Swiss Re

ANNUAL RESULTS 2015

Transcript of investor and analyst video presentation

Michel M. Liès, Group CEO

David Cole, Group CFO

Zurich, 23 February 2016

The following transcript must be read in conjunction with (i) the presentation slides and related materials made available by Swiss Re Ltd ("Swiss Re") on its website under http://www.swissre.com/investors/financial_information/ solely for your information in connection with the release of its unaudited full year and fourth quarter 2015 financial results and (ii) with all other publicly available information published by Swiss Re.

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets, and trends) and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase", "may fluctuate" and similar expressions, or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause Swiss Re's actual results of operations, financial condition, solvency ratios, capital or liquidity positions, or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions, or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- Swiss Re's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of Swiss Re's financial strength or otherwise;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on Swiss Re's investment assets;
- changes in Swiss Re's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on Swiss Re's balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the outcome of tax audits, the ability to realise tax loss carryforwards and the ability to realise deferred tax assets (including by reason of the mix of earnings in a jurisdiction or deemed change of control), which could negatively impact future earnings;
- the possibility that Swiss Re's hedging arrangements may not be effective;
- the lowering or loss of one of the financial strength or other ratings of one or more Swiss Re companies, and developments adversely affecting Swiss Re's ability to achieve improved ratings;
- the cyclicality of the reinsurance industry;
- uncertainties in estimating reserves;

- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes, as significant uncertainties may be involved in estimating losses from such events and preliminary estimates may be subject to change as new information becomes available;
- the frequency, severity and development of insured claim events;
- acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- policy renewal and lapse rates;
- extraordinary events affecting Swiss Re's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting Swiss Re or its ceding companies and the interpretation of legislation or regulations;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

These factors are not exhaustive. Swiss Re operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise.
In making this communication available, Swiss Re gives no advice and makes no recommendation to buy, sell or otherwise deal in its shares, or in any other securities or investments whatsoever. The communication does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer or invitation to subscribe for, underwrite or otherwise acquire or dispose of any securities of Swiss Re and it does not constitute an invitation or inducement to engage in investment activity under section 21 of the UK Financial Services and Markets Act 2000. None of the Swiss Re securities have been, or will be, registered under the US Securities Act of 1933, as amended (the "Act"), and such securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Act and in compliance with state securities laws. This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an invitation to effect any transaction with, or to make use of any services provided by, Swiss Re nor is it an offer for the sale of, or the solicitation of an offer to buy, securities in any jurisdiction, including the United States. Any such offer will only be made by means of a prospectus or offering memorandum, and in compliance with applicable securities laws.

[Michel M. Liès]

Good day everyone! Thank you for watching this presentation on Swiss Re's full year 2015 results. I am Michel Liès, Swiss Re's Group CEO and I am here today with our Group CFO, David Cole.

Slide 2: Today's agenda

Together, we are going to present our Group's key achievements in 2015, our financial performance and our business and strategy outlook for 2016.

Slide 3: Key achievements

So first, the achievements!

Slide 4: 2015 was a successful year for Swiss Re Group

I am very pleased to say that 2015 was another successful year for Swiss Re, further strengthening the solid foundation of our long-term earnings. Allow me to highlight a few of our successes.

First, we outperformed our US GAAP targets for the year and delivered on these targets over the 5-year target period.

We again demonstrated underwriting discipline in 2015, with strong technical profitability across our Business Units.

Our Asset Management team delivered a strong return on investments by actively re-balancing assets to deal with the low interest rate environment.

Group capitalisation remained very strong, even after the acquisition of Guardian, active reinvestments in our businesses and significant capital distribution to our shareholders. At the end of 2015, our Group economic capitalisation, based on SST, is estimated to be around 205%.

We have deleveraged our capital structure and established external funding access for all Business Units as well as the holding company, providing us further financial flexibility.

Based on our strong capital position and business performance, the Board will propose a regular dividend of 4 francs 60 rappen, which represents an increase of 8.2% from last year's regular dividend, as well as new capital actions. These will enable our shareholders to continue to participate in our success.

Finally the strategic framework we introduced at our recent Investors' Day is a major development for Swiss Re. The framework sharpens our focus and provides great flexibility as we move to the next stage of our transformation into a superior capital allocator in insurance risks.

Slide 5: Our Business Units also reported multiple successes in 2015

Moving on to our Business Units, I would like to highlight additional successes:

In Reinsurance, we maintained strong underwriting results despite continued rate pressure in Property & Casualty and intensive competition in Life & Health. We also demonstrated the benefits of the decisive management actions taken in 2014 to restore the profitability of Life & Health Reinsurance.

Corporate Solutions continued to deliver profitable results despite challenging market conditions and extended its presence in High Growth Markets, particularly in Asia and South Africa.

Admin Re® continued to generate strong gross cash and extended its position as a leading closed life book consolidator with the acquisition of Guardian and the integration of HSBC UK Life. The creation of Life Capital is a major strategic milestone for Swiss Re and I will comment on it later in my presentation.

Slide 6: Continued solid underwriting track record in P&C

In Property & Casualty, our solid underwriting track record continues. We have consistently demonstrated the quality of our underwriting skills and underlying portfolio. This is a key differentiator for Swiss Re. Remember this slide covers the whole of our Property & Casualty operations, so it includes both Property & Casualty Reinsurance and Corporate Solutions.

Underwriting discipline will continue to underpin everything that we do at Swiss Re.

Slide 7: L&H Reinsurance is back on track to deliver strong results

Looking at the long-term performance of Life & Health Reinsurance, you can see the contribution of this business segment, which remains strategically attractive for Swiss Re. After the successful turnaround in 2015, we are confident that Life & Health Reinsurance will continue to deliver strong results going forward.

Slide 8: Continued trend of strong investment performance amidst challenging market conditions

We also achieved a strong return on investments in 2015 and a steady investment performance over time. Our active asset re-balancing has helped mitigate the effect of lower interest rates.

Slide 9: Swiss Re's capital actions returned significant value to shareholders

Our 2015 business performance and very strong capital position allow us to propose another significant capital distribution.

As just mentioned, the Board will propose a regular dividend of 4 francs 60 rappen per share to the up-coming AGM.

The Board will also seek authorisation for a new public share buy-back programme of up to 1bn Swiss francs purchase value to be executed before the AGM 2017. As the current buy-back programme was subject to the availability of 2015 excess capital and regulatory approval, the new programme will be subject to the availability of 2016 excess capital and regulatory approval. Any decision to launch the programme will take into account major loss events and potential opportunities meeting our strategic and financial objectives.

Our capital management priorities remain unchanged: we aim to ensure superior capitalisation, grow the regular dividend with long-term earnings, deploy capital to attractive opportunities and repatriate further excess capital to shareholders.

Slide 10: We achieved our ROE and EPS Group financial targets over the period of 2011-2015

Finally, an update on our financial targets as we are closing our 5-year plan.

I am really proud to report that we achieved our 5-year US GAAP targets for the Group. In 2015, we generated a return on equity of 13.7% and earnings per share of 13.4 US dollars. Both ROE and EPS are clearly above the "watermark" levels implied by our financial targets.

We will provide an update on our Economic Net Worth per share target on the 16th of March when we publish our 2015 EVM results, together with our 2015 Annual Report. As we stated in our Q3 2015 results, our Economic Net Worth for 2015 will be impacted by the economic loss incurred in relation to the acquisition of Guardian.

I'll now hand over to David for the financial highlights and will return later to update you on our strategy and business outlook.

Slide 11: Financial performance – Section slide

[David Cole]

Thank you Michel, and good day to all of you from me as well! I will begin my presentation with the key financial highlights of 2015.

Slide 12: 2015 financial highlights

I am pleased to report that Swiss Re achieved an impressive net income of 4.6 billion US dollars for 2015. All Business Units contributed positively to this result. There was also a strong contribution from our investments, with an ROI of 3.5%.

P&C Reinsurance maintained its underwriting discipline and delivered a very strong ROE of 22.2%. Life & Health Reinsurance met its 2015 target and delivered an ROE of 15.7%.

Corporate Solutions focused on delivering on profitability with an ROE of 14.8% at the upper end of its target range.

Admin Re® reported strong gross cash generation and an ROE of 7.5% at the upper end of its mid-term target.

As Michel mentioned, on the basis of both our business performance and our capital strength, the Board will propose to distribute 1.5 billion Swiss francs to our shareholders in the form of a regular dividend. The Board will also seek authorisation for up to 1 billion Swiss francs in the form of a public share buy-back programme conditional upon available 2016 excess capital.

Slide 13: Key figures

On this slide you will find the usual overview of key figures. I will not walk you through this slide; however, I would like to highlight that lower unrealised gains reduced shareholders' equity during 2015, mainly as interest rates rose somewhat toward the end of 2015.

One additional matter I would like to mention is that the US dollar and Swiss franc were almost at par at the end of the year.

Now let's move on to P&C Re's results.

Slide 14: P&C Reinsurance delivers strong results through diversified earnings stream and large & tailored transactions

P&C Reinsurance delivered another set of strong results in 2015. Our diversified earnings stream as well as our direct access to clients and the ability to close large and tailored transactions enabled us to maintain our strong performance.

Premiums were impacted by currency movements and a challenging market environment, with rates still under pressure.

At constant fx rates, premiums were slightly up as we took advantage of our ability to differentiate from other players through our capital strength, know-how and close interactions with clients.

Our underwriting performance remained solid, reflecting the quality of our portfolio. The reported combined ratio was slightly higher than last year at 86%. P&C Reinsurance benefited from a lower than expected level of nat cat losses during the year and net reserve releases from prior accident years; however the segment was impacted by above average large man-made losses.

Our P&C Re franchise remains strongly positioned to continue to deliver value. Michel will tell you more about our market outlook following the January renewals.

Let's now turn to Life & Health Re.

Slide 15: L&H Reinsurance delivers strong operating result and achieves RoE target

I am proud to report that we met our ROE target of 10 to 12% for 2015, which was announced at the Investors' Day in June 2013. On an underlying basis the return on equity was 11.8%, comfortably meeting the target. The management actions taken in prior years were the basis for this success and are the foundation for future profitable growth.

While net premiums earned and fee income decreased in US dollar terms, at constant exchange rates, premium income was higher in 2015 benefitting from longevity deals in Europe, large and tailored transactions in Asia, and yearly renewable rate increases in the Americas.

The operating margin for 2015 was increased significantly as a result of the improvement in Life & Health operating income. The prior-year margin was substantially lower primarily due to the management actions in relation to pre-2004 US yearly renewable term business.

On this slide, you can see the turn-around in net income very prominently - the strong performance in 2015 reflects a significant improvement in operating results, also supported by net realised gains and lower interest charges.

Let me assure you that managing the in-force business will continue to be a key priority for Swiss Re along with growing profitable new business.

Slide 16: Corporate Solutions manages the cycle and delivers good results

Corporate Solutions delivered good results in spite of a challenging market environment as it maintains its focus on profitable growth.

The quality of the book remained high and the reported combined ratio benefited from a benign nat cat environment and favourable prior-year development. However Corporate Solutions experienced higher than expected large man-made losses. Coupled with the continued investment in growth, as Corporate Solutions further expands its footprint, and reduced premiums, this led to an underlying combined ratio above the 98% estimate provided at the beginning of the year.

The Business Unit generated net income of 340 million US dollars, and delivered an ROE of 14.8%, at the upper end of its 10 to 15% ROE target range.

Slide 17: Admin Re® delivers strong performance across all metrics

Admin Re® concluded the year with a strong performance across all metrics. The gross cash generation of 543 million US dollars for the year includes the positive impact of valuation updates and the finalisation of the UK half-year statutory valuation. The underlying gross cash generation was in line with our expectations.

The strong net income for 2015, supported by higher realised gains and tax credits, enabled Admin Re® to report an ROE of 7.5%.

The mid-term ROE target range for the Business Unit remains 6 to 8%.

Slide 18: Group investment portfolio provides a strong contribution to the overall result

Our Asset Management team delivered another strong performance while maintaining a high-quality investment portfolio. Average invested assets decreased over the year mainly due to net asset outflows, rising interest rates and the effect of foreign exchange translation. The main portfolio changes during 2015 included the net reduction of cash and short-term investments of 6.2 billion US dollars as well as net purchases of fixed income securities, credit ETFs and some direct investments in real estate.

Return on investments was strong at 3.5% for full-year 2015. Though slightly down versus last year it reflects a solid performance in the current environment and was primarily driven by net investment income and realised gains from sales of government bonds and equities.

Realised losses from impairments remained low.

Finally, our running yield of 3.0% for full-year was slightly lower than last year, but in line with our expectation as communicated last February and relatively steady historically excluding one-off impacts.

Slide 19: Steady reduction in cash and short-term investments, increase in credit expected due to Guardian acquisition

Our asset allocation is consistent with our business mix and our economic outlook. Since 2013 we increased our investments in credit and decreased our cash and short term investments. The acquisition of Guardian adds almost 16 billion US dollars to our assets for own account. We remain focused on maintaining a high-quality portfolio.

Slide 20: Well-developed financial risk management in place across the investment portfolio

Financial market volatility has attracted a lot of attention lately and I would like to comment on our risk governance and market position.

Alongside our investment decision process, Swiss Re has developed a robust financial risk management oversight, which includes strict financial market and credit risk limits that are monitored on a daily basis.

As you know our economic value management framework is based on a market consistent valuation of our assets and liabilities and does not apply market volatility dampening measures.

You can see from the interest rate sensitivity that we were well matched at the end of 2015, hence the economic impact of interest rate changes would be relatively low. The impact of credit spreads is larger as no dampening measure is applied to the economic valuation of our liabilities. You can see how the Guardian acquisition increases this impact as we take on board additional credit investments.

We are acutely aware of these risks and Swiss Re employs a robust risk management practice to properly assess and steer our exposures.

Slide 21: Common shareholders' equity decreased as strong net income was more than offset by capital actions, unrealised losses and fx

Details on our US GAAP common shareholders' equity are on slide 21. The increase due to our strong net income was more than offset by dividends paid and the share buy-back programme, unrealised losses and foreign exchange movements.

I will now hand back to Michel for the business and strategy outlook.

Slide 22: Business and strategy outlook – Section slide

[Michel M. Liès]

Thank you David! Let's move on to our business and strategy outlook for 2016.

Slide 23: Our strategic framework will drive our 2016 priorities and create long-term value for our shareholders

As we announced at our Investors' Day last December, we have defined an enhanced strategic framework to increase our focus on responding to market challenges and seizing opportunities.

Our framework enables us to move to the next stage of our transformation journey towards becoming the most successful capital allocator in insurance risks with a strong balance sheet. The framework is made of four pillars:

First, we will systematically allocate capital to attractive risk pools, while also closely scrutinising our asset mix.

Building on this, we will further broaden and diversify our client reach. This will allow us to access risk pools more effectively.

Simultaneously, we will continue to optimise our resources and operational platforms to ensure we allocate or re-allocate capital towards the best opportunities.

Finally we will emphasise our differentiation, which is driven by our financial strength, our knowledge sharing, and our unique access to clients.

These four areas of strategic action will allow us to deliver on our new Group Financial Targets over the cycle. I will comment on these targets very shortly.

Slide 24: Our strategic framework will also drive our Business Units 2016 priorities

The framework will also guide the priorities of our Business Units in 2016.

Reinsurance will maintain underwriting discipline while accessing risk pools and will continue to develop differentiated solutions to clients.

Corporate Solutions will focus on profitable growth while expanding into Primary Lead.

Life Capital will continue to seek attractive opportunities in closed books, while accelerating its growth strategy in open books with strategic partners.

Let me now go into more detail on each of our business segments, starting with Property & Casualty Reinsurance.

Slide 25: P&C Reinsurance maintains attractive portfolio through January renewals despite challenging market environment

I will focus first on our P&C January renewals, as approximately 55% of our treaty book renews on that date.

It was another challenging renewal for our teams, as we continue to see rate decreases in property and specialty lines. In the US cat business, the pace of rate decrease has slowed down. Casualty remains stable overall, however with significant differences among segments.

The premium volume of our renewals increased by 3% as we successfully pursued our differentiation strategy to manage the cycle, retreating capacity from flow business and closing large and tailored transactions at differentiated terms and conditions.

Our overall risk-adjusted price quality is lower than last year, at 102%, but our book continues to meet our economic return hurdles and remains of high quality.

We estimate our combined ratio for P&C Reinsurance to be around 99% in 2016, assuming a normal level of large losses. As you know we do not assume any reserve development as we are prudently reserved on a best estimate basis. The increase of our estimate from last year is due to the continued challenging rate environment and change in our business mix as we write more casualty.

We will continue to differentiate our offering through our financial strength, our expertise and highly interactive client relationship model. We remain confident about the underlying quality and long-term performance of our book and confirm our return on equity target of 10 to 15% over the cycle for P&C Reinsurance.

Slide 26: Life & Health Reinsurance is well positioned to benefit from attractive industry outlook

Our view on the Life & Health industry remains positive. There are challenges in this competitive segment but we see attractive business opportunities and are well positioned to benefit from them.

We will continue to pursue profitable growth opportunities in high growth markets and apply our expert knowledge on biometric risk to develop tailored solutions and help reduce the mortality and morbidity protection gaps. We are responding to the expanding need for health protection and care needs driven by ageing societies. Furthermore, the move to economic based capital standards will continue to support the demand for large and tailored transactions, which plays to our strength.

On this basis, we are fully committed to our return on equity target of 10 to 12% in this segment over the cycle.

Slide 27: Corporate Solutions is well positioned to manage the cycle, with ambition to further grow

Corporate Solutions will continue to carefully navigate the current market with unchanged focus on profitability.

The breadth and expected growth of the commercial insurance market presents significant opportunities for Corporate Solutions. The relevance of the Business Unit is expected to increase within Swiss Re. Corporate Solutions will build on its distinct value proposition as a large net capacity provider and market innovator, further broadening its footprint in key markets and expanding into the Primary Lead sector.

Considering Corporate Solutions' continued investment in growth and the currently challenging market conditions, we estimate the combined ratio of Corporate Solutions to be around 101% in 2016, assuming a normal level of large losses. The Business Unit remains committed to delivering a return on equity of 10 to 15% over the cycle.

Slide 28: Life Capital is accessing attractive risk pools

Life Capital has the ambition of building up an attractive life and health book of business. It combines the primary life and health insurance expertise and businesses of Swiss Re, responding to attractive growth opportunities and expanding our access to risk pools.

On the closed book side, the team will remain focused on opportunities in the UK, and potentially in Continental Europe, while working on the integration of the Guardian acquisition, which closed on the 6th of January 2016. We will also look at optimising financing options.

In terms of the impact on gross cash generation, Life Capital maintains its expectation that the closed book business will generate gross cash of 1.7 billion US dollars over the next three years. Life Capital will accelerate its growth strategy in the open book businesses and is expected to redeploy approximately 300 million US dollars of cash over 3 years to further establish its market position. We reiterate our return on equity target for Life Capital to deliver 6 to 8% in the mid-term. Thereafter we expect synergies and opportunities from our strategy to materialise.

Slide 29: High quality portfolio maintained through a disciplined investment process

Asset Liability Matching will remain the cornerstone of our investment philosophy. This is reflected in the composition of our investment portfolio, which predominantly consists of fixed income securities matching our liabilities, both in terms of duration and currency exposure.

Our investment strategy will continue to maintain a high quality focus. We have only a small allocation to non-investment grade securities and have recently further diversified the portfolio by introducing infrastructure investments, commercial mortgage loans and direct real estate in the US.

As you may have seen through our publications and industry initiatives, Swiss Re is actively engaged in promoting infrastructure investments as a tradable and transparent asset class. Given the projected need over the next 15 years, an infrastructure financing gap of about 1 trillion US dollars per annum is expected to emerge globally. Global insurance companies such as Swiss Re are expected to play a significant role in closing this gap.

Slide 30: Systematic capital allocation is essential for achieving our Group and Business Unit targets

On the basis of the outlook for our business segments and investment portfolio, Swiss Re is well positioned to tackle the future challenges of the insurance sector and harvest attractive returns. We have demonstrated that our global reach and product diversification allow us to sustain profitable levels; our very strong capital position and flexible structure allow us to remain agile in deploying capacity.

Our two Group financial targets are supported by our Business Units' profitability targets.

Over the cycle, we aim to deliver a Group return on equity of 700 basis points above the risk-free rate. Our return on equity target will be benchmarked against 10 year US government bonds, with ongoing monitoring of a basket of rates reflecting our business mix. Our second target is to grow Economic Net Worth per share by 10% per year, also over the cycle.

We look forward to reporting to you on these Group targets, as well as our Business Units' targets throughout the year and more importantly over the long-term.

Thank you for watching this video on Swiss Re's 2015 annual results!

Swiss Re

Corporate calendar

16 March 2016	Publication of Annual Report 2015 and EVM Report 2015
22 April 2016	152nd Annual General Meeting
29 April 2016	First Quarter 2016 Results
29 July 2016	Second Quarter 2016 Results
3 November 2016	Third Quarter 2016 Results
2 December 2016	Investors' Day

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Philippe Brahin	+41 43 285 7212
Jutta Bopp	+41 43 285 5877
Chris Menth	+41 43 285 3878
Iunia Rauch-Chisacof	+41 43 285 7844