Swiss Re

FIRST QUARTER 2014 results

Transcript of analyst and investor video presentation

Michel M. Liès, Group CEO

David Cole, Group CFO

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SLIDE 1 [title]: First quarter 2014 results

[Michel M. Liès, Group CEO]

Good morning or good afternoon! Thank you for watching this presentation on Swiss Re's first quarter 2014 results.

My name is Michel Liès, I am Swiss Re's Group CEO and I am here with David Cole, our Group CFO since the first of May. As you may have seen from the press release I also have the pleasure to welcome back Patrick Raaflaub, the former CEO of Switzerland's financial services regulatory body FINMA, as our new Group Chief Risk Officer. He will assume his new role effective from 1 September 2014. I wish David and Patrick every success!

SLIDE 2: Today's agenda

We will start with David's presentation of our business performance in the first quarter. I will then come back and update you on the April renewals – where we were able to expand our portfolio at attractive price levels – and conclude with our financial targets. So, David – please go ahead.

SLIDE 3 [section title]: Business performance

[David Cole, Group CFO]

Thank you Michel. Let me begin my part with the financial highlights.

SLIDE 4: Q1 2014 financial highlights – Strong Group performance

The Group has started the year with a strong first quarter. The net income of USD 1.2 bn is higher than what we had expected and translates into an excellent return on equity of 14.9%.

One driver of this result is the very low number of large nat cat losses in the first quarter. Benign man made claims and reserve releases also contributed to the strong underwriting performance of P&C Re in Q1 2014. You might remember the exceptional first quarter of 2013, which had even better results than the current quarter, driven by a complete absence of large losses.

Another important driver of the strong first quarter result of 2014 are the re-balancing actions that our asset managers implemented in the course of 2013. This led to an improved running yield of 3.4% on our investments, which together with equity gains produced a return on investments of 3.7%.

L&H Re also delivered a decent quarter – if we look at it from an operational point of view. I'm saying that because the net income figure of course is below our expectation but it is burdened by a sizeable non-economic net realised loss on an interest rate hedge. Excluding that, you see a pretty good operating result.

Corporate Solutions continued its organic growth journey and delivered an ROE of 12% which is well within its 10-15% return on equity guidance. And Admin Re® has delivered an exceptional amount of cash helped by positive prior year effects.

The strong net income and higher unrealised gains have increased our book value per share by almost 6% in Swiss franc terms since the end of last year to a level of CHF 87.56.

Our Group SST ratio of 241% – the usual update has just been submitted to the Swiss regulator – is slightly down vs last year's 245% and is another excellent demonstration of our Group's continued very strong capitalisation.

SLIDE 5: Key figures Q1 2014

The key figures' overview on this slide provides a good illustration of our strong top line growth which is driven by the Reinsurance and Corporate Solutions businesses. Furthermore it contains a spilt of the unrealised gains, which have risen by more than USD 800 m over the course of the quarter as a result of lower interest rates.

SLIDE 6: P&C Reinsurance – Robust underwriting and increased investment result

Q1 2014 has been another great quarter for P&C Re. Net earned premiums increased by almost 8% to USD 3.8 bn, still partly due to the expiry of a major quota share agreement at the end of 2012 along with the Asian deals we wrote towards the end of last year.

I'm also very happy with a 78.8% combined ratio. It was quite a benign quarter in terms of natural catastrophes, and indeed we only had one large nat cat loss in the quarter. Our combined ratio therefore benefited from almost 9%-points of "good luck".

This quarter we also continued to benefit from underwriting decisions taken in the past, and we had approximately 5.7%-points of reserve releases. This is net of reserve strengthening, and during the quarter we increased our US asbestos reserves by almost USD 180 m, thus moving Swiss Re's reserve ratios towards a more conservative level. We also strengthened our French Motor reserves by USD 60 m.

Taking the "good luck" from nat cats into account and removing all reserve releases gives an adjusted combined ratio of 93.4%. This is well in line with our full year 2014 estimate of 95%.

Net income is flat at USD 1 bn and includes approximately USD 200 m of investment gains, primarily from our equity portfolio. This quarter also benefitted from a tax rate of 17%.

SLIDE 7: Life & Health Reinsurance – Strong new business growth, good operating margin

The Life and Health Re management team have made great strides in turning this business around, and I think we can see the first signs of this in the Q1 results of 2014.

Operating revenues are up almost 17%, partly due to the US business recaptured last year, but also through the team's efforts in writing new, profitable deals.

At 9.6% the operating margin appears lower than Q1 last year but keep in mind the first quarter of last year also contained a USD 75 m gain on the recapture of US YRT business. The benefits from our asset re-balancing actions taken last year are also flowing through, and an operating margin of 9.6% is not only the right direction vis-à-vis our 10-12% ROE target for the L&H Re business but also when we look back a significantly better level than that seen for the last few quarters. We strongly believe we are on track to achieve the turn-around in Life & Health and a return on equity of 10 -12% by 2015.

This improvement in operating performance isn't immediately obvious in net income, which has decreased to USD 51 m. The decrease is due to realised losses, in particular from an interest rate related hedge we have in place. Since the hedge is made with respect to our economic ALM position, it does create some accounting volatility, as only one side runs through the income statement. The reason why we have this hedge in place is a difference between the economic and regulatory reserve measurements in our Canadian business, requiring us to manage our economic exposure to the asset duration. This hedge explains a large part of the swing in net realised gains from a USD 111 m gain in 2013 to a loss of USD 100 m now. We expect the interest rate volatility in earnings to decrease in magnitude going forward.

You are familiar with the management actions we outlined at our last Investors' Day as to how we intend to improve our L&H Re returns. At that time we estimated that we would incur a charge of USD 500 m in relation to our pre-2004 YRT business. Discussions with clients are ongoing and there is no change to that estimate.

SLIDE 8: Corporate Solutions – Profitable organic growth continues

Our Corporate Solutions business delivered another good quarter with profitable organic growth.

Net premiums earned are up by 35.4% to USD 830 m for the quarter. Most lines of business contributed to this growth. Gross premiums written also increased strongly in the quarter.

In terms of operating performance, Corporate Solutions reported a combined ratio of 95.2%. The underlying combined ratio was 96.8%, after adjusting for the fact that there were no natural catastrophes during the quarter and 2%-points of unfavourable development on prior years' business. This is slightly higher than our estimate of 95% for the year 2014, mainly because there was a significant amount of man-made losses in Q1 2014. Our estimate for the year remains unchanged at 95%.

The expense ratio reduced by more than 3%-points to 31.2% in Q1 2014 compared to the same period last year as premiums generated from growth initiatives began to outpace investments.

Corporate Solutions' assets delivered a return on investments of 3.7%, supported by realised gains from the active management of the listed equity portfolio, like we saw in P&C Re.

In the first quarter of 2014 the business unit declared a USD 300 m dividend up to the Group which were paid in April. The net income for the quarter was USD 80 m, which translates into an annualised return on equity of 12%. Corporate Solutions continues to produce profitable growth for the Swiss Re Group and is well on track to achieve its 2015 targets.

SLIDE 9: Admin Re® – Cash generation helped by positive prior year effect

Admin Re® delivered USD 202 m of gross cash generation in the first quarter of 2014 compared to USD 63 m in the prior-year period. Included in this quarter's gross cash generation is a one-off positive impact of USD 142 m relating to the finalisation of the 2013 UK statutory result. This was driven by favourable mortality experiences and a review of longevity assumptions. Such reviews are performed every quarter but potentially more significant impacts are experienced after the year-end blocks are closed for statutory reporting. The USD 142 m is on top of the guidance of generating USD 900 m of gross cash during the years 2014 until 2016.

Admin Re® is going to pay a dividend of approximately USD 400 m to the Group in the second quarter of 2014, based on the strong gross cash generation achieved in 2013. The dividends related to our estimated USD 900 m of gross cash generation between 2014 and 2016 will be paid to the Group between 2015 and 2017.

Admin Re®'s return on investments increased to 4.9% driven by a strong running yield on the fixed income portfolio, as well as realised gains.

Net income was USD 48 m in the first quarter of 2014, supported by realised gains and partially offset by higher than expected tax. I would like to remind you that the net income of USD 78 m in the prior year period benefited from exceptional high income from the unit-linked business, as the UK investment market performance was very favourable.

In April a credit facility of GBP 550 m was established with a consortium of banks. This facility is in line with our commitment to introduce leverage at Admin Re® and achieve its stated target capital structure including a lower weighted average cost of capital. The majority of the proceeds have already been used to repay an internal loan, the remainder can be used for partial debt funding of potential new deals.

SLIDE 10: Group investment result – Consistent and strong performance

We have seen another quarter of strong investment performance in Q1, achieving a favourable overall result while maintaining a relatively steady overall asset risk position.

With respect to our average invested assets, the decline in value was mainly caused by movements in interest rates over the past 12 months, which accordingly decreased our level of unrealised gains – despite the uptick again during this quarter. During the first quarter of this year we also reduced our listed equity exposure by USD 2.5 bn. I will come back to this in a minute.

As you remember, we announced the establishment of a strategic net short duration position of approximately DV01 minus USD 7 m at last year's Investors' Day in anticipation of higher interest rates. At the end of Q1 2014, the DV01 position stood at minus USD 7.5 m, which means that for every one basis point increase in interest rates, there would be a USD 7.5 m economic gain, and vice versa.

The return on investments of 3.7% reflects a strong asset management performance in the current environment. The majority of this performance can be attributed to net investment income as well as realised gains on equity sales. The running yield on our long term fixed income portfolio was 3.4%, up slightly from the previous quarter and supported by last year's asset re-balancing into high quality corporate bonds and other asset classes. If interest rates remain at current levels, we expect the running yield to be approximately 3.3% for the year 2014.

SLIDE 11: Investment mix – Group asset allocation in line with mid-term plan

The investment mix view describes the aforementioned reduction in listed equities. We sold USD 2.5 bn of listed equities in Q1 2014, reducing our overall position and realising some unrealised gains. This also allowed us to remain within the mid-term plan range. Further, we saw some growth in our Principal Investments portfolio mainly due to the second tranche of the SulAmérica investment, which is now reflected in its entirety as an equity accounted investment.

Our government and corporate bond allocation remained fairly stable since the prior quarter. The short duration asset position is reflected in the relatively high levels of cash and short term investments offset by a lower level of government bonds.

SLIDE 12: Common shareholders' equity Q1 2014 – Increase driven by net income and increase in unrealised gains

As you are aware, the common shareholders' equity as at the end of March still contains dividends of USD 3.1 bn that have by now been paid out to our shareholders.

A quick excursion now to the capitalisation of our business units: you heard me report the USD 300 m dividend declared by Corporate Solutions and I also mentioned that Admin Re® is planning to upstream approximately USD 400 m in dividends during Q2. Note that Reinsurance paid a dividend of USD 3.1 bn to the Group in April, funded by P&C Re. The difference to last year, when the Reinsurance dividend was declared in Q1, is that the dividend will show up in the shareholders' equity disclosure of our second quarter financial results.

SLIDE 13: Swiss Re's capital structure – Leverage ratios within target range

Here is our semi-annual update of the Group's capital structure, including the economic net worth as at year-end 2013. We report our economic key figures half-yearly and in arrears, and therefore show you the key points to you with our Q1 and Q3 results.

As we highlighted at last year's Investors' Day, we're aiming to reduce leverage by more than USD 4 bn by 2016. You can see the significant progress we have made so far: there has been substantial deleveraging of senior debt and LOCs in the course of 2013 and we are well on track towards implementation of our target capital structure. Also thanks to the strong 2013 economic net worth, both leverage ratios are already within our target range.

I'd like to remind you that we also have the ambition to increase our leverage on the Corporate Solutions and Admin Re® side – as we have started to do in April with the aforementioned GBP 550 m revolving credit facility for Admin Re®, which is not yet included here – and at the same time we plan to issue additional innovative hybrid securities. So the race is not over yet and we will continue reducing senior debt and LOCs in Reinsurance to hit our goals.

With that, I'll hand back to Michel.

SLIDE 14 [section title]: April renewals and financial targets

[Michel M. Liès, Group CEO]

Thank you David. Without further ado let me turn to our April renewals

SLIDE 15: P&C Reinsurance: 2014 Renewals – Overall price quality remains at an attractive level

As expected, prices softened in a number of markets this renewal, particularly for nat cat coverage. Prices are coming down, but I would like to stress that they are still at attractive levels. We are not slaves to volume and certainly will not write business to fulfil some top-line aspiration. We write business where it makes economic sense for our shareholders, and that is exactly what we did in this renewal.

We were able to write 14% more business than that up for renewal. How did we do this? We were able to do this because we have great teams on the ground. We know our clients and their needs intimately.

A particular area of growth for us this renewal was Casualty in the US. Let me take a moment to expand on this success. We wrote new business with multiple clients, and on each occasion the Swiss Re brand, the Swiss Re knowledge sharing approach and the Swiss Re way of tailoring solutions to clients' needs were instrumental in closing the deals. With our clients we are very much "smarter together".

Margins did compress in this renewal, but we also saw new opportunities that our teams were able to turn into success stories. Let me repeat: prices in many markets are softening, but remain economically attractive. At least to a company such as Swiss Re, with a diversified business model and "built-in leverage". Our underwriting results show that we have been selective with the risks we underwrite, and I fully expect to continue to outperform our peers.

SLIDE 16: P&C Reinsurance: 2014 Renewals – Portfolio weighting by line of business and region

Here I've provided an update of the portfolio split you will remember from February. I won't go through each and every pie chart here, but please allow me to draw a couple of conclusions.

A key factor underlying our underwriting success has been our willingness to allocate capital to those lines showing the most attractive returns. We can be nimble. And we can be nimble in any market or business line that makes sense to us and our clients, which very few others can. Capital is fungible and we can and do move capital between lines of business and geographies.

A good example of this is the continuing re-balancing of our book towards Casualty. A moment ago I talked about our US Casualty growth, but we grew our Casualty book in other areas too. During this renewal our Casualty book had profitable growth, the only type of growth worth having, in all three geographic regions.

Superior risk selection, portfolio steering and active cycle management have been the core ingredients to Swiss Re's underwriting outperformance. We will continue that exactly as before, tailored to each and every client in developed and high growth markets alike. We have that reach.

SLIDE 17: Group financial targets – On track

We are in our second to last year of our financial targets and the graphs start to fill up. During our upcoming Investors' Day on the 3rd of July you can therefore expect to hear some more thoughts on our next set of targets. Until 2015, though, the targets on this slide remain our top priority. I do not have much more to say, as you can see we are on track towards our financial goals. Work remains to be done in some parts of our business, and you can be assured this is being monitored.

Thank you very much for watching this video on Swiss Re's first quarter 2014 results!

Swiss Re

Corporate calendar & contacts

Corporate calendar

3 July 2014	Investors' Day, London
6 August 2014	Second Quarter 2014 results, Conference call
7 November 2014	Third Quarter 2014 results, Conference call
19 February 2015	Annual results, Conference call

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Eric Schuh	+41 43 285 4708
Ross Walker	+41 43 285 2243
Chris Menth	+41 43 285 3878
Simone Lieberherr	+41 43 285 4190
Simone Fessler	+41 43 285 7299