to figure out why and how? Where you are getting this positive development.

George Quinn
Former Chief Financial Officer

So I'll start, maybe Michel will add. The -- on the ROE, but just to correct you, we've been, Jason -- so we haven't forecast mid-digits -- mid-single-digit ROE, we said low to mid. Apologies for the...

Jason Kalamboussis
Societe Generale Cross Asset Research

No, before you had lower. Now you moved to low to mid.

George Quinn
Former Chief Financial Officer

Yes, excuse me. Sorry, it's my mistake. Does that incorporate the plans that we have for any -- additional leverage? Over time, as we further adjust the capital structure, then maybe there's room for improvement but it's something that we built into the expectation that you had already. On the -- I mean -- I mean, the point around surprises -- I mean, I'm going to resist the temptation to answer that. It wouldn't be a surprise we've set out the risk tolerance for the business unit. I mean, that's what determines whether or not we expect the business to pay dividends. We came to look at things on a gross basis, so even if they want to do new investments, the money at least notionally comes back to us first and then we make a decision as to whether we reinvest. The one positive that does remain on the ROE is new transactions. So I mean, given the hurdle rates that we have for new deals and given the ROE of the existing business, you would expect new transactions to average up the current ROE.

Operator

The next question is a follow-up question from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

One thing we didn't hear from you today was retrocession cost saves or that kind of some positive effect on the combined ratio and the renewals. If you could just comment on retrocession. Also, in the same line, if you could comment on business terms and conditions because you have to do so much deals in the past? And lastly, on reserve releases, I noticed that both 3Q and 4Q had similar components and that the Plan B [ph]was released -- or released and developed. And also casualty A&E [ph] results. So casualty, maybe I can understand, but [indiscernible] the short bill, can you just comment on why subsequent quarters see reserve releases are of a sizeable magnitude?

George Quinn
Former Chief Financial Officer

So I think Matt's going to do the retrocession and terms and conditions and I'll talk about reserve releases.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So retrocession for us does not have the same importance as it would have if we were a smaller player in the market. While we hedge our portfolio, especially with respect to U.S. auditing to a certain degree, it is not a huge amount and therefore, the market softening, that technically also affects the retrocession. Market does not affect us to the same extent as it does with some of our competitors. Just as a reminder, we do not write ourselves a retrocession business and we will continue to not do this. The problem we have with it, we believe the business is completely transparent. At the time you have to make a decision whether or not to write if you have no idea what the underlying exposure is. And therefore, we have -- we continue to have no appetite for this type of business. With respect to terms and condition changes, we have seen -- by the way, the changes are mostly concentrated on the property side. We have not released in terms and conditions softening on the casualty side or on the specialty side. But on the property side, we have seen attempts, for instance, though prolonged the house costs in the developing Seattle. So we have also seen attempt to include earnings that were formerly excluded or cut rates of reinstatement premiums. And there, our approach was it depends on what the changes are. Some of the changes, for instance, prolonged our costs are not critical per se. The changes come with a price tag, along with our costs. At least the more you need to charge in addition. And that's exactly what we did. We tried to charge more and in those cases where the market did not allow us to charge more. We reduced the rate to you see in the comparison we are disclosing to you. There are an often terms and condition changes for instance eliminating reinstatement premium, which we did not accept right away after the recent is they eliminate also the alignment of interest between the reinsured and the reinsurer. And this is something which in our opinion is potentially dangerous and therefore, we have really resisted this, and we're actually successful not accepting such changes.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

If you could summarize the [indiscernible] clauses were extended and you could not get enough banking for that. That's what you just said, just to summarize?

Matthias Weber
Former Group Chief Underwriting Officer

To the extent that this happens, that would be equivalent to a deal. But due economics, the deal no longer passed our hurdle rate, our technical requirements. And to the extent that this happened, we would not renew this deal.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Also, this was not successful. Okay, all right.

George Quinn
Former Chief Financial Officer

Thanks, Matt. And on the reserve release side of things, I mean, just to give everyone the same information basis, so I'll focus on P&C Re. We had about $300 million of reserve release in the fourth quarter, and about $1.1 billion for the year in total. And if you excuse my shortcut mathematics, I mean, broadly, both for the quarter and for the year, you can split through in terms of [indiscernible] P&C, property and casualty, and specialty. And for both place -- I mean they're in a similar range. So property is a reasonably significant driver in Q4. As you pointed out, we were just [ph] Sandy. So obviously, as time moves on, maybe we gain more certainty around our estimates, we gained more reported information from clients. And therefore, we arrive at better estimates over time. And of course, positive impact for us. But for the full year, not of the Hurricane Sandy and also floods Thai floods and a Japanese earthquake and one of the larger emphasis in the year, partially offset by an increased on the New Zealand earthquake. I guess, the one thing that I would highlight is the ability of this to have some influence on the reserve releases actually relies on us having significant nat cat reserves. And of course, these numbers have been running down over the last few years as we both pay and receive more information. So hopefully, we're moving towards a position of more certainty, particularly on property.

Operator

The last question for today comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Just a quick question back to your 2014 January renewals. On the $9 billion of volumes renewed -- of premium renewed, are you able to tell us how much was the -- on the global segment? And are you able to tell us what has been the differential in terms of volumes and pricing compared to the rest of the book?

George Quinn
Former Chief Financial Officer

So, Thomas, we don't break out global as a separate reporting segment, and we wouldn't do that here for renewal either. Apologies.

Operator

That was the last question.

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Eric Schuh
Former Head of Investor Relations

All right. Thank you. So please allow me to 2 final housekeeping comments. Looking ahead on the 18th of March, we will publish the 2013 Annual Report, together with the 2013 PVM Report. And then we also have a date for our Investors Day, which this year will be held on the 3rd of July in London. You will receive an official invitation in the coming weeks. Thank you very much.

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