S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

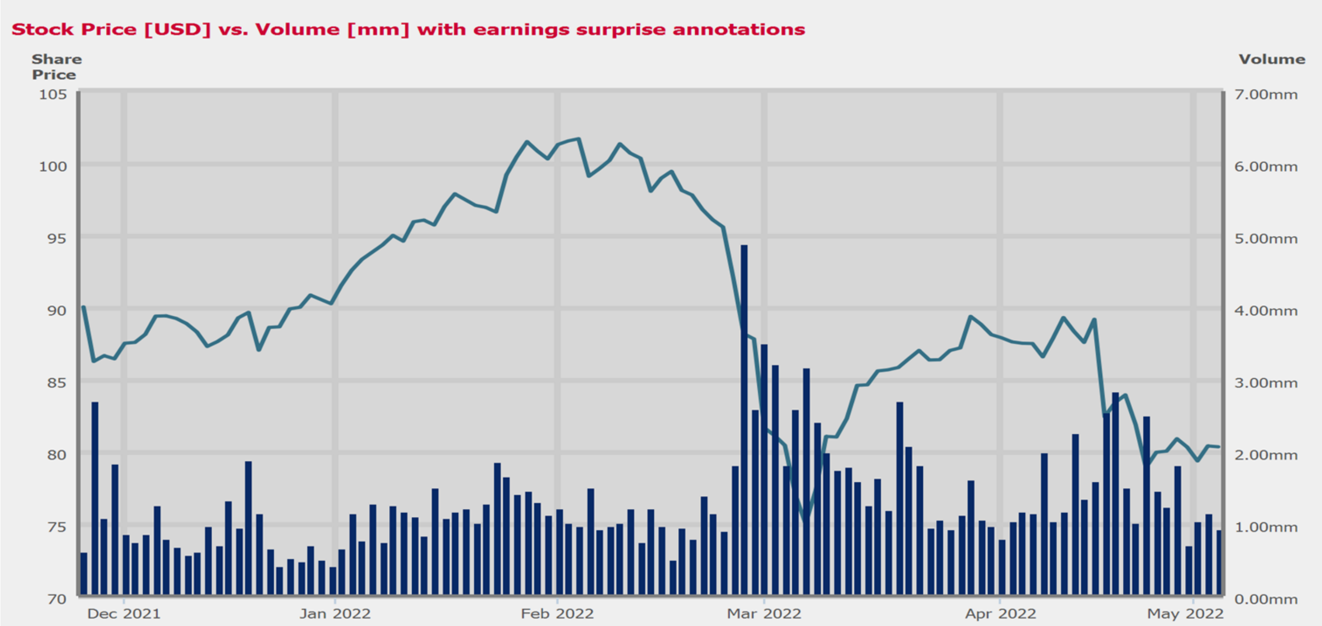
FQ1 2022 Earnings Call Transcripts

Thursday, May 05, 2022 6:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.53)	NA	NM	1.12	7.20	NA
Revenue (mm)	10557.15	10558.00	▲0.01	10940.25	43362.32	NA

Currency: USD
Consensus as of May-05-2022 12:14 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	1.69	NA	NA
FQ3 2021	0.94	NA	NA
FQ4 2021	1.90	NA	NA
FQ1 2022	(0.53)	NA	NM

Table of Contents

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

Ben Dyson

Unknown Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the first quarter 2022 Media Conference Call. I'm Alisey Chorus Call operator. [Operator Instructions] and 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 Elena Logutenkova, Head of Media Relations and Corporate Reporting. Please go ahead, madam.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Thank you, and good morning, everyone. Welcome to Swiss Re's First Quarter Results Media Conference Call. I'm here with our group CFO, John Dacey, and he will give you a brief overview of our results first, and then we'll be happy to take your questions. John, over to you.

John Robert Dacey
Group Chief Financial Officer

Thank you, Elena, and good morning to everyone. The first quarter of 2022 has been a challenging one, where we faced several headwinds and reported a group net loss of $248 million. While we anticipated some of the challenges in the quarter, such as the continued impact from COVID-19, Russia's invasion of the Ukraine at the end of February came as a shock to many, including us. We extend our sincere sympathies to all of those who have been impacted directly by this war. Let me spend a moment on the related economic impact of the war before we look at Swiss Re's results overall.

There's a very high degree of uncertainty with regards to potential impacts on insurers and reinsurers from this war in the related events. And so far, we have hardly seen any actual claims. We continue to believe as already disclosed at our Investor Day last month that the ultimate market loss for the industry could be similar in dimension to a midsized natural catastrophe events.

When it comes to the impact on Swiss Re, we do not have any outside -- outsized exposures relative to our normal market share in the P&C Reinsurance industry, and some of the affected specialty lines, we believe we have an underweight market position.

Nevertheless, we've decided to take a proactive and cautious approach, and booked reserves of $283 million related to the war in Ukraine in the first quarter. Based on current information, we estimate that the reserves we made in this quarter should cover a significant portion of our total ultimate loss from the war, covering exposures in both Ukraine and Russia.

Despite these reserves and higher-than-expected large natural catastrophe claims, our Property and Casualty businesses continued to deliver robust technical underwriting results.

Our capital position remained very strong, with the group SST ratio in the upper half of our $200 million to $250 million target range as on the 1st of April. This enables us to capture profitable growth opportunities in a supportive pricing environment. Net premiums earned and fee income for the group increased by 4% to $10.6 billion in the first quarter of 2022, and we achieved attractive growth in renewals year-to-date.

Our investment results were impacted in the first quarter by negative equity mark-to-market movements, which we have to book through the P&L according to the U.S. GAAP accounting standards, different than most of our European-based peers.

However, the recurring income yield remained at 2.1%, demonstrating the quality and stability of our asset portfolio. And furthermore, we expect our investment results to benefit from rising interest rates in the medium term.

Now let's turn to the results for the individual businesses. Starting with P&C Re, which reported a net income of $85 million for the first quarter compared with a net income of $481 million in the same period in 2021. These results reflected the strong underlying technical underwriting performance of the business, which partially offset elevated large nat cat losses of $449 million as well as $154 million of reserves for the Ukraine war. In addition, the business reported significantly lower investment results due to the market value losses on equities.

At the same time, net premiums earned rose by 5.8% year-on-year reflecting the volume growth as well as the continued price increases we've achieved. Importantly, this growth was achieved at stable cost as the business continued to improve efficiency. Reflecting the headwinds experienced in the first quarter, the combined ratio increased to 99.3% from 96.6% in the same period last year. On a normalized basis, the combined ratio was at 96.9%, and P&C Re remains focused on achieving its normalized combined ratio target of less than 94% for the full year 2022.

P&C Re also achieved good results at the April 2022 renewals. This business renewed contracts with $2.4 billion in treaty premiums volumes which represented a 15% volume increase compared with the business that was up for renewal. On a year-to-date basis, P&C Re grew treaty premium volume by a total of 8%, and achieved price increases of 3%. This fully offsets more conservative loss assumptions driven by, among other things, increased inflation.

Turning to Life & Health Re. The business segment reported a net loss of $230 million in the first quarter. This reflected the continued impact of COVID-19 as well as lower investment results. Overall, COVID-19 claims of $501 million in the first 3 months of 2022, we're at the higher end of the expectations. This is primarily driven by high excess mortality in the United States during the first 2 months of the year, while other key markets recorded only moderate impacts.

Nevertheless, we remain encouraged by the underlying performance of the business. And with excess mortality in the U.S. trending down significantly, Life & Health Re continues to target a net income of approximately $300 million for 2022.

In Corporate Solutions, the business unit achieved a solid result in the first quarter as its robust underwriting performance offset $129 million of reserves related to the Ukraine war, higher-than-expected natural catastrophe losses and lower investment results. Corporate Solutions reported a net income of $81 million in the first 3 months of the year, reflecting a moderate decrease from the $96 million of profit in the prior year period.

At the same time, net premiums earned rose 14.3% to $1.4 billion as the previously realized rate increases continue to earn through, and the business unit continued to grow new business and its focused portfolios. The combined ratio improved to 95.2% even after the 9 percentage point charge for reserves related to the Ukraine war. Corporate Solutions remains focused on delivering its full year target combined ratio of less than 95%.

Finally, let me also touch on the iptiQ results. In the first quarter of 2022, iptiQ continued its dynamic growth trajectory. Compared with the prior year period, the business increases gross premiums written by 38% to $230 million. This is primarily due to the strong performance of its Property and Casualty business.

To sum up, we have experienced substantial headwinds in the first quarter of 2022. We remain focused on executing our group strategy. Thanks to the strategic actions we have implemented over the past years, we are confident that all our businesses are well positioned to perform strongly and are focused on delivering against our financial targets. And with that, I'd like to turn back to Elena.

Elena Logutenkova
Head of Media Relations & Corporate Reporting
Thank you, John. We'll now open the lines for questions. Operator, could we take the first question, please?

Question and Answer

Operator

[Operator Instructions]

Our first question comes from the line of Ben Dyson with S&P Global Market Intelligence.

Ben Dyson

I was wondering if you could -- you mentioned the $283 million reserves from the [effects] of the Ukraine war. I was wondering if you could say what [indiscernible] business lines that covered. And if there was anything in there, in particular, for the aircraft leasing losses? And if so, how much if you could break that down?

John Robert Dacey
Group Chief Financial Officer

So Ben, thanks for the question. Again, I'd remind people that the level of uncertainty on these losses remains very, very high. Our teams have been working night and day to assess both, what the actual economic damages and what the insured loss associated with it is likely to be. We've built a series of scenarios. And in those scenarios for Swiss Re, the relevant lines of business include aviation, credit and surety, marine, political risk and political violence. Across these 5 specific businesses, we've decided on a scenario, which is not the worst scenario, but is also not the best outcome scenario in determining to book the $283 million. Those reserves do include specific provisions for aviation as well as the other lines of business.

Again, a high level of uncertainty, but with what we've understood, and the review we've done of our own wording for treaties that leave us potentially on risk. These numbers represent a significant portion of what we think will be the ultimate loss as of today.

Operator

The next question comes from the line of Mark Hoffman with AWP.

Unknown Analyst

Yes, also a question to the uncertainties on Ukraine. How do you manage when you're looking forward to the next quarter, this situation? Are you analyzing every quarter, then you will maybe step in with the other losses you were thinking that they will occur? And you mentioned you will see like this is a midsized nat cat event. Where do you figure these losses of a midsized nat cat event? Yes.

John Robert Dacey
Group Chief Financial Officer

Sure. So the -- this obviously is a issue which will be followed very closely by our teams week-by-week. I think the -- we believe we understand where our potential exposures are today. We have a good sense of the nature of the loss. What I can say is longer the war continues, the larger the insured loss is likely to be in some lines of business. And I think the example of credit and surety, where continuation is likely to result in more failed businesses that might have some insurance in the affected areas.

What I would say is we will evaluate this on a quarter-by-quarter basis. And if we see the need to book further positions, we will, and explain them as we book them. But I'd reiterate that right now, we feel that we've taken a fairly significant portion of the losses that we'd expect with the information that we have currently.

Your question about what a midsized cat would be, I guess the examples we gave at the Investor Day, we're focused around an industry loss of $15 billion. I think a midsize loss would be in a range somewhere between $10 billion and $20 billion. What I can say is at the moment, we'd probably be towards the lower end of that range for a market loss. But that can change, as I mentioned over time, and we'll see how this plays itself out.

Operator

The next question comes from the line of [indiscernible].

Unknown Analyst

Can I please ask you to -- well, I understand the reserves in relation to this war in the Ukraine is $283 million as far as I understood. You mentioned the different business lines where these reserves are being allocated to. It was a bit too quick for me. So I would like to invite you to repeat that list.

And the second question is about nat cat losses and COVID losses, maybe you can be a bit more specific where these losses -- in which businesses, these losses have occurred?

John Robert Dacey
Group Chief Financial Officer

Sure. Happy to walk through a little slower. So the insured losses that Swiss Re has some exposures on cover potentially aviation-related losses, and this is largely due to the leased aircraft that are currently in Russia, but owned by non-Russian companies. It includes credit and surety, which is the insurance related to the operations and delivery of goods for businesses, some of which might actually be in Russia or the Ukraine.

It would include marine insurance, which would have a subsector also related to aircraft, but also -- and more likely related to vessels, and potentially port operations, political risks and political violence, which are 2 very specific lines that some specialist companies write -- Swiss Re in these 2 lines is a relatively minor player as a reinsurer, and with no direct primary exposure that I'm aware of through our CorSo business.

So those are the potential lines for us. Unfortunately, the massive destruction that we've all seen in the Ukraine in terms of property losses is almost all uninsured. There would be wartime exclusions for any property insurance for the buildings, the infrastructure that's been damaged by the actual war activities.

Your second question on nat cats that there were 2 major sources for the quarter. In February, a large number -- well, actually 3 distinct European storms that affected Northern Europe, the Benelux, Germany, and also the U.K. resulted in, I think, about $120 million of losses for our business. And separately, an even larger loss coming out of Australia for the floods that were devastating to important parts of the country in February and March as well. So I think there were a couple of other smaller events, but those were the 2 significant ones at least for the Swiss Re's portfolio. And I apologize, you had a third...

Unknown Analyst

Yes. COVID-19.

John Robert Dacey
Group Chief Financial Officer

So on COVID, again, as we said, the losses we anticipated, we talked about this, both with our year-end results, but also in the Investor Day that we expect a significant first quarter loss. It was largely driven by the United States where the daily deaths attributed to COVID in January, early February peaked at about 2,700 per day. That has fallen dramatically as the Omicron wave is gone through the country, and we're now down to a little above 300 deaths per day, so a reduction of 85%.

But in the first quarter, these numbers added up. And about 80% of the total COVID losses that we've recognized in the first quarter were U.S.-based. There are other jurisdictions like South Africa, India, even the U.K. were minor by comparison but added up to about $100 million for the entire rest of the world.

Unknown Analyst

So the 2,700 deaths per day was in February, back in February, and now it's -- the figure has come down to 300.

John Robert Dacey
Group Chief Financial Officer

Yes. So I actually think it was probably the end of January was when the actual peak was. But -- and the first 2 months were surprisingly high mortalities in the United States. And our teams have made some estimates of what the ultimate cost will be, but that's, I think, a fair expectation of what these losses will end up.

Unknown Analyst

Okay. And the reserve for Ukraine is $283 million, right?

John Robert Dacey
Group Chief Financial Officer

That's correct, yes.

Operator

The next question comes from the line of Patrick [indiscernible] with [indiscernible].

Unknown Analyst

Maybe one word regarding inflation. Do you expect that to be at some point in the future where you need to strengthen your reserves for certain lines, especially long tail lines?

John Robert Dacey
Group Chief Financial Officer

So Patrick, we are monitoring very closely the impact of inflation for our insured losses. There is a potential a negative impact at the industry. We've clearly seen in some lines of business, actually, the supply chain disruptions for things like automobiles have created some spike in loss costs already for replacement parts and replacement cars.

You see this in the results of some of the primary carriers. What I can say is we've anticipated this increased inflation from back in 2020, where we've already made some moves a year on the inflation components of our solvency regimes. We've increased reserves along the way during 2021 for longer tail lines.

We funded that by places where we had redundancies in reserves, and other lines of businesses. We continue to aggressively adjust our prices where we see a costing need for increased claims cost, and we will continue to evaluate what might be required for our -- to be sure that our reserves are adequate through this inflationary cycle.

At the moment, we're comfortable. And as we did in 2021, our expectation is if we do need to make further adjustments, we're likely to find enough redundancy or capabilities in other parts of our reserves to be able to manage this without any particular dramatic impact on the group. What I can say is in the first quarter, what you would refer to as prior year development of reserves were flat in reinsurance, and modestly positive in Corporate Solutions.

Operator

The next question comes from the line of [indiscernible] with Bloomberg [indiscernible].

Unknown Analyst

I just had a question more -- a bit more broadly on the industry, and the potential further impact. So yesterday, there was discussion of the potential proposed ban by the EU, ban on the Russian oil shipping insurance. That's due to come into effect next month. And I was wondering how would this impact your business going forward? And is this also something you've factored in, in your current calculation of -- for the reserve.

John Robert Dacey
Group Chief Financial Officer

Thanks for the question, [Madam]. I guess my first response is, as a group Swiss Re is clearly responding and honoring all of the sanctions related to the war, the relevant authorities are putting in place to the degree that those sanctions extend in coverage. We will continue to respect and comply with them unambiguously.

Having said that, the specific issue that you mentioned, which is the early insurance, which would be a marine-related insurance for the transmission of energy, whether it's gas or oil, would be I think not material. If we -- to the degree that we've got any related policies or revenues, the reduction that would come by complying with such sanctions would not be a material for Swiss Re.

Operator

[Operator Instructions]

The next question comes from the line of Paul Arnold with Reuters.

Unknown Analyst

COVID-related payments in Q1 were at the upper end of expectations, as you said, is there a risk that full year payments will be higher or significantly higher than previously anticipated by you? And if so, by how much?

And the second question, how much of your claims budget have you already used up after the natural catastrophes in Q1? And maybe a third one. Any idea when to expect the first claims, for [indiscernible] in connection with the war in Ukraine?

John Robert Dacey
Group Chief Financial Officer

So with respect to COVID, as you correctly pointed out, the Q1 was probably a little bigger than we might have expected. We expected something large. And so we just need to wait and watch the development of deaths in the following months. What I will say is the decline has been sharp in the United States.

And when we look at other jurisdictions, which are in some ways ahead of the U.S. in the wave -- we actually see -- what we refer to all cause mortality. So the total number of deaths compared to the expected number of deaths from recent years in the same weeks or same months to actually be below. So the U.K. is the example where in Q1, all cause mortality in 2022 has been lower than what might have been expected by the average of pre-COVID numbers in the recent years.

And if this is replicated in the United States, then -- and we can't presume that will follow exactly the same development. But if it does, then I think the second half of this year will show very little, and additional COVID claims. The second quarter will have some, and we'll just monitor this very closely.

So our own view is the end result of the $300 million of earnings from our Life & Health Re business remains attainable, and we'll update you with the second quarter if that looks differently. But right now, we think the falloff in COVID-related deaths is likely to provide us the opportunity to return to profit for the full year, and the $300 million is an achievable positioning. And I apologize. You -- I didn't hear them.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

Our Nat cat claims versus budget?

John Robert Dacey
Group Chief Financial Officer

Right. So the -- on nat cat, we normally expect fairly modest loads in the first and second quarters of this year -- of any year, and the budget is, therefore, what tends to be a much heavier second half of the year, including in the third quarter, which is the hurricane season in the United States. We've increased our budget, partly because of the increase in exposures that we purposely built in 2022.

So the overall budget is $1.9 billion for the year. So the fact that we've had above expected losses in Q1, but certainly less than 25%, doesn't sort of overly concern us for the full year. Obviously, if you start off better, you're likely to finish better. But by definition, this is a fairly volatile mix. So the seasonality that we put into our budgeting means that we're comfortable that we have sufficient room to absorb additional losses during the course of the year.

So the somewhat heavy first quarter doesn't really throw us off in any dramatic fashion here. And that's one of the reasons why -- we also maintain that we believe our full year 10% return on equity target is still valid for us.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

And what do we expect first [indiscernible] from Ukraine.

John Robert Dacey

Group Chief Financial Officer

So the -- I was just reminded, you also asked about when we expect claims to come in? There's been some notifications, but that actually claims are -- I think people during the course of the second and third quarter, will try to do their own assessments of loss and managed through that. We really -- on a reinsurance side, we'll have to wait for the primary companies to make their own assessments of an insured covers.

As you're probably aware, that there has been a number of contracts, some related to the sanctions imposed which have been canceled, the nature of loss but also the timing of loss is going to be very important for people to sort out whether there is an insurance cover or not and who's responsible. It just remains enormously complicated. And even if claims are presented, there will have to be a real evaluation of whether they're accepted in terms of the legitimacy of the loss and the coverage.

Operator

Your next question is a follow-up from Mr. Ben Dyson with S&P Global Market Intelligence.

Ben Dyson

Just wondering if you could give any details on how [specially] you're going to approach the June 1 renewals, particularly in Florida, given the financial difficulties that the insurers are having there?

And also that sort of there's a shortage of catastrophe capacity. And I just interested in how Swiss Re is going to play that, and whether it might grow in Florida or increase exposure there given that it's generally looking to write more nat cat at the moment.

Christian Mumenthaler
Group Chief Executive Officer

Thanks for the question, Ben. I think I've mentioned a number of times that historically, we believe the Florida market has been underpriced and the rates that are required for the actual risks of loss in the state are not appropriate. And that's why we've been systematically underweight for this risk. We do have some exposures. I think in the current state of that market. What you see is losses related to what has been fairly moderate hurricane seasons have laid -- bear the fact that these prices have not been adequate.

There is -- there are issues around inflated claims and potential fraud, which for the legislature apparently is finally looking to address. But I think Swiss Re will continue to require adequate pricing for any risk that we write there. And if the market is prepared to accept our view of what the real risks are, and the expected loss costs, then we will write business in that market, but I don't think we're optimistic that we will find important price adjustments. If there are, we'll come in, but we will only do so at what we judge to be adequate rates.

Operator

[Operator Instructions] There are no more questions at this time.

Elena Logutenkova
Head of Media Relations & Corporate Reporting

All right. Thank you very much, everyone, for participating today, and we wish you a nice day. Thanks.

John Robert Dacey
Group Chief Financial Officer

Thank you.

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.