Swiss Re

ANNUAL RESULTS 2018

Transcript of investor and analyst video presentation

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- the frequency, severity and development of insured claim events, particularly natural catastrophes, man-made disasters, pandemics, acts of terrorism and acts of war;
- mortality, morbidity and longevity experience;
- the cyclicality of the insurance and reinsurance sectors;
- instability affecting the global financial system;
- deterioration in global economic conditions;
- 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 the Group's investment policy or the changed composition of the Group's investment assets, and the impact of the timing of any such changes relative to changes in market 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;
- any inability to realize amounts on sales of securities on the Group's balance sheet equivalent to their values recorded for accounting purposes;
- changes in legislation and regulation, and the interpretations thereof by regulators and courts, affecting us or the Group's ceding companies, including as a result of shifts away from multilateral approaches to regulation of global operations;
- the outcome of tax audits, the ability to realize tax loss carryforwards, the ability to realize 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, and the overall impact of changes in tax regimes on business models;
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- uncertainties in estimating reserves;
- policy renewal and lapse rates;
- uncertainties in estimating future claims for purposes of financial reporting, particularly with respect to large natural catastrophes and certain large man-made losses, 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;
- extraordinary events affecting the Group'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, lower-than expected benefits, or other issues experienced in connection with any such transactions;
- changing levels of competition, including from new entrants into the market; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks and the ability to manage cybersecurity risks.

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[John R. Dacey]

What are the key elements to factor in when looking at Swiss Re's FY 2018 results?

There are two main factors which over-proportionally impacted Swiss Re in 2018:

Firstly, we experienced elevated large losses in our P&C segments, absorbing 3.0 billion US dollars in large claims. 2018 was the fourth highest year on sigma records in terms of large loss burden for the insurance industry. The largest events for Swiss Re were typhoons Jebi and Trami in Japan, hurricanes Michael and Florence and the California wildfires in the US, as well as several large man-made losses in Europe and the Americas. The second factor is related to the underperformance of equity markets globally and the impact that had with the new US GAAP accounting guidance on Swiss Re's results, an adverse pre-tax impact of almost 600 million US dollars. We were not subject to the same volatility in 2017, as the accounting change was only introduced last year. Bear in mind that our European peers are not subject to the same rules, making our results appear artificially more volatile.

Looking at the performance of each of the Business Segments, we had a challenging 2018, but we remain optimistic about the outlook.

Can you elaborate on the performance of each business segment and Group Investments and their respective outlooks for 2019?

P&C Reinsurance
The P&C Re results reflect the impact of 2.3 billion US dollars of estimated large claims. The adjusted combined ratio is slightly above the expectations we had communicated for 2018, explained by a higher frequency of mid-sized nat cat losses particularly in Europe and Asia.
Note that our attritional loss ratio showed improvement in 2018, reflecting some of the achieved price improvements, which continue to earn through in 2019. We benefited from favourable prior-year development and continue to be prudently reserved.
On the January renewals, in the context of a tough market environment, we are very satisfied with the outcome achieved.
We remained disciplined on lines of business with ongoing price pressure and found attractive opportunities to deploy capital, achieving volume growth of 19%.
While the January renewals were dominated by non-loss affected regions, we improved the price quality by 1%. We expect further price improvements during the remainder of the year as more loss-affected Japanese and US property businesses will be renewed.
In the January renewals, we managed to grow our Nat Cat book substantially. The growth was driven by attractive opportunities in the US, where we deployed a significant amount of economic capital at an improved price quality.
The premium growth in Casualty was driven by large US SME transactions, with a relatively short duration and low expected volatility.

Our estimated combined ratio for 2019 improved to 98%, building on price improvements in 2018 and 2019 as well as scale effects from the strong volume growth.

L&H Reinsurance
Life & Health Reinsurance continued to deliver solid results, with a return on equity of 11.1%, in line with its over-the-cycle target range and confirming its track record for consistent performance. The business segment also saw strong net premiums earned and fee income growth of 7.1% in 2018. The growth was driven by large transactions, with Asia remaining a key contributor of future profitable growth for this business segment.

Corporate Solutions
Corporate Solutions' performance in 2018 was disappointing in spite of the measures taken to address underperforming business, due to the impact of large man-made and natural catastrophe losses as well as significantly unfavourable prior-year development. The negative reserve developments were largely related to late claims notifications where magnitude and responsibility for the losses were only established in 2018.

On the positive front, we achieved good growth in Primary Lead, allowing an improved operating expense margin.
The Business Unit will continue with its portfolio pruning and focus on increasing productivity. In terms of pricing, overall improvements of 3% were achieved in CorSo's portfolio in 2018, with the positive momentum on rates expected to continue this year.

Life Capital
While its US GAAP performance remained subdued, Life Capital once again delivered exceptional Gross Cash Generation in 2018. Overall, 2.5 billion US dollars were generated over the 2016 to 2018 period relative to the target range of 2.3 to 2.5 billion US dollars for the same period.
There were several noteworthy developments on the closed book side: MS&AD's equity stake increased from 15% to 25%, demonstrating their appreciation of ReAssure's strong franchise and we continued to prepare for a potential ReAssure IPO in 2019, including the appointment of a new Chairman and a new CEO.
Meanwhile both the Group and Individual primary life and health businesses continued their dynamic growth trajectory, expanding the Group's access to attractive risk pools. iptiQ leveraged technology and onboarded 19 partners to date who can sell insurance using our customisable B2B2C digital platform while elipsLife continued to grow at an accelerated pace, entering new geographies and generating over 400m US dollars in top line growth in its core businesses.
As previously stated, the ambition is to continue growing these businesses dynamically.

Group Investments
The Group ROI reflects the impact of the change in US GAAP accounting guidance. Excluding the impact, the ROI would have been 3.3%. The 3.9% ROI in 2017 was driven by net realised gains from sales of equity securities.
Our fixed income portfolio is of high quality, with less than 5% non-investment grade instruments, approximately half the average amount held by our peers. We also had *de minimis* fixed income impairments, well below the typical default rate assumption, and reflecting the significant reduction in high-yield exposure already executed in 2016.
The Group running yield has been remarkably stable over the past few years, with the expectation of a slight increase in 2019.

Can you elaborate on the proposed capital management actions and rationale?

We are pleased to propose a set of attractive capital management actions to the upcoming AGM.

We are rebasing the regular dividend to 5.6 Swiss francs per share, representing a 12% increase – again, this is based on the Group's long-term economic earnings and sustainable capital generation.

In addition, we propose to seek AGM authorisation for a new share buy-back programme to be executed in two tranches[1]. The first tranche of up to 1.0 billion Swiss francs is very similar to last year's and would commence at the discretion of the Board, shortly after the AGM.

The second tranche, also of up to 1.0 billion Swiss francs would be launched at the discretion of the Board, and would be conditional on the 2019 development of the Group's excess capital position, for example a significant increase as a result of the successful reduction of Swiss Re's holding in ReAssure to below 50%.

[1] Each tranche of up to CHF 1bn purchase value; commencement of repurchases under a new share buy-back programme is also subject to necessary legal and regulatory approvals.

Swiss Re

Corporate calendar & contacts

Corporate calendar

14 March 2019	Publication of Annual Report 2018
17 April 2019	155th Annual General Meeting
3 May 2019	Q1 2019 Key Financial Data
23 May 2019	Management Dialogues
31 July 2019	H1 2019 Results
31 October 2019	9M 2019 Key Financial Data
25 November 2019	Investors' Day 2019

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