Swiss Re

SECOND QUARTER 2016 results

Transcript of investor and analyst video presentation

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Zurich, 29 July 2016

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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;
- 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;
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- 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;
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- changing levels of competition; and
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[Christian Mumenthaler]

Thank you for watching this presentation on Swiss Re's second quarter and first half of the year results. I am Christian Mumenthaler, Swiss Re's Group CEO, and I am here today with our Group CFO, David Cole.

Slide 2: Today's agenda

Together, we will be presenting our Group's achievements in the first half of the year, our financial performance for the quarter, and our business outlook for the rest of 2016.

Slide 3: Achievements in H1 2016

Let me start with our achievements in the first half of the year.

Slide 4: Macroeconomic conditions and industry trends remain challenging

As you know, the market environment remains challenging, impacting all insurance players in multiple ways.

First, global economic growth remains low and political uncertainties continue to prolong the low interest rate environment. Global financial markets are experiencing significant volatility, and European markets have entered a period of uncertainty following the UK vote to leave the EU.

The political and regulatory environment is also challenging, with political instability particularly in Europe, and growing scepticism towards globalisation.

Swiss Re's diversified business model and operating structure are key strengths in this current turbulent macro environment.

Specifically within our industry, P&C prices are at very low levels, however we see signs of stabilisation in rate developments. This environment can only be managed by maintaining strong underwriting discipline. As a consequence, we have been reducing capacity in flow business, and growing our portfolio of large and tailored transactions, in which we achieve differentiated terms and conditions.

Finally, technological innovation is expected to significantly affect the insurance industry and the risk landscape. While this development brings challenges, it also creates multiple opportunities for us as a risk knowledge company.

Slide 5: Solid results in the first half of 2016 demonstrate Swiss Re's resilience to the market environment

Swiss Re is well positioned to withstand this challenging environment. Our results for the first half of the year demonstrate our resilience and strong market position. Allow me to mention a few achievements.

First, our Group ROE for the first half of the year remains solid despite the high level of large losses experienced in the second quarter.

We demonstrated underwriting discipline in the renewals and systematically deployed capacity to business that meets our profitability hurdles.

Our Asset Management team delivered a strong return on investments, despite volatile markets and the prolonged low yield environment.

We successfully executed our 2016 funding ambitions ahead of the recent market volatility and remain comfortably within Group leverage targets. Our capitalisation remains very strong and resilient to financial shocks and insurance events.

Slide 6: All Business Units achieved significant successes in the first half of the year

Moving on to our Business Units, I would like to highlight other achievements during the first half of the year.

In Reinsurance, we have maintained underwriting discipline and closed large and tailored transactions at attractive conditions. Life & Health Reinsurance saw another solid first half of the year and remains an important contributor to our overall results. Together both Reinsurance segments have paid a strong dividend of 2.9 billion US dollars to the Group in the first half of the year.

In Corporate Solutions, we continued to expand our product capabilities with the acquisition of IHC Risk Solutions. Corporate Solutions paid a dividend of 250 million US dollars to the Group in Q2.

The roll-out of Life Capital's strategy and the integration of Guardian are well on track. We continued on our path to establish flexible funding platforms with the successful execution of an inaugural public debt issuance of Swiss Re Admin Re Limited. Life Capital paid a dividend of 350 million US dollars to the Group in Q2.

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

[David Cole]

Slide 7: Q2 2016 business performance

Thank you Christian, and good day to all of you also from my side! I will begin my presentation with the key financial highlights for the second quarter.

Slide 8: Solid Q2 2016 results despite high level of large losses and continued challenging market conditions

Today, we report solid Q2 results even though the quarter was impacted by several large losses and persistently challenging market conditions.

Q2 Group net income was 637 million US dollars, bringing us to a total net income of 1.9 billion US dollars for the first half of the year. The Group ROE for the first half demonstrates financial resilience as well as the benefits of our global and diversified business model.

P&C Reinsurance reports an ROE of 9.4% for the quarter, impacted by a number of nat cat losses.

L&H Reinsurance maintains its solid performance with an ROE of 10.1% for the quarter.

Corporate Solutions was impacted by two large, 2015 related, man-made losses and reports a negative ROE of 4.2% for the quarter.

Life Capital delivers another quarter of strong performance with a ROE of 13.4%, reflecting the contribution of the Guardian acquisition.

Our Asset Management team produced a strong ROI of 3.7% despite the continuing low interest rate environment.

As Christian mentioned, all three Business Units have meanwhile paid dividends to the Group with respect to 2015 and the capital position of the Group remains very strong.

Slide 9: Key figures

As usual, I will not take you through this slide, which offers an overview of the key figures reported. I will just point out that unrealised gains significantly increased shareholders' equity during the quarter, mainly as the result of lower interest rates.

Slide 10: P&C Reinsurance results impacted by large losses

P&C Reinsurance was impacted by a number of large losses in Q2, but benefited from a positive prior-year development.

Our net pre-tax loss estimate for the Canadian wildfires is 220 million US dollars. Together with the losses from the earthquakes in Japan and the floods in Europe, overall large natural catastrophe losses added up to approximately 350 million US dollars. While this is above our expectations for the quarter, it is within our nat cat budget for the first half of the year. These events remind all of us that while the time, frequency and severity of natural catastrophe losses are difficult to predict, we do expect them to revert to the mean over time.

The combined ratio for Q2 reflects the adverse natural catastrophe experience as well as several large man-made losses.

We continued to profitably grow our business through large and tailored transactions at attractive rates.

Slide 11: Solid performance of L&H Reinsurance continues

L&H Reinsurance reported another quarter of solid performance.

In Q2 we saw growth in all regions coming from large and tailored transactions but also from successful renewals in China and Australia.

In terms of operating performance, Q2 benefited from a strong contribution from Asset Management but was negatively impacted by valuation updates and by adverse experience in the Americas.

The net income for the quarter translates into an annualised ROE within our target range, while the ROE for the first six months remains strong at 12.6%.

Slide 12: Corporate Solutions' results reflect large man-made losses

Corporate Solutions' results were impacted by two large man-made casualty losses in North America, which occurred in the third and fourth quarter of 2015. The magnitude and responsibility for these losses were only established in the second quarter of 2016. The Business Unit reported a net loss of 25 million US dollars for the quarter with a combined ratio of 112.7%. As Corporate Solutions currently mainly underwrites excess layer business, its results are exposed to a relatively higher degree of volatility.

Corporate Solutions remains focused on the quality of its portfolio while the current pricing environment remains challenging. The gradual expansion into Primary Lead business represents an important investment area for the Business Unit and the Group remains committed to supporting Corporate Solutions' growth ambitions.

Slide 13: Life Capital delivers a strong performance across all metrics

Life Capital delivered a strong performance across all metrics. With the move to Solvency II, the calculation for Gross Cash Generation became more sensitive to market developments, as we have already seen in Q1. In spite of the UK interest rate and credit spread movements towards the end of the quarter, Life Capital generated 141 million US dollars in gross cash in Q2. We reiterate the Business Unit's three-year Gross Cash Generation target of 1.4 to 1.7 billion US dollars.

Life Capital's net income was strong for the quarter, supported by underlying performance in line with our expectations and net realised gains in the Guardian derivative portfolio. In line with our previous communication, we continued to manage down the exposure of the portfolio to interest rate moves during the quarter.

The return on equity for the second quarter was 13.4%, despite a significant increase in unrealised gains, which elevated the equity base.

Slide 14: Group investment portfolio continues to provide a strong contribution to the overall financial results

Our Asset Management team contributed to the Group's overall performance through a strong return on investments of 3.7% in Q2. Our overall invested asset base increased from the prior year, driven primarily by the Guardian acquisition. Our asset allocation in the second quarter remained relatively stable with a moderate increase in government bonds as we reduced our exposure to interest rate derivatives and we modestly reduced our holdings of equity securities.

The running yield was stable compared with last year's level as the impact of continued low reinvestment yields was offset by the positive impact of Guardian.

Net realised gains were generally in line with the prior year's amount and were driven by sales of fixed income, equities and alternative investments as well as gains within the Guardian portfolio, including derivatives.

Impairments, albeit higher than last year, remained low relative to the overall portfolio, reflecting its high quality.

Slide 15: Increase in common shareholders' equity due to net income and change in unrealised gains, partially offset by external dividends

Details on our US GAAP common shareholders' equity are on slide 15. Net income and unrealised gains were the main drivers for the rise over the previous quarter, offset by dividends paid and by foreign exchange movements.

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

[Christian Mumenthaler]

Slide 16: Business update and priorities

Thank you David! I will provide you with the business outlook for 2016, together with our priorities.

Slide 17: P&C Reinsurance maintains attractive portfolio despite challenging market environment

July renewals are important for P&C Reinsurance, as they represent approximately 20% of our treaty portfolio. As I said, the market conditions continue to be challenging, and as a consequence we have reduced our normal flow business by 7% year to date. Overall however we were able to grow our business by closing large and tailored transactions that were placed with Swiss Re on a private basis, and which had better economics.

In the July renewals, price levels continued to erode in property, although to a lesser extent than previously. We continued to actively steer our portfolio by reducing natural catastrophe capacity in specific segments, including US hurricane. On average, our casualty rates remained stable. Overall we deployed our economic capital at attractive returns and our risk-adjusted price quality year-to-date remains at 102%, the same as at January and April this year.

Slide18: The Group strategic framework will continue to drive our Business Units' 2016 priorities

The strategic framework we introduced last year will continue to drive the priorities of the Group, as well as those of our Business Units.

Reinsurance will maintain underwriting discipline and actively manage our in-force book. The team will continue to focus on achieving differentiated economics. We will do this by supporting clients with large and tailored solutions, and by deploying our risk knowledge on the basis of our very strong balance sheet.

Corporate Solutions will also remain focused on underwriting discipline and pursue its expansion into the Primary Lead segment.

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

These priorities are central to achieving our financial targets and I can assure you that delivering on these targets remains our top priority.

Thank you very much for watching this video on Swiss Re's second quarter and first half 2016 results!

Corporate calendar & contacts

Corporate calendar

3 November 2016	Third Quarter 2016 Results
2 December 2016	Investors' Day
23 February 2017	Annual results 2016
16 March 2017	Publication of Annual Report 2016 and EVM Report 2016
21 April 2017	153rd Annual General Meeting
4 May 2017	First Quarter 2017 Results

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