S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

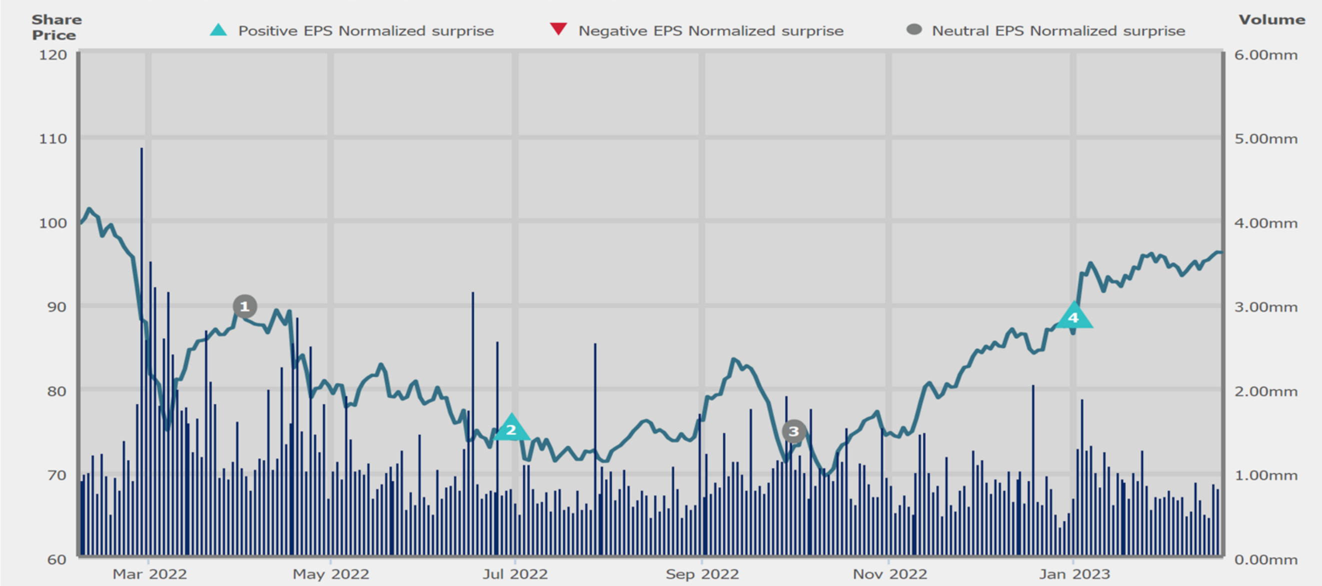
FY 2022 Earnings Call Transcripts

Friday, February 17, 2023 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.51	2.62	▲73.51	2.25	1.70	1.63	▼(4.12 %)	9.44
Revenue (mm)	10624.71	10700.00	▲0.71	10995.44	43735.54	42868.00	▼(1.98 %)	47287.00

Currency: USD
Consensus as of Feb-17-2023 5:18 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2022	1.70	1.63	▼(4.12 %)

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Call Participants

EXECUTIVES

Christian Mumenthaler
Group Chief Executive Officer

Elena Logutenkova
Head of Media Relations & Corporate Reporting

John Robert Dacey
Group Chief Financial Officer

ANALYSTS

Unknown Analyst

Presentation

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Good morning, and welcome to Swiss Re's Full Year Results Press Conference. I'm Elena Logutenkova, Head of Media Relations and Corporate Reporting. I'm joined here today by our Group CEO, Christian Mumenthaler; and our group CFO, John Dacey. They will take you through a presentation of our full year results first, and then we'll be happy to take your questions. And now it is my pleasure to hand over to Christian Mumenthaler, our Group CEO.

Christian Mumenthaler
Group Chief Executive Officer

Thank you, Elena, and good morning, everyone, here and online and good afternoon, good evening, depending on where you are in the world. So I'm going to take you through the first part of this presentation and then John Dacey is going to go through the numbers part.

My goal is to give you a bit of a context around the full year results to communicate about the capital actions, the renewals and our new financial targets. So in terms of context for the result of this year, 2022 clearly has been a difficult year, impacted by a whole series of negative factors, which are -- the biggest one are listed in here.

The biggest one overall has been the inflation, which has been much stronger than had been anticipated, but $1.1 billion impact pretax on our earnings through economic inflation. This is basically us recognizing the inflation of the whole reserve side. In U.S. GAAP, in accounting, you have to recognize the impact of inflation on current and future claims to take this in the first year when you see economic inflation being high.

So this means a relatively big hit here. Then on the equity market side, where the mark-to-market impacts in P&L, I mentioned that here because this is a U.S. GAAP specific thing. And current IFRS as it is used in Europe, it's not yet the case. It will be the case in IFRS 17 that mark-to-market movements go through the P&L.

Then in Life & Health, with still COVID, this was mostly in the first quarter of last year, but still had an impact of $0.6 billion. And then overall, in the year, we had natural catastrophe events, which exceeded our expectations by $0.5 billion, in leading to an overall results here, $0.5 billion.

So next slide 4, you can see on the left side, the full year and the fourth quarter compared to last year. And on the right side, you can see the full year figures '22 and the Q4 figures. So let me go quickly on the right side through all the different figures.

You had in P&C Re in Q4, a very good combined ratio of 91%. But overall for the year, we had 102.4%. You had a normalized combined ratio of 98.9% in Q4, leading to an overall normalized combined ratio for the year of 96.9%. The reason for the high normalized combined ratio here in Q4 is that once a year, we make a review of the combined ratios, we had set -- the loss ratios we had set, during the year, and as inflation was quite a bit higher than we had expected at the beginning of the year, we had to basically correct upwards the loss ratios for a lot of businesses that we had written in the year.

So this doesn't get normalized away. And so this one-off shock came through in Q4. On Life & Health side, we had $195 million result, leading to $416 million overall for the year, which is higher than the $300 million target we had. We knew, coming into the year and when setting the target that COVID, will still be significant in '22.

And so -- but we were able to be more or less on what we had expected. Corporate Solutions, 93.1%. Overall during the year also, 93.1%. So it continues to be -- produce very good results. And the group ROE was 24.6% annualized in Q4, but overall 2.6% for the year.

So I'll now go into a few of the factors that we just described here to give you a little bit more color around them. So the first one is P&C Re. On the left side, you see the published combined ratio and the normalized combined ratio. And normalization here means you take away any movements of reserves that you had from previous years, and you take away any unexpected volatility on the nat cat side.

So you put in basically the expected loss. And so unexpectedly, of course, the reported one is higher due to all the factors I said. But you can also see on the normalized one that we have gone backwards. And the #1 factor -- there's 2 factors. One is the war in Ukraine, which doesn't get normalized away, but that's 0.8 points in the combined ratio.

The biggest part is really economic inflation. So all the attritional losses were during the year instead of continuing to go down, they went up to our assumptions we had. We had assumptions going into the year on inflation, but inflation was higher than that during the year.

And so we have gone backwards in terms of normalized combined ratio. And this then led to the renewal. You see later some of the good renewal figures have to be seen in context of this deterioration. So it's needed. On top, you can also see the combined ratio for natural catastrophes. So also '22, 94% was a very good combined ratio. And if we include prior year developments, which were positive during the year, it's actually more like 78%.

So nat cat also last year, despite being higher than expected, was a huge contributor to the bottom line. On the CorSo side here, this is just a reported combined ratio, 93.1%, as I said before. There's pluses and minus in this number. It was -- it benefited about 3 points from PYD, prior year development. So it was a positive runoff of the reserves.

But vice versa, it was hit by Ukraine war and inflation for about 4.7 points together. So overall, the result, 93%, is a good combined ratio and met the targets we had, but there's underlying volatility on both sides. Reserve movement overall. This is back to the P&C portfolio because that's always a big focus, of course, of ours and our investors.

You can see the development over the last few years of the different components. You can see the liability part has been negative through all these years, but the amount has been decreasing. So there's a bit of a calming down of activity here.

The bad underwriting years were '14 to '18, mostly. So we seem to get out of that. On top of that, you get some positive developments on other lines of businesses, the light blue one. And so what hit us this year was this red one you see here, which is the inflation IBNR. IBNR means incurred but not reported.

So these are claims we think happened, but haven't yet been reported, and the inflation will impact those claims. So it's a forward-looking view. And of course it's -- but it's not specific to any particular claim. So it's -- if on the bulk reserve that is held for the future of inflation. This had to be renewed several times during the year as inflation went up. And so this is the total number.

On COVID here, I hope this is the last time I show this slide. So you can see the whole history here in terms of the reported losses we have, which is a little dark blue bars and the actual incurred, so they actually incurred is something typically we only know later in hand side, so we can go back and say this is the actual number as we know it by now. When you are in the quarter, you end the quarter, you have to make estimates based on -- because not everything has been reported.

Things have incurred, but it's not yet reported. So you can see through all this period of time how this varied. And you can see in terms of the reported numbers in this year. Q1 was still very hefty in then Q2, Q3 and Q4, we had very little in terms of reported. Q4 profit is a little bit from over reserving in the past quarters, which is why it's 0, whereas incurred, we estimate was a bit higher than that.

So it seems that our sense that COVID will become endemic, has played out as expected. Another important factor I would say the flip side of inflation is, of course, the interest rates. So on the inflation side, you have to take the hit at once for all future years in terms of your claims reserves.

On the investment side, the benefits that come with higher interest rates only come through over time. And the chart here, I think, is interesting because what you see is the -- orange line is the reinvestment yields, the average reinvestment yield. So as we get fresh money, we reinvest at these rates.

And the blue one is the recurring investment yield of the whole portfolio. So of course, as if the line is below, it means that every time you have a new business or a business runs off, you have new cash flows coming in, you lower the overall yield of the whole book. And if the reinvestment yield is higher, you're able to shift it upwards.

And so there's a time delay. It takes several years, depending on the duration of your liabilities until you have actually achieved, the lines would meet at some point, of course. The reason the last quarter doesn't go up much more on the blue line is because there's no major renewal in Q4.

So there's not that much new cash to be reinvested. Hopefully, as we go through Q1, this will look different. But it's, of course, extremely positive for us and the whole insurance industry that interest rates finally go up and the benefits will be distributed over time.

I come to the capital actions. So we haven't changed our management priorities in terms of capital actions. It's extremely important, of course, to have a superior capitalization as a reinsurer. So this is a top priority. Then we want to grow or at least keep the current dividend. We want to deploy capital into the business, and that depends on the phase of the cycle.

We're currently clearly in an extremely positive phase of the cycle. So this is a priority. And then if we have too much capital, we can't deploy it at good rates for our shareholders, there's a repatriation of excess capital. The current situation is that the capitalization is extremely strong.

You see on top right, the SST ratio, over 280% as estimated for January '23. And so we have decided to keep the dividend flat. It used to be in Swiss francs, now we shifted to U.S. dollars. The logic which is that basically the underlying businesses we have are much more dollar denominated than Swiss franc-denominated.

And so as the report in currencies, U.S. dollar, we have switched to U.S. dollar dividend so -- but the intent is to more or less a flat dividend. So this is -- corresponds to the [indiscernible] at current FX rates.

Come to the January renewal, which was very positive, but also very needed, as you could see before. So the price increases -- the nominal price increases we achieved for 18%, but a lot of that gets eaten up by our expected loss increase. So we had to review our models -- our nat cat models and we also had to make assumptions for inflation.

And together, that's about 13%. So we had a 13% increase for the same business in loss expectations and 18% increase in prices. So this -- if you follow us for a few years, this is probably bigger than all the renewals we had in the past 3 years together. On the volume side, plus 13%. So we're able to grow a bit. And on the economic profitability side, where the big boost, it was more than $800 million more on this side. You also have the discounting effect that comes.

So the benefit of higher interest rates plays a role in the economic profits. It's not reflected in the nominal side on the left. So this is to give you a sense of how we see the increased economic profitability of our business. We could also improve structures and terms and this renewal, which is always very difficult to quantify.

So overall, we increased attachment points, which means that you need bigger natural catastrophes for us to be affected. So this is a movement the whole industry did. Typically, also in the software cycle, these attachment points come down and you start to be affected by smaller nat cats, for example, and in the hard markets, they move up.

And so there was a decided move to move upwards in this renewal and a tightening of terms and conditions. On Slide 12, you see how this all comes together. So we have up for renewal, $9 billion. So we look at what business is actually coming up for renewal and everything comes up for renewal.

And then we have to walk here of the plus 13% increase, leading to $10.2 billion as an outcome. And again, price change 18%, but also high loss assumptions of 13%. I won't go through all the slides here, but the -- I guess, the important point is this 5% net price increase that translate into a better combined ratio of about 3 points.

But what is important to note is this is the underwriting year view. So this is the view of the business that we're going to write -- that we wrote now, so 3 points better. But in terms of U.S. GAAP, this gets earned over 2 years -- 2, 3 years. And so the actual accounting year for this year, the combined ratio we're going to have for '23 is going to be a combination of the business we wrote here, of which first part will be earned this year and the business we wrote last year.

Mostly that's the 2 that will influence this year's combined ratio. Page 13 is a little bit more detail into the different segments where we grew. You can see, in particular, in the nat cat side, that's where -- when we look at this economic combined ratio improvement, this is we have the little plus this year. You can see there was by far the biggest increase on the nat cat side, also because there was a certain retreat of capacity overall in nat cat side.

There were all the losses on the nat cat side. There's all the worries around climate change. So this is where, by far, the biggest rate increases have been achieved. And we were basically able to keep our portfolio from a risk perspective. So the overall budget or the expected loss we have for this portfolio is $1.9 billion, which is more or less what we had last year.

So we were able to actually keep the capacity and be with our clients, but the price increases here mean that the 21% is just only price increases basically. So it's not increase in risk. And then I can also see the different regions. So America, we continue to be cautious on the liability side, large corporate risks, we're very cautious. And Asia, we're able to grow.

This leads me to the financial targets. So on the right side, you see the medium-term financial targets, they are unchanged from last year, 14% ROE in 2024 and 10% economic net worth per share growth per year. And on the left side, you see specifically for '23, what we think all of this means taking it together.

So P&C Reinsurance, the goal will be to be below 95%. In terms of reported combined ratio, we changed here from last year. Last year, it was a normalized combined ratio in P&C. So we feel sufficiently confident with the quality of the portfolio we have to switch to an actual reported combined ratio.

We have Life & Health, where the -- this year's goal is around $900 million. So we expect significantly less impact from COVID. On Corporate Solutions side, less than a 94% combined ratio. And for the Swiss Re Group, this year because the equity is very low due to the GAAP accounting instead of an ROE, we set an actual net income of more than USD 3 billion.

Just to give a sense of the different factors that will play a role of how to achieve that. If you start from this year's $0.5 billion net income, we have increased profitability in P&C. So that's the renewal figures, but it's also inflation hopefully being an issue of the past, the normalized nat cat, et cetera. So that adds a lot. We have increased Life & Health profitability.

So last year's goal was $300 million. This year, it's $900 million due to less COVID. You have the upshift some recurring investment income that I showed and continued cost discipline. So these are the main factors that should lead us to above $3 billion.

If I zoom into the combined ratio specifically, so we have this 96.9% normalized combined ratio. And then there's this earn through, as I said before, of 2 underwriting years. So we have the second part of what we underwrote last year that we'll earn through this year, and we have the first part of what we wrote this year that will earn through plus cost discipline.

So this is how we get to this less than 95% as a reported combined ratio target for this year. And then Life & Health, if you zoom into that is the COVID normalization that should be a much smaller impact. Then we have something we mentioned in the last few years.

There's an improvement in our U.S. Life book expected this year. So this is going to add to the whole thing. Recurring investment income will go up and including cost discipline, this is how we get to the $900 million.

And we also said previously that under IFRS 17, which will be the accounting standard for us in 2024, next year, we expect higher earnings in -- on the Life & Health side. This has 2 factors. The biggest one is this acceleration of earnings that we have under IFRS versus U.S. GAAP. So if you write a piece of business and you expect certain profits on the U.S. GAAP, it takes, let's say, 50 years in some cases, and the equivalent in IFRS will be accelerated. Here we accelerated.

And so you have more earnings over a shorter period of time. And then the switch to IFRS allows us to reset the balance sheet basically. So all the issues we had in the [indiscernible] for U.S. business, which we couldn't change under the U.S. GAAP rules, are being basically reset on the best-estimate basis under IFRS.

So it's a great opportunity for us to reset the balance sheet, this transition to IFRS. And the last word, something around the reorganization. So the current organization we have is from 2012. So we were pretty long in the same organizational structure.

Structure has to be adapted to the strategy you're following, and we felt this was less and less the case. And so we looked at that last year. We looked at how we could become simpler, how we can shift some of the decision power closer to the front because we get client feedback around that and how can we delayer the organization basically.

So we do that by having this shift into these market units, and by splitting reinsurance overall into 2, P&C Reinsurance and Life & Health Reinsurance, pretty market standards. And both can then focus just on their client base, which is pretty separate, in most cases, their own processes, et cetera. And this allows us to basically take out a layer in the organization.

So the main goal is the sharper focus on the markets and the clients. There will be cost savings coming from that. But since this is not the primary goal, we haven't gone in as an input factor, cost savings will be an output factor of all of that. And we will see how it goes, where we come and communicate around the cost savings at a later stage.

So this is just to give you a little bit of information around what we're doing internally right now. And with that, thank you very much for your attention. And I hand over to John, who will lead you through the figures.

John Robert Dacey
Group Chief Financial Officer

Thank you, Christian. A quick round on the financial highlights. Actually Christian's reached into a number of the specific points, but let me try and provide a little additional detail as we go through our businesses and the investments and alternative capital partners as well.

So key figures overall in the presentation, we've done one piece I would point to on shareholders' equity. You see on the bottom right, a massive movement during the course of the year. This is simply the accounting adjustments made because of the bond portfolio that we have.

It has gone from a position of having unrealized gains in the bond portfolio to unrealized losses simply due to the change in interest rates. This does not affect the way in which we run our business and will not affect our profitability on a going-forward basis. It simply means a revaluation of this balance sheet with a reduction of the book value accordingly.

On P&C Reinsurance, Christian talked about the combined ratio. I don't need to remind you, obviously, the profits compared to 2021 were reduced at $312 million, but we did return to profitability after 9 months position where we were still in the red. And that was due to the strong Q4, and this is a Q4 which we will expect to build off of in the coming quarters.

On the premium side, you see what looks like pretty stable numbers at $22 billion of premiums. The reality is when you adjust for the changes in foreign exchange during the year, one or the other implications of the financial markets volatility, we were up 4% year-on-year.

Where that's helped us is on the next page, one of the things you see is in the core bar reduction in our cost ratio. This is a continuation from 2018. As we go forward, you see almost 4 percentage points reduction in the P&C Re's cost ratio, which is helping both the combined ratio, but also reflects our ability to do more with less.

We continue to grow on what has been a flat and then actually in 2022, actually, reduced cost base. In addition, we talk about solutions and transactions, 2 important parts of Swiss Re compared to some of the other competitors in this space, is our ability to continue to invest in solutions, a technology-driven, typically tools for our clients. We've put additional emphasis on this by breaking out solutions as a specific segment with a senior leader in charge of it, and this will be reporting to Moses in the new structure that Christian just described.

On transactions, a continuation of bespoke activities with our clients where rather than being a -- simply in a provision of risk capacity on a competitive marketplace, we're able to sit down with them and solve specific issues that they need our help with in terms of their balance sheet, in terms of risk positions that they have table year-on-year, but an important part of our business, and we expect this to continue to grow over time.

On the left side, you simply see the split geographic and by line of business and update for -- to give you a sense of where the P&C business is being focused. In Life & Health Reinsurance, again, on the left side, the volumes again appear stable. That hides on a FX-neutral position continued growth of about 5% here. The operating margin looking better largely because we don't have the level of COVID losses in 2022 that we had in 2021 where we wrote off about $2 billion pretax for the COVID experience in 2021.

The recurring income yield, Christian spoke to, where you see an inflection point, where we're popping back up to 3.2% from 2.8% in the previous year. And therefore, we expect -- as Christian described that this trend will continue with the even better result in 2023.

Net income, again, back from the loss position in 2021 that was defined by the COVID losses into a profit. And importantly here, the last 3 quarters, Q2, Q3, Q4, all showed approximately $200 million of profits, as we moved forward. And this gives us high confidence that the $900 million target we've got for 2023 is absolutely achievable.

Again, a similar story on the cost side, the continuation of this reduction for the cost ratio from 21.8% down to 17.4%, as the team looks to be more efficient. While we have this growth at the same time, the growth in Asia, in particular, has been an important part of the life story over the recent years. And you see here that the Asian portfolio at 24% is a material part of our book. solutions, again, important for our Life & Health clients driven by the technology we've referenced.

The underwriting tool, Magnum, which we continue to invest in, improve and utilize on a broader basis, both in terms of geography and by products. The transactions down a little bit year-on-year, but this is a place where for our Life & Health clients, we expect to be very active in the coming years as well.

Corporate Solutions. Again, some important performance. The profits in 2022, down a little bit from 2021. Here, both the combined ratio and the profitability in 2021 was given a bump by one of the impacts of COVID because of the lockdowns in 2020, and in some geographies even into 2021, and the reduction in economic activity. There were actually fewer reported losses the CorSo book had to book.

And that's why the 2021 numbers were flatter. The 2022, I think, is a more realistic view of a current run rate, and that's where we get to. Here, you do see some increase in the reported premiums earned from $5.3 billion to $5.5 billion, but again, that understates partly for FX reasons, but especially because during the course of 2022, we completed the sale of elipsLife, which would have been fully in the 2021 numbers, but only partially in the 2022 numbers.

Swiss Life actually was the -- is the new owner of that business. And that implies it on a pro forma basis, the premiums for CorSo actually increased by about 15% year-on-year. A couple of other thoughts on the business. One is the cost efficiency this time in the middle of the page rather than on the top, but you see the expense ratio continuing year after year to drop down, the major drop in the restructuring year between 2019 and 2020.

But we've not stopped and, in fact, in 2022, partly because of the growth of the business and partly because of cost management, the operating expense ratio drops under 15%. I think an important piece is this top chart where we talk about the reserving adequacy. Of course, those reserves were a problem through 2019. We made major additions to the reserves in the 3 years, '17, '18 and '19.

We got to a new equilibrium. And what you see is the performance since then in 2020, '21 and '22, a continued positive impact from reserve releases for a very well reserved book. We continue to believe both in CorSo and in P&C Re, that we've got the reserves in a very good position today.

The international program lead on the bottom is one of the growth engines of CorSo. Our ability to lead global programs with a network that's been built up and more importantly, a technology that is serving corporate customers very, very well.

Their risk managers are utilizing these tools, and you see the growth year-on-year, but also a trajectory that we expect to continue. iptiQ, our B2B2C consumer business, continues its growth. You see an 18% increase year-on-year. Again, FX adjusted, that would be almost 28%.

That continues the strong growth from 2018. It's on the chart. The policy counts also going up very strongly. The new business -- strain of this business remains significant. The earnings before interest and tax, the EBIT was a negative $362 million for the year. That includes a number of one-off charges that we booked in '22.

We did some rigorous restructuring on underperforming partners, and as a result of that, had to take a number of write-downs related to those partnerships. Those one-offs totaled about $70 million for the year. And so the underlying new business strain and associated expenses were slightly less than $300 million for the full year.

That compares to the $278 million of the previous year. We expect this to now improve. The guidance we've provided for 2023 is a run rate of about $250 million and that we expect to dramatically decrease in the next 2 years. As this business matures, the new business strain is balanced much better by the profits coming from the in-force and a breakeven target set for 2025.

Again, the underwriting results not very different, the operational performance and the business expansion in terms of the distribution partners positive and supporting the growth that we think is going to be needed. It's important that on a marginal basis, the business we're writing, we believe, is profitable on a stand-alone.

It's just the infrastructure required to build this business out. Right now is showing an annual loss. On group investments, Christian described the dynamic of the important move forward. What you see here is the total investments have reduced year-on-year.

This is exactly because of what I said before, the reduction of valuations due to increased interest rates in the fixed income portfolio. There's also a reduction on the listed equities, partly because we've sold some during the course of the year, unfortunately, in the first half before valuations dropped precipitously, but we also having marked down both listed equities and in some cases, some of the private equity positions.

On the right side, the net investment income, you see moving up for the full year the recurring income yield back to 2.6% for the year, 3.0% for the fourth quarter, and trending up as we expect that to continue in 2023.

I mentioned Alternative Capital Partners. This is our team responsible for our retrocession book. One of the things which we're tracking, as they continue to work with our P&C Re business and increasingly with our Life & Health Re business, is a fee and commission revenues as it develops.

We've expanded the capabilities of this team. We've expanded their mandate. Their retro placements have increased in size. The sidecar platform, you can see has increased from $2.2 billion to $2.9 billion during the course of the last year, but the fee income that we attribute correctly to this is now over $100 million.
This is reported in the reinsurance business units, mostly in P&C. But again, this is a growth of earnings for us, and we expect this to be able to continue. And with that, I think we can turn it back to a Q&A for Elena.

Question and Answer

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Thank you, John. We will now start the Q&A session. For those -- for those of you who are joining us here in the room, please just raise your hand and wait a second for the microphone. This is so that those who are joining us virtually can also hear your questions. And those who are joining us virtually, please use raise-your-hand functionality on Teams. And don't forget to unmute yourself and turn on your camera. I will call on you one by one, and let's start with the room.

Unknown Analyst

[indiscernible] I have 1 more macro question. I also heard your neighbor at Zurich talk about this phenomenon of social inflation, that sort of very high cost and I think it's probably as our P&C business that should be affected by that in claims that are sort of being decided by U.S. courts.

Is that a sort of increased problem? And how is it affecting your business going forward? And then I have a question on the dividend policy. I don't know the payout sort of should amount to, correct me if I'm wrong, like $1.8 billion, probably, something around that. And your net profit is like $500 million. So is that right way to look at this?

Or is there another way to look at the balance sheet to say that, yes, there is actually economic -- we have actually earned economically by operating profit this dividend.

Christian Mumenthaler
Group Chief Executive Officer

Okay. I'm happy to go with the first question. So -- there's different types of inflation, of course, we have economic inflation. But under that, we have wage inflation, we have inflation of spare parts and motor, et cetera. Health system inflation and they affect different lines of business in different ways. So certain things like properties. So what you have in your house is probably more related to the normal CPI, whereas other lines are affected by other inflation.

And so internally, we have allocation to these different types of inflation per line of business. And one you talk about, the social inflation, is the least correlated to the rest because it's more a phenomenon of society. It's more in the U.S. It was very high when the rest was low.

It hasn't increased that much right now, but it continues to be very high. And this is -- when we call -- when we talk social inflation, we mean more the overall legal system in the U.S. This is all connected issue. So we are basically investment funds, hedge funds, financing, cases and having deep analytics of where this works the best and when this works the best and the sharing of practices and this leads them to these higher and higher and higher payouts we have seen over many years.

And we're not optimistic on this. This is really affecting mostly the U.S. casualty lines. And we have been cautious -- this has caused a lot of pain. There was a real peak. This has caused pain. This is the source of the losses we have in these underwriting years, '14 to '18, in the U.S.

And our view is when COVID came, a lot of these courts closed and so there was maybe a bit of too much short-term optimism, we didn't share that optimism. And we, since several years, are actually decreasing our exposure to this specific inflation.

So -- and this is mostly hitting the large corporate risk, as we say. So the largely a company, the more prone it is to this type of attacks. But it's clearly a system that will also go to medium-sized companies and other -- and will find its way. So I think the answer to your question is we remain worried and skeptical, and we have reduced the exposure significantly and continue to do so as at the last renewal. I don't know -- John, do you want to?

John Robert Dacey
Group Chief Financial Officer

With respect to the dividend, you're exactly right. The amounts that will be paid in April after the AGM are in excess of the U.S. GAAP earnings. What we've explained is the way we think about the dividend is related to our economic balance sheet and our economic earnings.

In March, we'll present the EVM figures for the full year and the development. What we've shown in the past is the economic earnings over any period of time, and we usually go with 5 years, have been far in excess of the dividends that we pay. In this particular year, we don't expect the EVM earnings to actually cover the dividend. But we also think that the earnings expectations for the group, not just in 2023, but also in future years, remains very robust, and we are comfortable maintaining the dividend at the current level.

And so just to reiterate, this is the first year that we're pricing the dividend in the U.S. dollar terms rather than Swiss franc terms. But as Christian mentioned before, the objective is to keep the dividend effectively stable, and under $6.40 should relate to a Swiss franc payment, which is very close to the CHF 5.90 that we paid last year.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Are there any more questions?

Unknown Analyst

I would have 2 questions. One on inflation. If you could help us look a bit beyond the figure, give us some color on how it is affecting you, you're reaching [indiscernible] I guess, the repair of a car is more expensive. If you could give us a more -- a bit more color on this?

And the second question, you mentioned some concerns on climate change on how it has played into the price increases for nat cat. Is that a concern on your side? Or is that on your client side? Are they more worried and willing to buy more and pay more for coverage because of climate change?

Christian Mumenthaler
Group Chief Executive Officer

Yes. I'll give my best, I'll try, on the first one to make it more [illustrative]. But of course, this starts on the primary side. So primary companies will, for example, repair cars, as you said, and their parts last year sometimes went up 20% more expensive, so massively more than CPI.

And so for example, motor business is more touched by the increased cost of repair, which can be decoupled from the CPI. And so the primary company typically sees this shock coming and then needs to think how they can reprice. Can they reprice? In some jurisdictions, you need to file for new prices. So it takes -- there's a time delay and it needs to be approved by regulators in other jurisdictions.

You can, but you're subject to competitive pressures. So you might not want to lose all the business at once. So it first hits you and then the industry adapts over several months to a new pricing level, and then it should be okay. And then we are behind that. So we are -- we would take -- if we take a proportional treaty, so we'll be exposed to exactly these risks, so have to see this deterioration and then new equilibrium.

If we price non-proportionately, so if we are not attached directly to them but can set our own price, then we have to make our assumptions about how this is going to affect everything.

And then as we look at the reserves, which has been set for claims that are going to come in every line of business, we have to think each of these on businesses exposed to different types of inflation.

So we have to -- our economists have to make prediction about the development of inflation this year and next year and the year afterwards on all of these wage inflation, health inflation, spare parts, inflation in motor, et cetera.

And based on that, if the reserves are set with a certain assumption, they have then to increase reserves by, as we said, more than $1 billion. This is sort of a relatively complex calculation based on everywhere. So hopefully, this gives you a bit of sense of how this is done.

And of course, if -- during this year, the overall view of the future inflation changes to either positive or negative, we could adapt these reserves. On climate change, I think it's -- this is a huge industry topic. It's a huge topic for our investors, as you can imagine. And so there's a lot of pressure, a lot of questions, certainly last year, do you know what you're doing, and all of that.

And so we have about 50 scientists in-house, who are constantly close to these models. The science has different views depending on the perils. So the pure signs on the hurricane side, for example, is not completely established, whether it's climate change or the other factors, if it's just a phase of higher activity.

But on some others like flood and drought and what we call the secondary perils, it's scientifically clear that there's significantly more losses. And over the last 4, 5 years, we have constantly adopted these models and significantly so in many instances.

So -- we, obviously, with the knowledge we have and the people we have, we believe we can follow it. But it means the price basically gets -- ends up with the consumer. So these are pricing signals for -- if you build houses in the floodplain, you will see insurance go up and up and up until you either build a house in such a way that it's safe or you build it somewhere else.

So the topic of not being able to cover at all is not yet a big topic because you can still price everywhere. But clearly, the prices are going up and this will have some political backlash depending on where you are, in which country you are. So it's a complete priority for us to be on top of that and understand -- try to understand the trends and price it correctly.

Unknown Analyst

If I may have a follow-up question. Do you see increased demand from -- and for my first question on inflation, are there any -- I mentioned the spare parts because that's one of the things that came up in one of your report earlier during the year, but are there any specific sectors where -- which are the sectors that have seen the most inflation last year?

Christian Mumenthaler
Group Chief Executive Officer

I would say the spare parts, but in terms of impact on us, it's more the normal CPI and the property side that had the biggest impact on our reserves, which is basically replacement value of what you objectively have at home when there's a disaster.

So increased demand, not necessarily because our clients are also limited in terms of what they thought their reinsurance budget was. So there's a tendency to stick to the budget. And if you can't get the same recovery at last year to keep the budget but move the covers up. So we had a movement of covers to less-frequent risks so sort of de-risking, which means there's also less premium attached even if the premium becomes bigger.

And so I wouldn't say that there was a significant increase in wanting to buy. Of course, they themselves had inflation so that the value of what they have to ensure is inflated. And at the same time, there was several reinsurers retreating or cutting some of the capacity, which is why you saw this price increase.

But we haven't seen -- I don't think there's much more premium in the market itself than there was a year ago. And this might change, of course, but at this stage, that's what we're seeing here.

Unknown Analyst

Maybe on the same topic, you said higher attachment points, other sides of the risks as well, climate risk, would you say that you reduced your nat cat exposure in a whole? Or on hurricanes, especially, how you manage these risk exposures?

Christian Mumenthaler
Group Chief Executive Officer

Yes. So there's probably different ways of answering because it's complex. So purely from the whole nat cat portfolio and the expected loss we -- with all the mathematics, we would expect -- how much claims would we expect in 1 year, it's about stable.

It's $1.9 billion. And that includes, of course, what we think we're going to write a bit later in the year. So the $1.9 billion is for the year. So in that sense, that's stable. What changes is probably the type of events we're exposed to. So if you're lower down closer to the risk, you're much more exposed to smaller events like floods, droughts, and all of these secondary perils. They play a bigger role if you're further down, which means as you need to have good models to understand them, and all of that.

And by moving up, what it means is we can write maybe more business, but it's higher up which means it's not exposed -- not much less exposed to some of these risks, is much more exposed to big earthquakes or big hurricanes.

And so it means that in terms of frequent, small events, you should see less. And of course, if there's a very big event, then you have more. So it's a shift in the types of exposure you have. Overall, on average, we think we increase these -- the layers by about 50%.

So it's a significant uptick and should avoid some of these constant losses from smaller events that we have seen in the last few years.

Unknown Analyst

I have another question on your -- you mentioned exceptionally good renewals. I'm wondering to which extent these price increases are real, I mean, in real terms. And on the back of this, I'm also wondering where we are going to see in the primary markets, the highest price increases in the future.

Christian Mumenthaler
Group Chief Executive Officer

Yes. So if you look through the whole value chain, the consumers and then primary companies, reinsurers in the back and then there's even capital markets sometimes or what we call retrocessionaires or other reinsurers ensuring. The last few years, the increases have been more at the front line.

So primary companies, but also commercial players, they were able to increase prices much more, like CorSo. Basically, you can see in CorSo, we're able to rise much more. And for reasons of competitive situation in the reinsurance market and I guess also some previous reserves redundancies, which were released in a time there was less pressure there. The prices haven't risen as much.

So I see this more as a normalization of these increases that have taken place so far also coming through to the reinsurers. And how this will impact? Of course, I can see it in CorSo, the reinsurance costs go up a lot. So it creates a feedback loop for -- and also discipline, of course in entities like CorSo, who knows they cannot have a softening now because their reinsurance prices to protect themselves have gone up.

But overall, of course, if you think a trend like climate change, in the end, it means higher cost. A trend like social inflation in the U.S., somebody is going to pay for it. And for the economic system to work longer term, it will be passed back to the consumers, of course.

Otherwise, you have no entities supported by a shareholder, who will take that risk. So I think both climate change -- also an inflationary pressure to a certain extent. And then on the real, of course, I don't know exactly what you mean by that, what we measure, of course, there's some pricing tools.

We increased them or update them at -- during the year before we go into renewals. So this is where the -- this 13% increase of expected loss comes from, but it's an estimate. It's -- experts saying it's about 2/3 is because of inflation, 1/3 is because of price increases in nat cat models.

And then as you achieve a price, you basically divide it by the claims you have calculated, and this is how you get to the 18% increase. So certainly, in terms of how we do business, we see them as very real. But the net benefit is this 5% between the two.

So -- and the 5% gets only -- only part gets earned through this year, which is why you don't see a massive improvement of combined ratio within 1 year. This will have an effect over several years, yes.

Unknown Analyst

Can I follow up on this one? I mean, as far as I understand the traditional cycles of your industry, your profits went up when the profits of the -- of your clients, the primary insurers basically went down. So more or less in a -- and now you would -- the pattern you're describing now is, to some extent, the opposite.

I mean, your clients have good profits, and you are in a position to increase your prices as well. That's, at least from my perspective, a new phenomenon.

Christian Mumenthaler
Group Chief Executive Officer

So I think typically, this is coupled, but it's not always exactly in time. So what happens is if the industry overall makes profits, there's more people coming in, more interest in growing, it really wants to grow. So this is true for primary companies, for reinsurance companies.

And it is price competition and prices go down. So overall, of course, it would be easier if they're always the same, but there's some differences. But overall, when the industry goes in a better place, it goes up. If you have high profits like we had in the years before entering the soft market.

So in the years '12, '13, '14, '15, were very good year, certainly for us also, but also primaries. If you have 2 good years, then there's just capital coming in. And you see reinsurance prices going down and some of that is not like insurance company can just profit from that.

Some of that, they will also pass through to the consumers because they also compete in their fields. The thing is -- it's just -- there's a bit of a time delay, but typically in a hard market, it's better for everybody in the industry.

Unknown Analyst

You are talking about increasing profit -- P&C profitability for a year goal of $3 billion in 2023. But based on your calculations in the first 9 months of last year, you made a net income loss or negative net income of $0.3 billion. So did you change anything on your calculations or your assumptions based on this experience?

And -- regarding the earthquake in Turkey and Syria, do you already have some assumptions on how you're affected by this huge tragedy? And my third and last question, does the restructuring of the organization have anything to do with the departure of Thierry Léger as your Group Chief Underwriting Officer?

Christian Mumenthaler
Group Chief Executive Officer

Okay. Thank you. Let me tackle those. So rather than maybe say how we come to $3 billion, I can maybe use what analysts who publish their estimates for the year estimate. They estimate $3.2 billion for the year.

And the way they would do it, and their calculation is, of course, take the last year and then try to adapt for all factors. So if it's one-offs, they take them out, so COVID would probably be out there. Then you have increased interest rates, which will come through.

So we had a significant increase in net income on the investment side already in Q4 compared to last year. So you put that through. On the inflation side, they would assume things are done and so on. So every analyst, of course, will have a -- his or her own view about all these factors.

But you basically take the one-offs out, you take the increase in run rate on the investment side, on the underwriting side, with the renewals we had, you can calculate that. And this is how you get to a number like that, which is why -- this is why it's not -- bigger than $3 billion is not a surprise for the market.

John Robert Dacey
Group Chief Financial Officer

I'd also say that in 2021, our P&C Re business had a profit of $2.2 billion. So the idea that we can make a major contribution to overall group result is we've been recently evidenced and we would expect the P&C Re business to be back into a strong profitability this year.

Christian Mumenthaler
Group Chief Executive Officer

Then -- yes, Turkey is here, an incredible tragedy. I mean, the number of deaths is increasing still every day. I think it was more than 40,000 right now, but it's expected to go further up.

So huge destruction. I would say, to certain extent, unfortunately, this is not very much covered because the insurance penetration in these regions is extremely low, which is part of the issue that if you look at economic loss versus insured loss, is typically a gap of 50% or even more that is not insured all across the world.

But in regions like that, even less so. And I say unfortunately because this is obviously our goal to have a higher penetration, be able to be active and help societies recover in regions like that. But we don't have estimates yet.

This is a low penetration, but it doesn't mean it's 0. So we will have to see as things get clear how much we have, but this is definitely still premature for us to say anything about that. Yes. No. And of course, no, the -- Thierry Léger was part of the executive committee when we started to plan this reorganization.

So we worked -- this takes a long preparation time before we go into it. And so it's co-designing it, and we, of course, looked at other companies and how we could organize in a way to take out a layer and it was basically his desire also to have the next generation come through and come and work here and he had his own plan.

So we're very grateful that he helped us with this renewal, and I wish him personally a lot of good luck to all of us.

Unknown Analyst

I have 1 question to that subject as well. I remember you made a similar organizational change about 10 years ago when you created this holding company. And basically, you came up with the same arguments, closer to the market, closer to whatever to the clients and et cetera. Now you're going to go even closer or didn't you go that close that time?

Or -- I mean, maybe you can specify a bit. And the second question is, this iptiQ business, your -- I mean, it's, in comparison to the general numbers of your company, is relatively small. But I see you're investing a lot of money there, taking a lot of losses. I remember you did similar things with CorSo a long time ago.

You spent a lot of money on CorSo. Now CorSo seems to be profitable. And -- but I mean -- how -- from a broader perspective, do these things, these initiatives, take Swiss Re really forward?

If I look at the performance -- if I make a performance comparison with Munich Re, which is definitely less innovative than Swiss Re in terms of business model, they are just far more profitable than you are.

Christian Mumenthaler
Group Chief Executive Officer

Okay. So let me go to the organizational structure. First, you're right, it was 2012, and the idea of the holding company was to hold the different businesses underneath to get quite a lot of independence.

But what happened in the meantime is we basically -- so CorSo hasn't grown as much for all the issues we had, and so we couldn't do any large transaction there. And the Admin Re business we had at the time was IPO-ed. So this whole holding structure is a heavy structure for -- if underneath, you just have reinsurance basically and then CorSo and a little bit something else.

So it just becomes too heavy. So I think this is normal for organizations. If you're 160 years old, you need to change your organizational structure periodically. Otherwise, you get sclerotic. It's really important to refresh it. So I don't look at it in a cynical way.

I think it is important to think what is the future, where we are now and what's the next 5 to 10 years. The structure will not be for the next 100 years. Obviously, it shouldn't be, but for the next 5 to 10 years. And in that context, it's just too heavy. So we can take a layer out. We can have reinsurance split into 2. We -- and we can shift some of this decision power closer to the front.

Basically, these market units have 1 level less to me in this structure. So I'm going to be closer to these markets. And I think it's a good structure. We're all convinced it's a good structure for the next 5 to 10 years.

So I think it's part of corporate life to adapt your structure from time to time -- not a legal holding, but the philosophy that sort of the EC is on top and as very independent businesses that's different. So we have -- we're basically closer to the business the way we're going to do it. Yes.

In iptiQ, yes. So if you do a start-up, you can get philosophical about it. But I think an organization needs to live, needs to have new initiatives, needs to come up with new things. If all you do is just optimize cost and shrink or so, this is extremely dangerous for any organization.

So there's always going to be new initiatives. New initiatives means investments. They take time. any start-up in the insurance space will take a life -- start-up. If you just use a spreadsheet, it will take about 7 years to be breakeven. It's just normal. Whatever you do, no matter how successful you are.

So -- if because -- of course, now 7 years old, but then we launched several new iptiQs within that. Last year, we shifted priorities to getting to breakeven by 2025. And by doing that, we had a changing management team and we wrote down certain things. We cut some participation. So I think it's a bit of a normal phase, probably in the start-up, first phase after the heavy growth, you start to think, okay, how can it be more profitable and focus on that.

So we basically have a plan forward to get to breakeven in 2025. And clearly, the numbers last year were disappointing with all these corrections we took in the business. But fundamentally, I think it's a very interesting business, B2B2C.

We will follow all the start-ups and initiatives that exist on the insurance -- in the insurance space. We think it's very challenging to create a direct-to-consumer, new digital proposition. So that means one that directly sells to consumers because it's very expensive to acquire consumers. And so that's why iptiQ is what we call B2B2C. So we work -- we -- that part is -- somebody else is doing, who has consumers, and we are behind.

So we help institutions, who want to sell to their own customers, but don't know how to do insurance. We help them to do that. So I think it's a strategically attractive model. Of course, it goes through its phases.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

We'll take some questions from Teams now. We have a few people waiting there. [Jonas Tauber], please unmute yourself and ask your question.

Unknown Analyst

One learning question first. Many of your competitors give their numbers in IFRS 17/9, you don't. Could you tell us why and how your numbers after U.S. GAAP would compare to IFRS 17/9, if this is possible. The second question is the segments, you have profits all about like between [indiscernible] million over the year. But the only negative items, the group items.

So I think this is on the Page 20 of your presentation. Could you give some details about what is behind this $742 million. And then I would be interested if the restructuring plays already down in the way how you present your numbers and in what way.

John Robert Dacey
Group Chief Financial Officer

Yes. So the transition to IFRS is actually in front of us. As a U.S. GAAP reporter, we had a bit of a choice as to when we wanted to make this move and the benefit, obviously, as you say, will be to have comparability, but we will start from January 1, 2024, so 1 year behind everyone else.

In this year, we will be reporting U.S. GAAP the way we have and in previous -- and so the standard is unchanged for us. I think you're starting to see our competitors or most of the European insurance companies and reinsurance companies start to disclose how they will show their accounts and the KPIs associated with it. The impact this has fundamentally on their balance sheet and on their earnings.

What we can say is the work we've done, the modeling and the preparation around IFRS has 2 important impacts for Swiss Re. The first one will be with respect to shareholders' equity, where the volatility that you saw in U.S. GAAP based on these interest rate moves is very much more muted in IFRS 17.

And the starting point for our balance sheet in beginning of 2024, we would expect that it would be materially above where the current U.S. GAAP number is for shareholders' equity. Now again, that's an accounting reclassification. It doesn't mean anything for our economics, but it does mean that the look will appear a bit different under IFRS.

The second important piece, which Christian alluded to in his presentations, was -- is that the profit recognition on our Life & Health business will be different than it has been in U.S. GAAP, where most of the profits are deferred for literally decades. In IFRS 17, you will see some of those profits, not all of them, but some of them come through sooner.

And so the overall profitability from our Life & Health business will be materially higher in IFRS 17 than it has been in U.S. GAAP. So those are the 2 things, which we expect to be able to give you much more detail later in the year, as we ahead close to our own range and reporting.

With respect to group items, you're right that there's -- actually, if you dig back into the appendices, you see more on Page 38. Of a total loss of $742 million, as we referenced about half of that is the iptiQ loss that we've spoken about -- that gets booked in the group items. The rest is a series of other positions and a number of investments, which during the course of the year did not perform well. These are equity positions that we have in our Principal Investments segment, which lost value during 2022.

In previous years, they've been much more positive, but they contributed to this. So there's some other expenses and foreign exchange impacts that show up in this line item. And lastly, because of the nature of the losses that are booked here, we don't get much of a tax benefit for the loss.

So there's the one thing which is a little odd is the after-tax loss is only 8% smaller than the pretax loss. In a normal set of accounts, you would have expected that to be sort of 20% smaller. So there's about $100 million from a reduced tax benefit on these losses.

Over time, we would not expect this group item number to be anywhere near as large in 2023 precisely because we don't expect the investment losses to replicate in this coming year and a couple of the other items that might have been specific.

We also expect the iptiQ numbers to look better year-on-year because we don't have the $70 million one-offs that we did in 2022. Another question?

Unknown Analyst

The other question was about...

Elena Logutenkova
Head of Media Relations & Corporate Reporting

I'll take actually perhaps the last question from [indiscernible] on MS Teams because we're running over time already.

Unknown Analyst

And just -- my third question was how the restruct -- if the restructuring plays out in a different way that you present your numbers in a different way, I guess...

John Robert Dacey
Group Chief Financial Officer

Sorry, the presentation numbers will be exactly the same in -- with the restructuring. And in fact, the organization will now more closely reflect the way we show our numbers, with Life & Health and P&C separate.

We'll go back to...

Elena Logutenkova
Head of Media Relations & Corporate Reporting

[Maximillan], go ahead.

Unknown Analyst

I see high volatility in your profit in the last year and your expectation for the next year. Do you expect it to stay this way? And how this affects your dividend policy strategy and maybe rating sensibility?

John Robert Dacey
Group Chief Financial Officer

Yes. So the volatility has been there. Obviously, the losses that were suffered as a result of the pandemic, not only in Life & Health, but also in P&C, were a major contribution to the -- to that volatility in the last 3 years.

We believe our underlying earnings are in very good shape. We think the reserving positions that Christian referenced give us a very good position to start the year with. And so we believe we can also absorb considerable volatility on the natural catastrophe side, the $1.9 billion of expected losses, and without having any real pressure against the $3 billion profit target that we have in front of us.

By definition, our business is more volatile than a retail insurance group, but we think we've got enough cylinders firing at the moment for us to be comfortable putting that guidance out to the market. And [Maximillan] I'm not sure I understood the very end of your question.

Unknown Analyst

Volatility, will it affect your strategy for the future [indiscernible].

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Unfortunately, we can hardly hear you. There must be something with your microphone.

Unknown Analyst

I think it's okay. I got what I need.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Okay. Perfect. Thank you so much. I'm afraid this is all the time we have for today. If you still have further questions, please reach out to media relations team. We'll be happy to take them there. And just to quickly remind you, we're also holding an analyst conference later today at 1:30, and you're all welcome to listen in if you wish. Thank you very much, and goodbye.