Swiss Re

THIRD QUARTER 2014 results

Transcript of analyst and investor video presentation

David Cole, Group CFO

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- 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;
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- 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;
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- 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;
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- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
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SLIDE 1: Third quarter 2014 results

Good day everyone! Thank you for watching this presentation on Swiss Re's 2014 third quarter and nine months results. My name is David Cole, I am Swiss Re's Group CFO. Let's start today's presentation with the Financial highlights included on slide 2.

SLIDE 2: Q3 2014 Financial highlights – Strong Group performance

We continue to see positive contributions from all three Business Units towards the Group's overall strong performance. Q3 Group net income was USD 1.2bn bringing us to a total net income for the first nine months of USD 3.3bn.

Both the Q3 ROE of 14.8% and the first nine months ROE of 13.3% demonstrate our resilience in a challenging market environment.

During Q3 Reinsurance delivered USD 1.0bn of net income helped by a low nat cat burden and continued improvement in L&H Re's operating margin. Corporate Solutions profitably grew net premiums earned by 14.2% and Admin Re® generated strong gross cash of USD 142m.

The net income generated combined with a higher level of unrealised gains have increased our book value per share to USD 98 or CHF 94.

Our Group SST ratio of 249% – as reflected in our October submission to FINMA our Swiss regulator– remains strong and has increased from 241% as reflected in our April SST submission to FINMA. Neither of these two submissions reflect the USD 500m subordinated notes issued by Corporate Solutions in September.

SLIDE 3: Key figures Q3 2014

On slide 3 you will find the usual overview of key figures. I will not walk you through this slide, but I would like to highlight, as mentioned earlier, unrealised gains have increased our reported shareholders' equity in the quarter and in the first nine months, mainly as a result of lower interest rates.

Let's move to P&C Re on the next slide.

SLIDE 4: P&C Reinsurance - Very strong results supported by low nat cat impact

Once again, I am pleased to report another strong quarter for P&C Re.

Net earned premiums increased by 9% in the quarter, with about half of the growth due to the expiry of a large quota share agreement.

The combined ratio was 76.7% in the quarter noting there was less of an impact from natural catastrophes than we would typically expect. This improved the combined ratio by 8.8% points. Despite increasing our New Zealand earthquake reserves by USD 235m we still had reserve releases of just over USD 100m or 2.2% points on the combined ratio. This quarter there was also an expense reduction of USD 157m relating to a reserve that is no longer required which improved the combined ratio by 3.6 % points.

Such a low combined ratio of course leads to higher earnings, and for the quarter P&C Re reported net income of USD 842m together with an ROE of 28%.

But let's not just focus on one quarter. Taking a nine month view, we see P&C Re has delivered earnings of USD 2.4bn and an ROE of 25.1%. This is testament to our underwriting approach, how we anticipate client needs and deliver tailor made solutions. The team has continued to deliver excellent performance in a challenging market environment.

Life and Health Re is on slide 5.

SLIDE 5: L&H Re - Improvement in operating margin continues

This has been a very important quarter for Life and Health Re. Let me start with the usual run through of the numbers. Operating revenues continue to grow as the team adds profitable new business to the book, particularly Health business in Asia and in Europe. The operating margin has also significantly improved to 9.2%. In this quarter mortality experience in the Americas was better than expected. You may recall, in the comparative quarter in 2013 we incurred significant reserve strengthening for our Australian group disability business. Net income for the quarter was USD 160m, and the ROE was 9.6%.

While this quarter's performance demonstrates clear improvements we continue to focus on actions to improve the segment's underlying profitability. Our Life and Health team continues to execute on the plan we laid out at Investors' Day last year, as we move towards a business that will produce ROEs of 10 to 12% by 2015.

A major element of that plan is dealing with our pre-2004 US business. In the third quarter this year we successfully concluded negotiations with one client regarding this pre-2004 US business. And, we have made significant progress during the past quarter in negotiations with a number of other clients. In the fourth quarter of 2014 we expect to conclude our negotiations with these clients and we anticipate booking a pre-tax US GAAP charge of approximately USD 550m. This is very close to the estimate we provided you previously.

In addition to removing this over-hang, we will continue to focus on implementing management actions that will further improve future returns.

We remain committed to achieving an ROE of 10-12% for this segment by 2015.

The next slide is on Corporate Solutions.

SLIDE 6: Corporate Solutions – Profitable organic growth continues

Corporate Solutions delivered another good quarter with profitable organic growth, this despite a more challenging market environment. Net premiums earned are up by 14.2% to USD 903m for the quarter. Most lines of business contributed to this growth. Gross premiums written increased to USD 2.8bn in the first nine months of the year. Our ambition to attain USD 4-5bn of gross premiums written by 2015 is on track, however, if market softening continues this presents a bigger challenge. You have heard me say this before, but I would like to repeat it now: we are not driven by top line growth, rather our goal is profitable growth.

In terms of operating performance, Corporate Solutions reported a combined ratio of 90.5% in Q3. This translates to103.5% when adjusting for the lower than expected nat cats and favourable reserve releases. This underlying combined ratio is higher than you might have expected, and is mainly driven by higher than expected man-made losses in the quarter along with higher expenses. Current expense levels reflect ongoing investment in our capabilities and in growth initiatives for beyond 2015.

The combined ratio for the first nine month of this year is 92.9%, or 99.4% as adjusted. With this level of man-made events experienced to date and our ongoing investments, we currently expect the full year combined ratio for Corporate Solutions to exceed 95%. I remain very happy with the progress Corporate Solutions is making.

Let's look at net income for the quarter. Corporate Solutions delivered USD 103m profit in Q3 which translates into an annualised return on equity in excess of 15%. This is a good achievement in the current market environment. During Q3 Corporate Solutions successfully debuted in the capital markets issuing USD 500m of subordinated debt. This is in-line with the implementation of the Group's target capital structure.

Let's now switch to Admin Re® on slide 7.

SLIDE 7: Admin Re® – Strong gross cash generation

Admin Re® generated USD 142m of gross cash in Q3. Included in this quarter's gross cash generation is a positive impact of USD 92m relating to the finalisation of the UK half-year statutory result. In the first nine months of 2014, Admin Re® delivered exceptional gross cash of USD 615m. This performance was significantly supported by the release of surplus reserves held against the risk of credit default and positive impacts following the finalisation of the UK statutory results. Updates to gross cash generation are provided annually and I will provide you with a revised projection with the full year results in February.

Admin Re®'s return on investments increased to 5.2% mainly due to increased income from the asset re-balancing we did last year.

Net income was USD 54m in the third quarter. I would like to remind you that the high net income in the prior-year period benefited from favourable tax impacts. The return on equity of 3.5% for the period is impacted by the relatively high equity base in Admin Re®. Management continues to look at further actions to extract capital where possible. One such successful action relates to our agreement to sell Aurora as we announced last month. This sale is another milestone in the ongoing exit of Admin Re® from its US business and is fully aligned with our focus on growing the UK business. We currently expect this transaction will produce an after-tax US GAAP loss of less than USD 200m in the fourth quarter with a positive economic impact of a similar order of magnitude.

I'll now move on to our investment result on the next slide.

SLIDE 8: Group investment result - Continued strong performance

Q3 again saw a strong performance from our Asset Management department. This continues the year-to-date trend of their significant contribution towards our overall result.

Our average invested assets were slightly higher during Q3 than the prior period, impacted by lower interest rates year on year. Our duration position was also more or less matched with a net DV01 position of minus USD 2.6m at September 2014. We also saw some asset allocation changes during Q3 including an increase in government bonds and a reduction in our listed equity exposure. This is fully within our previously announced mid-term asset allocation plan.

Return on investment of 3.5% during Q3 was primarily driven by higher net investment income and realised gains from our equity portfolio. For the first nine months of 2014, the return on investment result was slightly better than the same period last year. Finally, we continue to see relatively low levels of impairments, with USD 18m in Q3 being roughly in line with the prior year.

The running yield on our long term fixed income portfolio declined from previous quarters to 3.2% during Q3, this was mostly due to lower extraordinary prepayments of securitised products. We still expect our running yield to be at approximately 3.3% for the entire year.

SLIDE 9: Common shareholders' equity Q3 2014 - Increase driven by net income; adverse fx effect largely offset by change in unrealised gains

Details on our US GAAP common shareholders' equity are on slide 9. Net income for the quarter was the main driver for the rise over the previous quarter. Effects from the strengthening US Dollar and unrealised gains, mainly from lower interest rates, largely offset each other.

The current capital structure is next on slide 10.

SLIDE 10: Swiss Re's capital structure - Well on track towards implementation of target capital structure

Here is an update of the capital structure including an updated economic net worth as of the end of June 2014. As you know, we report our economic figures half-yearly.

As I already highlighted at the Investor's Day this past July, we remain well on track towards the implementation of our target capital structure. Here you can see the progress we have made during the first half year – and we have continued to make progress in the 3rd quarter.

You may recall our ambition to add some leverage to both the Corporate Solutions and Admin Re® businesses. We have 'walked the talk' by arranging a GBP 550m revolving credit facility for Admin Re® in April and Corporate Solutions issued USD 500m of subordinated debt in September.

I'll now move to my last slide

SLIDE 11: Group financial targets - On track

I would like to start by just reminding you all that we have delivered net income of USD 3.3bn for the first nine months of the year. This translates into an annualised return on equity for the period of 13.3% and earnings per share of USD 9.5. You can also see our Economic Net Worth progressed nicely through the first half.

Today we are a step closer to the end of the fourth year of our current five year financial targets period. As you can see we remain on track. Please be assured delivering on these targets remains our top priority. Our next target update will be with our full year results on the 19th of February where I will of course also address capital management in more detail. Our capital management priorities remain unchanged, with the highest priority being growing the regular dividend in line with long-term earnings.

Finally, I have the pleasure to inform you that Philippe Brahin will take over as head of our Investor Relations department, effective from the 1st of January 2015. Philippe brings a wealth of experience in managing relationships with our external stakeholders, most recently in his role as Head of Qualitative Risk Management. I look forward to working together with Philippe and wish him every success in his new role!

Thank you very much for watching this video on Swiss Re's 2014 third quarter and nine months results!

Swiss Re

Corporate calendar & contacts

Corporate calendar

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
30 April 2015	First Quarter 2015 results, Conference call
30 July 2015	Second Quarter 2015 results, Conference call

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