S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FQ1 2013 Earnings Call Transcripts

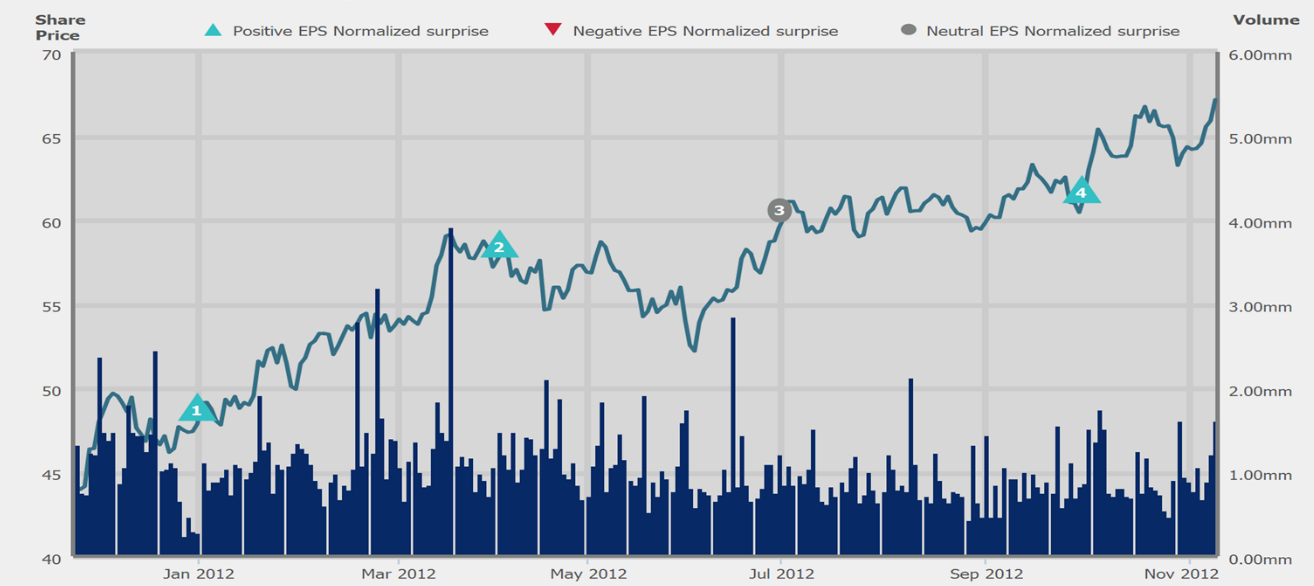
Thursday, May 02, 2013 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2012-	-FQ1 2013-		-FY 2012-	-FY 2013-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.50	2.88	▲39.58	9.93	8.52
Revenue (mm)	6937.04	7487.60	▲34.48	32023.49	33535.34

Currency: USD
Consensus as of May-02-2013 10:21 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	1.64	2.76	▲1 68.29 %
FQ1 2012	1.94	3.33	▲2 71.65 %
FQ2 2012	0.02	(0.12)	NM
FQ3 2012	3.23	6.30	▲3 95.05 %

Call Participants

EXECUTIVES

Eric Schuh
Former Head of Investor Relations

George Quinn
Former Chief Financial Officer

ANALYSTS

Andrew Broadfield
Barclays PLC, Research Division

Andrew James Ritchie
Autonomous Research LLP

Maciej Wasilewicz
Morgan Stanley, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Thomas Dorner
Citigroup Inc, Research Division

Thomas Fossard
HSBC, Research Division

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

Unknown Analyst

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning or good afternoon. Welcome to Swiss Re's First Quarter 2013 Conference Call. Please note that today's conference is being recorded. At this time, I would like to turn the conference over to Eric Schuh, Sweiss Re's Head of IR.

Eric Schuh
Former Head of Investor Relations

Good afternoon or good morning, everybody. And welcome to our first quarter 2013 results conference call. George Quinn, Swiss Re's Group CFO is going to lead into our call with some introductory remarks and after that we'll move straight into the Q&A.

George Quinn
Former Chief Financial Officer

Thanks, Eric, and good morning or good afternoon to everyone on the phones. So as Eric mentioned, before we leap into the Q&A, I will give you a very brief summary of the key areas of today's Q1 results announcement. Number one, as you've seen already the first quarter results was very strong. All the business units had contributed to the Group net income of $1.4 billion, which translate into an annualized return on equity of nearly 17% or earnings per share of $4.

The P&C businesses led the way, as you can see from the excellent Group combined ratio of 72.4%. I think from the information you've seen already today, you will be aware of the good luck items within that result, mainly no large loss and the benefit we'd received from prior year reserve releases.

At April renewals we've seen moderate growth [ph] and overall growth rate 5%, and the overall risk adjusted credit quality has decreased slightly by 3%, we believe it remains a very adequate level. We feel this is a good outcome and in fact we expect the business environment and successful renewals that we've seen so far this year to continue through the remainder of the year.

I'm also very happy to report that we've completed an important step in the Life & Health journey, which is to deliver on the capital management actions that we promised last year and in fact, we are going to achieve those goals ahead of time.

Q1 cash dividend of $1 billion from [indiscernible] was the combination of the promise we made last year and in fact we've now extracted more than $2.5 billion of shareholders equity from Life & Health Reinsurance over the last 15 months, as well as more than $1 billion also from Admin Re all of which was paid out to the Group.

I think we've achieved what we said, hope to achieve on the E or the equity and the team has already turned its attention now to the R or the return. You'll hear more about this at the upcoming Investors Day in June.

Today's announcement also includes the SST ratio for the Group in fact we've submitted this to the regulator and it stands at 245%. As you know this is significantly above our risk tolerance requirement for the Group, but I'll remind you that our priorities on capital management and around dividends and investment in Group remained unchanged, but I would add that we don't intend on to hold that we cannot deploy. But hopefully you'll appreciate, it's very too early in the year to start drawing any conclusions of what this means for future capital management.

With that, I'll hand it back to Eric.

Eric Schuh
Former Head of Investor Relations

Thanks George. [Operator Instructions]

So, with that, operator could we please take the first question?

Question and Answer

Operator

The first question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

I just have 2 questions. On the combined ratio guidance which in your video comment you said, the first quarter was not enough to change that. But obviously a very simple calculation for this that you need to get an underlying level of 94%-odd, the rest of the year to get to sort of the normalized 92%, and I know your guidance is, but if you just comment a bit more about why the 92% is still maintained for the whole year?

And second question is, I'm just curious about the --

Operator

Sorry, we lost connect with the questioner. We'll move with the next question from Mr. Thomas Seidl from Sanford C. Bernstein.

George Quinn
Former Chief Financial Officer

Hang on, Thomas, just before we do that, I'll answer the one, I did hear from Vinit, I guess, Vinit can come back, wait for that. That wasn't nice trying to be overzealous [indiscernible] . So Vinit hopefully you can reconnect.

On the question that you did asked on the combined ratio. I appreciate the question. I think it allows me maybe to correct some misconceptions I may have caused. So obviously we've had significant benefits from paying out large losses in first quarter. The comment about the 92% combined ratio again being unchanged relates to remaining 3 quarters. So we are now actually forecasting that the combined ratio will deteriorate for the remaining 3 quarters and average 92% for the year; what I'm really saying is we've got for Q1 and we see no reason to change the 92% expectations for each of full 3 quarters, so all things being equaled, the combined ratio will come down. Now we'll take Thomas please.

Operator

Mr. Thomas Seidl from Sanford C. Bernstein.

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

Hi, George. Yes. 2 questions, the first, on the reserve release, more profit question, really I have the impression that really you do the reserve release entirely in the first half of the year and the second half of the year sort of you will release any reserve you think you can release and now we see you basically already a very strong lead in the first quarter. So I wonder what has led to this quite early step in this year?

And secondly, you mentioned already the strong outlook on the SST ratio 245% growth and it was 207%, and I think you mentioned in your value book message that this is a prospective view and what like to have more color that what went in terms of assumptions into the prospective view.

George Quinn
Former Chief Financial Officer

Thank you, Thomas, and on the reserve releases, turning to the P&C side of the business, we don't have a particularly pronounced period of actuarial effort to review reserves, we don't [ph] try to spread to work course of the entire year and from the time to time the actuarial will be reviewing various parts of portfolio. So, I think reserve changes can come up at any given period.

I mean, that's still biggest driver reserve release for us in recent periods has simply been a substantial difference between expected, reported claims, and what we've actually received. I mean, that's still the biggest driver of the impact in Q1, I guess was different in Q1 compared to the prior period for the U.S. is a stronger theme than we've seen before and then the second thing is we -- I mean we have, apart from that technical actual to expect the benefited, we got some relatively small one-off actuarial modeling changes then the result in Q1. So again, the predominate theme of what's driving the reserve release is simply that difference between what we will expect, given the reserve that we are releasing and what we are actually receiving by way of reported claims.

On the SST, you mentioned the most recent filing, in fact, a brand new we filed on last week or this week with FINMA. And you are quite right Thomas. It's a prospective view, so it tries to speaking [ph] to again what we expect to happen over the next 12 months.

So, it include a view on the assets risk that we anticipate, taking a closer view on renewals, it includes all the capital requirements to support our business and it also includes the impact on profit from breaking out business.

So that's why I tried to caution in the video that, I think it's important to recognize that, I mean, while they, I mean, the firms have a very, very strong capital position, that's for sure, but to be a bit cautious with today's number because a chunk of it have yet to be earned and of course, if we have, the kind of volatility I will tell that a reinsurance company can suffer from, normally when you not see the earnings because of that large loss events, I mean, it's not inconceivable in extreme nat cat scenario that we'll actually see losses, and that's why it's important. I think we don't place too much emphasis on that yet until the money is actual earned and in the bank.

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

Okay. So that makes a major increase just 40% this point since year end is basically attributed to the income?

George Quinn
Former Chief Financial Officer

No. I didn't say that to -- part of that comes from -- we had a very, very strong economic performance last year. I mean, the last SST report would have been a, essentially a projection from further second half of 2012 for 12 months. It's clear that the year ended certainly much stronger than we could have anticipated. So there is a piece of that which is actually the very positive performance in the latter part of second half of 2012 was rather significant chunk and which is as yet unearned.

Operator

The next question comes from Tom Dorner from Citigroup.

Thomas Dorner
Citigroup Inc, Research Division

Also 2 questions. The first is on the performance of the business that you recaptured from Berkshire. I just wonder if you can say anything about when you said that the gain in Q1 will reverse over the course of the year but can you say something -- and I know you'll probably talk about this in detail at the Investor Day. But just sort of in broad terms, can you say something about the profitability of that business sort of ongoing basis. And then the second question is on -- I think in the past you've guided that the running yield would decline by about 6 basis points a quarter, is that still a sensible starting point?

George Quinn
Former Chief Financial Officer

Thanks Tom. So on the business that we recaptured from Berkshire Hathaway, and just to remind people, we preannounced that we would expect to book a gain on recapture of about $100 million. We've reported a net result of all recaptures of $75 million in the quarter so we actually had slightly more than we expected in guided [indiscernible] and we've incurred some cost on recaptures and trying to incent some clients to actually recapture for us.

On the Berkshire Hathaway piece, we did also indicate, as you pointed out Tom, that we expected the gain to reverse over the course of the year and I mean I think our figures haven't changed. I mean we still expect for the remainder of this year, I mean, something around in the order of that net 75 or maybe slightly higher to reverse.

From a longer term perspective, we are working hard to try and mitigate the impact of this underperforming block of business. I think the confidence that certainly by 12 months we can cut the impact to half and we'd certainly like to see over the 12 months [ph] that to cut it half again with the aim of reducing it at a material level.

There is a lot of work to be done. I think that process has started well and of course and it's been, in fact, part of the net impact of that recaptures or the offsets the gain that we've made on Berkshire has actually -- working with a client and then recapture a part of what we will be capturing our expense, so that will help us in future.

On the running yield, again you're quite right, I have guided in the past and historically we've seen a reduction of about 6 bps end of [ph] quarter. I think if I look going forward, I think that's still a reasonable estimate for the time being, albeit, it can be a bit lumpy either because of foreign exchange or the impact of inflationary resets on the cat [ph] business.

In fact, if you compare Q1 in 2013 and Q4 of 2012, the actual impact of purchase and sales was about 0. I mean we sold 2.2 and bought 2.2. The decline in yield that you're seeing is more the impact of those other items in particular, foreign exchange in Q1, but I would still guide it's going to come down and for the time being, I'd encourage everybody to use that 6 bps per quarter.

Operator

The next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

I was just asking about the reserve release as to how much portion of this 8% comes from the block of binary book which is still sitting in P&C increase [ph] , please?

George Quinn
Former Chief Financial Officer

Okay. So I mean it was about plus sign Vinit because, in fact we was curious about and can't wait, so 2 is about the reserve release. I think the net decline of the piece that relates to the historical business that was left behind on course of, just give me, I think from memory it's about $17 million that reserved.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

Yes, 17?

George Quinn
Former Chief Financial Officer

17.

Operator

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

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

And on pricing, so some clients -- and I just see you reported 70% combined ratio, I'd be rubbing my hands and coming to you and asking for a discount of maybe about 30% but roughly 10% or maybe 15% even if I look at the combined ratio correct to this 6.8 [ph] in reinsurance. So why do you think the pricing coming from here, what arguments can you put forward to a client to say we're not going to, if you don't want our business so we won't cut that much; it's not economic? And the second is, can you give a little bit of color or maybe some indication what's happening on Admin Re where you said this for year that the team should execute merging or even opening the capital with somebody else and making [ph] plenty of progress there or what's the moving parts are?

George Quinn
Former Chief Financial Officer

So I think on the first one Michael to the impact of let take P&C Re's sub-70% combined ratio on negotiating capabilities when it comes to pricing. I mean on the one hand if clients can promise us forever there'd be no nat cats or no large losses, I am sure there could be discounts on pricing.

Of course, in reality we all know that's not the case, and I mean, the biggest driver as you know is normal economics of supply and demand. So I mean, currently, my perspective on the market is that there is the certainly, let's call it, adequate supply and I think that most players at least in my opinion continue to be very disciplined to how that capacity is offer open to the market.

I think the market has sustained, higher pricing perhaps little longer higher than people have anticipated. Again as you saw on the commentary this morning and I think we don't expect to add up the whole [indiscernible] July 1. We do expect to see some pressure, particularly on some of the peak nat cat scenarios in U.S. But on the flip side, I mean we are, and I don't think it's optimism, but we are seeing some positive movement on other lines of business and I just mentioned U.S. casualty already. So I mean I wouldn't promise that pricing overall is going to go up on July 1. We certainly think that from a competitive position from some of the current price trends, we certainly have an ability to offset some of the natural pressure that we expect to see on the parts that are mostly in fashion, particular nat cat.

On Admin Re, you are quite right, I mean I did say earlier this is the year; this is not yet in the quarter so unfortunately -- so I don't yet have a lot to say, I mean the teams are working hard. I think they've progressing into the timeline that we expected but we appreciate, I mean that will take some time before we're in a position to make public comment on what we're seeing here, but certainly I don't see any change in our intent or our desire to get something done and if anything, the team are -- hopefully the team is listening this and we can acknowledge their very significant effort and I know they have been putting into this and will have to continue to put into this. So we are working on it but unfortunately there is no update for you today.

Operator

The next question comes from Mr. Cameron Hussain [ph] from RBC.

Unknown Analyst

Couple questions. First one is on the April renewal. So I'm interested that you grew your high growth markets by 18%. In terms of the treaties there, are they, just to get an idea for premium growth [ph] improved so they kind of ongoing business the one-off deals or are these new relationships that you hope to maintain for a number of years? And secondly, last when we spoke, George, we had a great chat about the fair [ph] fees. Do you have any update for now? So I think we are expecting news about now?

George Quinn
Former Chief Financial Officer

So on the April renewals, unfortunately, Cameron [ph] , I'd be guessing if I tried to give you a lot of color on what's driving the growth in the target markets. I mean from a longer term perspective we certainly hope that we are creating the foundation for long-term relationship on a long-term growth [indiscernible] .

I couldn't split the growth up into what might be one-off versus more traditional regulatory treaty-type [ph] renewals [ph] . On the SIFI [ph] topic, I guess, probably the last thing that I saw in the public domain was some commentary in the FT [ph] , which I think what you were referring, Cameron [ph] , around the -- I think April was the -- I think this highlighted time point.

I think that from what we understand, there is going to be a delay through the middle of the year. So at this stage, we don't expect to see public comment on this, probably until June, July but of course we are not in control of this. This is really up to our regulator, the ILS and the SST. But certainly from what we understand, it may come about 2 to 3 months later than maybe the FT [ph] article had led people to expect.

Operator

The next question comes from Andrew Ritchie from Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

I have 2 questions. First, just talking about the SST ratio, there were 245 projected 12 months forward. So, I think I understand that also excluding the hybrid that you issued in Q1 for some reasons. So let's say it's 250 including that. I guess I want to understand. You talked about your risk tolerance limit, which I think is 160 to 185. And if I quantify that you kind of will end '13 with a lot more excess capital than you started, albeit I know you are binding constraint is really excess versus the S&P AA. How is the gap? Is there an increasing gap between the trajectory of your sort of 3 different capital models, i.e. SST, internal and rating agency? I know there were quite of lines at the end of '12 is not changing. Just trying to get a sense of how we should translate that SST into the kind of binding constraint capital of the evolution? Second question, just clarifying the casualty market that you saw some growth in April renewals and I guess you are suggesting that you can grow enough in casualty by midyear that will offset any contraction in that. Exactly what areas, are you seeing are you seeing opportunities in casualty both in terms of geographical class and is this excess of loss per ROTH [ph] business, just give us little bit more color on exactly where you are seeing such opportunity in casualty?

George Quinn
Former Chief Financial Officer

Okay. Andrew, on the first point, the SST ratio, currently and probably for some time to come, I did not expect S&P to be the binding constraint. In fact, I expect the SST ratio, at least given our near-term plan to be the binding constraint overall for the Group. So the figure that you are seeing here today is actually the one that matters most. In terms of divergence, I'm not sure there has been a lot of divergence. But certainly SST is the key constraint for us.

Andrew James Ritchie
Autonomous Research LLP

And the 160 to 185 wouldn't change?

George Quinn
Former Chief Financial Officer

No change for that. So that's still the target level established from the risk tolerance discussion. But the risk tolerance for the broader set for the Group. On the renewals, I have mentioned that. I mean, we have seen some growth from -- the target high growth markets. We've got some growth in casualty already on the April renewal. Given the markets affected, our expectation is going to -- our belief at this stage is that we will see some further rate improvement in U.S. casualty.

I mean, if we look at it -- now look at what happened on April 1 renewals and look across the entire globe various figures that we saw. I mean, Japanese earthquake, actually the original rates were slightly up. On the non-profit cat business, we think it's slightly down. On the U.S. business, it's renewed; generally it's down but other than the Sandy hit business. And on the casualty side, we see U.S. casualty rates on April 1 rising and in fact rising by more than the Japanese business was falling.

In Korea, slight increase and everywhere else, slightly down. So our view is that we did expect to see more of what you have seen some general pressure on pricing directed principally at the peak nat-cat scenario that people find very attractive. But at the same time, we expect some ability to offset, at least part of that with the ability to achieve rate improvement elsewhere, particularly on the U.S. casualty.

Operator

The next question comes from Andy Broadfield from Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Two questions. First, I have a follow-up on Admin Re and just wanted to better understand. I think you said that you sort of committed some capital for that business with the view to transactions. And I'm wondering whether you can give some color either on board amounts or what those transactions might look like or perhaps even -- if it's easier what those transactions might not look like, i.e., would you do what you've done in the past and make a single acquisition on your own or a single book of business, or would it now all these transactions being built [ph] partnerships?

Second question, you talked about the transitioning, if you like, sort of 2 cycles going against each other, one on one. A lot of cat business and globally coming back a little bit after extended period of hardness and having some opportunities in casualty. Just from a pure earnings perspective, should we expect therefore to see pressure on combined ratio and the, if you like, a little bit of a slower earnout of those longer-term large business just purely from an earnings perspective and therefore absolutely slowdown on earnings?

George Quinn
Former Chief Financial Officer

Andy, on the first one on Admin Re, committed capital mid-triple digit million number in dollars. In terms of the types of transaction, would everything be done with a view through the partnership? The short answer is no. I mean, if the right thing came along -- I don't know if this is actually helpful in context of the other discussion around third-party capital.

I think the challenge is far more than practicality of the whole thing and trying to have multiple balls in the air at the same time. We would like to do a transaction provided the returns were right. But given our immediate focus on third-party capital topic, I think we are more likely to bring that to some type of conclusion before you see the next deal. I can't guarantee that's the case.

On the cat business and the comments I just made around the casualty and the potential pressure that that can cause the combined ratio. I mean, if we had a very significant shift in the mix of business then of course you would see a higher combined ratio. I think it's way too early to start being concerned about a significant shift on the -- either on P&C Re or the Corporate Solutions combined ratio.

I think given what we expect to happen for the remainder of this year, I don't expect any shift intensify that we've reconfirmed the 92% today for the next 3 quarters. My perception is that there is an even bigger opportunity on the casualty side that would drive a much larger shift and that's something we will talk about towards the end of the year. And then of course we will update combined ratio guidance accordingly. But I don't expect that to be an issue in 2013 for sure.

Andrew Broadfield
Barclays PLC, Research Division

I guess, I'm hesitating a bit of guess beyond 2013 and I'm seeing '10, whether we should be thinking about the nature of the structure of the earnings changing little bigger for the CD investments is started to grow as well this quarter and I guess that's the shift in earnings characteristics I guess?

George Quinn
Former Chief Financial Officer

I think there are 2 things. On the asset growth side, just the expiring of the quarter share is going to drive a recapture of some very significant cash flows by the Group. So that will be beneficial but that was big dent to the targets. And it was part of the -- if somebody may remember I did a walk on the EPS at the heart of the Investor Day last year. I mean, part of what was in the asset and private there was asset growth.

So we have anticipated that already in the target that we've established. On the casualty side and combined ratio, I want to be cautious. We are not forecasting the world's hardest market in cash. It would make you want to jump in with both feet. We are seeing incremental price movements. We will take advantage of that for as long as it's there. But of course we are going to be cautious because if we -- if Swiss Re jumps [indiscernible] into the casualty market, that will have the opposite effect we're intending to have.

So, we are going to follow what happens in the market here. If a bigger opportunity emerges, we'll certainly transfer but for time being, I think it could be far more measured than maybe that you can see what the combined ratio suggest.

Operator

The next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz
Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. My second question has already been answered, so I only have one. So I'm within the quota. I was actually going to ask whether or not you could expand a little bit about where Life Re growth is coming from. I think you mentioned in your slide about its health and longevity. I'm guessing longevity is in the U.K. I know how much you can tell us about what the main sort of characteristics that are and also where the health business? Is that at U.S. or is that elsewhere?

George Quinn
Former Chief Financial Officer

So on the Life side, the whole story was, not entirely, but almost exclusively European, sort of, the longevity piece is coming from the U.K. You've seen some transactions announced over the course of last year, particularly with some pension funds, particular pension funds of an insurance company. I mean, that drives some growth in the top line because of the GAAP [ph] characteristics of earnings for longevity.

It doesn't make a lot of difference for broad mind. I mean it takes a long, long time for the margin of those transactions to be added to income. Health is mainly European summation; a lot of the growth is actually coming from Europe economy. I want to avoid, I gave you so much information to identify the client or clients but we're certainly being supporting one or 2 opportunities that we felt were very attractive. So far, the outcomes there have exceeded our expectations. So Europe is driving growth on the health and longevity side is emerging.

Maciej Wasilewicz
Morgan Stanley, Research Division

And I'm guessing the health side, sorry, if I can -- I mean, sort of, ask follow-up question, that's only 2 questions still. On the health side, does that mean a short-term step up of contracts that client meaningfully tells us about, so they are fairly short payback periods, one-year contract type thing or is it longer term and longer duration?

George Quinn
Former Chief Financial Officer

These are generally short duration contracts.

Operator

The next question comes from Stefan Schürmann from Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

I guess, I had 2 questions. Nice follow-up on SST 1. Can you give some indication how much the high weighted Admin Re disposal last year and basically improved the SST ratio and maybe also sort of like this is, maybe always refinement in the modeling, how much that impact was in that figure. And the second question is mainly on growth in corporate solutions, nice 15%, just that you replicate [ph] , basically, tell me where is it coming from?

George Quinn
Former Chief Financial Officer

So on the SST side of the things, I mean, it does modeling changes and the impact of those model changes, I'm not aware of a major change, Stefan, that's driving the improvement that you see today. In terms of other things that have had impact, so you mentioned the Admin Re piece. I'm trying to recall, we estimated the Admin Re impact but I think it was, maybe just north of 10 points. 14 points, I think...

Stefan Schürmann
Bank Vontobel AG, Research Division

That's what was, basically as estimated.

George Quinn
Former Chief Financial Officer

To the best of my knowledge that's the -- that we received. On the impact of the [indiscernible] that we've issued, I mean, just to repeat the most recent one in, I think, Andrew Ritchie mentioned earlier, so that will come in when we do SST 2 this year. Of course, they do include the second [indiscernible] that we issued in the middle of last year. I think from that we also got $500 million of impact on the available capital which largely tracks the internal capital numbers that you see for -- in the annual report. It's relatively small impact.

On the cost [ph] side, where does the growth come from? I mean, no major theme. So we've seen the growth come from generally all lines of business, all geographies. There is nothing in particular to expand there.

Operator

The next question comes from Thomas Fossard from HSBC.

Thomas Fossard
HSBC, Research Division

Yes. Just one question my side, relating to your various schemes budgeting onto your asset side. Looking at the situation on the end of March and looking at where you as you stand at the end of 2012. I can see that your cash position is slightly -- move up slightly, also you have reinvested beating to the corporate bonds. You still, I would say significantly below mid-to-long term plans. So could you update us a bit on what's your strategy is around the full-year basis regarding, I would say maybe shifting a bit more of non-yielding assets into corporate bonds. Also, I would say more risky investment classes and I was -- would have been interested to understand. What was the kind of the average return you managed to get on $1.7 billion you invested in Q1 into corporate bonds.

George Quinn
Former Chief Financial Officer

Okay. So, answering the second one, first, I think, it is about 3.7%. On the first one, so what do we intend to do. You pointed, that was still quite a long way off of the midterm plan. I mean, if you look at that, generally the demand for most of the -- I guess, it's still call them riskier [ph] asset classes, I guess, there aren't many risk free asset classes around anymore.

I think our preference would still have been mainly on the credit side. I think you see it continue to grow or rather the shift the allocation towards diversified credit, continuing to add some corporate. You have to have some securitized, and probably also add some additional, maybe infrastructure or even commercial. So I mean, the pattern that you see in Q1 is completely conceivable that you see that continue through the remainder of the year because adding maybe $1 billion to $2 billion a quarter.

And even at the end of the year, that will still leave us quite a bit short of the mid-term plan but I think we've given an overall asset allocation that we feel far more comfortable but in terms of the balance that we would have.

Thomas Fossard
HSBC, Research Division

Okay. And that's all combined, I mean, taking into accounts your risk action around $1 billion to $2 billion per quarter as the 6 basis points compression of the running yields is holding true.

George Quinn
Former Chief Financial Officer

Again, as I said earlier, that will vary a bit but I still expect to see the running yield come down. I mean, even at these levels, I don't think we could divest the floor on the running yield floor.

Thomas Fossard
HSBC, Research Division

The 6 basis points, is it all combined?

George Quinn
Former Chief Financial Officer

Correct.

Operator

[Operator Instructions] We have a follow-up question from Mr. Michael Huttner from J.P. Morgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

On the reserve releases, can you say where they are coming from now? Maybe a little bit color, just the amounts are so large and the -- on the Life, can you also give a little bit of color where in the past you've been very helpful in saying, well, these parts that will get better and these parts will get worse. If you could help on Q1 that would be huge. I know, you've talked about the box [ph] recapture but maybe the -- of that seen in the mortality in pre-2004.

George Quinn
Former Chief Financial Officer

On the reserve releases, Michael, our focus on the P&C Re piece, I mean, they are an additional chunk in corporate solutions but it's much smaller. So property, there is no impact to speak of in Q1. Casualty, we have a bit more than $200 million, which actually mainly coming out GL in the U.S.

We've made some minor changes to reserving around the umbrella business and on E&O [ph] that is also part of that $200 million improvement. And we have about another 100 line of benefit across the Specialty line particular aviation engineering. I mean, that's the dominant forces of reserve release in Q1.

On Life and Health, if you look at the slide that breaks on the source of the operating earnings, I think it's a reasonable data to the major changes that are taking place in the quarter. So I mean, just walking across the page, we've seen much less positive mortality but in reality I think the mortality that we're seeing in the first quarter 2013 is far more longer term average than the result we saw a year ago. So

I wouldn't personally be predicting that you should predict on average of higher mortality on morbidity result that we've seen this quarter.

On the Pre-2004 business, I said last year that we expect that the impact to come down. It is not as low as Q4 but it's half of Q1 a year ago, so I think the commentary around, we expect that impact of pre-2004 being -- expect to be significantly lower than it was last year's still hold. I think we had it a total impact of pre-2004 was somewhere in the order of $150 million last year. And I guess, I'm hoping that what we're seeing is an indication of the run rate hoping maybe in a better little than we have in Q1. Changes in models and assumptions, they come and go. The impact this quarter is relatively small and not different from long term average we'd expect which is somewhere close to 0.

That yield is problematic. I think, so I mean this part of the business that suffers from the yield compression because it has a duration. And then we have a number of things baked into Other. Of course, the impact of the net gain on recaptures, not something you'd expect to repeat. And well Q1 2013 expenses are higher, I mean, where a year ago again I view is that the figures that we're seeing this quarter are probably more indicative of the longer-term trend.

So I mean, hence the conclusion that the overall performance of Life & Health tends to be unsatisfactory. I think the only positive thing I would say at this stage, I mean, everything that we see other than the yield topic, which is relatively difficult for us to trace without going crazy on assets risk.

The operating issues still seem to be focused on pre-2004 U.S. business. It doesn't make it better. At least it makes the problem contained and that will be a focus that we'll talk about when we come to the Investor's Day in June.

Operator

We have another follow up question from Mr. Vinit Malhotra from Goldman Sachs.

Vinit Malhotra
Goldman Sachs Group Inc., Research Division

On the Life & Health, there seems -- there is growth in health in several quarters now. 20% were mentioned in this 1Q. And also in parallel, there also have been a lot of adverse morbidity experience, George. And I was just wondering if these 2 things don't bother you at all. Is there -- I know the morbidity would have been in past cases or have you just learned from that and pricing differently or are they just totally different books. If you could just comment on that, that would be great.

George Quinn
Former Chief Financial Officer

Clearly, I mean, I think we've seen, I think maybe 2 or 3 over the last 4 quarters. I would say relatively limited at past morbidity. And the negative impacts have been relatively small. I mean, the challenge is that we've been quite a bit spoiled for several years before and that morbidity had been very, very positive for a long period.

So, I guess the thing we do pay particular attention to sources of adverse morbidity, is not a source of growth that we can see. So I mean, the challenges, I mean, the modest negative impact that we've seen from morbidity had been in the U.S., would be in Australia. As I mentioned earlier, the growth that we're seeing in health is coming from Europe. We haven't seen problem in morbidity on that book.

Operator

We have a further follow-up question from Thomas Seidl from Sanford C. Bernstein.

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

On the loss ratio in [indiscernible] overall again why should we expect them actual are bit higher lost ratio for the remaining quarters because the example if you take nat cat, the normalize ratio is I think 8.9% or something. In Q1 you hardly ever have large nat cats. So I guess nat cats stem straight out over the rest of the year and this must mean or should mean that the other quarters come with higher lost ratio even if it's same for the, you call it luck on the manmade losses in Q1. We shouldn't expect this to normalize and enhance other quarters to be higher?

George Quinn
Former Chief Financial Officer

The short answer would be no, Thomas. I mean the, the way that we handle the premium is designed to be in proportion to the risk. So for example, I mean very roughly, if you look at nat cat losses and how they spread through the year for us, we expect to see of it, 20% in Q1, about 15% in Q2, 40% in Q3 and 25% in Q4.

And in fact in those quarters, we will have more non cat risk because that business typically has a higher margin. You would normally expect the combined ratio to improve, I mean, it will be more volatile but on average you would expect it to be better. As far as -- I mean even if you look at historical experience, I think, generally it's been a bit quiet in Q1, maybe for last couple of years if you ignore the earthquakes that took place in 2011.

I mean, if you go back about earlier, I mean Australia has been an issue in Q1. And go back to 2007, 2008, we've seen significant storms and flood losses in Europe. And certainly our earnings plateaued around the premium and therefore the margin that comes with it, is designed in order to reflect the risk. So it's not that Q1 is particularly late than we haven't reflected that already in the figures you've seen, we expected 20% in Q1. I mean, we've had effectively nothing.

Operator

The next question is a follow-up question from Andrew Ritchie from Autonomous Research.

Andrew James Ritchie
Autonomous Research LLP

Sorry to come back. Two very, very quick questions. George, can you just clarify, did you say that essentially all the capital extraction from Life & Health had now been completed, so we should now think of ongoing or I guess we just similar to the payout ratio was normal ongoing dividend extraction from Life & Health. Just clarify that. The second question, again a positive result, I don't think it was -- expense ratio in Corporate Solutions, I kind of expect it that to start trending down. Obviously, there is more growth as well. But actually it's trending up, was there a one-off investment there again? Just any color there would be great?

George Quinn
Former Chief Financial Officer

Yes. So on the first one, on the Life & Health and capital extraction, generally I don't [ph] expect us to focus more on the normal dividend flow [ph] . So we were taking $2.5 billion out of this over the last 15 months, which is way more than certainly I had anticipated when we have the, we set in the targets around Investor Day last year. On the expanse side, I think you are right. Expense level still runs higher than we -- certainly higher than we expect in the longer run.

And we expected to see it decline by about 2% to 3% over the next couple of years, as the cost of opening offices and hiring staff, which of course is still a big part of what we were doing last year. And it comes to an end and we start to see the cost benefit and but the scale starts to come through. But I mean -- from an inside perspective, I do see a problem with Corporate Solutions expense level at the moment and it's roughly what I expected to be given the investment that we are still making towards the end of last year.

Operator

Ladies and Gentlemen, we have no more questions at this time.

Eric Schuh

Former Head of Investor Relations

All right. Great. Thank you and of course if there any further questions, please always feel free to call Investor Relations. I hope you are doing -- you didn't mind the announcement of our strict management. But I think it works well. We got all questions answered. In a bit less than 2 months away from now is our Investors Day on the 24th of June 2013.

We sent out the invitation and we really hope that you will join us here in Zurich. So if you haven't signed up yet, please do so until the 15th of March (sic) [May] , so over the next 2 weeks. Excuse me, May not March. So we have not much to add at this stage. We look forward to welcome and spending the day with you. So with that, I would like to conclude the meeting. Thank you very much everybody for your participation and goodbye.

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