Swiss Re

SECOND 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: Second Quarter 2014 results

[David Cole, Group CFO]

Good day everyone! Thank you for watching this presentation on Swiss Re´s 2014 second quarter and first half results. My name is David Cole, I am Swiss Re's Group CFO and I am here with Michel Liès, our Group CEO. Michel will update you later on on the July renewals, the priorities he has set for the company in 2014 and also, of course, on our financial targets.

SLIDE 2: Today's agenda

As usual I will start with the business performance. You will have noticed we've added a bit more this year regarding year-to-date information. I believe this adds to our disclosure, as the development of the various businesses over the year is illustrated at one glance. This year-to-date disclosure is in addition to the stand-alone quarterly information you're used to receiving. This will also tie in better to our full-year reporting, which has traditionally been focused more on the entire year's performance rather than the fourth quarter only.

SLIDE 3: Business performance

Let me start now with the financial highlights.

SLIDE 4: Q2 2014 Financial highlights – Strong Group performance

Both our Q2 and half-year 2014 results show the fundamental strength of the Group's business model and strategy. We are firing on all cylinders as all three Business Units continue to deliver strong and profitable growth.

Q2 Group net income was USD 802m bringing us to a total net income for the first half of USD 2bn. The fact is, most markets we conduct business in could currently be characterised as 'challenging'. Therefore I consider our quarterly and half-year result a true demonstration of the strength and resiliency of our firm.

Both the Q2 ROE of 9.7% and the ROE of 12.6% for the first half of the year are proof of the Group's strong financial performance. In a minute I will cover the performance of the individual segments and asset management in a bit more detail than the headlines shown here.

For now, let me refer you to our book value per share of USD 95 or CHF 84. This is after USD 3.1bn were distributed to shareholders in Q2.

SLIDE 5: Key figures Q2 2014

I don't normally comment too much on the more technical nature of the items on this slide, it is meant to provide you with an overview and source of relevant data. I would highlight though the rise in unrealised gains in Q2 by USD 900m. This is mainly a result of falling interest rates.

Slide 6: P&C Reinsurance – Continued good underwriting result and profitable business growth

The second quarter of the year has been another good one for P&C Re - both in terms of underwriting quality and profitable business growth. Net earned premiums are now up 10% for the year, still partly due to the expiry at the end of 2012 of a major quota share retrocession along with some Asian and Americas deals we wrote towards the end of last year.

P&C Re delivered a combined ratio of 93.5% in the second quarter, which contributed to a first half year combined ratio of 86.1%. We again had fewer natural catastrophes than expected in the quarter, even noting as you know, the second quarter is the one with the lowest expected nat cat loss burden. This by the way also means we allocate less nat cat premium to Q2. Hence the combined ratio of Q2 in any given year tends to be structurally a bit higher than average, by up to 2% to 3% percentage points. We had 2.2% percentage points of net reserve releases in the second quarter. Allowing for those gives us an adjusted combined ratio of 97.4%, a tick higher than our 95% guidance. As I've said before, the second quarter tends to have a slightly higher combined ratio from the lower allocated nat cat premium.

Furthermore, don't forget our business mix is also changing. A bit later Michel will show you a slide that illustrates this point. We are delivering these strong underwriting results with a larger share of longer-tail Casualty business.

Q2 net income of USD 553m for the P&C Re segment translates into a quarterly ROE of 17.3%.

This remains in excess of our guided range of 10-15% for this business. Year to date, this segment's results total USD 1.5bn. We consider this strong by any measure.

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

The Life and Health Re management team continues to work on both enhancing the performance of our in-force business while at the same time driving new business across various channels and regions. You can already observe some successes in the growth of our operating revenues, which are up strongly in 2014. The health business in Asia and EMEA contributed to this continued growth along with a number of large transactions such as a recent longevity deal in the UK.

The operating margin of this business stands at 8.6% for the year to date. The benefits from asset re-balancing actions taken last year continue to flow through. You can see this from the running yield on investments which stood at 4.0% this quarter.

Net income, however, and the associated ROE requires some explanation. There's no cross-read from the relatively low profitability shown for the quarter and first half year to what we're working towards achieving for this business. There simply have been several moving parts in our L&H Re business in the quarter that affected the net income figure on both the up- and downside. For example, we saw non-economic hedging losses related to Canadian assets, this due to lower interest rates. Furthermore, we have experienced some volatility in mortality, morbidity and lapse developments.

I should mention the L&H Re business carries more US GAAP shareholders' equity versus one year ago. This is due to unrealised gains from lower interest rates and has dampened the segment's ROEs.

Let me reiterate: We remain committed to delivering on our L&H Re promise by 2015. Management is working across all lines of business to improve the underlying earning power of the segment and achieve our targeted profitability. One of the management actions associated with these targets relates to improving the profitability of our pre-2004 US business. In that context we said we expect to incur a charge of approximately USD 500m during 2014. Discussions with clients are ongoing and there is no change to that estimate at this time.

SLIDE 8: Corporate Solutions – Profitable growth continues

Corporate Solutions delivered another good quarter with profitable organic growth. Net premiums earned are up by 22.6% to USD 841m for the quarter. All lines of business contributed to this growth. Gross premiums written also increased significantly in the quarter. The picture is similar for the half-year figures, as you can see from the slides.

Corporate Solutions reported a combined ratio of 93.2% in Q2. The underlying combined ratio, adjusted for the lower than expected nat cats and favourable reserve releases, was 97.5%. This is higher than our estimate of 95% for the entire year mainly due to a number of small and mid-sized man-made losses in the quarter. Expenses were also somewhat higher over the period as the Business Unit has started to invest in growth initiatives for beyond 2015. Our estimate for the combined ratio for the entire year remains unchanged at 95%.

Net income for the quarter was USD 66m and USD 146m for the half year. These figures translate into annualised returns on equity in excess of 10% for this business. This is a good achievement in the current, challenging, market environment.

Corporate Solutions is also focusing on a number of high growth markets to accelerate its growth initiatives to 2015 and beyond - among them China. A proof of this point was the recent announcement of the acquisition of Sun Alliance Insurance (China) Limited. This addition to the Corporate Solutions franchise will enable us to offer corporate insurance directly from mainland China several years earlier than we had originally planned.

Altogether Corporate Solutions continues to produce profitable growth for the Swiss Re Group and remains nicely on track to achieve its 2015 targets.

SLIDE 9: Admin Re® – Excellent gross cash generation helped by management actions

Admin Re®'s management continues to develop actions to improve the profitability of the business. Such management actions include extracting value from the current portfolio, for example, or adding new transactions. I am pleased to report that during the second quarter both have been delivered.

Admin Re® delivered excellent gross cash generation of USD 271m in the second quarter. This was mainly driven by a management action, where surplus reserves held against the risk of credit default in the UK could be released for a cash contribution of USD 225m. Altogether, in the first half of 2014, Admin Re® generated gross cash of USD 473m. While we don't expect these levels going forward – our guidance remains unchanged – these results underline Admin Re®'s contribution as a valuable cash earner for the Group.

The business unit's strong net income of USD 117m was supported by net realised gains as well as a positive initial impact from the recently announced transaction with HSBC. Lower financing costs due to the external credit facility which was established in April also contributed to the unit's result.

As already mentioned at the Q1 results, Admin Re® paid USD 407m in dividends to the Group during the second quarter.

SLIDE 10: Group investment result – Excellent overall performance

Over the past several quarters we have delivered, on a consistent basis, favourable investment results. Q2 is no different. Over the past quarter and half year, we have delivered this excellent investment performance at challenging yield levels. This despite the fact that, in anticipation of higher interest rates, we maintain a strategic net short duration position. This position has a cost, of course, in that we are giving up some yield here. At June 2014, the DV01 position stood at minus USD 8.2m.

Our return on investments of 4.1% for the quarter reflects a strong asset management performance in the current environment. The majority of this performance can be attributed to net investment income plus some realised gains on equity sales. The running yield on our long term fixed income portfolio was 3.5%. However, I would also like to note some one-off effects related to extraordinary prepayments of securitised products. These prepayments have positively impacted our running yield during both the second quarter and first half. If interest rates remained at June levels and we keep the short position, we expect the running yield to be a bit lower at approximately 3.3% for the entire year.

SLIDE 11: Common shareholders' equity Q2 2014 – Net income and higher unrealised gains offset by external dividends

As expected, shareholder's equity decreased slightly over the second quarter. You will recall we paid regular and special dividends in April which amounted in total to USD 3.1bn. As I mentioned earlier we saw significant unrealised gains of USD 900m from reducing interest rates in the quarter. This, along with the quarter's net earnings, had a stabilising effect on our shareholders' equity.

With that, let me now hand over to Michel.

SLIDE 12: July renewals and financial targets

[Michel M. Liès, Group CEO]

Thank you David. A warm welcome to you also from my side!

SLIDE 13: P&C Reinsurance: 2014 Renewals – Strong overall price adequacy in challenging market environment

Let me start my presentation by reporting to you on our July reinsurance treaty renewals.

Swiss Re did well, despite the challenging market environment that we are observing in the Property & Casualty business.

This set of renewals is mainly focused on the Americas and the Australia and New Zealand region and the second largest renewal date by volume after the January renewals. You can see that we expanded our business by 8%, with particularly the casualty book growing further at profitable terms. Swiss Re wrote less nat cat business than the year before, but did so at also attractive price levels.

Adding this quarter to what we've seen earlier in the year, the year-to-date treaty renewals now show a growth of 4% for our portfolio, with year-to-date risk adjusted price quality at 108%.

As in the previous renewals in 2014, margins also came down at this renewal. But as I've said last quarter: while prices are softening in many markets, they remain economically attractive. We are not slaves to selected lines of business or geographic regions. Our underwriting results show that we have been consistently selective with the risks we underwrite – but we can and do work with our clients whom we know exceptionally well, and who know us just as well, in order to develop value-added, smart and tailored solutions, across all lines of business. As a result, you see our P&C portfolio evolve and I fully expect to continue to outperform our peers.

SLIDE 14: P&C Reinsurance: 2014 renewals – Portfolio weighting by line of business and region

I won't go through every detail of our treaty renewals portfolio split, but allow me to share two observations with you:

Firstly, you'll see that our Casualty business has increased its share from 32% to now 42%. David mentioned already in his part that this should be seen in the context of our combined ratio guidance. With that I meant that we're replacing shorter-tail with longer-tail business and stick to what we have promised, despite a material change in business mix and therefore also earnings mix – as you know, Casualty tends to have a higher earnings component from investment returns.

And secondly, you see that High Growth Markets have grown by 13%, versus the overall growth rate of 4% for the portfolio. This is something we talked about in a bit more detail at the recent Investors' Day and I hope you see that we're serious about this. Also, I hope you note that we're not caveating this success with any cautionary message on earnings – we're not cutting corners on our underwriting standards to achieve growth in particular geographic areas or lines of business.

Some of our largest High Growth Markets are in Asia, and if you look at the pie chart you see that the treaty volume in Asia now constitutes 30% of total, which is the same number as in the Americas. Not everyone who follows Swiss Re, I presume, would have thought a few years ago such a regional split would be observed by 2014.

SLIDE 15: Priorities for the Group CEO in 2014 – Focus on strategy execution

My priorities for this year are unchanged to what I have communicated to you earlier in the year, most recently at our Investors' Day in July. In the meantime, we continue to deliver on our strategy and the focus remains firmly on execution. I would therefore like to highlight a few selected proof points related to the priorities that you see here from our current set of results:

We say we aim to outperform our competition in our Property and Casualty businesses, and I believe we did so in Q2 and also the first half 2014. We delivered good renewals in our Reinsurance business and were able to achieve a strong overall price adequacy in a challenging environment. Corporate Solutions continued to profitably grow and also expanded decisively into the China market with its recently announced acquisition, thereby accelerating its strategic aims in that region by several years.

We're working continuously on our Life and Health businesses. Just think of the management actions in Admin Re® in the first half of the year that you've just heard David speak to and the Gross Cash Generation of almost half a billion dollars resulting from them. This is another tangible success that shows you that this slide is not a list of reporting items but indeed reflective of how we are prioritising work and steering Swiss Re as a management team.

SLIDE 16: Group financial targets – On track

Of course you would expect me to never miss the update on our most important priority, delivering the financial targets. Here it is. You see that we remain well on track regarding our two GAAP targets with our performance in the year so far. The next update on our economic net worth target will follow as usual with our Q3 results. Be assured that our focus hasn't shifted elsewhere, we are very serious about this set of targets and will be equally so on our next ones to be disclosed with the full year 2014 results next February.

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

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Corporate calendar & contacts

Corporate calendar

7 November 2014	Third Quarter 2014 results, Conference call
19 February 2015	Annual results 2014, Conference call
18 March 2015	Publication of Annual Report 2014 and EVM 2014
21 April 2015	151st Annual General Meeting

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