Swiss Re

ANNUAL RESULTS 2016

Transcript of investor and analyst video presentation

David Cole, Group CFO

Zurich, 23 February 2017

The following transcript must be read in conjunction with (i) the presentation slides and related materials made available by Swiss Re Ltd ("Swiss Re") on its website under http://www.swissre.com/investors/financial_information/ solely for your information in connection with the release of its unaudited full year and fourth quarter 2016 financial results and (ii) with all other publicly available information published by Swiss Re.

Cautionary note on forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements (including as to plans, objectives, targets, and trends) and illustrations provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact.

Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "expect", "foresee", "intend", "may increase", "may fluctuate" and similar expressions, or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects to be materially different from any future results of operations, financial condition, solvency ratios, capital or liquidity positions or prospects expressed or implied by such statements or cause Swiss Re to not achieve its published targets. Such factors include, among others:

- further instability affecting the global financial system and developments related thereto;
- further deterioration in global economic conditions;
- the Group's ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recapture of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to actual or perceived deterioration of the Group's financial strength or otherwise;
- the effect of market conditions, including the global equity and credit markets, and the level and volatility of equity prices, interest rates, credit spreads, currency values and other market indices, on the Group's investment assets;
- changes in the Group's investment result as a result of changes in its investment policy or the changed composition of its investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing credit default swaps and other credit-related instruments;
- possible inability to realise amounts on sales of securities on the Group'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 carry forwards 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 the Group'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 the Group'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 the Group's clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- current, pending and future legislation and regulation affecting the Group 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.

These factors are not exhaustive. Swiss Re operates in a continually changing environment and new risks emerge continually. Readers are cautioned not to place undue reliance on forward-looking statements. Swiss Re undertakes no obligation to publicly revise or update any forward-looking statements, whether as a result of new information, future events or otherwise. In making this communication available, Swiss Re gives no advice and makes no recommendation to buy, sell or otherwise deal in its shares, or in any other securities or investments whatsoever. The communication does not constitute or form part of, and should not be construed as, an offer for sale or subscription of, or solicitation of any offer or invitation to subscribe for, underwrite or otherwise acquire or dispose of any securities of Swiss Re and it does not constitute an invitation or inducement to engage in investment activity under section 21 of the UK Financial Services and Markets Act 2000. None of the Swiss Re securities have been, or will be, registered under the US Securities Act of 1933, as amended (the "Act"), and such securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Act and in compliance with state securities laws. This communication is not intended to be a recommendation to buy, sell or hold securities and does not constitute an invitation to effect any transaction with, or to make use of any services provided by, Swiss Re nor is it an offer for the sale of, or the solicitation of an offer to buy, securities in any jurisdiction, including the United States. Any such offer will only be made by means of a prospectus or offering memorandum, and in compliance with applicable securities laws.

[David Cole]

Good day everyone! Thank you for watching this presentation on Swiss Re's full year 2016 results. I am David Cole, Swiss Re's Group CFO.

Slide 2: Today's agenda

Today's presentation will cover our financial performance in 2016 and our business outlook for 2017.

Slide 4: Swiss Re delivers a good performance in 2016

Swiss Re had a good performance in 2016, demonstrating the solid foundation of our long-term earnings.

The Group achieved a net income of 3.6 billion US dollars, with all Business Units contributing positively to the result. There was also a strong contribution from our investments, with an ROI of 3.4%. In 2016, the Group ROE was above our over-the-cycle target.

P&C Reinsurance delivered a good result in a challenging environment, with an ROE of 16.4%.

Life & Health Reinsurance continued to report good results, with an ROE of 12.8%.

Corporate Solutions experienced a challenging year and reported an ROE of 6.0%.

Life Capital delivered a strong performance across all metrics, with an ROE of 10.4%.

Our Group capitalisation remained very strong throughout the year, allowing us to actively reinvest in our businesses and distribute significant capital to shareholders.

The expected FINMA changes on capital cost recognition went into effect in January this year. These changes had a positive impact on our Group SST ratio but leave our capital requirement for a 100% SST ratio unchanged. We adjusted our Group SST respectability level to 220% and we remain comfortably above it.

Based on our strong capital position and our business performance, the Board will propose to the AGM 2017 a regular dividend of 4 francs 85 rappen, as well as a new share buy-back programme. These capital actions enable our shareholders to continue to benefit from our performance and success.

Slide 5: Key figures

On this slide you will find the usual overview of key figures. I will not walk you through this slide; however, I would like to highlight that higher unrealised gains increased shareholders' equity during 2016.

Now let's move on to P&C Re's results.

Slide 6: P&C Reinsurance delivers good results in a challenging environment

P&C Reinsurance delivered good results in 2016 despite a challenging environment.

After several years with a benign nat cat environment, the large losses experienced in 2016, such as the Canadian Wildfires, Hurricane Matthew and the earthquake in New Zealand, reminded us that large catastrophe losses do occur.

Despite these events, we delivered a good return on equity of 16.4% for the year, supported by favourable prior-year development and investment results.

We profitably grew the business, leveraging our capability to differentiate and close attractive large and tailored transactions. Our direct access to clients who value our risk knowledge as well as our very strong capital base enable us to navigate the pricing environment and ensure that we deliver on our over-the-cycle ROE target.

Slide 7: L&H Reinsurance reports another year with good results

Moving to Life & Health Reinsurance.

I am pleased to report that in 2016 Life & Health Reinsurance once again delivered on its ROE target. The business segment continues to report good results, demonstrating the sustainability of the performance.

Our premium growth reflects the attractive opportunities that we were able to realise, in particular through large transactions in the Americas, successful renewals and new business wins in Asia.

The net operating margin of Life & Health Reinsurance remains solid, underlining the quality of our in-force book and the profitability of the new business.

Slide 8: Corporate Solutions results impacted by continued pricing pressure and large man-made losses

Corporate Solutions experienced a challenging year in 2016. Results were impacted by the continued pricing pressure, and large man-made losses, in particular casualty losses in North America.

As a result – and as anticipated – the underlying combined ratio for the year exceeded the estimate provided at the beginning of the year.

The ROE for the year is below our over-the-cycle target range. As the Business Unit currently mainly underwrites excess layer business, its results are exposed to a relatively high degree of volatility.

Corporate Solutions continued to pursue its disciplined growth strategy. In 2016, we bought IHC Risk Solutions in the US, opened an office in Kuala Lumpur, obtained an insurance license in Hong Kong, and signed an agreement with Bradesco Seguros, which, once completed, will make us a leading commercial large-risk insurer in Brazil.

Slide 9: Life Capital delivers strong performance on all metrics

Life Capital's performance in 2016 was strong across all metrics, supported by an underlying performance in line with our expectations and net realised gains from the Guardian derivative portfolio.

Although we significantly reduced the Guardian derivative position during the year in order to optimise it under Solvency II, we maintained some exposure for ALM purposes.

Gross Cash Generation was strong, driven by management actions and despite the negative impact from falling interest rates in the UK across the year. Having delivered more than 720 million US dollars of Gross Cash Generation in 2016, we are well on track to generate the expected Gross Cash Generation until 2018.

With the completion of the Part VII transfer in respect of Guardian in December 2016 the team achieved an important milestone, which positions the Business Unit well to realise the remaining synergies from the transaction going forward.

Life Capital delivered an ROE of 10.4% for 2016, well above our 6-8% mid-term target range.

Slide 10: Group investment portfolio continues to produce strong results

Our Asset Management team generated another strong return for 2016, continuing with its solid track record. The result is largely driven by net investment income as well as realised gains from fixed income and equity sales. Average invested assets increased versus the prior year, mainly reflecting net asset inflows from Guardian and large transactions as well as a positive impact from overall interest rate movements.

The main portfolio changes during 2016 included a relative increase in credit allocation stemming from transactions and a reduction of our equity portfolio.

The level of realised losses from impairments remained very low relative to the size of the total investment portfolio. This reflects our continued focus on high quality investments, driven by our strong investment platform and prudent approach.

Finally, our fixed income running yield remains strong, particularly in light of the current yield environment. With the increase in interest rates in the fourth quarter, we expect our running yield to be more or less stable in 2017.

Slide 11: Increase in common shareholders' equity driven by net income and unrealised gains

Details on our US GAAP common shareholders' equity are on slide 11. The increase due to our net income and unrealised gains was partially offset by dividends paid, the share buy-back programmes and foreign exchange translation adjustments.

Slide 12: Business outlook for 2017

Let's move on to our business outlook for 2017.

Slide 13: As a risk-knowledge company, Swiss Re is well placed to invest in risk pools

At our Investors' Day last December we introduced our near-term priorities, building on our strategic framework.

As you heard us saying, risk knowledge is at the core of Swiss Re's competitive advantage and differentiation. The creation of the Swiss Re Institute strengthens this component of our strategy. We will use our risk knowledge to allocate capital and invest in attractive risk pools in four strategic areas.

In Reinsurance, our ability to write large and tailored transactions is a strong differentiator, offering profitable opportunities for growth.

Corporate Solutions will continue its path of disciplined growth and Life Capital creates alternative access to life & health risks for Swiss Re.

Finally, we have established a strong presence in High Growth Markets and we intend to build on our leadership position.

Let's now look at the individual Business Units' outlooks for 2017 in more detail.

Slide 14: P&C Reinsurance maintains disciplined underwriting through January 2017 treaty renewals

Approximately 55% of our P&C treaty book renews in January.

It was another challenging renewal for our teams, as we continue to see rate decreases in property and specialty lines – although to a lesser extent than previously. Casualty rates overall remained more stable with varying trends for different markets and products.

The premium volume of our renewals decreased by 18% as we stuck to our underwriting discipline and reduced capacity in almost all segments, including our exposure to Chinese motor business. Our overall risk-adjusted price quality stands at 101%, exceeding the hurdle rate to achieve our targeted Group ROE of 700bp above risk free.

Based on the January renewals, we estimate our combined ratio for P&C Reinsurance to be around 100% in 2017 assuming a normal level of large losses. The increase of our estimate from last year is due to the continued rate declines and changes in business mix.

As you know, we don't price business based on combined ratios, but rather on an economic basis including capital costs and discounting cash-flow patterns using risk free interest rates.

The market remains challenging, but our differentiation approach, our risk knowledge and the ability to shift capital to the most profitable risk pools provides us with a sustainable competitive advantage.

Slide 15: Life & Health Reinsurance has a unique selling proposition in an attractive market

Our view on the Life & Health industry remains positive.

Across all regions, we are responding to the expanding need for life and health protection driven by ageing societies and we will apply our experience to help reduce the protection gap.

In mature markets we see a strong focus on capital, risk and balance sheet optimisation, leading to opportunities for large transactions.

In High Growth Markets we expect to see continued strong increases in primary life and, in particular, health businesses, while cession rates are expected to be stable.

On this basis, we remain committed to our return on equity target of 10 to 12% in this segment over-the-cycle.

Slide 16: Corporate Solutions focuses on profitability and disciplined growth in a challenging market

Corporate Solutions will continue to navigate the difficult market environment, keeping its focus on portfolio steering to ensure profitability.

Prices for commercial insurance are under significant pressure, with many segments operating at unsustainable rate levels. In this environment, underwriting discipline remains key and management is taking actions such as reducing deployed capacity in certain excess layer segments.

We remain positive about the long-term prospect of a growing commercial insurance market and in particular in the opportunities offered to us by expanding into the Primary Lead sector to increase our differentiated value proposition. Our leading brand, strong claims commitment and our investment in technology, position us well to benefit from opportunities in the commercial insurance market.

Considering Corporate Solutions' continued investment in growth and the currently challenging market conditions, we estimate the combined ratio to be around 103% in 2017, assuming a normal level of large losses.

The Business Unit remains committed to delivering a return on equity of 10 to 15% over-the-cycle.

Slide 17: Life Capital creates alternative access to attractive L&H risk pools

Life Capital shows a healthy pipeline of opportunities and provides Swiss Re with alternative access to attractive Life & Health risk pools.

In the closed book business, ReAssure will continue to stay focused on opportunities in the UK. The pipeline remains promising and all opportunities are assessed for appropriate return profiles.

In the open book segment, elipsLife and iptiQ are well positioned to execute on our growth strategy. With elipsLife we will accelerate growth in Group life and health business in existing core markets in Europe and other selected markets. With iptiQ we will leverage our digital capabilities to grow our policy count further.

For all of our activities we invest heavily in technology to power growth, offering solutions across the value chain.

We are on track for gross cash generation to reach 1.4 to 1.7 billion US dollars between 2016 and 2018 and our mid-term ROE target range for the Business Unit remains 6 to 8%.

Slide 18: Strong investment management framework alongside a high quality portfolio

Our overall asset allocation continues to be well aligned with our business mix and our economic outlook. With our global footprint, we achieve a high level of diversification in the portfolio, across multiple currencies and asset classes. The portfolio is essentially matched from a duration perspective, and we fully integrated the Guardian portfolio in the Group's strategic asset allocation.

Over the last several years, our credit portfolio has increased, driven by both asset re-balancing and by the Guardian acquisition. As credit has generally performed well over this period, this change contributed positively to the Group's results.

Alongside our high quality portfolio, we also have continued to increase our exposure to additional asset classes, such as real estate and loan investments.

Slide 19: Swiss Re proposes another set of attractive capital management actions

Our business performance and strong capitalisation allow us to propose another significant capital distribution.

At the upcoming AGM, the Board will propose a regular dividend of 4 francs 85 rappen per share, which represents an increase of more than 5% from last year's regular dividend.

The Board will also seek authorisation for a new public share buy-back programme of up to 1bn Swiss francs purchase value to be executed before the AGM 2018. As in the past, the new programme will be subject to the availability of 2017 excess capital and regulatory approval. Any decision to launch the programme will take into account major loss events and potential opportunities meeting our strategic and financial objectives.

In that regard, our capital management priorities remain unchanged: we aim to ensure superior capitalisation, grow the regular dividend with long-term earnings, deploy capital to attractive opportunities and repatriate further excess capital to shareholders.

Slide 20: Swiss Re continues to focus on over-the-cycle Group and Business Unit targets

While there are short-term challenges in the industry, the long-term outlook for accessing risk pools is very positive.

With our strategic framework and near-term priorities, Swiss Re is well positioned to face these challenges and meet our Group financial targets over-the-cycle. They are supported by our Business Units' profitability targets, which remain unchanged.

To encourage a long-term view on our performance, and following recent changes in financial reporting practices in Europe, we will adjust the format of our financial reporting for the first and third quarters. Going forward, we will report concise information on key financial metrics and business developments during these quarters in press releases, and cease publishing full quarterly reports. We will maintain our quarterly conference calls with investors and analysts, as well as our first half and full year financial reports and investor presentations.

We look forward to reporting to you under this new format throughout the year.

Thank you for watching this video on Swiss Re's 2016 annual results!

Swiss Re

Corporate calendar & contacts

Corporate calendar

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
4 August 2017	Second Quarter 2017 Results
2 November 2017	Third Quarter 2017 Results

Investor Relations contacts

E-Mail	Investor_Relations@swissre.com
Hotline	+41 43 285 4444
Philippe Brahin	+41 43 285 7212
Jutta Bopp	+41 43 285 5877
Manfred Gasser	+ 41 43 285 5516
Chris Menth	+41 43 285 3878
Iunia Rauch-Chisacof	+41 43 285 7844