Swiss Re AG at Deutsche Bank Depositary Receipts Virtual Investor Conference

Company Participants

- Manfred Gasser, Unknown

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Participant

Hello. Welcome to the Deutsche Bank Depositary Receipts Virtual Investor Conference, dbVIC. This is Zafar Aziz from the Deutsche Bank team. I'm pleased to announce our next presentation will be from Swiss Re from Switzerland.

Before I introduce our speaker, a few points to note. (Operator Instructions) On a final note, all of today's presentation will be recorded and can be accessed by the Deutsche Bank website adr.db.com.

At this point, I'm very pleased to welcome Manfred Gasser, IR Senior Manager from Swiss Re. Over to you, Manfred.

Manfred Gasser {BIO 20450590 <GO>}

All right. Good morning, or good afternoon to all of you and thanks for having me. So in this short presentation I'm going to first give you an overview of Swiss Re and our overview -- global overview and group strategy and then spend some time on all of the 3 business units and then conclude with our capital management story.

Now to give you a timely -- the first overview of Swiss Re. Obviously, we are a reinsurance company, founded in Switzerland more than 150 years ago. We are either the largest or second-largest reinsurer in the world, depending on how you want to measure it. Our financial strength is very important for a reinsurance company, therefore our S&P rating, for example, is AA minus. So very strong. Also important is strong balance sheet that is best expressed in our Swiss solvency test ratio of 251%. Just keep in mind the regulator would ask for 100% solvency ratio. And also very important for us is sustainability and there we got a AAA rating from MSCI.

As mentioned before, we have 3 business units. The business units where we are best known for is reinsurance. Next to reinsurance, we have corporate solutions, which is a primary insurance or direct insurance for large corporates and finally, we have Life Capital where we manage closed books but also open Life & Health books.

On the next slide this is a -- you see a bit of an overview on what our key differentiators are and for our company, which is the direct client access that we have. Our core risk knowledge and the capital strength. Below you see how the 3 business units are positioned in their individual competitive fields. So far Reinsurance, we are the #1 global property reinsurer. We are the top 2 global reinsurer in the Life & Health business and in the high-growth markets, which is mainly Asia. And Latin America, we are the #1 reinsurer. On Corporate Solutions, we are a smaller player, we are top 5 to 10 in the excess layer markets and growing our business in the Primary Lead segment. In Life Capital, we are the leading U.K. life and health -- life and pension consolidator and are growing our open B2B2C platforms.

In terms of business line diversification and global diversification, you can see on this slide here that we are very well diversified. P&C Re, which is the property and casualty business of our reinsurance businesses is the largest part of our book with 47% and 37% is Life & Health reinsurance and then the 2 smaller segments, Corporate Solutions and Life Capital with 11% share of premium and 5% premium for Life Capital. The regional state, you can see in the middle that the Americas, which is mainly U.S. and Canada is by far the largest part with 47% where as 32% from the EMEAs and 22% from Asia. Now here to note is that we expect this is going to change over time and that the Asia share will increase over the next years.

Premium growth over the last couple of years has been very steady. So a CAGR of 5% over the last seven years, which is pretty much in line with our expectations and we expect that to continue. While we are so positive about our debt is -- not only the current market environment. But also the long-term opportunities, in terms of current market environment, we see especially on the P&C side, that the prices are improving not only for the reinsurance business but recently even more pronounced in the commercial lines and credit increasing interest rates well at least to the low points that we had two years ago we see an uplift also there and a benefit especially for our longer-term lines in casualty and Life & Health.

The expected market growth for the next years is overall 5% for the high-growth markets, which is again mainly Asia. We expect that growth to be even more pronounced with 9%. In the long term, we are very optimistic about our outlook that is driven by the risk pools in the world growing everywhere and also the high-growth markets that I have mentioned continue to grow nicely. And in general, in the world we see a significant protection gap in terms of underpenetration of insurance.

For our strategy, left-hand side, you see our strategic framework allocating capital to the most attractive risk pools is probably the most important element of that framework and we built a franchise that allows us to very efficiently allocate capital between single risk pools. In the middle you see the near-term priorities that focus either on growth or expanding our competitive advantage in the risk knowledge field and that all should lead us to achieve our financial -- group financial targets in terms of return of equity, which is

700 basis points of risk free. Risk free for us is the 10-year U.S. treasury yield. And we also have an economic growth target, which is the ENW per share growth of 10% per annum.

Now if you look back over the last seven years and also of our performances, (inaudible) you see that most of the times we achieved both of those targets. But also -- but you would also notice that we are exposed to volatility from -- especially from natural catastrophes and especially 2017 and '18 were quite significant years in terms of natural catastrophes in the world.

Now more concretely to the Reinsurance business to P&C and Life & Health Reinsurance. As mentioned, it's the largest part of our business or more than 80% of the premium are coming from that business unit. That the core of that business is the differentiation and we tried to achieve that in 3 different pillars. We separate our business into core, transactions and solutions. Core is really the bread-and-butter business of Reinsurance and there the key driver for us is to simplify the business and drive additional efficiency in order to achieve better margins. But in recent years the 2 other pillars become even more important transactions and solutions. Transactions there we write larger transactions with the -- especially with the larger clients so that would be the top-50 insurance companies in the world, where we help them to either optimize their profit streams or achieve capital optimization, different types of transactions that we can offer to our clients. And in that field competition is very small because there's only a few selected players who can actually be active in that field because you need to have a large balance sheet and you need to have structuring capabilities, which many of the players don't have.

Then finally, in terms of solutions, we try to add value to our clients, to either access (inaudible) core improve their performance on existing risks.

On the next slide, you see a few selected examples of what those solutions can be, one that to point out here is Magnum. Magnum is a underwrited -- an automated underwriting platform that we offer to our clients and to underwrite risks globally. The underwriting platform, Magnum, is working on all the (iPods) or any other portable device that clients use and allow them to close the large part of a single risk policy directly on the go. Just to give you a bit of a better sense on how relevant that platform for us already is with clients is one of the key driver for very strong growth in Asia and especially in China over the last years.

At the moment, there are more than 100,000 sales agents of our clients in China being active in the market and underwriting life policies using our Magnum platform. In 2018 alone, we processed more than 13 million policies with that platform alone.

On the next slide, you see the developments of our direct relationship with our clients. On the Life & Health Reinsurance side you see that 96% of the business, we direct -- we write direct to the clients that means there's no broker in between.

On the P&C side, the role of the broker is more important. But even there, we write 47% of our business directly with our clients. Now, the chart below that looks like an eyeball or spaghetti chart, it's just one example of the many interactions between Swiss Re and our clients. In this example, you see a client based in the U.S. and at the bottom you see all the individual or you don't see it precisely. But what you should see is the individual names of our employees and their interactions with the clients or with our clients on the other side. And that's just the interactions in one individual year. And that's just underlying the relevance and the support that our clients are getting from Swiss Re all over the world, that is something that is quite unique in the market and it's not -- cannot be reproduced by any tier 2 or tier 3 reinsurer in that market.

I also mentioned the importance of transactions already. The chart on the right-hand side just shows you the economic profit that we generated over the last years from transactions. As you can see it's a bit of an up and down but the trend is definitely positive. A CAGR of 16% since 2010 coming from those larger transactions.

In terms of business mix for Reinsurance. You see the development here in the different regions, Americas, EMEA and Asia. Here, the most important point to point out is Asia on the right-hand side, which we grew from 2010 from $3.3 billion to $15.4 billion. Now this is economic earnings that means it will take into account the full lifetime of any contract that we write. That also means that it will take time until that -- those premiums, those economic premiums that you see on this slide will be earned in U.S. GAAP, which is our reporting framework. But that is also one reason why we are very confident to say that the contribution of Asia will only increase in the next few years in terms of U.S. GAAP because we actually already have written that book and see the economic development on our book.

Then going on to -- moving on to Corporate Solutions. And Corporate Solutions has started off in 2012, if you will, at least externally. It's a -- the business unit where we write direct insurance to large corporates. That business unit has now more than $4 billion of profits but it's also fair to say that the performance of Corporate Solutions over the last two years was not in line with our expectations. 2017 was heavily impacted by the hurricanes in the U.S. Harvey and Maria. But the underperformance unfortunately continued in 2018 driven by a difficult market environment in terms of pricing but also higher-than-expected losses from large man-made disasters.

Now we communicate here that we are taking actions in Corporate Solutions and will improve the performance of the business units going forward and with our last press release with our Q1 results, we mentioned that we are trying to finalize the current review of our business units and also to resume position of that business unit by Second Quarter and we'll provide a technical update on the performance of the business units with our half year figures end of July. And since our new CEO of that business unit has joined just a couple of weeks ago, we will provide a more detailed overview of the future strategic positioning of the business units with our Investors Day in November. In the meantime this focus is very much on restoring the profitability and the quality of that book.

One area where we are active in improving is our U.S. general liability book that we already reduced by 30% since 2016 and it's likely that, that number will even increase. On the other hand, as mentioned at the beginning, is that we see quite significant price increases in that environment year-on-year. When we compare the First Quarter of 2019 with the First Quarter of 2018, we see the prices went up by 5% and we see that trend actually even accelerating. And that combined with the actions that we are now taking in this business unit gives us some confidence that the performance going forward will be again in line with expectations.

Then moving on to Life Capital. Life Capital is also a business unit that is a bit in transition. One large part of Life Capital are our closed Life portfolios in the U.K. Now that is the business -- that specific business venture is called ReAssure and that is an entity that we announced that we will -- that we are trying to IPO in the course of 2019. The preparations are on track and we are still aiming to conclude that process in 2019. The reason why we want to IPO that business is because we believe it's not Swiss Re has not the optimal balance sheet to own the majority of that business. But even after the IPO we will -- or we expect to remain a significant shareholder of that business unit because we believe it's very nicely positioned in the U.K. in the attractive market with more opportunities to come.

From the business alone in the course of 2018, we were able to generate a gross cash generation of $818 million, which is a very strong contributor to our ordinary dividend in 2019. Now MS&AD is a larger primary insurer in Japan and one of our long-term clients in Reinsurance. We agreed with MS&AD in the course of the last 1.5 years that they buy 25% share in Reinsurance and that already has happened. Then the next step for us is the IPO, that I have just mentioned.

Now next to ReAssure. There are 2 other businesses in Life Capital and they are focusing on the open Life & Health books and the businesses are called elipsLife, which is group life business and then iptiQ, which is a white labeling offering focused on the Life & Health side. Now those 2 business are relatively small in the broader contest of Swiss Re. But growing very dynamically and we expect to talk a lot more about those individual businesses in the future, if the trend in the growth is continuing as we see at the moment, which is actually higher than our initial expectations.

Finally, I want to talk about capital management, since capital management is an extremely important part of the equity story to most of our shareholders and we have 4 very clear priorities when it comes to capital management. The most important one for us is, to ensure that we have a superior capital position at all the time that gives us the flexibility and to deploy capital whenever we find attractive opportunities. The most relevant metric, as I mentioned at the beginning, is our SST ratio. So Swiss solvency test ratio that at the beginning of the year stood at 251% SST. Our internal target for the SST ratio is 220%. So we are quite a bit above our own internal target, which means we are a bit of capital access position there. And all of -- just to reiterate the capital level that would be required from our regulator would be the 100%. So we want to act significantly above that just to underline the capital strengths to our clients that we are here for our clients in any circumstances.

Now, the second priority right after the capital position is growing our regular dividend in line with our earning power. If you look back how our ordinary dividend developed over the last years, it has been an increase of roughly 3% per share with a more substantial increase in 2019 where we increased the ordinary dividend by 12%.

Then the third priority of our capital management priorities is to deploy capital to our business units where we see growth opportunities and where we see that the growth actually is able to meet our profitability goals and targets. This could be either organic or in the form of M&A. What I also have to say is that it's very difficult on the Reinsurance side to find attractive M&A opportunities that is because our global footprint is already very well advanced and we are the largest or the second largest reinsurer in the world and it's very difficult to find an attractive target in that space that would be of strategic importance. For the other 2 business units, M&A remains a possibility.

Then coming to our fourth priority, which is to repatriate excess capital to our shareholders. That goes back to the comment that I made before that our SST ratio is above our 220% target and if we are not successful in deploying our capital to this growth areas then we have a very strong track record that we would give excess capital back to our shareholders.

In the past, we used special dividends, I would say as a tool for giving excess capital back to our shareholders over the last four years. We consistently used the tool of -- or in the form of a share buyback. Also this year we received the authorization for a share buyback program from our AGM. The share buyback program has been adjusted slightly from last year. Last year the maximum was $1 billion. For 2000 -- or for this cycle, we have authorization for share buyback of 2 tranches, each of CHF 1 billion. The first tranche has been started right after our Q1 disclosure and it's running at the moment. The second tranche. And so the second CHF 1 billion is contingent to the development of the capital position of Swiss Re throughout the year. That means, if our capital position would significantly increase despite the ongoing share buyback in the course of the year that could be one trigger for us to also trigger the second tranche of the share buyback. Another driver for that -- for the second tranche of the share buyback would or could be a successful IPO of ReAssure that I've mentioned before.

And this is already the end of my presentation, I'm happy to take any questions that you might have.

Questions And Answers

A - Manfred Gasser {BIO 20450590 <GO>}

So I have a question here asking for the rational for the ReAssure spin-off.

There are different reasons for that. One is, that most of our investors actually value our franchise in terms of retail and equity performance. Now just the nature of the ReAssure business is that it is very difficult to achieve return on equities in excess of 6%, just because how the accounting works for that business. But nevertheless, it is spinning off some very attractive gross cash generation over the year. But again, most of our investors value often return on equity performance and it has been drag on our return on equity performance.

The second important driver for this decision is that we have a bit of a regulatory disadvantage when it comes to our competitors in the U.K. that is because we in

Switzerland are constrained with this SST framework, Swiss Solvency Test framework, while our peers in the U.K. are constrained to with the Solvency II framework. And with most of the transactions that you would be able to perform in ReAssure, a lot of credit risk comes with it, which gets quite some significant or more significant tranches on the SST than they do in Solvency II. So that is those reasons combined give us the reason that we thought we are not the best balance sheet for ReAssure at least not to hold the majority owning.

So then what are the drivers behind the stock price decline in the past months, is another question.

Actually I would say, it's probably more focused on the last weeks. So the share prices have been performing quite nicely at the beginning of the year, then one driver for the decrease in the share price is obviously the dividend payout that happened right after the AGM a couple of weeks ago. And since we're paying out a quite significant dividend this year of CHF 5.6 per share you saw the share price decreasing by almost that amount when we went ex-dividend.

Now the other reason for the decrease is more Swiss Re specific reaction on our Q1 results, which were below expectations, or below market expectations and especially driven by the underperformance, I would say, of our Corporate Solutions business. As mentioned, we communicated the market that we will conclude the review of that business in the Second Quarter and we'll try to bring the performance of that business back into -- in line with our expectations.

Then finally and that is not Swiss Re specific, just market specific the noise around trade fears between the U.S. and Asia was another significant driver why our share price came down a bit.

Another question is on climate change and the business -- and impact on our business model.

Now that is a very good question. Climate change is a topic that we have been focusing on since 2000, well I shouldn't say 2000 actually since ages. It's high up the priority list for our organization and probably also require some research on this topic and impact on the insurance industry. We of course have our own pricing and loss assumptions and do our own risk modeling and we take our assumptions on what the impact of climate change is in terms of the frequency and severity of natural catastrophes into our models and reflect it also in our pricing.

Then I have another question on what is your appetite for issuing more debt.

So in our company, in our full company presentation, we would find a slide that gives an overview on what we did in terms of optimizing our capital structure over the last years. So there was quite some deleveraging especially in our reinsurance business over the last five years or six years, more than 10 billion of deleveraging of our business unit of BU Reinsurance balance sheet. But what we have -- but where we are active in the last couple of years is adding some additional flexibility especially on group level in the form of contingent capital. And -- well I'm not going -- I can't really give you a precise plan of what we are going to issue is that we are quite happy with the current capital structure that we have and whenever you see us announcing that the one point which you want to expire you could expect us that we were trying to look into refinancing in one form or the other.

And that is all I have in terms of questions. And I see we also ran out of time. So thank you very much for your time. And if you have any other follow-up questions, please feel free to reach out to me directly, or to any other colleague in the Investor Relations team. You'll find our contacts on our website and we try to come back to you as quick as possible.

Thank you very much.