S&P Global
Market Intelligence

Swiss Re Ltd SWX:SREN

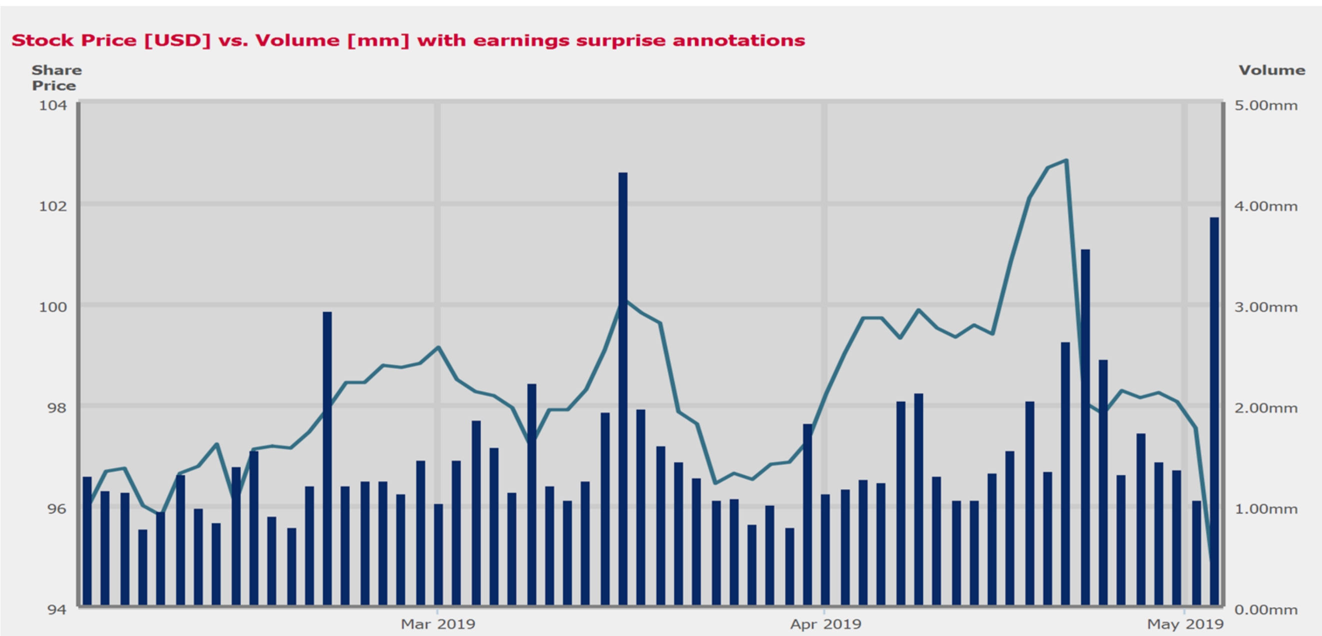
FQ1 2019 Earnings Call Transcripts

Friday, May 03, 2019 6:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	-	8.86	9.75
Revenue (mm)	8654.97	8775.00	▲1.39	8811.87	35601.76	36817.06

Currency: USD
Consensus as of Apr-29-2019 9:30 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	2.75	-	-
FQ3 2018	-	-	-
FQ4 2018	-	-	-
FQ1 2019	-	-	-

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Call Participants

EXECUTIVES

John Robert Dacey
Group Chief Financial Officer

Stefanie Weitz
Head of Media Relations
& Corporate Reporting
Communications

ATTENDEES

Michael Shields

Patrick Winters

Unknown Attendee

Werner Enz

Presentation

Operator

Ladies and gentlemen, welcome to the first quarter 2019 media conference call. I'm Seva, the Chorus Call operator. [Operator Instructions] The conference is being recorded. [Operator Instructions] The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Stefanie Weitz, Head of Media Relations and Corporate Reporting. Please go ahead, madam.

Stefanie Weitz
Head of Media Relations & Corporate Reporting Communications

Thank you, and a warm welcome also from my side to today's call on our first quarter 2019 results. I'm here with our group Chief Financial Officer, John Dacey, who will now, after a brief overview on today's numbers, answer your questions at the end. And with this, I already had over to you, John.

John Robert Dacey
Group Chief Financial Officer

Stefanie, thank you, and good morning also from me.

I'd like to highlight some of the main points of this quarter's results, which, from our point of view, were mixed but with some very interesting positives on a going-forward basis. Overall, we generated an excellent Life & Health Reinsurance performance and very strong investment results with a return on investments of 4.5%. This was partly offset by large losses in both of our Property & Casualty businesses. And as a result, our group net income was USD 429 million. In an improving price environment, we are happy to see net premiums earned up by 5.5% to USD 8.8 billion with growth across all business units. At constant exchange rates, that growth was an even stronger 9.4%.

Let me provide a little bit more detail, starting with the P&C Re. The segment delivered a strong increase in premiums, but the result was impacted by claims from large losses and net income decreased to USD 13 million of profit. This was primarily driven by the increase in the loss estimate for typhoon Jebi. That increase was in line with a material increase in the total market loss, which we believe today sits at just short of $13 billion for the industry The result was further impacted by large claims from the North Queensland floods in Australia and by the Ethiopian Airlines crash and the subsequent grounding of Boeing's 737 MAX fleet.

Net premium earned for P&C Re increased by almost 11% to USD 4.2 billion, supported by large transactions in the quarter. The April renewals were another encouraging sign for P&C Re. Trading volumes overall increased by 18%, and price increase improved by 1%, driven by the renewals in Japan where Swiss Re could reinforce its strong position. Specifically in Japan, we saw premium volumes increase by 10% and the price quality improved by 7%. For those portfolios which were hit by major losses in 2018, our price increases were actually even stronger, between 15% and 20%.

Now turning to Life & Health Re where we saw excellent results with a record first quarter net income of USD 328 million. This was driven by an active portfolio management, improved mortality developments in the Americas and a very strong investment result, which supported the segment. Overall, the return on equity for Life & Health Re was 19.6%.

On the other hand, Corporate Solutions reported a net loss of $55 million for the first quarter of '19, heavily impacted by large- and medium-sized manmade losses, particularly from prior year events. As you know, the business unit is undertaking a comprehensive review of all business lines and reserve positions, and we expect to provide more information with our first half results.

Net premiums earned increased by 12% to shortly over -- to slightly over USD 1 billion, also driven by rate increases and opportunities to write new profitable business in certain lines. We expect the positive momentum in commercial insurance rates to accelerate during the year ahead after a broad-based 5% rate increase in Q1.

Life Capital delivered a gross cash generation of USD 300 million in the first quarter. This reflects the proceeds from a sale of a further 10% stake in ReAssure to the Japanese partner, MS&AD. We continue to explore potential IPO with ReAssure in 2019. Within Life Capital, the open book business grew strongly for the first quarter with the gross premiums written rising 14% year-on-year at constant exchange rates.

Stepping back from BUs, I'd say overall the results in the first quarter demonstrate the importance of our diversified business model and the continued positive momentum in Reinsurance renewals and commercial insurance rates gives us confidence for the outlook.

Our capital position remains robust and the financial flexibility high. This allows us to continue repatriating excess capital to our shareholders. In addition to the 12% increase in the dividends that were played out last week to our shareholders, the first tranche of CHF 1 billion of the share buyback program will start already this coming Monday, the 6th of May.

With that overview, I hand it back to Stefanie.

Stefanie Weitz
Head of Media Relations & Corporate Reporting Communications
Thank you, John. We are now opening the line for questions. [Operator Instructions] And with this, operator, could we please have the first one?

Question and Answer

Operator

The first question is from Patrick Winters from Bloomberg News.

Patrick Winters

Limiting myself to 2 questions as requested. Number one, normally, an IPO is a kind of acknowledgment that you could actually sell a company. So my question to you regarding ReAssure is, why are you exploring the IPO route and not a sale? Are you thinking about a straight sale?

Second question is on Corporate Solutions. I'd just like to get your feeling. What do you think it is that's dragging down Corporate Solutions? What's kind of dragging down the profit? Why is it kind of over time a unit that's not being profit-making?

John Robert Dacey
Group Chief Financial Officer

Sure. Happy to answer both those questions. Let me start with the second one. I think over time, Corporate Solutions actually has made profits. I think we're in a challenging moment of the market. We've identified the portfolios, which are particularly problematic. It goes back especially to the U.S. liability book of business in the Corporate Solutions portfolio. That's a segment which we started pruning back aggressively last year and continue to reduce in terms of exposure. The problem is that the business that was written in prior years continue to have exposures, and we're systematically looking at the correct level of reserves that are required for individual cases as well as for broader bulk reserve positions.

I think you saw that we've brought in a new CEO of the division. Andreas Berger started on March 1. We believe that there are important and value-creating business lines, which Corporate Solutions can continue to grow, and so the company will be repositioned here. This is an industry challenge where pricing was weak across the industry. I think you see other large players in this space, especially in the Americas, acknowledging that the price increases were needed, but actually are being achieved here in 2019, consistent with what we've seen ourselves with a 5% across-the-board rate increase. We believe this business can return to an important level of profitability for the group, and we also believe it can profitably grow as we've demonstrated here in the first quarter.

Back to the question on ReAssure. We are preparing for an IPO largely because we believe that the ultimate decision to go to market or not is entirely in our hands, and we're not dependent upon other bidders choosing to make an offer or not make an offer. We said in the past that if someone was interested in acquiring ReAssure, we would be open to discussions. But we ourselves, I think, find it necessary to take the destiny of ReAssure in our hands, and that's why the IPO is our base case and actually why we continue those preparations at pace.

Operator

The next question comes from Michael Shields from Reuters.

Michael Shields

Just to follow up on that. I mean if someone would still make an offer for ReAssure, would you entertain it? Or do you think that you're certainly moving in the direction of an IPO? It looks like from the release today, it was written by lawyers, but maybe you could cut through and explain to us a bit more about what's happening.

John Robert Dacey
Group Chief Financial Officer

So the release wasn't written by lawyers. The lawyers reviewed the release. I will grant you that. I think as we've been saying for some time, we continue with these preparations. I -- and never say never to someone coming in at the last moment, but at this point of time, the IPO is our expected route here.

Operator

[Operator Instructions] The next question comes Werner Enz from NZZ.

Werner Enz

I would like to ask about the incident of the Boeing 737 MAX. I suppose, especially the business interruption is the cause of the costs you're incurring now? I just wonder how you calculate this type of loss because it's totally unforeseeable when the next will fly again?

John Robert Dacey
Group Chief Financial Officer

Evan, thank you for the question. You're exactly right. This is a challenging estimate to make. We actually have this loss in 2 places when you go back to the Ethiopian Airlines crash itself. We've acknowledged that there's a $90 million charge in Reinsurance related to the 2 events, both the crash and Boeing's grounding of the fleet. A number somewhat less than half of that is actually charged at Corporate Solutions absorbed for the same events.

With respect to estimating the Boeing loss, I think our team has done the best they can in working with other insurers that are on risk here, looking at the policies that Boeing has to try to estimate how much of those policies are likely to be paid out and that's on the basis on which we've set up our reserves. It's not known, as you say, the ultimate outcome of this fleet and the potential damages that airlines may claim against Boeing for not being able to manage their own fleets. But we do have aviation experts within Swiss Re, and they are talking both with Boeing and with the other insureds that are on risk, including the lead insurers, to try to get the best estimate with the information we currently know. And that's why we've put up the $90 million for Reinsurance for these related events.

Operator

The next question is from [Thomas and Partner] from [indiscernible].

Unknown Attendee

Question goes to the investment result. How far do you think the results for the first quarter is sort of positively impacted by the readjustment of the stock exchanges? I mean, are they by the hike of the stock exchange in the first quarter? And how do you guide us to assume that, that sort of result will continue through the year? My assumption is that it will -- the return percentage will lower probably during the year. Can you give us some guidance on that, please?

John Robert Dacey
Group Chief Financial Officer

I'm happy to try to put some parameters. I actually can't give you guidance where equity markets are going to go. I'm sure there are many better experts than me to judge that, but you're right. We were flattered in the first quarter by strong equity markets around the world. It actually bounced back the losses that we had to put through our P&L in the fourth quarter of 2018. And so there was an overall very positive result from multiple dimensions. We acknowledge that the running yield for our fixed income portfolio is 2.9%. I think that's the starting point where in spite of continued low interest rates in many of our markets, we're able to maintain on what is the vast majority of our investment portfolio, a strong return of nearly 3%. I think the additional gains that came through the P&L are just as a matter of course, unlikely to be repeated every quarter.

We're not giving 4.5% as any sort of guidance going forward. But they were -- there was real recovery there, and we're happy to be compensated for some of the risks that we're taking in those markets. So again, the boundary that you can probably put are the 4.5% as reported, 2.9% the underlying. There will be volatility in this result, thanks to the change more than a year ago the U.S. capitals, where we have the write through the mark-to-market of listed equities, independent of whether we sell the positions or not. So what you saw here, I think, is just a major rebound from a weak second half of 2018, and we're very comfortable with the portfolio that we continue to hold and the risks that we're having on the asset side of our balance sheet.

Operator

[Operator Instructions] Gentlemen, we have no more questions from the phone at the moment.

Stefanie Weitz
Head of Media Relations & Corporate Reporting Communications

Well, then thank you all for participating, and let me allow you also to say thank you in person because this is going to be my last call for the financial results here at Swiss Re as I'm moving on to the new role within the group Communications Department, and it's my pleasure to hand over to Elena Logutenkova, who is my successor here at Swiss Re. And I'm sure the team and her will take good care of you. So thanks for your participation and have a good day. Bye.

Operator
Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.