S&P Capital IQ

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Swiss Re Ltd SWX:SREN

FQ1 2015 Earnings Call Transcripts

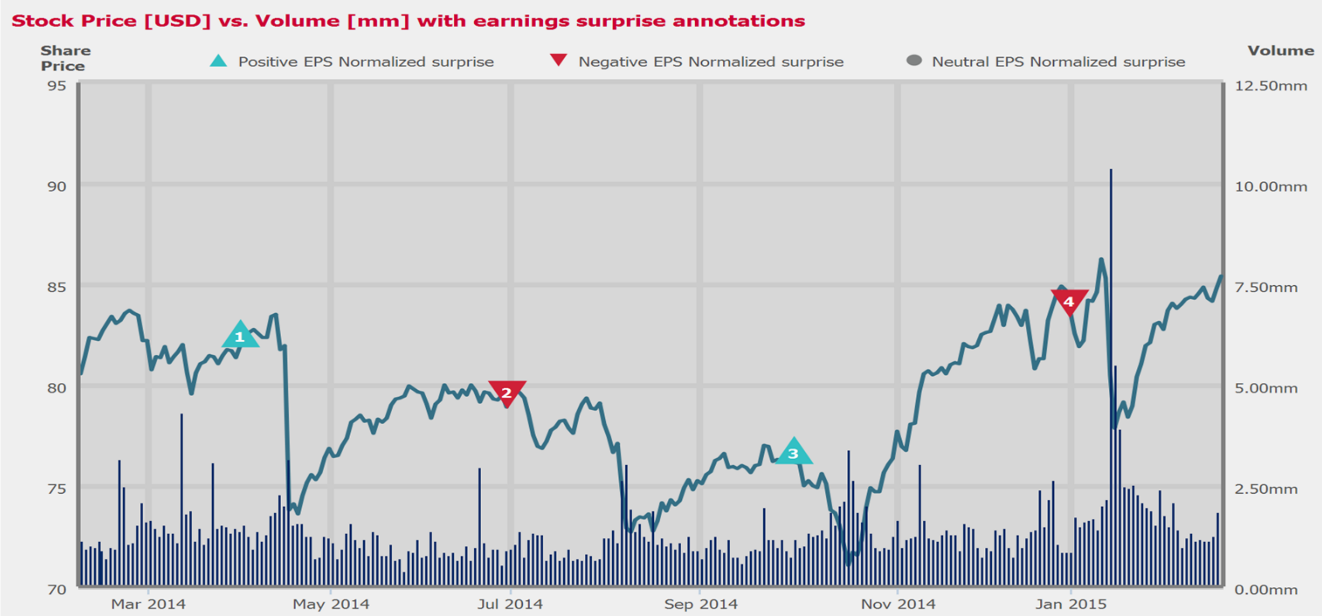
Thursday, April 30, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	2.03	3.88	▲91.13	2.07	8.43	9.20
Revenue (mm)	7678.29	7413.00	▼(3.46 %)	7847.48	33088.15	-

Currency: USD

Consensus as of Apr-30-2015 10:40 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	2.68	3.28	▲22.39 %
FQ2 2014	2.85	2.29	▼(19.65 %)
FQ3 2014	2.57	3.29	▲28.02 %
FQ4 2014	1.23	0.77	▼(37.40 %)

Call Participants

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Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Philippe Brahin

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Stefan Schürmann
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Thomas Fossard
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Presentation

Operator

Good morning or good afternoon, welcome to Swiss Re's First Quarter 2015 Results Conference Call. Please note that today's conference call is being recorded. At this time, I would like to turn the conference over to David Cole, Group CFO. Please go ahead.

David A. Cole
Group Chief Financial Officer

Actually, I'll have Philippe Brahin to start, if you want, or would you prefer me to start, Philippe. I'm happy to do so.

Philippe Brahin

Please go ahead and start.

David A. Cole
Group Chief Financial Officer

So thanks, everyone for joining us. Depending on where you are, good morning or good afternoon, and welcome to our first quarter results conference call. Now I'm here today with Matt Weber, I think most of you know, our Group Chief Underwriting Officer. You've all obviously had a chance to take a quick look at our first quarter results. You'll see we started the year with a very strong first quarter. All business units contributed positively to the group net result, income of USD 1.4 billion. P&C Re, as it has done for many quarters, now led the way, continuing to demonstrate disciplined underwriting and also benefiting, of course, from the benign nat cat experience.

Clearly [ph] important the results of Life Insurance Re reflect the benefits of the management actions that we concluded last year. And I think at this point, we can say, although it's still early days, it's just 1 quarter, but the segment is on track to achieve its 2015 ROE target.

Corporate Solutions delivered a set of strong results driven by continued, albeit somewhat slower pace, profitable business growth.

Admin Re generated gross cash in line with our expectations and, of course, had an exceptionally positive Q1 on the back of some realized gains. Our group SST solvency ratio associated with our SST I report remains very strong at 223%, down about 16 percentage points from the comparable report last year, but I think, still reflecting a very strong capital position. The decrease, of course, comes from a number of items or business mix, but also, of course, the level of interest rates today versus where we were a year ago, an update of our Life & Health model as well as I think, quite importantly, the impact of projected capital actions which, this year, also then will include the impact of the recently approved share buyback program.

So with that, I'll hand it over to our Head of Investor Relations, Philippe Brahin, who's going to introduce the Q&A session.

Philippe Brahin
Many thanks, David, and good day also to all of you from my side. [Operator Instructions]. So operator, we could start the Q&A session and can we please have the first question?

Question and Answer

Operator

First question comes from In-Yong Hwang, Goldman Sachs.

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

This is In-Yong from Goldman Sachs. So 2 questions for me. The first one is on the P&C acquisition ratio, that seems to have increased 4 percentage points year-on-year. I understand this is driven by having more proportional business in your book. So I'm just wondering if that's a pure mix effect or is there -- have you seen high level of commissions year-on-year? The second one is on the $3 billion that's to be deployed by the end of the year. I think you updated last time saying that $750 million to $800 million has been deployed. Has there been any more deployed since then?

David A. Cole
Group Chief Financial Officer

Matt, if you'll take the first question, I'll wrap around with the second.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. It is both of the above. We wrote a little bit more proportional business than the quarter before, so it is a business mix issue. And on top of this, we have seen a slight, not a dramatic, but we have seen a slight increase on the commission ratio was well.

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

So just on that, so with the 24 percentage acquisition ratio, is that going to be, sort of, the run rate going forward or is that -- is there sort of a one-off in there as well?

Matthias Weber
Former Group Chief Underwriting Officer

It depends on the mix of business we are going to write. So it's impossible for me to confirm or deny that this is going to be the ratio forward. It will be subject to some variability.

David A. Cole
Group Chief Financial Officer

Let me then come back to your second question. So you're correct. At the end of last year, we said we deployed approximately $800 million of that $3 billion. And that $800 million went to a number of different, let's say, more tangible, discrete purposes, further expiry of the Berkshire quota share. Admin Re deal, we did in Q2 of last year, plus the 2 acquisitions that we announced on behalf of Corporate Solutions. At this point, in Q1, there's been no further significant discrete applications of that capital. If you wanted to pencil in something, but I would really encourage you just to pencil it in, you can clearly see that we've announced further special dividends this year as well as a potential share buyback. Altogether, those 2 would add up to potentially $2 billion during the course of the year. Those are just penciled-in numbers at this point.

Matthias Weber
Former Group Chief Underwriting Officer

If I may, I would like to add statement to the answer relative your first question. One thing to consider is also the fact that on a number of proportional treaties, we either have a slight -- sliding scale structure or a profit commission involved, which has exactly the same cash flow impact. And in years where the loss ratio is -- or in quarters where the loss ratio is low, for instance, as a result of a good underlying result or

-- and/or a benign nat cat environment, both of which is the case that automatically leads to a little bit higher commission ratio.

Operator

Next question comes from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

The -- so on the pricing, I just wondered if you can give a little bit of color -- my feeling is, it's actually improved but I may be wrong. So the figures I have in mind was 108% pricing adequacy in Jan '15 -- '14, 107% April '14, 105% Jan '15 and 105% April '15. So the gap, if you like, has narrowed. There was a fall of 3 points at the start of the year. It's now down 2. So is the pricing actually going up or am I mistaken here? And then I know this is really unfair question. You might say -- what's the underlying ROE? The numbers are fantastic, gains as good as cash and no claims is also good. But I'm trying to guess, and I can't. I don't have much of a feel. I see this amazing number, 16%, and I just wondered I can't just work it out.

David A. Cole
Group Chief Financial Officer

Once again, I'll ask Matt to pick up the first question. I'll come back on the second question, Michael.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to the price quality numbers which you stated, your memory is flawless. These are exactly the numbers which we experienced and which we disclosed. Please remember the 105%, that's year-to-date adequacy, and so was the 107%, which we experienced and disclosed last year. So 105% is obviously lower than 107%, which means the price quality has deteriorated a little bit. But overall, I think the observation that decrease actually -- the price decrease has slightly decreased relative to the year before. I think that's a correct statement.

David A. Cole
Group Chief Financial Officer

Okay. Then let me come back to the results and the ROE. So first off, indeed quite a strong set of results. All 4 of the business units contributed. This was a quarter where actually those things that maybe could have gone positive seemed to go positive across all the different units. It obviously doesn't happen that way all the time, and we recognize that. We don't really calculate and provide underlying ROE. Everyone does it a little bit differently. If you look at Slide 5 of our presentation, you'll see what we try to say very consistently now is our businesses is about long-term performance, not individual quarters. Of course, we have benign periods, nat cat. We have periods where there are larger losses. You see that reflected here. We have prior-year reserve releases that come across. Typically, people look at that somewhat as one-off, unsustainable, but if you back -- come back through the years, you'd see that our overall combined ratio as reported will, I think, very clearly show a very positive trend, likewise on the investment side. We did, I think, for very specific reasons, try to help a little bit the assessment of the Life & Health Re results, because we had that very significant $117 million FX remeasurement in Q1. You may recall, last year Q1, we actually had a negative FX impact. But if you back some of the "volatility" out of our Life & Health Re figures, you'll see then that we get to an over -- overarching underlying result of roughly $160 million or so, just back the $117 million out of $277 million. There are a couple of offsetting adjustment pluses and minuses. And that's why we calculated underlying ROE for you because we recognized that the FX impact in Q1 was significant, and clearly, no indication that, that would be recurring.

Operator

The next question comes from Kamran Hossain, RBC.

Kamran Hossain

RBC Capital Markets, LLC, Research Division

I've got 2 questions. The first one is sort of a long one, so apologies in advance. Just -- you've mentioned in your slides, you're talking about the Protection Gap. Now obviously, there's potential for really, really, really fantastic growth there over the long term. And if we look at the industry, some of the life companies are being given huge credit for that potential but reinsurers really less so. I mean, I'm guilty of having kind of flat top line in my model. Could you talk a little bit about how much of the Protection Gap is actually technically insurable; and secondly, why that business might come to Swiss Re rather than any kind of local incumbents, whether they be kind of private enterprises or kind of government-backed schemes?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So I will take the first question and the second question and David -- I invite David to add if he likes to. So how much of this Protection Gap is technically insurable? Actually, a significant portion of it is insurable. One of the reasons why insurability is limited is for some people in some region, while they need the insurance, it's just not affordable for them given the fact that they do not have the money to spend or the money they have, they have other more urgent priorities. So we do have to take that into account. However, there, for instance in California, as an example, Protection Gap on the nat cat side after the Northridge earthquake, the insurance penetration on the personal lines side was of the order of 40%. Now the insurance penetration has dropped to a single-digit number, which -- and California is -- there are a number of people in California who actually could afford buying earthquake insurance. And the same is true with respect to life insurance and health insurance. So there is a lot of upside potential there. Why will these people come to Swiss Re? The reason is we invest actually a lot. We are working on initiatives on the micro insurance side in order to make sure that we reach also the population that cannot afford to buy huge amounts of insurance and need to restrict themselves to buying the absolute minimum. We are working with governments in order to increase the insurance penetration in general and assume some of the risks. Its work incentive and success will not come overnight, but eventually, it will come and a portion of it will reach Swiss Re.

David A. Cole
Group Chief Financial Officer

So if I may, I'd like to add a few comments. I'd like to start by actually just thanking you for the question. I know we're here. We're taking about Q1 results and probably a lot of interest in that. But ultimately, I think, for the long-term value proposition of the insurance activities, specifically for Swiss Re, I think, thinking a little bit about this Protection Gap is actually a very important thing to do. If you actually just take a look at that graph that we provided on Slide 15 of our presentation and just take a couple of the years that have the peak losses around '95, 2005, 2011, if you think about where those losses were coming from, those losses were basically coming by and large from the developed markets. And the Protection Gap that you're seeing here is by and large the Protection Gap in the developed markets. Clearly, the market, I think, is in many respects ready, available, technically insurable. This is about, I think, the insurance sector, and hopefully, Swiss Re can support that, doing a better job about explaining the value of insurance and making sure that people really are thinking about insurance in a proper way as part of an overall risk management approach. A little bit more detail in some of the higher growth markets. It's true, of course, that some of those markets are not yet fully ready for the full suite of reinsurance product for various reasons. But we're on the ground. We have a foot on the ground. In many markets, we've been there for some time, building relationships, also relationships with the various regulatory bodies, increasing our understanding, database in those markets. In those markets that are not yet and maybe won't be ready for another several years, we look for opportunities also to invest a little bit more directly. Some of our Principal Investments over the last couple of years have been specifically targeted at those markets. It may not yet be fully ready for the reinsurance, but we still see a very clear Protection Gap and opportunity on the primary side. And the final thing I'll say is this Protection Gap that we're talking about is not just -- it's not a short-term thing. We see -- if you just look at the economic development, the population growth, the concentration of value in certain areas that are clearly exposed to some of the nat cat risk amongst other reasons also just due to climate change coming at us, we see that this is going to be a prolonged opportunity, an opportunity hopefully for us to help society, but also, clearly to position Swiss Re well for our shareholders. So it's a very important subject. I wish we could give a little bit more attention to it. I think when we have events such as Nepal, it just underlines once again what a tragedy is when you have those types of events and basically realize that all those losses will really fall on the shoulders of the individuals and/or the state and there hasn't been much insurance protection provided into that market. And I think that's a call to action for all of us.

Operator

Next question comes from William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

David, could you provide a clearer reconciliation of the available capital in your Swiss Solvency Test from the last figure for SS II to the current figure, so the $55.4 billion to $52.6 billion. I think I know the moving parts you've mentioned, but if you could just help on some of the numbers. And then as we look to the future, is it almost inevitable that the Swiss Solvency Test ratio is going to continue to fall? I mean, it seems to me you're so way above where you want to be anyway that you wouldn't mind if it did. At least at the moment, you seem to be clearly distributing more than you're creating economically, and because you're still a growth business or because you still see the growth opportunities, the required capital is growing. So it seems to me, obvious, that the SST ratio is going to keep on falling, but I just want to see if there's anything I'm missing.

David A. Cole
Group Chief Financial Officer

Okay, thanks, William. Let me start with the second. Well frankly, if it would continue to fall, that, indeed, would not be something that would cause us a grave concern. Obviously, it would be depending on what would be driving it. But the fact of the matter is our overall target for SST has remained at 185%. That target allows us to position ourselves to be available to write good business and support our clients even after very large losses would have occurred, so basically provides us with the capital buffer that would give us comfort that we would remain above the SST 100% level even after a shortfall type of event. So in and of itself, the fact that our ratio would move in the direction of 200%, even 185% is not something that would cause us concern. And you're right. We're looking to either deploy our capital, our excess capital intelligently in good profitable business. We're looking for ways to give it back if we can't find the investment opportunities over the [indiscernible]. That's the answer to your second question. I guess, that's a confirmation. In terms of the first question, I won't give you down to the comma or line-by-line, but I will give you a couple of blocks [ph], both to the SST II that you mentioned as well as to the SST I from last year. And probably, it's fair to say, the SST I from last year is more comparable just given the nature of the 2 different reports [ph]. So let me just start with your specific question, which was the comparison of the SST II 2014, where were at 249% to 223% today. Our RBC basically dropped about $2.8 billion as you mentioned. It went from $55.4 billion to $52.6 billion. Offsetting factors, clearly, we now have in the SST I, the whole capital management expectation for the year. SST II doesn't have that, but SST I does. We have the special dividend that we've declared as well as the share repurchase program, pro rated, if you will, there's an assumption that we make about that, but it's pro ratas for the 12-month between our AGM earlier this month and the AGM

[Audio Gap]

We have some negative foreign exchange impacts. We have some previous year's business negative impacts for the losses that we announced and we recognized on the Life & Health side in the second half of 2014. So basically, a true-up for all of the final actions there. And we have, of course, on the positive side, new business results. We have some further P&C reserve releases. Although, you'll have seen, no doubt, that the reserve releases in Q1 this year were significantly lower than what we had seen in the last year. It was still positive. We have the impact of the sale of Aurora, which is now fully included. We have outperformance on the investment side, and of course, we have issued new supplementary capital. So that's what basically has driven the RBC figure from the June 30 figure of last year to the now new SST

I figure of this year. More or less, the same items impact us on the comparison SST I to SST I, although the difference there is a more modest 16%. And therefore, I think it's probably fair to say that the capital management actions probably play a little bit of a larger role here. There's no doubt that interest rates overall, if you look at the ratio on both sides of the equation, further decline in interest rates has driven our ratio down a little bit more. And we have enhanced, i.e., we've increased the granularity of Life & Health model so we now have a much better, I think, view on premium risk associated with those long-term transactions. And that more granular view leads to a higher run-off cap [ph]. Those will be both sides denominator as well as numerator of that [indiscernible].

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

That's very helpful. If I can just follow up. You may have a short answer for this. But I think you are implying in your formal comments on the website that you reckon your Solvency II ratio for the group, if you were to calculate one, would be higher than the Swiss Solvency Test ratio, because the SST regime is more conservative. If I've understood that directionally correctly, would you care to quantify how much higher your Solvency II ratio could be versus SST?

David A. Cole
Group Chief Financial Officer

Yes, I won't quantify it. I think I actually made some relevant comments in July at our last Investor Meeting where I said that for some of the specific entities where we are looking at the Solvency II ratios, the level could be as much as 40% higher i.e. more robust under the Swiss Solvency Test. Now the finalization of Solvency II is still remaining to be concluded, although the implementation I was coming very close, we're looking for the final directives to be put into law by the various national government, still getting some updated guidance from EIOPA regarding specific aspects of Solvency II. I think what's fair to say, and we remain convinced about that, looking at a number of our specific legal entities where we do have a full slate of Solvency II reports available as well as we have the Swiss Solvency Test information available in the same legal entities, that the Swiss Solvency Test has proven to be quite robust, and I think, also quite conservative. And it's perhaps also reflected in the manner in which it was able to achieve equivalence recently from the various regulatory authorities, still waiting for the political authorities to agree to that. But I think the equivalence progress of Swiss Solvency Test has been a testament to the robustness of the regime.

Operator

Next question comes from Mr. Thomas Seidl, Sanford C. Bernstein.

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

Two questions on investment management, please. First, realized gains in Q1 were as high as they were in the full year 2014. And it reads and sounds a bit like you did quite some changes in the assets between Q1. So my question is, can you provide a bit color on what you did in Q1 and whether we should think about this front-loading of realized gains for the year? Or do you plan for the actions for the remaining of the year and hence further realize gains? Second question, the regular investment income, the more important for us, I would say, you had a drop, 40 basis points, versus last year Q1 where you benefited from the re-risking 2013. My question is now because you indicated you didn't use capital so far, should we think about further re-risking and, hence, mitigation of the further drop of the regular investment income? Or is it just that you're ready to run and -- without any re-risking now?

David A. Cole
Group Chief Financial Officer

Thanks for the question. First, let me just be very clear. There's no front-running of realized gains and there's no attempt across the group to somehow proactively realize gains as a strategy driven by our P&L. There is one area, specifically within Admin Re, where we did target some asset portfolio repositioning in advance of Solvency II. We're required to do that during the course of this year, and our intent is to do it during the course of the first half. So there may be some follow-up during Q2 there. But other than that, I think the gains that we would have seen across the organization are just normal, normal portfolio-driven moves. We did sell -- move out in some of our covered bond positions if you just think about what the impact of the ECB's action has been on the covered bond market, driving spreads down to minimal levels. I thought it was hard to [indiscernible] those, so we sold some of those. Otherwise, what we've been doing is basically moving a little bit more cash into the -- primarily into the government bond, relatively shorter-term government bond holdings. And we have picked up a little bit of extra credit, all together about $1 billion. That was in the form of equity ETF, but anyways, just credit exposure. But that is -- I think if you just look at the overall size of the portfolio, we basically maintained the same relative position. So to answer your question, no targeted acceleration of gains into Q1 for any purpose. The only specific thing that we did that I think is somewhat out of the ordinary was just related to the preparation for Solvency II in our U.K. operations. As to your second question, the fact of the matter is for all savers and all investors, and certainly, long-term investors, the prolonged low interest rate environment has very significant -- and it will continue to have a significant impact on us. And as we need to reinvest just with the normal maturities of our existing asset portfolio, of course, our reinvestment rates are lower than what we will currently have on our books. Now we're not going to try to counter that by going down the credit curve line. So we're going to maintain a good high-quality portfolio. We also want to avoid exotic structures. We don't think that our balance sheet is the right place to have those kind of things. Maybe there's some others who feel a little bit more comfortable having those on their balance sheets, but we want to maintain a very straightforward, understandable, appropriately structured and balanced asset portfolio. It may well be that if the rates in the short end of the curve continue to be quite negative, it will go out a little bit longer. In certain currencies, we clearly still have an interest in seeing the infrastructure bond market continue to develop to become an investable and tradable asset class for a long-term holder such as ourselves. But coming back to your question and being very specific, we're not going to go reach for yield in order to try to counter the lower interest rate.

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

Okay. So no redeployment -- no major redeployment of capital on the investment side then?

David A. Cole
Group Chief Financial Officer

Well, of course, we'll have to watch what happens in the markets. I can't preclude that we're going to adjust our portfolio depending on things that happen. But if you look at what we did in Q1, actually, quite a steady-as-she-goes type of asset portfolio development during the quarter. And I think we're positioned where we would like to be. It gives us a solid performance. I think it's well positioned in terms of looking at fair values that are out in the market today. And it reflects our asset liability matching strategy, and it reflects our duration. So I think we're actually well positioned. We'll continue to watch the market to see what -- how it develops and whether or not moves will be appropriate, but at this point in time, nothing planned.

Operator

Next question comes from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

My first question for David. David, just following up on the previous question. What -- I think you had suggested we should expect roughly 20 basis points of running yield decline over the course of the year. I mean, given -- I'm assuming your reinvestment rate over Q1 was probably lower than you anticipated, and obviously, you've realized a lot of bond gains. Is that still, shall we assume a higher degree of yield -- running yield compression, maybe just update some guidance on that, that would be useful. The second question is for Matt. On Corporate Solutions, gross premiums written fell about 20% year-on-year. I appreciate that's because there was some multi-year business written in Q1 last year. But I'm just trying to [indiscernible] what's the underlying growth rate? I mean, I think the underlying is still shrinking now in

Corporate Solutions or maybe just give us a sense. Is that because you've got meaningfully more cautious on the pricing environment there or should we see more growth pick up later in the year?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So I'll take the second question first. You're absolutely right with respect to your remark related to the multiyear transaction. And another impact is, of course, related to FX with the recent strengthening of the U.S. dollar. Underlying business is growing, but in reflection of the softening market environment, which has also reached the primary insurance side. In the meantime, we have reduced the pressure on the gas pedal. And as a result of this, the growth of -- the fundamental underlying growth of the portfolio while it's still positive, the growth rate has reduced relative to the year before.

Andrew James Ritchie
Autonomous Research LLP

What was the growth x multiyear? 2% or 3% or something?

Matthias Weber
Former Group Chief Underwriting Officer

I cannot give you the exact number, but it's a single-digit number.

David A. Cole
Group Chief Financial Officer

Okay. Let me come back then to your first question. So you're right, we had indicated that we felt that the running yield may drop by about 20 basis points, so basically going from the 3.2% that we had at the end of the year, down to about 3%. And this is more or less where we ended up this quarter. I would say that given specific moves, particularly on the short side where we took some cash and invested it in short term and maybe a little bit of a disproportionate impact in Q1. So I wouldn't necessarily extrapolate that for the entire year. We're 3 months in, so maybe, I don't know, if we're 3 months smarter, but anyway, we're 3 months more experienced. So if anything, I would say, the overall guidance that we gave, it was about 20 basis points down. I may adjust it slightly to 20 to 30 basis points down versus last year, but I think it's still in the ballpark.

Andrew James Ritchie
Autonomous Research LLP

Do you have any sense of what you were reinvesting at on average over Q1?

David A. Cole
Group Chief Financial Officer

I do have a sense. Overall, about 1.6%, but as I mentioned, that reflects specifically the actions that we took during Q1 so that's not necessarily indicative of the entire year. That 1.6% is a mix. We primarily were, we primarily were invested in a short-term U.S. Treasuries as it turns out. So big part of our net investment went into short-term U.S. Treasuries at about 1.3%.

Operator

Next question comes from Andy Broadfield, Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Two questions. I'll first come back to Solvency, guys. I'm still -- it's a bit of a fog for me to try and exactly understand what's going on. So my first question is, the reconciliation you gave, that $2.8 billion reduction, I know you don't want to be down to the sort of nearest dollar, but the big moving part is the capital repatriation, which is, I think, is a little under $2 billion. And then the net of all the other bits, I mean, you obviously, didn't give any guidance on the FX, but I believe the recapture was actually quite a small negative number and then a lot of positives. I still can't see where sort of $1 billion plus of that has come from -- and I think, kind of, we need to, for a company that has a relatively low, at least, [indiscernible] low interest rate sensitivity. I think that's a gap that I'd like to better understand. The second question is you talk about the 185%, which has been your guidance for some time on SST that you want to be above. My understanding is, and I appreciate your clarity on this, is that the S&P requirements is probably a little north of -- or there's been a bit of a departure between the S&P requirements and your SST numbers. I wonder if you can just tell us a little bit about if, a, if that's right, and if so, where that's coming from and any actions you may or may not be taking to try and to redress that gap that's opened up.

David A. Cole
Group Chief Financial Officer

Sure, okay. So look, there are 2 different numbers, of course, that's impact the ratios, both RBC, and indeed a big component of that drop comes from the specialty within the share repurchase. Relatively modest impact from the Life & Health actions because indeed, we'd already recognized a good part that earlier. And the final thing is, of course, is just the FX impacts that go both ways. I mean, this time, they were a negative impact. But also impacting the ratio, of course, was the enhancement that I mentioned on the Life & Health model as well as the decline in interest rates, which does impact the target capital because it impacts the discounted rate of the liabilities. So the interest rate move from the beginning of 2014 to the beginning of 2015 was just a material move. To your second question, you're right. So we don't want to adjust our targeted ratio every quarter, every year. I'm exaggerating a little bit. So we give a long-term view and we said 185% SST. Because if we think about what a shortfall event would be, that would still allow us to be in excess of 100%, and therefore, still working with our clients and supporting their needs as opposed to having intense dialogues with regulators after such an event. We think that's a differentiating factor for us. At some point in the past, because there are 2 systems. SST is more or less fully economic. S&P is partially economic. It starts with the U.S. GAAP base and then makes some adjustments. At some point in the past, SST and S&P, the 185% was almost equivalent of SSP [ph] AA plus $3 billion to $5 billion. Over the basis of developments, over the last couple of years, that translation is more like 200% would be equivalent of S&P $3 billion to $5 billion. We look at both measures. Obviously, we want to and we would continue to maintain a very strong capital position. We remain in an excess capital position. And of course, that's how we would intend to continue to serve the company. And our specific stated goals with that excess capital, first and foremost, to invest it wisely in the business where we can to grow the sustainable earnings, and therefore, allow the regular dividend to grow. If we can't do that, of course, then we'd look for ways to return. And now you've heard me say that before, and that's exactly the strategy we're going to continue to follow going forward. So we're above our targeted levels. We remain above our targeted levels, that provides us an opportunity to be able to flexibly respond to opportunities that come up in the marketplace. And if those opportunities don't come up while we continue to generate -- and you'll see that from our Q1 results -- continue to generate quite significant new capital through our P&L line. And of course, we'll look for those ways to return that capital.

Andrew Broadfield
Barclays PLC, Research Division

I got it. So the response from the -- on the RBC, you talked about [indiscernible] capital specifically on the risk-bearing capital that you have, and there's still about $1 billion-plus gap that's not -- I don't think explained by -- unless I've misunderstood it [indiscernible] unless it's FX. It seems a very large move for FX.

David A. Cole
Group Chief Financial Officer

Yes. There are a lot of different things, Andy, that go into it. But the 3 big ones that drove it down are the Capital Management actions that are not reflected in SST II to be clear, the negative FX and then just the -- and it's a marginal item but the update on the negative impacts of all the actions that we took in the second half of 2014.

Andrew Broadfield

Barclays PLC, Research Division

And just for clarity, no action to try and close that S&P and SST requirements? You're happy you're [indiscernible] don't have to worry about it.

David A. Cole
Group Chief Financial Officer

I have to apologize, I couldn't really follow...

Andrew Broadfield
Barclays PLC, Research Division

Sorry. So you're not taking any action to try and get the S&P requirement closer or the buffer closer to where the SST buffer is at the moment? You're happy you're far enough above both of them to leave them as they are.

David A. Cole
Group Chief Financial Officer

Well, I think what you would expect at any given time, we have a number of different metrics that we look at and whatever the binding constraint would be, we look to address the binding constraint. But we're not going to go and simply drive off from the basis of one metric. The systems are different. The bases are different between S&P and SST. The reality is we have to live with both. and we also, of course, need to live with the various regulatory regimes that our various operating carriers are subject to around the globe. So that's our curse, but I think we're actually well positioned to deal with that and I think continue to achieve the following outcomes: a solid financial position, one that makes us a very highly desired partner for our clients; a position that allows us to -- I do think I used the word, be opportunistic, be flexible. These are the opportunities. These that come to us in the marketplace, and at the same time, of course -- and we've done that quite steadily now over the last couple of years. When we conclude that we really have more capital than we can foresee that we'll use, then we will look to return that. And of course, in that regard, these capital targets that I've mentioned to you do provide a little bit of an indication that there's still some room there.

Operator

The next question comes from Anasuya Iyer, Jefferies.

Anasuya Iyer
Jefferies LLC, Research Division

I just have one question. It's on the P&C reserve releases, which are much lower than before. And I appreciate, obviously, from quarter-to-quarter, there's volatility. But I just want to understand if this sort of deliberate and what the evolution is going forward? So are you -- is it that you're running out of the reserve releases or is it that you're just keeping more back so that's there's a bigger cushion in the combined ratio?

David A. Cole
Group Chief Financial Officer

I'll let Matt go and then I'll wrap it up.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So there is no deliberate plan at all to manage reserve releases one way or the other. In each quarter, we try to, to the best of our knowledge and to the best of our intentions to set our reserves as objectively as we can. When we do that, we implicitly make assumptions relative to the forward-looking loss relevant inflation rates so the loss trends. And then the quarter goes by and the reality kicks in. And with the reality also, an inflation kicks in. And if the inflation is lower and/or if the frequency for whatever reason of the losses are lower, this results in reserve releases. And if the opposite the case, the reserves actually do increase. As you note that we have variability from one quarter to the next and from one year to the next. There are quarters where the reserve releases are big. There are quarters where the reserve releases are smaller. And there are quarters and will be quarters where we actually see reserve additions. And it is absolutely impossible to draw any conclusions from the way our reserves develop from one quarter to the next.

David A. Cole
Group Chief Financial Officer

So let me just add 2 comments to that. Our overall, reserving policy has not changed. We're on a best estimate basis, as I think you know. We don't plan for prior-year developments one way or the other, no change there. You made reference specifically and correctly to the difference between the Q1 prior-year developments in P&C Re and the Q1 developments last year where you see a lower level of prior-year developments this year. You may have noticed on Corporate Solutions you have exactly the opposite outcome where the prior-year reserved developments last year were actually negative, whereas, the prior-year developments this year were positive. So I think it just underlines the comments that Matt just made.

Operator

The next question comes from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann
Bank Vontobel AG, Research Division

Just two questions. The first one on growth, it's getting more challenging especially as on the Corporate Solutions side. Can you maybe just give us some feel of your thinking in terms of potential M&A there? Is that a tool you might take on using your excess capital to grow that field in the future now as the market is getting more difficult? And the second one on duration, duration gap. I understand on Admin Re, you did lengthen the duration. Can you just give us an update on the duration gap for P&C, Life & Health and Admin Re units, please?

David A. Cole
Group Chief Financial Officer

Okay, thanks, Stefan. So let me first address the growth question. So we started when we carved the Corporate Solutions business out of the broader reinsurance balance sheet a number of years ago. We started with the overall gross premium base of just above $2 billion, so $2 billion, $2.5 billion, and of course, a relatively modest position in the marketplace. And we said to the market that over the course of the ensuing 5 years, we'd like to see that business grow. And we thought it would probably have an opportunity to grow relatively speaking more quickly because of the modest market position if you think about it. It's also a very large market, so the combination of those 2 things led us to conclude that there was a real opportunity for a firm such as Swiss Re with all sorts of, I think, very strong attributes, obviously, our brand, our knowledge capabilities, our footprint, our balance sheet, our ability to offer innovative solutions and we set out on that course back into 2010, beginning of 2011. And I think we've been very true to that course. And the fact of the matter is, we've said all along that we're not going to be top line driven, we're going to be driven by basically profitable growth. So bottom line, we gave the indication of top line objective for this year between $4 billion to $5 billion, and I think we remain of the view that we're able to achieve that. But importantly, we said the bottom line is what drives us and that quality portfolio was, of course, of essential importance to us. Now given the pricing developments that started to develop during the course of the second half of last year, we already indicated in Q3 that we would perhaps moderate a little bit of both, just reflecting the softening pricing environment. That continues and I think we continue to be careful about [indiscernible] capital. Having said that, the opportunity for us remains, I think, quite significant. And even in a softening environment, we're able to show, albeit at a lower level, still, I think, a very good outcome in Q1 this year. If you do any quarter-on-quarter comparison, there's always going to be a little bit of a noise in there. I think, Q1 of last year, we actually did a very large individual transaction with a client that flattered the Q1 number last year. We communicated that at the time as well. But overall, I think we remain committed to the business and of the view that there's still a very long-term [indiscernible] growth opportunity for us. The part of your question about M&A. We have utilized M&A in the past, in Corporate Solutions. I'm thinking about our operations in Brazil, in Colombia. We haven't yet closed it. We still anticipate that in the first half of this year, with the transaction announced toward the end of last year in China. So it's an opportunity that I think that we are willing to exercise from time to time when we find a good mix that really helps us in further establishing our global footprint or extending a little bit our product capabilities. So it's something that I would say we to continue to remain open for. But any acquisition, of course, has to make sense from both the strategic point of view but also from a financial point of view. As to your second question, so we remain broadly matched. We had the strategic short on during the course of the back half of 2013, the first part of 2014, and then we closed that out. At this point, we have an overall DDO 1 [ph] of pretty close to 2, but it's more just a technical trading type of position. There's nothing strategic about it. We remain broadly matched.

Operator

The next question comes from Frank Kopfinger, Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

My first question is on your Admin Re business and the net realized gains. You said that you -- the net realized gains were due to the repositioning of your assets in preparation for Solvency II. You touched it already, but could you specifically elaborate what you did there? And I would be also interested whether this action if [indiscernible] somehow capital within the Admin Re segment and also whether similar actions are feasible for other European businesses.

David A. Cole
Group Chief Financial Officer

So I'm obviously not going to speak about what other companies may be doing specifically.

Frank Kopfinger
Commerzbank AG, Research Division

No, for your European -- other European segment, operations.

David A. Cole
Group Chief Financial Officer

Yes. Specific to Swiss Re, the answer to that question is actually quite straightforward. So we are positioning the portfolio for the matching adjustment. The matching adjustment is something that's frankly almost exclusively relevant for the U.K. market associated with the annuities business there. So no, the answer to that question is there will not be a similar type of portfolio repositioning in our other European entities. Back to the U.K. situation. So basically, what we did is we have sold some bonds that were not eligible for inclusion as we understand the rules and the manner in which the U.K. authorities will apply the guidance around the matching adjustment and replaced them with basically government bonds that will be eligible for acceptance under the matching adjustment. We haven't finalized that. We said we're going to do it in the first part of the year. I think we did a big part of it already in Q1. We want to have that basically in place, basically, by the midpoint of the year.

Operator

The next question comes from Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

Two remaining questions on my side. I guess for David. The first question would be on the Life & Health reinsurance. Obviously, we are seeing in Q1 a pretty dramatic normalization process of the margins and return on equity. And obviously, you expect potentially the 15 years to develop favorably. Could you remind us how the target, the 10% to 12% target, return-on-equity target is calculated? Is that still based on the mid-June -- on the June 2013 shareholders' equity of $5.5 billion or are you now, I would say, looking for 10%, 12% but more based on the current shareholders equity of the division? And the second question, very small one, will be on the tax rates. Obviously, you have low tax rate in Q1 on various one-off positive development. Could you maybe update the guidance for what we should expect on a full year basis for the current year?

David A. Cole
Group Chief Financial Officer

Yes, sure. So to the first question, no, we're not changing that at all. We said already back in mid-part of 2013 that we wanted to achieve by 2015 a ROE of between 10% and 12% on the then-current equity base of $5.5 billion. And reason for doing that was basically to take the impact of unpredictable interest rates out of that equation. I don't know if interest rates will go up or go down. As it turns out, they've gone down, so the reported equity, of course, is somewhat inflated by unrealized gains. But we just maintain what we said already early and we repeated on several occasions during the course of last year and not change that now just based on 1 quarter's results. So we said 10% to 12% on the equity base that we had at the end of June 2013, which was $5.5 billion. As to your second question, indeed, we had a little bit of lower rate than what we would normally expect, discrete items that came through during the course of the quarter. In terms of forward-looking thinking, I think that we've said and we'll just maintain that, that it would be appropriate to think about a rate of 20%, 22%, something in that range.

Operator

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

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

I hope they haven't been answered. Apologies if they have. In the outlook, you talk about Admin Re deals in the U.K. So it sounds quite imminent, and I just wondered if that's been asked, or if it's been answered, please ignore me. And then on the low claims, I just wondered, is the current low claims -- I know, obviously, nat cats, that's purely accidentally, but the low claims in terms of low man-made claims, is there something structural here? It feels quite odd, but yesterday, Euler said this is specific to credit insurance, but there may be a read-across. Said, yes, low interest rates do help because basically they -- because the cost of debt is very low, there are fewer insolvencies. But I'm not sure if there's any other thing here.

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Michael. I'll take the first and then hand over to Matt for the second. So, look, these deals are chunky in the U.K. market were Admin Re is active. I wish I had a crystal ball. I could tell you exactly when some of these transactions may materialize. It's very difficult. These things have a gestation period, I think, that is at least equal to that of an elephant, which, I think, I don't know the exact number of months, but it's a relatively long period of time. We have, I think, very worthwhile discussions now with a number of different participants in the U.K. market. We have, I think, in that regard, a healthy pipeline. But to predicting the timing of these actually coming to fruition, I think, would be a dangerous sport, so I'm going to avoid that. Just commit as we have done earlier to the comment that we think it's an attractive market and that we're well positioned for what we think will be a number of attractive opportunities that will come to the marketplace. Let me then ask Matt to follow up on the second question.

Matthias Weber
Former Group Chief Underwriting Officer

So on the man-made claims, frequency side, I would answer it as follows. There are some structural elements in play, and I'm happy to talk a little bit about them. And then there are also some cyclical elements in play. So it's not completely random that right now we don't see a very high frequency of man-made losses. On the more structural side, for instance, flying today is safer than flying was 20 years ago, which of course, is very good for, especially, those who fly and fly frequently. The same is true on the motor side. The cars today have better safety features than they used to have in the past. The speed controls are tighter. Driving under influence is better enforced than it was in the past. So the motor frequency over the year has come down, and we believe chances are bigger than the opposite is the case that this trend will continue also in the future. So these are more the structural or secular trends. And then there are some cyclical trends. Some of them are linked to the economy for instance. Right now, the economy, I would describe it as slowly improving on a global basis, and this is a situation, which, for instance, is good for trade credit and also for surety. But it's also good, for instance, on the property side, because in such an environment, this means manufacturing, for instance. They have enough work and enough revenue to continue to invest in safety and risk management, but they are not operating at an excessive load which requires to make shortcuts. So right now, we are based on the economy and an environment which we actually like very much from a -- at least from an underwriting perspective.

Operator

We have another follow-up question from Mr. Andy Broadfield, Barclays.

Andrew Broadfield
Barclays PLC, Research Division

Just a couple of quick ones. I think the adjustment to your -- you mentioned on the Life & Health side, premium adjustment, was something that was recommended by FINMA, something they come back to you with. Can you confirm that and also whether there are any other areas that FINMA's sort of checking or having -- making some suggestions to you about. Number two, just on the investment strategy side. You took up -- you had a pretty tough ride of it last year with the short duration position you took early in the year. I think that was disclosed in your EVM. And of course, U.S. GAAP doesn't really help us understand the economics of your investment strategy. Are you able to give us sense in the first quarter how that's gone? I'm assuming because you're reasonably well matched that there's probably not too much noise there, but if you can just confirm one way or the other, that'd be very helpful.

David A. Cole
Group Chief Financial Officer

Yes. I'll take the second one first. Indeed, we took it a little bit on the chin last year. I think that's the only conclusion you can have, looking at it in hindsight. So the short position in 2014 was clearly not a very attractive position to have. We closed it, as you know, during the course of Q3. Actually, in 2013, it had been a positive, so it contributed to a positive economic result in 2013. That's the way it goes. You're absolutely correct, Andy. We basically are running on a matched basis right now, so there's no real significant impact one way or the other in Q1. Now back to your first question on our Life & Health model. So we are on a -- in a constant dialogue with FINMA regarding our various models, and they've looked at all the different modules over the course of the past year. We are operating under approval. Sometimes they're limited approvals or approvals for a limited period of time. Basically, as they constantly provide us with feedback and they will have a regular view of the various models that we have. The adjustment that we talk about here, I think, was reflecting some feedback that FINMA had given us meanwhile 2 or 3 years ago. We meanwhile have submitted that back to FINMA and they agreed to

[Audio Gap]

At this point, I think there's only one relatively minor [indiscernible]. There's only one subcomponent from [indiscernible] that hasn't yet received a sign-off from FINMA. Although I would just like to caution the way FINMA manages this process is they give approval for use for a specific period of time, which basically then drives review after that period of time. Hence, it is not [indiscernible] we're in a very good position with our model approvals with FINMA. A lot of the requests that we get from them at this point in time have more to do with issues such as documentation we're not -- which are all quite relevant, but probably not likely to have that much impact on the absolute calculated figures. The adjustments to the Life & Health model, as I mentioned, were focused on a more granular targeted look at the premium risk that we run on some of the longer-term programs, and as a result, had a more significant impact. Thanks.

Operator

Next question is a follow-up question from William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Sorry to drag the call out. This is very technical. But David, could you just repeat and clarify what you said about the U.K. matching adjustments for Admin Re? I originally thought that the reason you were switching between U.K. government bonds was just the duration issue. So I assumed lengthening to improve matching so -- if you get the matching adjustment. But then you did make reference to the eligibility. So is there another issue that, for some reason, some U.K. government bonds are not eligible and others are or have I misunderstood?

David A. Cole
Group Chief Financial Officer

I think it's just a misunderstanding on your part. So I don't know what you are specifically referring to in terms of your original understanding. It's basically just swapping out bonds that were not eligible for bonds that were eligible. So we did some swapping to really better match the duration of the annuities books that we have. It's just that straightforward, William. There's no further driver or background, so just following the guidance that we perceived in terms of the types of assets and the nature of the matching that would be required in order to fulfill the expectations around the matching adjustment.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

It was a duration issue that was driving the change.

David A. Cole
Group Chief Financial Officer

Yes. Certainly, it's not a quality issue related to U.K. gilt.

Operator

We have another follow-up question from Mr. Thomas Fossard, HSBC.

Thomas Fossard
HSBC, Research Division

Just wanted to come back on the previous comments from Matt on the man-made claims side. And I really wanted to better understand what is a Swiss Re underwriting strategy regarding the oil industry at the time being and how potentially you are currently reflecting that persistent low price -- oil price level may have some negative implication in terms of cash flow generation and need for cost cutting on all these companies potentially removing part of the safety -- or, I mean, safety controller, safety measures they were implementing in the past, which in turn, could lead to some claims pick-up. Is it something that you are considering? Is it something that forced you to adjust your underwriting strategy and maybe exposure to the segments since the start of the year?

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So we are indeed active in the energy sector, and as part of the energy sector, also in the oil sector on both the Corporate Solutions side and the reinsurance side. On the costing, I do agree with you that the oil price does have an impact in certain lines of business and we are taking that into account. In addition to that, we are or have been running scenarios, what if the oil price continues to be low for a very long time? And we completed this analysis, and the numbers that come out of this scenario calculations are absolutely absorbable and digestible. So we are take -- it has an impact, we are taking it into account, and I ask you to not to worry about it, please.

Philippe Brahin

Okay. I think we have no more questions. So we're coming to an end of our Q&A session. Thank you very much to all of you. Please do not hesitate to contact any member of the Swiss Re Investor Relations team if you have follow-up questions regarding today's results or future events. Thank you again, everybody, for your participation today. Thank you.

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