Swiss Re

Reserving Workbook Year end 2014

Transcript of analyst and investor video presentation

Michael Eves, Group Chief Actuary

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- 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.

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Slide 1: Title slide

Hello, and thank you you for watching this presentation of Swiss Re´s P&C 2014 Reserving Workbook. My name is Michael Eves and I am Swiss Re's Group Chief Actuary.

Slide 4: Reserving at Swiss Re – section slide

The information disclosed in this yearly publication provides details on the Loss Development Triangles and contains loss ratio development charts by line of business. This year we have added some information to help better understand Swiss Re´s reserving approach.

I will start this presentation by providing an insight to Swiss Re´s reserving practice then explain how Swiss Re's reserving strength is measured and the governance in place for the approval of the reserves.

Finally, I will provide some highlights on 2014's reserving activity

Slide 5: Swiss Re operates under several valuation frameworks

Swiss Re reports under both a US GAAP framework and an economic framework which we call Economic Value Management or EVM for short.

Before reporting the insurance libabilities under both of these valuation frameworks, the ultimate losses - which is the amount of money that Swiss Re will eventually pay in order to fullfil its contractual obligations - needs to be estimated. This estimation starts with an analysis of the actual claims development of past losses before projecting the expected future claims development. On both valuation bases, namely GAAP and EVM, the future claims projections are on a best estimate basis.

The vast majority of business is assessed using well established and commonly used actuarial reserving techniques such as the Benktander, Bornheuter-Ferguson or Chain Ladder methods. Examples of how these methods work can be found in the appendix to the slide presentation. What is important to understand is how the application of these different methods impacts the actual reserving; all methods are effectively using a credibility weighting between the initial reserving assumptions at the time of writing the business and the actual emerging experience. A method such as Bornheuter-Ferguson continues to give credibility to the initial assumptions for several years whereas chain ladder methodology places full reliance on the emerging claims experience. The application of these different methods effects the timing of changes to reserves and hence the emergence of reserve releases or reserve additions. Chain Ladder methodology reacts much more quickly to changes in the emerging claims incidence than the other reserving methods.

The choice of reporting framework also influences the final value of the insurance liabilities. As seen on this slide, the main difference between US GAAP and EVM is the application of discounting.

Slide 6: Swiss Re reserves on a best estimate basis

So how are reserves set at Swiss Re?

At the inception of business, that is either a reinsurance treaty or an individual policy acceptance, the estimates of ultimate claims are typically based on the assumptions underlying the original pricing of the business. As just explained, over time, as the claims experience develops, the actuarial reserving methods gradually give more credibilitiy to this actual experience, and so reserves move away from the initial loss ratio, either positively of negatively. If the claims experience is exactly as projected then the initial reserves would have been exactly right and hence there will be no run-off profit or loss. In this instance profits would have been taken at inception under EVM and over the premium earning period under US GAAP. When claims experience differs from the original projection assumptions then the particular reserving technique used influences the speed of recognition of the new, or updated, best estimate assumptions.

The reliance of many of the actuarial reserving techniques on the initially estimated loss ratio is natural given that Pricing Actuaries and Underwriters are closer to the business than Reserving actuaries, and so are better placed to understand local market conditions. However, there is a thorough robust challenge process in place in order that the reserving actuaries can be comfortable with the initial reserving assumptions.

In addition to applying the standard actuarial techniques to past historical claims development the reserving actuaries use their judgement to take into account forward looking trends, for example inflation or liability trends, to determine the current Best Estimate value of the insurance liabilities.

Slide 7: Reserving uses forward looking information via a strong feedback loop with pricing teams

As I just mentioned, the link between Pricing and Reserving is vital. It has to be strong, not only to capture qualitative information on trends and market conditions, but also because actual experience is always different to initial expectations. This assumes that assumptions are well understood between both pricing and reserving teams thereby aiming to reduce the potential gap between initial expected losses and the actual claims experience. This both improves the quality of busines written as well as the accuracy of the reserving.

In general, Swiss Re tends to react faster by increasing reserves when claims experience develops negatively and reduces reserves only when positive claims development trends have been confirmed. This approach allows Swiss Re to be well reserved whilst at the same time continue to reserve at "best estimate". As a consequence of this approach we do not look to move profits between years by adding artificial buffers to reserves in year one, so reducing profit in that year, only to release those artificial buffers and boost income in future years.

As a business we seek close alignment between reserving and our front-line client teams who are responsible for the writing of new business.

Slide 8: Swiss Re has strong governance around the setting of reserves

I will now briefly describe the governance around our reserving process.

Reserves are assessed on a quarterly basis, and Swiss Re ensures that each individual portfolio is fully reviewed by the reserving actuaries at least once a year. Better or worse actual claim experience in a quarter immediately flows into the income statement.

The process starts when local actuaries review all assumptions used to set the reserves. For traditional business this is carried out in Swiss Re's global Reserving Platform which ensures consitency across all regions and between the Reinsurance and Corporate Solutions business units. The actuaries present their analysis to the Regional Reserving Committees which include representatives from the main business functions. These committees approve both reserving assumptions and the level of reserves.

Regional Reserving Committees take place at the end of each quarter. In addition a Group Reserving Committee consisting of members of Swiss Re's Group Executive Committee meets some time later in order to take into account any new significant information as well as to oversee the local decisions, approve certain group level assumptions and discuss overall methodologies.

Slide 9: Swiss Re's reserving strength is demonstrated by being in the upper half of a range of best estimate

The governance process I described in the previous slide is complemented by the P&C Actuarial Control Team, which acts as a second line of defence giving oversight and opinion on the actual reserves reported. Every quarter this team performs an independent analysis across the whole P&C portfolio, and assesses the position of the booked reserves on a range of reasonable best estimates.

The team does this by using stochastic techniques on a higher level of portfolio aggregation than is used for the actual booked reserves and will develop their own assumptions regarding a priori loss ratios, lag factors and other parameters.

The team has been conducting this type of analysis for the past 15 years during which time Swiss Re's booked reserves have typically been positioned between the 60^{th} and the 80^{th} percentile of the distribution of reasonable best estimates.

Being positioned above mid-point of the range, that is above the 50^{th} percentile, is an indication of a certain degree of conservatism within Swiss Re's reserves.

Slide 10: Benefits of Swiss Re approach to reserving

I now want to comment on the various benefits of Swiss Re's approach to Reserving.

By Reserving on a best estimate basis, Swiss Re ensures the process of setting reserves is transparent and also prudent by combining historical claims development and forward looking information.

The strong feedback loop which exists between Reserving and Pricing ensures a consitency of assumptions, as both views aim to estimate the ultimate loss. This process does not seek to add artificial buffers to the reserves.

The strong governance process in setting best-estimate reserves is complemented by the second line of defense role played by the P&C Actuarial Control team, with reserves positioned in the upper-half of the range.

The last few years have seen regular releases of reserves from prior underwriting years due to strong pricing, relatively benign claim trends and low inflation. If these claim trends continue as in the past few years, then further reserve releases could be expected to occur, albeit at probably a lower level given the adjustments made to pricing in recent years to reflect this better claims experience.

Slide 11: 2014 reserving highlights

Now that I've covered the introduction to reserving at Swiss Re, I will turn to some highlights of our 2014 reserving activity

Slide 12: A significant component of reserves are held for incurred but not reported (IBNR) claims

Firstly, lets look at the split of reserves between case reserves, which are the reserves for actual reported claims, and IBNR which are the reserves for claims which have actually happened but have not yet been reported. Those lines of business that are long tail, that is where claims are typically paid many years after premiums have been received, have a significant portion of their reserves as IBNR.

The second table looks at underwriting years, that is the year in which the business was written, and you can see a sizeable proportion of reserves are held for business written more than ten years ago. This reflects the long term nature of the risks underlying many of the deals that we transact.

Slide 13: Highlights of 2014 claims development by line of business

During 2014 the claims environment was again favorable with prior accident year reserve releases of almost USD 840m.

While Property was negatively impacted by deteriorations for the New Zealand earthquakes, this was more than off-set by releases of reserves from other prior-year nat cat events as well as from regular property losses.

In general terms, the Casualty claims environment was again relatively benign in 2014, Within this class both Asbestos risks and European motor continue to be areas of uncertainty. In respect of motor we are seeing an increasing proportion of claims settled in the form of lifetime annuities, often indexed to inflation. As our US GAAP reserves are undiscounted this has led to increased reserves when compared to lump sum payments which are effectively discounted to the day of payment.

Finally, the positive movements on Specialty lines followed a similar pattern to previous years. Loss experience has been significantly below initial expectations at the time of writing the business, enabling reserves to be released. Engineering and Multilines contributed most to the overall release.

Page 14: Conclusion

My final slide contains the key points I would like you to take away.

Firstly, we have a best-practice, robust process to set our reserves.

Secondly, based on current indications Swiss Re is prudently reserved, and despite significant releases over the past few years we remain in the upper end of the best estimate range. If the underlying benign claims environment continues we would expect some future releases, though at lower levels than in previous years.

And finally, at Swiss Re we do not look to add artificial buffers to reserves, so depressing results in the current accounting year and flattering future years. Over conservatism in reserving can mask the profitability of current business and could lead to wrong decisions on business steering. In our view that is clearly not in the interests of shareholders.

With that, I'd like to thank you for watching this video on Swiss Re's 2014 year-end Reserving workbook.

Swiss Re

Corporate calendar & contacts

Corporate calendar

29 October 2015	Third Quarter 2015 results, Conference call
8 December 2015	Investors' Day in Rüschlikon
23 February 2016	Annual results 2015

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Philippe Brahin	+41 43 285 7212
Ross Walker	+41 43 285 2243
Chris Menth	+41 43 285 3878
Simone Lieberherr	+41 43 285 4190
Iunia Rauch-Chisacof	+41 43 285 7844