S&P Capital IQ

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Swiss Re Ltd SWX:SREN

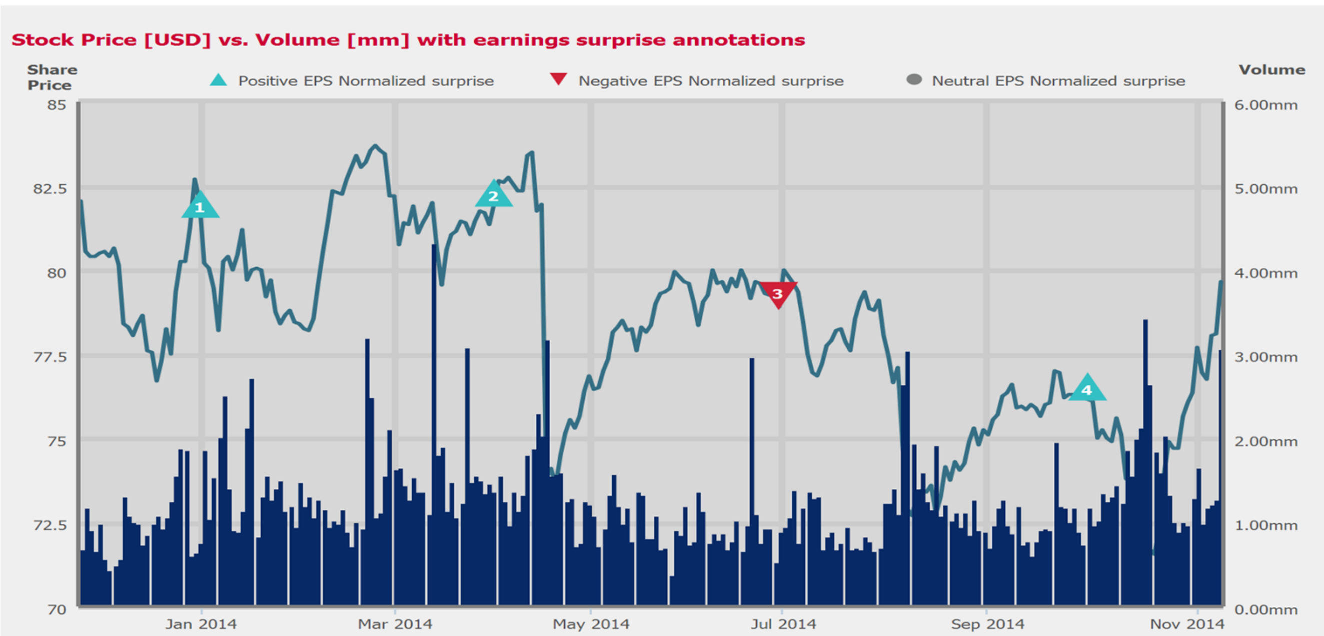
FY 2014 Earnings Call Transcripts

Thursday, February 19, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FY 2014-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE
EPS Normalized	1.23	0.77	▼(37.40 %)	10.34	9.07	▼(12.28 %)
Revenue (mm)	8189.20	7712.00	▼(5.83 %)	33111.93	30756.00	▼(7.12 %)

Currency: USD
Consensus as of Feb-19-2015 10:09 AM GMT



Call Participants

EXECUTIVES

David A. Cole
Group Chief Financial Officer

Matthias Weber
Former Group Chief Underwriting Officer

Michel M. Liès
Former Group Chief Executive Officer

Philippe Brahin

ANALYSTS

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Autonomous Research LLP

Daniel Bischof
Baader-Helvea Equity Research

Frank Kopfinger
Commerzbank AG, Research Division

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

James Austin Shuck
UBS Investment Bank, Research Division

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

Stefan Schürmann
Bank Vontobel AG, Research Division

Vikram Gandhi
Societe Generale Cross Asset Research

William Hardcastle
BofA Merrill Lynch, Research Division

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Presentation

Operator

Good morning, and good afternoon. Welcome to Swiss Re's 2014 Annual Results Conference Call. Please note that today's conference call is being recorded.

At this time, I would like to turn the conference over to Mr. Michel Liès, Group CEO. Please go ahead.

Michel M. Liès
Former Group Chief Executive Officer

Thank you very much. Good morning or good afternoon, everybody, and welcome to our 2014 annual results conference call. I'm here with David Cole, our Chief Financial Officer; and Matt Weber, our Chief Underwriting Officer.

Today we reported a full year 2014 group net income of USD 3.5 billion, with a return on equity of 10.5%. Our results were driven by both strong underwriting performance and strong investment results.

Property & Casualty Reinsurance results maintain strong earnings quality. In Life & Health Reinsurance, we took decisive actions to improve future profitability. Corporate Solutions generated profitable growth for the year, and Admin Re reported an excellent gross cash generation.

On the basis of both our business performance and our capital strength, the board will propose at the next AGM capital measures that will distribute CHF 2.5 billion to shareholders via a regular dividend and special dividend. Additionally, we will propose a share buyback program up to CHF 1 billion. These capital actions reflect our confidence in future earnings and long-term growth prospect for Swiss Re.

In our video presentation this morning, we talked about our January renewals outcome and the combined ratio guidance for our Property & Casualty businesses. We also introduced our new financial target for 2016 and beyond. As you have seen, our focus will remain on profitability and economic growth, which will be the cornerstones of our new financial targets.

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

Philippe Brahin
Many thanks, Michel, and good day to all of you also from my side. [Operator Instructions] So with that, operator, could we please have the first question?

Question and Answer

Operator

The first question is from Mr. In-Yong Hwang, Goldman Sachs.

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

This is In-Yong from Goldman Sachs. Two questions for me. The first one is on January renewals, where you saw a 4% volume cut after increasing premiums 4% due to [ph] the renewals last year. I was wondering if there's any change of approach from your side, so specifically, whether you walked away from any business that you would have written last year or whether you've seen a kind of acceleration of the rate decline in the market. And the second question is on Life & Health. Just looking at the results, without kind of the impact from this quarter with the YRT and the funding unwind, the ROE seems -- if I did the maths right, comes out as only 5.7%. And I understand a 10% to 12% ROE target is on a fixed equity basis. So all the improvements have got to come from the returns or the earnings. So I was wondering if you could give a bit more detail about how you plan to get to the 10% to 12%?

David A. Cole
Group Chief Financial Officer

Okay. Thanks very much. This is David Cole, Group CFO. I'll try to act a little bit like a traffic cop here and direct the questions, hopefully, to the best individual to answer. I'll direct the first question to Matt Weber, our Chief Underwriting Officer.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. This is Matt Weber speaking. Hello, everybody. During the January renewal, we saw a continuation of the rate decreases on our book. The amount of decrease was equal to approximately 3%. If I compare this to the decline in the premium of 4%, you'll see that 3% of the 4% were actually eliminated by the rate decreases, and the rest is something which we did eliminate. We cut out the worst-priced business at the lower end of the spectrum in order to protect the quality of our book.

David A. Cole
Group Chief Financial Officer

Okay. And I'll take your second question about Life & Health. So thanks for the question. Listen, I think when you want to try to do that walk, there are a couple of things you need to bear in mind. Number one, indeed, we had announced in the summer of 2013 when we originally started talking about this that we wanted to improve the overall return on equity by 2015 to a level of 10% to 12%. And we need to have some sort of base for that, so we said let's take the base that was existing at the time, which was the equity base for the segment, basically, eliminating, if you will, the influence of interest rates. So in the subsequent period of time, interest rates have reduced, and the reported GAAP level of equity has gone up. That may well change in the future. We don't know. But we said let's just take a clearly identified base, which was the $5.5 billion. So when you do the walk, I think there are a couple of things you should bear in mind, not only to back out the one-off impact of those actions but also the undergoing -- the underlying negative impact on earnings that we've been carrying over the course of 2014 associated with those as well as all of the other actions that management has engaged in over the course of the last 18 months, so just a quick reminder of those. We looked at the asset -- a mix associated with the business and have put in place what we think to be a very appropriate longer-term, better-matched asset mix for the Life & Health segment. We've adjusted the capital level down, adjusted the leverage level down. We continue to look for opportunities to do that. Obviously, addressing the YRT business, very important part of our actions in order to improve the profitability. We also continue to write very attractive, profitable business. So all of these things together, I think, and once again, if you back out the one-off impacts, lead us to conclude that we are in clear line of sight to the objective of the 10% to 12% for this year.

Operator

The next question is from Kamran Hossain, RBC.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Three questions. The first one is just on Corporate Solutions. So if we looked at the adjusted combined ratio for this year, you said it's 98.9%. If you compare that to what you're guiding towards for 2015, somewhere it's kind of 1 percentage point better. And my impression of the primary market is they seem to be worsening. Can you just kind of explain kind of how [indiscernible] improvement over the next year? And the second question, just on Admin Re. I know you've been talking about this for a little while, but could you talk about kind of whether you think the catalysts for more deals to be done are a little bit nearer at the present time or whether you still think it kind of [indiscernible] we might see more deals to come?

David A. Cole
Group Chief Financial Officer

Okay, Matt, will you take the first one?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. You're right, indeed. The Corporate Solutions adjusted combined ratio for 2014 was 98.9%. [indiscernible] come up with the guidance of 98% for 2015, basically, 2 things. One is, in 2014, we had an above-average amount of large man-made losses. These are losses greater than USD 10 million, and we determined this amount to be 1.8 percent points on the combined ratio scale. So we subtracted from the 98.9% the 1.8%, arriving at 97.1%, and then we added the impact from price level changes, plus lower interest rate expectations right now compared to what we had on average during 2014, and these 2 amounts combined equal to 0.9%. And if you add these 2 numbers up, we arrive at the guidance for Corporate Solutions for 2015 of 98%.

Kamran Hossain
RBC Capital Markets, LLC, Research Division

Very clear.

David A. Cole
Group Chief Financial Officer

Okay. Thank you, Matt. I'll ask Michel if he'll pick up the question regarding Admin Re.

Michel M. Liès
Former Group Chief Executive Officer

Yes. Kamran, probably on Admin Re, the best way to answer you is probably not the most satisfying, but it's the number of contracts that we have, which gives us definitively the conviction that there is yet a stronger interest that -- than the one that we had recently in using our platform. It's probably also the fact that we did, since the beginning of 2014, concentrate definitively the ability of [indiscernible] to conclude a deal in the United Kingdom. So I cannot totally answer the reason why, but I can guarantee you that there is definitively matters of pipeline, something which gives us the impression, probably not totally yet the conviction, but the impression that the deal flow in the United Kingdom is definitively important enough to respond to our appetite and not, I would say, only small deals. And I don't speak about Continental Europe yet because you know that we wanted to concentrate definitively on the United Kingdom. On Continental Europe, a lot could be said between Solvency II and what is the speed at which some people will review their portfolio. But the answer is definitively that based on the discussion that we have with our clients, we are confident about the flow. Now [indiscernible] our appetite? Does it correspond to our appetite? Well, that's the question to be answered. But I do believe it's also fair to say that the platform of Admin Re of Swiss Re has massively increased its relative value proposition versus peers in the last 18 months.

Operator

Next question from Mr. Daniel Bischof, Helvea.

Daniel Bischof
Baader-Helvea Equity Research

I have 2 questions. The first one is for Matt on the renewals outlook. So for the January renewals, you cited pressure across the board in property cat rates. I was wondering what your view is on April and July as these are renewals of the higher-sharing [ph] cat business. Would you expect pressure to ease somewhat from here or to continue throughout the year? And then the second one, probably for David, on the combined ratio. The underlying claims ratio in Q4 was some 4.5 points higher than last year. Was there anything in particular in the quarter, higher numbers of man-made losses? Or was this just noise?

David A. Cole
Group Chief Financial Officer

Okay. Thank you, Daniel. Actually, I'm going to not necessarily respect your indications and just ask Matt to pick up both questions, and we'll see how far we get.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to the first question -- and I will have to ask you to please repeat the second question because after your introduction, I conclude that I can start thinking about how to answer the first question, so sorry for that. The first question, with respect to outlook related to property cat, we believe that we will see continued price pressure during 2015 on the property cat side, also for the coming renewals. However, we also believe that this pressure will now abate to a certain extent, get smaller, because in Japan and most of the other markets that renew in April and then the markets that will renew in June and July, we have now experienced already 2 rounds of significant rate reduction, and we believe it will not go on forever like this. Could you please repeat the second question?

Daniel Bischof
Baader-Helvea Equity Research

Sure. The underlying claims ratio in Q4 was some 4.5 points higher than last year. I was just wondering whether there was anything particular in the quarter, higher man-made losses, or was this just random -- just noise.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So if you look at the loss ratio or the combined ratio in a given quarter, we, of course, always have some randomness involved. In some quarters, we are a little bit lower, and in other quarters, we are a little bit higher than our loss ratio guidance or than our combined ratio guidance. And of course, when we see a deviation, we look into it and try to figure out what exactly was the reason for it. In Q4, on the reinsurance side, there are basically 2 effects, which I would like to mention. The first effect is seasonality of the combined ratio. We came out with a guidance of 95% for the full year, knowing that not every quarter we'll hit exactly the 95% for the reason of randomness, but also for the reason that there is a seasonality involved with respect to the nat cat exposure but also with respect to the internal costs. With respect to the internal cost seasonality, Q2 and Q4 are the quarters with the higher internal expense percentage as opposed to the other quarters. And with respect to nat cat, Q2 is the quarter where we expect higher combined ratio. And this is actually, if you look at the combined ratio on the reinsurance side quarter-by-quarter, exactly what we have been seeing. We beat our guidance in Q1 and in Q3 significantly, and we exceeded it a little bit, which means we had a little bit higher combined ratio in Q2 and Q4. That explains a big portion of the difference relative to our guidance. In addition to that, we noticed a slightly above-average amount of nat cat losses right below the USD 20 million threshold, and that explains the rest. But please allow me to repeat again. If we come up with a guidance, this does not mean that we will reach the number each and every quarter. There is randomness involved in our business; sometimes in our advantage, and sometimes it works in our disadvantage. And this will continue to be the case also in the future.

Operator

Next question from Vikram Gandhi, Societe Generale.

Vikram Gandhi
Societe Generale Cross Asset Research

I've got 2 questions. One is on the asbestos and environment results. How comfortable are you with the results levels that you have right now, given the results [ph] strengthening that you've seen from some of the big commercial insurers on the primary side in Q4? And the second one is, can you clarify your position regarding recent developments on the potential issue with one of the Suncorp's [ph] reinsurance programs?

David A. Cole
Group Chief Financial Officer

I'm not sure I actually recognize the second question, so...

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So let me take both questions. The second first, because that's an easy one. We will not comment on renewals and programs of an individual client. The first question with respect to the asbestos reserves, based on what we currently know, we are comfortable with the level and the degree of our reserves. However, we know, and please also understand the uncertainty with respect to this extremely long-tail reserves is clearly above average. And we are convinced, in 1 or 2 years from now, we will be smarter than we are today and we will know more. So what I'm trying to say, there is an inherent degree of volatility involved in the sub-line of business. And it is possible that we will see reserve movement also in the future, could go in both directions.

Operator

Next question from William Hardcastle, BAML.

William Hardcastle
BofA Merrill Lynch, Research Division

Could you, first of all, give us some color regarding the level of protection purchased on your nonlife reinsurance book of business at the January renewals, things like what happened -- what sort of direction did the absolute level of spend move in and what your net exposures have changed year-on-year? And the second one is, could you give us some detail regarding your reinvestment yield? What is it at the moment? How has that changed year-on-year? And I guess -- I assume there's been a bit of an offset from your asset re-risking.

David A. Cole
Group Chief Financial Officer

Matt, will you take the first?

Matthias Weber
Former Group Chief Underwriting Officer

Yes. Okay, so I'll take the first question. I assume with protection, both you mean our retro or our hedging.

William Hardcastle
BofA Merrill Lynch, Research Division

Absolutely.

Matthias Weber
Former Group Chief Underwriting Officer

We buy very little hedges and very small amount of retro capacity to begin with. So any changes in relative terms are small in absolute terms compared to other companies in the market. There are a number of reasons to buy external retrocession, and here I include also insurance-linked securities and IOWs [ph] and swaps and side [ph] costs, so all type of protection. The most important reason for us is our U.S. hurricane exposure to protect us in case of a U.S. hurricane event. Since we reduced our nat cat exposure overall over the last 1.5 years, and this trend continued to be the case also at the most recent 1/1 renewals. We actually reduced our loss exposure. And with this, we were actually in a position to also reduce the protection we need to have in order to bring our gross exposure down to our net risk appetite. Please understand that you might ask yourself, "Okay, if the price levels in the retro market are going down so significantly, why is it that Swiss Re does not take advantage of it and decrease the hedges, which some of the other players in the market are actually doing?" Our thinking is the following: Despite the rate decreases, we find this retro capacity still expensive in the sense that if we buy or if we bought more capacity, we would have to seek more margin to other players. And we decided it makes more sense for us to keep the business up to our net risk appetite. And since at the same time, we reduced our gross exposure that actually allowed us to reduce our hedging.

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Matt. William, I'll take the second question. Thanks for that. We all realize that prolonged periods of low interest rates will definitely have an impact on the overall investment yield of our portfolio and also, of course, the reinvestment yield. I can give you an indicated view of the overall 2014 outcome. Of course, a lot is dependent upon the actual mix of securities that we're buying. You may recall that in the second half the year, we significantly reduced our short and bought, with some of that cash, government paper. Overall total for the year, indicative yield of about 2.2%, reflecting just above 2% for government; a little bit more than 3% for corporates; and on the securitized side, about 1.7%. Now this is not a fixed number. It changes over time and can vary from quarter to quarter.

Operator

Next question from Frank Kopfinger, Commerzbank.

Frank Kopfinger
Commerzbank AG, Research Division

I have 2 questions. And my first question is on your buyback. Can you comment on the impact of the buyback on your SST ratio and when this will be recognized within the SST ratio? And also on the share buyback topic, could you put your treasury shares, your 28.5 million shares that you have within the company? Also, is there a link to potential further buybacks or to the buyback? So could you comment on the treasury shares also in the context of this? And my second question is probably for Matt. You reported a risk-adjusted price level of 105%, and if I track it correctly, then it is probably the lowest level since 2008 or 2009. And so the question, the simple question is how confident are you with the current price level there, especially taking into account that interest rates are certainly significantly lower than a couple of years ago?

David A. Cole
Group Chief Financial Officer

Okay. So I'll take the first question indeed, and then we'll ask Matt to pick up the second one. So the first part of the question is the impact on SST. I think you should look at this more or less in a similar vein as though it were a cash repatriation to shareholders. So effectively, what a share buyback will do will reduce our available capital within the firm. We will report again on our SST ratio after we conclude our first report to FINMA in April of this year, so a little bit later this year, we'll come back to you with the SST ratio. And that SST ratio will indeed incorporate all of the planned management actions that we have around capital, including the share buyback. But for the sake of simplicity, I think you can look at it more or less as equivalent to a dividend in the terms of the impact on the SST. The second part of your question was relationship with treasury shares. I think it's quite important to recognize there's a distinct difference. So treasury shares under Swiss corporate law, there's a general authorization for up to 10% treasury shares. We purchase treasury shares from time to time for various reasons, for hedging the compensation programs would be a specific example of the type of reasons. But the difference with the share buyback program is that the share buyback program is being requested with the intention of actually canceling those shares at the AGM in 2016, whereas the treasury shares that may be purchased from time to time can also be reissued in the course of normal business activities.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. I'll take the second question related to 105% price quality and how concerned am I. Look, we have now seen 2 years of rate decreases, and it is, therefore, no surprise that the rate quality now is lower than the rate quality we saw 2 or 3 years ago. You mentioned also the interest rate. Please note that this price quality takes into account the interest rate. So as the interest rate moves up or down, if everything else stayed exactly the same way, that would immediately impact the price quality we determine internally and also the price quality we disclose, which, of course, is the same. How concerned am I? Is it lower than the one 2 years ago? Yes, absolutely. You observed it is lower. So the market has been softening, and we cannot completely [indiscernible] ourselves from the market softening. The good news is it is a triple-digit number and, therefore, still above what we would like to be able to achieve over the cycle. And the other piece of good news is based on our calculations and our estimation, we are still very much on track towards achieving and possibly exceeding our externally communicated target. So from that angle, I am not concerned.

Operator

Next question from Andrew Ritchie, Autonomous.

Andrew James Ritchie
Autonomous Research LLP

Two questions. First of all, you've reiterated your 2015 EPS, obviously, adjusted for the capital returns, so $9.2 per share. Can you just remind us of the parameters behind that? It used to include 0.9 of effective benefit from capital redeployment, $3 billion of redeployment. I mean, what is the status of that? Have you done some of that yet to come through in earnings? Is that still part of the plan, taking -- or is the $1 billion sort of buyback sort of part of that $3 billion? And within the guidance, the guidance used to be based on the same basis as your combined ratio guidance, i.e., excluding any PYD, any prior year development. Is that still the case for the $9.2? Does that exclude, effectively, any assumption of PYD? And the second question, apologies if you've gone over this, I don't think you have, for Matt, on the combined ratio guidance, 97% versus 95%. But my calculations, 1 point of that would be the mix effect making a sort of crude estimate of the effect of the higher weighting of casualty. So therefore, 1 point is sort of price effect. Is that the right way of thinking about it? And presumably, the price effect, that's a calendar year guidance. The actual underwriting year price effect is a bit worse than that. So we'll see further, as things stand today, a further margin erosion in '16. Maybe at least clarify how much of the price effect we're actually seeing in your calendar year '15.

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Andrew. I'll pick up the first one and then turn it over to Matt. So indeed, your calculation is correct. So the 2015 EPS target, under our current guidelines, it looks like about $9.2. We're not going to provide exactly the same sort of walk that we've done in previous years, simply reflecting the fact that we now have gotten to the point where we're talking about only a 1-year period and have to be concerned about issues around profit forecast and those types of things. But I will confirm a couple of things. Number one, our overall approach to capital management has not changed. We continue to say let's maintain the strong capital position, maintain a little bit of excess in order to facilitate taking opportunities that come our way, inorganic, organic, growth in our normal business, high-growth markets, CorSo, responding to client needs on the insurance side as well as on the reinsurance side. That remains unchanged. I think it's probably fair to look at about $1 billion of the capital return, the special dividend in the context of utilization within that indicated range of $3 billion. I think it's probably a little bit too aggressive to go ahead and assume fully the $1 billion associated with the share buyback. We'll see where we get to during the course of 2015. In terms of the second part of your question around prior year reserve releases, now let me just confirm to you that we have not changed our approach to financial planning. We continue to reserve on a best estimate basis, which means that for the purposes of financial planning internally, we do not assume either prior year positive or prior year negative outcomes. Matt, may I turn it over to you?

Matthias Weber
Former Group Chief Underwriting Officer

Yes.

Andrew James Ritchie
Autonomous Research LLP

Can I just follow up on that quickly? Then we wouldn't adjust the $9.2 for the buyback because in effect, that $9.2 -- because it originally assumed $3 billion of capital deployment or return, and you're doing a bit of it with the buyback. So we shouldn't adjust that $9.2 further. I know that you've adjusted it for special dividends, but we shouldn't adjust it further for the buyback. Is that what you're saying?

David A. Cole
Group Chief Financial Officer

I recognize the $9.2. We'll see where we get to during the course of 2015 with the share buyback and what ramifications this has. But for the time being, I think let's just recognize the $9.2.

Andrew James Ritchie
Autonomous Research LLP

Okay. And have you deployed any of that $3 billion? It sounds like you're sort of saying you haven't really.

David A. Cole
Group Chief Financial Officer

No. You may recall, at the end of Q3, we had said something in the range of $750 million to $800 million. And we continue to deploy -- there's no real significant additional deployment during the course of Q4, but we continue to be actively looking for good opportunities to invest wisely in our business. I'll turn it over to Matt.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So with respect to the combined ratio guidance-related question, you're absolutely right. It's, of course, a calendar year guidance. And your calculation and our calculations are reasonably close, not exactly the same, but reasonably close. Based on our calculation we arrived at, portfolio mix changes will increase the combined ratio by 0.5%, plus on top of these price level changes, plus lower interest rates than what we believe. Last year would be the case amount for the remaining 1.5%. I'm not too concerned about the fact that you and I do not have exactly the same number, and the reason is some of the business which will influence the combined ratio we are going to achieve in 2015 is not even on our books yet. So you have to make some assumptions with respect to the business we are going to write during 2015, and so did we. And that probably explains the 0.5 points difference in the combined ratio, in the contribution to the combined ratio change from the portfolio change [ph].

Andrew James Ritchie
Autonomous Research LLP

And then the rate effect, I guess you're only seeing a portion of the rate effect in calendar '15.

Matthias Weber
Former Group Chief Underwriting Officer

That is correct. And another -- and in addition to that, we also have the interest rate development. And the interest rate development, of course, influences the packed combined ratio as well as long as you assume that the actuaries and the underwriters in the market automatically take a changing interest rate environment into account when they determine the discount factors.

Operator

Next question from Mr. William Hawkins, KBW.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

First of all, can you try and help me understand the economic impact of this $344 million charge you've taken? You're emphasizing the economic benefits and the rest of it and sort of emphasize that this is just a GAAP [ph] charge. But as far as I can see, you've wound down a structure where you were paying out more than you were earning, and so there has been some sort of economic cost of this, and I'm not sure if that's the same as the $344 million or not, and I'm not sure how it's been recognized. And then finally, to that point, can you just highlight what is the return you're getting on the residual pure longevity component that is left? And then secondly, I know what over the cycle means, but to the extent that you've got these 2 new targets and to the extent that I assume they form a material part of executive remuneration into the future, how does over the cycle, which can basically just be rolling forever, translate into actually how you're going to judge your performance on a 1- or 3- or whatever year basis?

David A. Cole
Group Chief Financial Officer

Okay. Thanks, William. I'll pick up the first one and then ask Michel to respond to the second. So the economics associated to that were as follows. Indeed, the headline pretax number on the unwind of the asset funding structure was $344 million. Tax benefits brought the actual net loss to the group down to $195 million. Now the basic underlying situation was as follows. The way this was structured, we had assets that were earning less than the coupon on the notes associated with the structure. That had been the case, actually, since 2009, so we've been carrying this negative earnings impact of about $30 million a year for some time. It wasn't always $30 million, but it's been a negative result for us for some time. We simply were in a position to be able to take advantage of the fact that the counter-party associated with this transaction approached us about a potential unwind during the course of the quarter. And so we were able to take a look at it and come to the relatively quick conclusion that it would make sense for us to do it. So the 2 things that I think drive the economics for our shareholders are, first and foremost, just doing away with this negative drag; and second is through the restructuring, we were able to actually crystallize some tax benefits that otherwise we would have not been able to do so.

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

So the $344 million is a reasonable guide to the economic hit of closing this transaction down.

David A. Cole
Group Chief Financial Officer

No, no, no. I think the economic hit is -- would be closer to the GAAP [ph]...

William Hawkins
Keefe, Bruyette & Woods Limited, Research Division

Sorry, the net figure? The one...

David A. Cole
Group Chief Financial Officer

Yes, yes, exactly, exactly.

William Hawkins

Keefe, Bruyette & Woods Limited, Research Division

So is the counter-party just assuming more than you are that interest rates are going to rise in the future?

David A. Cole
Group Chief Financial Officer

I don't want to speak on behalf of the counter-party, but the counter-party came back to us and asked us whether or not we'd be willing to entertain an unwind that would allow them to take the assets back. And looking at it from our point of view, we came to the conclusion it was in the benefit of our shareholders to do so. Of course, we had to negotiate and make appropriate price. And that's what we did during the course of Q4. In terms of the second part of your question, just to be clear, I don't want to speak specifically to the underlying longevity economics other than to let you know that it's very clearly something that we still are very comfortable with, and we have fully retained that leg of the transaction.

Michel M. Liès
Former Group Chief Executive Officer

On your question about the relation between the target that we give and the compensation, first, I think it would be, and I suppose you've done that, quite interesting to have a read to the compensation report that we make in our -- with our annual report. It's quite an interesting reading in order to understand the way we address compensation. There is no arithmetical relationship directly between these targets and the way in which we pay our executive or our people. We have definitively something which is taking 50%, I would say, of GAAP results and something which is in the direction of 50% of economic value creation. And then you have, of course, anyway, something which you're also analyzing what is the situation which we are in the market, which will imply that we will have a kind of rolling observation of the data that we gave to the external world in matters of external target to see what is the role played of a specific year on an average of 5 or 6 or 7 years. And that's definitively something that is in the hand of the Compensation Committee and the way in which we want to present it. But there is definitively a mix between GAAP value and economic value creation, which is exactly the 2 targets that we present. And there is definitively also a view of a longer-term period in which we analyze, which has an influence on the qualitative judgment that we give on these results.

Operator

Next question from Michael Huttner, JPMorgan.

Michael Igor Huttner
JP Morgan Chase & Co, Research Division

So the first question is on the Admin Re and the cash. So on Slide 16, you have a gross cash of $945 million. The dividend upstream is $407 million. So there's $538 million left in the business. And I just wondered if you can comment on that. Is it -- have you made investments to that amount or [indiscernible]? And then on the topic of buyback, if I were you, I would have never done that buyback, and that explain -- I'm not saying that I'm more clever, but the certain [ph] institutions and certain [ph] pension funds at the moment have sort of healed, and the buyback, as far as I can see, doesn't address that point. I mean, it's nice -- of course, it creates value, but it, optically, it doesn't have the same attraction. So I suppose my question is does the move to a buyback rather than just a huge dividend, is it because that going forwards, you think this is it? You've done the buyback, and the buyback is a one-off, and there's no more to come of either specials or dividends [ph]?

David A. Cole
Group Chief Financial Officer

Okay. Thank you, Michael. I think I probably will pick up both of these. I'll probably clarify your second question before I answer. But let me start on the first one. So you picked up indeed the exceptional cash generation during the course of 2014 of over $900 million and, indeed, the dividends paid during the course of the year that were somewhat less. Of course, there's always going to be a little bit of a timing issue between when cash is actually realized and when it's available and can be dividended up. If you look at Slide 26, it gives a little bit more information in terms of what we would now expect looking forward. So we've recognized a very good cash generation during the course of 2014, some of which, a slight acceleration of what we would have otherwise expected to see in 2015, 2016. Some of it is just outright incremental increase in the overall level of expected cash. So on Slide 26, we outlined that over the course of the next 2 years, we would anticipate additional gross cash generation of approximately $500 million. And over that same period of time, we would expect dividends up to the group of something in the range of $600 million. Now let me be clear, we're managing our existing block of business to extract value, so good-quality services to the underlying policyholders, running off of an efficient platform and with an appropriate asset mix in order to allow us to create and then to extract value for our shareholders. At the same time, we're, as Michel indicated earlier, certainly willing to look at interesting investment opportunities. So it may well be that during the same period of time that we talk about dividends coming up that we would have some fund flow going back in and/or some of the funds staying in Admin Re over that period of time. As to your second question, let me just make sure because at the very back end, you referred to a one-off aspect. So over the last couple of years, we have, I think, delivered exceptional profitability, really exceptional. And on the basis of that exceptional profitability, on the back of a very strong balance sheet, very solid capital position, and in the situation where opportunities to invest in line with strategy and at a level that would meet our financial hurdles was below the actual level of funds that we had available, we've looked for what we refer to as intelligent ways to return that money to our shareholders. Now up until today, we have had the opportunity to take advantage of this ability to repatriate capital to our shareholders in a fashion that has been quite advantageous to, certainly, our Swiss shareholders but some others as well. And we have sought to take advantage of that opportunity.

Now with the current proposals that are being put forward to our shareholder meeting, we will have effectively exhausted all of the funds available in that advantaged balance sheet reserve. And therefore, what we wanted to do is go ahead and signal to the marketplace that going forward, whenever we're in a situation where we are in excess capital, we look for ways to return capitals to our shareholders, we will look to use the tool of the share buyback. Now all of this should be seen in the context of the primary, I think, objective, when we think about capital returns to shareholder, which is to maintain and, where we can profitably grow our business, to grow our regular dividend.

Operator

Next question from James Shuck, UBS.

James Austin Shuck
UBS Investment Bank, Research Division

I had 2 questions, please. The first one was to return to the issue of the 2% increase in the combined ratio for 95 -- for 2015, I beg your pardon. I'm just going to come back over to Andrew Ritchie's kind of point. I just wanted to get a bit more comfort around that. Because your pricing is down sort of 3% or 4%, and it was down 3% or 4% at the January renewals, both in the current January renewals and the renewals last year. So about 3 or 4 points of pricing pressure and against that, you've kind of got also negative mix effects, which you quantify that at 0.5. I appreciate that interest rates will be part of that 3% or 4%, so that won't actually impact the booked combined ratio on a current year basis. So I guess, the point is that your actual, kind of, nominal rates are only down about 1% or so, 1% or 2% and if that is the case, could you just sort of flesh that out and explain where that resilience is coming from, because I just would have thought, given what we know about markets, you would have expected a greater combined ratio pressure than that in 2015. And then my second question is around the technical adequacy level of 105%. We've obviously had a number of years now where nat cats have been pretty nonexistent, following on from a period of very high level of nat cats. And I'm just wondering how you actually feed that into your pricing models and, particularly, relative to others in the market, because presuming you're [indiscernible] modeling those natural catastrophes. And some say you need to take a view that actually the world is less risky than it was before. So I'd just like to understand how you intend to filter that sort of into your technical adequacy level, please.

Matthias Weber
Former Group Chief Underwriting Officer

Okay. So let me take the second question first. I will tell you we are doing. I cannot comment on how others are doing it. But with respect to nat cat, when we determine the rate adequacy level or the price level and, quite frankly, also when we make deal-by-deal decisions, we always assume that on every piece of business that is exposed to natural catastrophes, that this piece of business will be exposed to the average expected natural catastrophe loss. So we always assume that we will see the mean of the nat cat loss distribution, and that is baked in to the 105%, which we have renewed at the 1/1 and which we are disclosing. With respect to your first question, the combined ratio, quite frankly, we do not have the nominal rate changes, quite frankly, because the nominal rate changes are completely irrelevant. What matters are rate changes on a fully economic basis. And on a fully economic basis, this means interest rates need to be included. So I cannot quantify for you the information you are asking for. However, based on the way you asked the question, directionally, I completely agree with the direction of the nominal rate changes you indicate. Given this question, which is an excellent question, I would actually take the liberty and do something unusual and answer a question which nobody asked but I really believe is an important one. Of course, you noticed that our price adequacy change is more negative than the price adequacy change of some of our competitors, and please believe me. We noticed this as well. And I would like to make a couple of remarks about this. The first thing is the renewable portfolio is not as clearly defined as it may sound, and the reason are multiyear deals. In case of a multiyear deal, you could say, let me say, a 3-year deal, okay, you take an annualized portion of this deal or you could take the full 3-year premium with this deal, or you actually could even leave it out and say what I want to look at when I look at rate adequacy changes are purely the single-year deals. I know how we are dealing with the issue, but I have no idea how our competitors are dealing with this issue, but we could see differences there. With respect to the renewed portion of the portfolio, exactly the same situation, the same uncertainty related to how are multiyear deals treated. Another difference could come from the fact terms and condition changes. For instance, our hours clause changes. We distinguish between terms and conditions which we -- or terms or conditions changes which we would just not accept. As an example, for instance, if an insurance company could after the fact decide whether a capped event is 1 loss or 2 loss, this is something we did not accept and refused to write such business despite the attempt [ph] in the market actually to sneak in such clauses. And there are other clauses which we did accept but price for, for instance, prolongation of the hours clause. I know that we did take that into account in our rate adequacy. I do not know how other players in the market dealt with it. Second remark with respect to this. Everybody has a different portfolio. For instance, we probably have more non-proportional business than some of our competitors. Non-proportional business overall has experienced bigger rate erosion, bigger rate decreases. However, on an absolute level, the adequacy of non-proportional business is still clearly higher than the adequacy of proportional business, at least across the average of our book. Third -- the third remark I would like to make here is costing and pricing is a science, but it's not an exact science. Every underwriter and every actuary, during the process of setting the expected loss, has to make certain assumptions. So there is judgment involved. And underwriters at different company might take a different degree of conservatism when they make this judgment. I'm not here telling we are always right and everybody else is always wrong, so I'm not saying that. All I'm saying is the future will tell who is right and who is wrong. And the fourth and the last remark which is also important. When we write our book and when we make deal-by-deal decisions, when we steer our portfolio, we try to maximize the economic profit subject to some boundary conditions, which we have the boundaries conditions are given by our balance sheet, for instance. So that determines how our book looks like at the end of the renewal or at the end of the year. If we try to minimize rate changes, our book would look different, but that would, in our opinion, not be in the interest of our shareholders, because it would not maximize the economic profit created. And with this, I would like to close the answer to the question which I ask myself.

David A. Cole
Group Chief Financial Officer

Thank you, Matt.

Operator

The next question is from Stefan Schürmann, Bank Vontobel.

Stefan Schürmann

Bank Vontobel AG, Research Division

I have 2. The first one is on basically the duration gap. Can you maybe update that and basically update your view on interest rates, where they go to. I haven't found that figure in the statements. The second question is in regard to your new ROE target 2016. It inherently is based on a 10-year bond yield, so roughly 0.5 percentage point higher than before. So maybe just where you take your confidence from? Is that rather from the R or the E side?

David A. Cole
Group Chief Financial Officer

Michel, you want to take the second? Okay. The overall short-duration, as you know, we had to maintain a strategic short during the course of the back half of 2013 and through a good portion of 2014. During the course of Q3, we significantly reduced that. And we've brought our overall duration position back down now to what we would refer to as more or less of a normal type of ongoing [indiscernible] type of position. So we no longer have the strategic aspect of this short. So the position will move up and down a little bit based on ongoing developments, underlying developments in the liability portfolio, as well as just specific timing of decisions around investments and disposals.

Stefan Schürmann
Bank Vontobel AG, Research Division

But basically rather unchanged view on the level of interest rates going forward?

David A. Cole
Group Chief Financial Officer

Well, our overall view, of course, is that we would still expect that the U.S. environment, with the economic signs coming from that economy, that there still would be some increase in interest rates toward the back half of this year. In Europe, of course, we're a little bit less optimistic of the overall economic developments and therefore, we would continue to expect that in the European environment, the rate levels may continue to be quite low. You also see now a divergence in some of the policies being applied by the various authorities. U.K. looks like it may be showing some signs of a more sustainable growth, so there we may have, perhaps a little bit behind the U.S., but toward the end of the year, maybe beginning of next year, some rate movements. So it's not exactly a one-off statement to cover all regions. I would say that based on the overall situation, we would say our base case is that over the course of 2015, perhaps some increase in the level of interest rates.

Michel M. Liès
Former Group Chief Executive Officer

Okay. On the fact that we changed, actually, the base on the 700 plus -- actually the duration of the so-called risk re [ph]. Well, first, it's a little bit more challenging, which we like to challenge ourselves. And on the other side, it's also corresponding a little bit better. It's more, but it's corresponding a little bit better than 5 to the duration of liability from an economic value standpoint. Now the question of do we do that on the R, do we do that on the E, let's see [indiscernible] more on the R and the fact that beside these targets, we have a target of economic net worth increase of 10% per year is probably giving you part of the answer, but we will see in the future. But definitely the R is an important piece that we are playing with.

Operator

Next question from Marcus Rivaldi, Morgan Stanley.

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

A quick question, please, on Slide #42, sensitivities. What I'm seeing there, if I compare it to, say, the half year, a material increase in your exposure to increase in credit spreads, both on shareholders' equity and economic net worth talking north of $1 billion on each. And I was wondering if you could explain that a bit, please, maybe. Is that linked to some of the investment portfolio reallocations you'd be making towards the end of the year? And then the second question, please, is around corporate solutions. It seems as though maybe you've had a reassessment at the sort of underlying combined ratio guidance from, say, for 2014, higher than previously expected maybe on the back of experiences that you had during the course of the year. Could you describe a little bit, please, about what you've learned from that portfolio and maybe -- it feels as though there's more risk in that portfolio than you've originally assumed.

David A. Cole
Group Chief Financial Officer

Okay, let me take the first question. So yes, I think it's fair to say that some of the sensitivities have changed relative to previous overviews. Overall, I think it would be important to note that the most important change is perhaps this reduction in level of sensitivity to interest rates, as we have, as I previously mentioned, closed the strategic short over the back half of 2014. Likewise, over the course of 2014 when that continued on subsequent to the Q2 reports and certainly, in Q3 and Q4, we continue to take some of the accretive gains on the equity portfolio off the table, so we've reduced our equity exposure a little bit. And of course what we did then with the cash from both of these activities is we invested back into, primarily, into government bonds, as well as continued filling out, if you will, our overall credit portfolio. But if you look at the overall asset allocation, you'll see that by and large, we're pretty much right in the middle of where we said we'd like to be on the mid-term plan. So I think that probably from here on out, of course, obviously, depending on what happens in the market environment, you won't see that many shifts in the sensitivities coming out as a result of portfolio shifts.

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

Let me just come back on that. I mean, first of all, looking on the half year numbers in terms of rate exposure, it doesn't seem to have moved, so [indiscernible] the amount of government bonds, corporate bonds and securitized product. It's not a huge difference, actually, there on the 100 basis points position, particularly on shareholders' equity. But then, again, I'm just puzzled by this spread change because, again, the level of corporate bonds doesn't seem to have moved much. Could it be linked to maybe an assessment around spread risk in some of the government bond investments you'd be making or something there indiscernible] It is a big move.

David A. Cole
Group Chief Financial Officer

No, to be -- we've maintained a very high quality on the government bonds and, as you know, we've already reduced some time ago the exposure that we have had to some of the, let's just say, the periphery. No, I -- maybe we'll take it offline for a more detailed review, but at this point what I'll say is that we've maintained, and you can see that as well on the detailed slide regarding our asset portfolio, good quality portfolio, good mix across the different sectors and the rating categories. So there's been no shift in the overall quality of that portfolio, either on the government bond side or on the credit side.

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

Okay, I'll pick it up offline, and then on CorSo?

Matthias Weber
Former Group Chief Underwriting Officer

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With respect to the CorSo combined ratio guidance, you're, of course, absolutely correct. The fact that I started with the 2014 adjusted combined ratio, then I walked you through how we arrived at the 2015 combined ratio, not [ph] from the 2014 guidance. That indicates that something has changed. What hasn't changed is actually the riskiness of the book. So that is the same. However, what has changed relative to our expectation 1 year ago is related to the cost side. You know on the Corporate Solutions, we have

2 initiatives for growth beyond 2015 where we are incurring cost already now. And this is expansion into Primary Lead and a more significant move into high-growth margins. And both these initiatives are incurring costs now, for instance, Primary Lead. This means we need to hire some new talent, we need to invest in R&D. We are in the process of opening a very small number of offices with respect to high-growth markets. We had costs related to the RSA acquisition in China, the Sun Alliance acquisition in China, and that's the reason why we moved our staffing [indiscernible] a little bit, and that's the reason why we end up with a guidance for 2015 of 98%.

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

So this is an expense ratio issue, not a loss ratio issue, basically?

Matthias Weber
Former Group Chief Underwriting Officer

Correct.

Marcus Patrick Rivaldi
Morgan Stanley, Research Division

Yes. And from these cost then, would you, looking forward, expect them to reverse out in future years, some of these?

Matthias Weber
Former Group Chief Underwriting Officer

That is too early to tell.

Operator

Next question from Andy Broadfield, Barclays.

Andrew Broadfield
Barclays PLC, Research Division

I wanted to just explore a little bit better the premise that you opened with or certainly mentioned early on that pricing declines are abating a little. So if I may, your -- 2 questions on the -- well, 2 related questions on the P&C Re ROEs at the moment. The first is what are you writing to for the ROEs of P&C Re? I vaguely recall a 16% target a couple of years ago that was mentioned. And then, I guess, the related comment on that is in a risk-free world, if that is still the number or broadly the number, it feels like a very high return still, given the environment we're working in, given you're 700 basis points above risk-free [indiscernible] target that you're targeting. And I think also, just related to that, perhaps if you are sitting on as much surplus capital as you described, notwithstanding there's some capital actions to go that will reduce that, the 700 basis point return, underlying, would be clearly considerably higher as well. So I was just trying to understand a little bit how that related to your assessment that the pricing environment declines should be slowing or abating as you said with that as a background.

Matthias Weber
Former Group Chief Underwriting Officer

Okay, so with respect to the ROE question, we actually said a while ago, and that is still the case, that we expect on the P&C Re side, a return on equity of somewhere between 10% and 15% to be achievable across the cycle. Of course, in individual years, in hard market years, it can be a little bit higher, and in an extreme soft market situation, it could be actually a little bit lower. On the P&C Re side, on top of this, there is, of course, the good luck, bad luck factor coming from the nat cat side. When we price our business and make our assumptions or when we determine which piece to write and which not, we assume a mean expected nat cat loss burden. However, the reality can be very different from this assumption. In fact, typically, in 4 out of 5 years, given the extremely asymmetric natural catastrophe loss distribution, the reality at the end of the year looks better than our assumptions. And in 1 out of 5 years, it's the other way round. And given the asymmetric loss distribution, the difference actually can be quite big. And that's the reason why if you look at an individual year, we have been outside of this range of between 10% and 15% in both directions, and it will also happen in the future.

Andrew Broadfield
Barclays PLC, Research Division

Can I just come back and maybe tie a couple of other numbers you mentioned together then? The 100% rate adequacy, which you've indicated is a sort of cross-cycle number, would that then equate to a sort of 12.5% ROE? And I know this is crude, but as a crude comparison would that be right to assume that or am I getting...

Matthias Weber
Former Group Chief Underwriting Officer

That 100% rate adequacy across the cycle is in the long-term aligned with our external targets, which right now, for 2015, is 700 basis points plus risk-free, which is defined as 5 years and, going forward, it's defined as 10 years, which means we need to look into an adjustment of what is the meaning of 100% rate adequacy.

Andrew Broadfield
Barclays PLC, Research Division

But that target is a group target as opposed to a divisional target? Or you're running the division on those same targets?

Matthias Weber
Former Group Chief Underwriting Officer

A group target.

Andrew Broadfield
Barclays PLC, Research Division

So you're running the division on the group target?

David A. Cole
Group Chief Financial Officer

We -- I think, Andy, we have for each of the underlying units, we've indicated for P&C Re, 10% to 15%; for Life & Health Re, 10% to 12%; for CorSo, 10% to 15%; and for Admin Re, now we've introduced 6% to 8%. So I think we have appropriate targets. It may change over time. Each of the individual businesses is subject to -- and, frankly, different cycles, potentially different macro impacts as well. So the overall group target applies to the group as a whole, and we look at the underlying businesses, the macroeconomic environment, the opportunities that we see in the markets, and then we manage them on a little bit more of a, let's say, a specific basis relevant to the business unit.

Operator

Next question from Olivia Brindle, Deutsche Bank.

Olivia Sylvia Brindle
Deutsche Bank AG, Research Division

I had 2 sort of areas left that I wanted to touch on. The first one is just on your casualty book. So you've mentioned that you continue building that out, but actually, if I look at your pie chart showing what you renewed in January, it actually looks like it's slightly gone down as a proportion of the whole. So I was wondering if you could just comment on what you've done there and what sort of areas you've grown in or not most recently? And related to that, are you seeing any changes in terms of the economics there? I'm thinking that some of the U.S. companies have recently been saying that rate improvements are now probably running below claims inflation. We've seen some indication of upticks in claims frequency, particularly on the motor side. So are you seeing anything there to really change your view on casualty, or are you still very happy with it? And if you could give any indication of where you are there on your rate adequacy, maybe relative to the 105%, is it higher, is it -- I mean, I think you previously said it's probably slightly lower, but any indication would be very helpful. And then the second area was, I guess, more philosophically just around your targets and the new ones that you picked going forward. In particular, I'm thinking of the one that you've not stuck with, so the earnings growth target. How do we think about the message that, that's giving us in terms of your outlook for earnings growth? And perhaps in particular in light of the fact that you say your basic dividend growth is sort of tied to your long-term -- your long-term earnings growth, so, again, how should we think about that?

Matthias Weber
Former Group Chief Underwriting Officer

Okay, I will take the first question related to casualty. Take as [ph] the proportion of casualty business relative to our total renewed P&C business is about flat. It's a rounding thing that it appears that we actually shrank our casualty business by 1% point relative to the total. In reality, we shrank it by a significantly smaller amount. What we have been seeing in the market is relatively significant rate decreases in Europe and in Asia. We have not seen the same significance of rate decreases in the Americas, especially in the U.S. We're on the primary side, and that is relevant for proportional treaties rates are somewhere between flat and still going up a little bit. So within casualty, we have seen a shift from Europe and Asia, where we actually shrank, where we really did shrink, to the Americas, where we continue to grow a little bit. Rate adequacies by line, this is not something we are disclosing, because we feel we would be giving too much of the proprietary knowledge if we did that. Related to trends overall, of course, across all geographies and across all sublines of casualty, there are a number of trends that do matter, frequency trends, severity trends on the severity trend side, medical inflation, social inflation, wage inflation, et cetera and all of them behave a little bit differently. But across all geographies and across all trends, trend side, I would say we are still in a favorable environment. The trend situation looks good, and relative to our assessment we had 1 year ago, absolutely nothing has changed.

David A. Cole
Group Chief Financial Officer

Okay. Thanks, Matt. Olivia, I'll pick up the second question regarding the targets. And let me start first with the question about the EPS target. I think it's important to put it into the historical context. We introduced our current set of targets back in 2011. And obviously, we were coming off of the back of a financial crisis, which impacted the entire market and also certainly impacted Swiss Re. And we thought that the EPS growth target was probably the clearest way for us to demonstrate to our investors what we thought the earnings potential of the firm would be over the course of that recovery period. But the fact of the matter is, a cumulative growth, EPS cumulative target would be very difficult to predict and very difficult to hit. And it may encourage us. It may give a signal that we are interested in the wrong types of activities and wrong types of business. So what we wanted to do with the new targets is number one, just reflect where we are today as a firm. Also really go back to the long-term focus on our capital management philosophy, which is maintain very strong financial position, attractive to our clients, attractive in terms of our access to the capital markets clearly [ph] acceptable perspective of the regulators. And at the same time, recognize that what we want to do is we want to continue to invest in our business in ways that allows us to grow the overarching profitability. The profitability needs to be set in a way that it will be attractive relative to the industry and relative to our peers, and the growth needs to be sustainable growth. And if we do these 3 things well, maintain a solid financial position, invest in good growth, maintain good discipline over difficult periods during the cycle, it allows us to not only maintain but to grow our regular dividend, which remains, if you will, the 3 elements of a triangle. So we have the cornerstones of the new financial targets and then the overarching capital management philosophy. So at this point in time in the cycle and this point in time with the company's positioning, we felt that the EPS target was no longer appropriate.

Operator

We have a follow-up question from Mr. Vikram Gandhi.

Vikram Gandhi
Societe Generale Cross Asset Research

One is on the Life & Health Re. Can you comment on how the P&C business is performing? And are there any significant management actions that we should expect through 2015 for that particular book? And the second is can you comment on how the commissions are shaping up on the proportional side? And is that a key reason for you to favor non-proportional or proportional business? Or is it the slowdown in the rate increases on the primary side?

David A. Cole
Group Chief Financial Officer

Vikram, before I ask Matt to follow up on the second, I'm not sure I clearly understood your first question. Would you mind repeating it?

Vikram Gandhi
Societe Generale Cross Asset Research

Yes. I mean, most of the management actions on the Life & Health have been pertaining to the YRT business. So the question was can you comment on how the PLT, the post level term business, is performing? And are there any management actions that we should expect on that particular book?

David A. Cole
Group Chief Financial Officer

Okay, thank you. No, I got it now. Let me just start with your first question about the PLT. The PLT, of course, is a block of business that continues to form part of our overall business mix, as part of the overall market environment as well. The PLT issue that we discussed back in 2013 with you has continued to be the focus of our attention there. You may recall, we've always said that our interest and the interest of our underlying cedents are actually quite nicely aligned. What we want to do is make sure that we use the best possible information and insights to work with our cedents to get the pricing decisions taken around the move from the fixed level to the post level term period to get those implemented in a fashion that minimizes undesirable anti-selective type of laps [ph]. That's an ongoing effort. I think we've been very successful in our dialogues with our clients in that space. The fact of the matter is this is not something that "has gone away." You can just think about it. Back in 2000, we would have been reinsuring different blocks of business. Some of the business at the time would have been PLT 10, some of it would have been PLT 15, some of it even PLT 20. So over the course of the next several years, in fact, even 5, 6, 7, 8 years, you can imagine that the underlying treaties, underlying portions of this business will move into the post level term period. Well, what we're doing, I think, is as I mentioned, is being quite proactive with our clients. We get a lot of clients actually now approaching us asking to work with us on this issue. It would be something that we'll have to continue focusing on, going forward, but it's not the type of thing that I would anticipate explaining to the marketplace in some form or fashion as a reason for us not -- to hit our financial goals.

Matthias Weber
Former Group Chief Underwriting Officer

I take the question related to the commission, the commission level. So the changes of the commission level is, of course, very different from market to market, and quite frankly, also very different from program to program and reflects the past performance of the program and how attractive this piece of business is for competitors. So we are not seeing a uniform movement there. On average, we have seen changes slightly up, but slightly up means less than 1% point. Overall, on the proportional reinsurance side, what matters with respect to the underlying rate level, the rate level of the underlying policies, is significantly more important than what matters on the commission side, because a commission typically can move 1 point, maybe 2 points from 1 year to the next. Underlying rate levels can move and have moved significantly more in both directions.

Vikram Gandhi
Societe Generale Cross Asset Research

Okay. That's very clear. If I can just come back on the Life & Health business. So on the PLT business, I understand there will be a series of ongoing dialogue with the clients, but on the YRT side, can we reasonably assume that a large part of the management actions are done towards the end of 2014, and now we start 2015 with a relatively clean slate?

David A. Cole
Group Chief Financial Officer

So this time I hope you'll appreciate a short answer. Yes.

Operator

The last question for today is a follow-up question from Mr. Andrew Ritchie.

Andrew James Ritchie
Autonomous Research LLP

Very -- 2 very quick questions. David, I just wanted to clarify. On the Life & Health, one of the improvement drivers for the result was the reduction of redundant senior debt in Life & Health, which has reduced the interest cost. And some of that has already happened. Obviously, that's gone down a lot with this last deal, the funding unwind. Is that additive or on top of what the original plan was? In other words, I'm just trying to check that the $30 million profit improvement from the absence of that drag is separate from any other improvement that we had penciled in for a reduction of senior debt leverage. The second question, I think on Principal Investments, the message is, which I think is a slightly different message before, that you want to keep Principal Investments at the current size relative to the portfolio as it is today. So in other words, it will only grow as the overall portfolio grows. Is that the case? Or I mean, is it -- I thought you had a more flexible approach than that. If the right things come along, you'll do it.

David A. Cole
Group Chief Financial Officer

Let me take the second question, and I'll come back to the first. Frankly, we haven't really changed our approach on the Principal Investments. We said we look at that as part of our overall asset allocation to equities and alternatives. Now of course, we're going to need to look at individual opportunities that come up as well as continue to manage the portfolio that we currently have. And from time to time, there may be a slight little disconnect, if you will, in terms of the timing of any additional investments or decisions to divest. But the broad overarching statement is that we remain committed to the belief that Principal Investments offers us an opportunity to access risk pools that are very attractive us [indiscernible] otherwise not have access to through our more traditional reinsurance or Corporate Solutions distribution method. So it's a very important component of our overall approach to creating this highly profitable diversified portfolio in the insurance sector. The second thing is that we see that -- those investments as a component of our overall exposure to equities and alternatives. Therefore, when we talk about a 5% to 10% allocation, expect us to continue to stay generally within that range. There could be from time to time where we're a little bit below, a little bit above. Right now, we're sitting at 80%. I think at the end of [indiscernible] we're sitting at 11%, but I think [indiscernible] philosophy about how you should see that [indiscernible] asset location remains [indiscernible]. As to your first question, so the fact of the matter is, we have been communicating for some time about our intent to take action on the pre-2004 YRT, and we were able to discuss that. And I think you have very good indications to the market about the overall -- broadly speaking, obviously, the numbers changed toward the end, but an overall impact of that. In the case of this unwind, this was really something that came to us subsequent to our discussions in July of last year. I should say July of 2013, the summer of 2013. It was something that at that time, we didn't realize we would potentially have an opportunity to address. It came to us as a result of the other -- the client here approaching us with a opportunity. So I think, in that regard, Andrew, it's probably additive. Our overall objective has always been the following. We said we want to make sure we have the right asset mix for the Life & Health business. We want to get the right capital and leverage structure in place for the business. We want to deal with this pre-2004 drag and we want to, of course, continue to write new business. So those are the 4 major blocks of, I'll call them, overarching management actions that we've been pursuing. Now we've been very successful across all 4 of these, and notwithstanding my short answer just now regarding are we going to be talking about YRT. Listen, we continue to look for opportunities to improve the performance of the portfolio, and there'll be all sorts of things that we'll continue to do, including continuing to look at the overall capital and leverage structure. Across the group, we announced that we wanted to reduce our leverage by about $4 billion or at least by $4 billion by 2016 as well as achieve proper mix between senior and subordinated as well as achieve that each of the business units would have established its own direct access to the capital markets. And those remain objectives that we continue to work on today.

Andrew James Ritchie
Autonomous Research LLP

I guess the point being is that you've found an extra $2 billion of reduction.

David A. Cole
Group Chief Financial Officer

So I guess what I'm saying to you is we're not going to count that $2 billion in there for [ph] declare victory.

Philippe Brahin

Okay. This is Philippe Brahin again. We have reached the end of our Q&A. So thank you, again, very much to all of you, especially to Michel, David and Matt. And before we close, just allow me to go through 2 quick housekeeping items, first to remind you that we will publish our full 2014 annual report, together with our 2014 EVM results on the 18th of March. The second is to inform you that our Investors Day this year will take place in the 8th of December in Zürich. So please do not hesitate to contact any member of the Investor Relations team if you have follow-up questions regarding today's results or upcoming events. Thank you, again, everybody for your participation today.

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