S&P Global
Market Intelligence

Swiss Re AG SWX:SREN

Earnings Call

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Call Participants

EXECUTIVES

John Robert Dacey
Group Chief Financial Officer

Monika Sasse

ANALYSTS

Ben Dyson

Unknown Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the First Quarter 2023 Media Conference Call. I'm Alice, the Chorus Call operator. [Operator Instructions] The conference is being recorded. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Monika Sasse, Senior Media Relations Manager. Please go ahead, madam.

Monika Sasse

Good morning, and welcome to our first quarter 2023 results media conference call. I'm Monika Sasse from Media Relations and Corporate Reporting. I'm here with our group CFO, John Dacey, who will give you a brief overview of our results and then answer your questions.

John, over to you.

John Robert Dacey
Group Chief Financial Officer

Thank you, Monika, and good morning to everyone. In the first quarter of 2023, Swiss Re achieved a net income of $643 million. Profitability improved in all our main businesses, supported by adequate pricing, higher investment results and cost discipline. This helped us absorb large natural catastrophe losses and seasonally higher mortality in the quarter. The return on investments increased to 2.8% in what can be described as a turbulent quarter, demonstrating the quality of our asset portfolio. The recurring income yield rose to 3.1% and is set to continue benefiting from higher interest rates.

Now let's turn to the individual businesses. Let's start with P&C REIT, which reported a net income of $369 million for the first quarter compared with a net income of $85 million in the same period in 2022. The business unit absorbed large natural catastrophe losses, including the earthquake in Turkey and Syria, for which we booked $426 million in net claims as well as Cyclone Gabrielle and the flooding in New Zealand in the first quarter. The increase in net income was driven by robust price improvements and higher investment results. The combined ratio was 97.2% for the first quarter. Considering that the business earns the majority of its natural catastrophe premiums in the second half of the year, P&C REIT confirms its full year target for a combined ratio below 95%. P&C Re also achieved good results at the April 2023 renewals. The business renewed contracts with $2.6 billion in treaty premium volume, which represents 5% volume increase compared to the business that was up for renewal. Overall, P&C REIT achieved a price increase of 19% in this renewal round, more than offsetting the higher loss assumptions of 13%.

Turning to Life & Health Re. The business unit reported net income of $174 million in the first quarter compared with a net loss of $230 million in the prior year period. The result benefited from a strong decline in COVID-19 claims as well as higher investment income. Considering the seasonality of high mortality during the winter months, Life & Health Re continues to target net income of approximately $900 million for whole of 2023.

The Corporate Solutions business unit reported a net income of $168 million in the first quarter compared with $81 million in the prior year period. The result is driven by sustainable underlying business performance due to continued disciplined underwriting, careful risk selection and adequate pricing. The combined ratio was 90.3% for the first quarter of 2023, well on track towards our target of achieving a combined ratio below 94% for the full year.

And finally, let me touch on the iptiQ results. In the first quarter of 2023, iptiQ reached gross premiums written of $218 million. The slight decrease of 5.2% from the $230 million in the prior year period was mainly due to the business shifting its focus to achieving profitability. At stable foreign exchange rates, the decrease was a minimal 1.6%.

To sum up, while the first quarter was not without its challenges, we're pleased with the results delivered by our businesses. We are confident in the outlook underpinned by successful renewals year-to-date, and we continue to focus on achieving our ambitious profit target of more than $3 billion for the group in 2023.

And with that, I'd like to hand it back to Monika.

Monika Sasse
Thank you, John. We'll now open the line for questions. Operator, please take the first question.

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've got a couple of questions. One was just on the catastrophe losses in P&C Re. I was just basically wondering if you could say what the actual number was for the catastrophe losses. I think in your presentation you said it's 11 points on the combined ratio, but if you could give the number there, that would be good. And also if you could say something about where that came in versus your expectations and what that means.

And then the second question I had really was just around your sort of approach to upcoming renewals, particularly Florida. And I guess, what's your expectation there and what your approach will be realizing whether you plan to write more or less given the sort of the changes we've seen in Florida.

John Robert Dacey
Group Chief Financial Officer

In the first case, vis-a-vis the nat cats in the first quarter, the total losses for P&C Re was just below $600 million, $597 million, I think, was a total when you add the New Zealand losses together with the Turkey earthquake. And maybe just a little bit of color there. The earthquake in Turkey, we estimate to have an industry loss of about $5.3 billion. So that's a way to think about the $426 million that Swiss Re has booked for the quarter. The nature of the loss is still developing in the sense that our estimate, we believe, is a good estimate of what the ultimate cost will be for us, but the data has been slow in coming out in terms of the primary companies and some of the specific pools in Turkey, which will manage these losses in the first case. And again, just for reference, this is by far the most costliest earthquake in Europe ever in terms of the insured loss related to it. It's probably 7 times, for example, the insured loss associated with the 2009 earthquake in L'Aquila, Italy from a point of reference. So you get a sense of just how big this has been, the thousands of structures destroyed in Turkey and unfortunately also in the Syria as well where the losses were typically not insured. Versus expectations, the total approximately $600 million is more than we would expect in a first quarter. It's a fraction of the total nat cat budget we have for the full year. But in the first quarter, we would expect somewhere closer to 20% of the $1.9 billion to be incurred during the first quarter. And so we'll see how that plays out in the rest of the year. We have no reason to expect the following quarters will be either worse or better than our expectations, but the first quarter was a little bit of a higher than expected loss.

On renewals, as you say correctly, in June, there's a focus on the Florida market in July, the rest of the United States. We observe the changes in Florida, it's not entirely clear what the impact will be for insurance companies. On balance, it's probably better. But as we've said for a number of years, we thought the Florida market was underpriced. We were underweight as a result of that. I don't expect us to be particularly enthusiastic in this space. We'll evaluate the risks and the pricing that we can achieve. What I would say is the 18% year-to-date price increases that we've seen on our reinsurance book, we expect to continue and for some of the loss impacted portfolios that get renewed in June and July, we would expect the price increases to be substantial and we'll evaluate what is the market as we go into it, but the expectations are clearly that we expect a continued firm pricing in the reinsurance market overall.

Operator

The next question comes from the line of [Mark Asman with AWP].

Unknown Analyst

My question goes to inflation trends. And how did inflation trends so far in this year play in the Swiss Re's business model. What were main challenges and how you cope with these challenges, of course, also with higher prices. Can you tell something about the inflation and Swiss Re?

John Robert Dacey
Group Chief Financial Officer

Sure, Mark, happy to. We started moving both on pricing and reserving vis-a-vis inflation in 2021. In 2022, we did substantial increases, both on price, but also on the reserves required for ultimate loss costs of claims. We've continued to evaluate the impact as we come into 2023. What you see in the discussion on the renewals is an increase in the loss picks of 13% year-to-date. The major part of that is inflation related. There are also some model changes on some specific perils around the world, which contributed to that increase. But I think it's safe to say at least 2/3 of that is linked to our view on inflationary trends on claims cost. And so we'll continue to not just monitor, but proactively move on what's required for making sure that we take a sufficient premium to cover loss cost in the future. I think the actions of the central banks clearly have had an impact in CPI. That's one important part of the claims inflation dimensions. But as we've described in the past, there are a number of other important dimensions, which we monitor and price for, including medical costs, including specific what's referred to as social inflation issues in the United States, in particular with respect to liability and casualty. And so as we go forward, we'll continue to evaluate that even if the CPI numbers seem to be coming down systematically in most markets.

Operator

[Operator Instructions] There are no more questions at this time. Sorry, we have a last-minute registration from the line of [indiscernible].

Unknown Analyst

I just wondered if you could say when you expect the Q to be profitable. You are right that you are underway on profitability. When do you expect this to happen?

John Robert Dacey
Group Chief Financial Officer

So we've explained in the past, our objective is to reach a breakeven in 2025. That continues to be our target there. And as I say, we continue to grow in certain products, certain lines, and we've pulled back in others where we didn't see the mid-term profitability for us. So I think this business is a dynamic business. We continue to invest in it. And 2025 is the target we put for ourselves to reach a breakeven position with it.

Operator

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

Unknown Analyst

Question goes to Corporate Solutions, where there is a sort of a flattish or stagnant volume. How are your ideas on growing or steering that sort of business?

John Robert Dacey
Group Chief Financial Officer

The published results actually, as you say, show a modest actual growth. When you go into the details, what you see is in 2022, we still owned what was a business called elipsLife and elipsLife was sold during the course of 2022 to Swiss Life. And as a result, the Q1 to Q1 is not exactly a fair comparison. When you look forward to what was done on a basis that is more like for like, you see, in fact, that we were able to grow the business more materially. And I think the overall view is we're on a nice growth path. We're cautious on certain lines where we've seen less inadequate pricing in the corporate risk positions and others, which are performing very well. We continue to grow even at a double-digit rate. And so on balance, the growth continues, but I think we're still being prudent on a few specific lines of business, where the rate adequacy is not where it should be.

Operator

[Operator Instructions] We have a follow-up from [indiscernible].

Unknown Analyst

Yes. I wonder how you sort of steer your own reinsurance, sort of transfer away from your balance sheet, some sort of business, some parts of business that you don't really like. How do you go about that.

John Robert Dacey
Group Chief Financial Officer

Thanks, Thomas. So we are active in the retrocession market. I suggest that it's not that we try to steer away from businesses we don't like. Our goal is to underwrite businesses, which we think are appropriately priced and will perform as expected. What we do is, in some cases, share that risk for one of 2 reasons. The first case, there are certain peak risks that we have and the most obvious one is the North American windstorm risk where our clients are looking for more covers than we are comfortable holding on our own balance sheet. And so we've got some specific instruments in place to have the capital markets absorb some of that risk and manage it themselves, but in a very transparent way and typically sharing the same results that Swiss Re does and the major form for that risk transfer is what we call a sidecar where we have external investors on a set of specific and well-defined catastrophe risks where their fortunes and our fortunes operate in very similar ways. When we have a good year, they've got a good year, when we've got a less good year, they've got a less good year. There are specific catastrophe bonds, which we also issue ourselves, which allow a further very specific risk transfer on named perils losses which are substantial size. So overall, we're important players in this market. We actually structure and will place catastrophe free bonds for some of our primary clients as well. And lastly, we have our own portfolio of catastrophe bonds, which we actively manage and most recently for institutional investors as well. And so Swiss Re is a major player in what's referred to as the alternative capital market space with ambitions to continue to grow both in scale, but also in the dimensions in which we're operating in this space with a very talented team that's based across Switzerland, London and New York.

Unknown Analyst

John, maybe I'll ask a question on that. These transfers or these risk-sharing processes, have they developed, for example, from last year to this year, have you done more of those sort of transactions about the same or less than in the past?

John Robert Dacey
Group Chief Financial Officer

So the overall market for this alternative capital has been fairly flat now for probably 2 years. Swiss Re itself has been able to expand its retrocessional capabilities. We've found a number of investors who are interested in either taking larger shares or new investors coming on to share these risks with us. And so we've been increasing our own retrocession capabilities and that allows us to increase the amount of business we write, especially on some of these very specific large catastrophe exposures, so that while our gross writings increase our net is maintained in a dimension, which is comfortable on our own balance sheet.

And there might be some specific information you can glean from the management dialogues that we did in London in March, I think, February, March of this year where we had a specific session on alternative capital partners. The team that does this for us, you can find that on our website.

Operator

Another follow-up from [indiscernible].

Unknown Analyst

Yes. Another one from me on cyber. Can you say how the premiums are developing like what's the volume of Swiss Re right now in cyber and what's your vision with this insurance like where do you -- is it like -- do you have like a goal, how much it should be of your business and so on so many years? How do you look at this? Is it insurable at all or maybe a short comment on this.

John Robert Dacey
Group Chief Financial Officer

Sure. So the cyber insurance market has seen 2 years of significant rate increases and re-underwriting to bring it back to profitability. These measures were a necessary reaction to the heightened ransomware activities, which impacted the line but also caused a substantial economic losses. We think the pricing today is probably adequate. We think the risk is challenging. And in particular, the part of the risk that a global reinsurer like Swiss Re has to pay enormous attention to is the accumulation risk. The fact that losses in cyber are not contained to specific geographies or even specific industries, but they can cut across those geographies and industries and accumulate up based on the underlying source of the cyber losses.

It also unfortunately is highly dependent on human behavior, both the people that are attempting cyberattacks, but also people that are trying to protect themselves in their businesses from those attacks. And so we view this as a challenging space. We think we are underweight. We at year-end had wrote about $600 million of premiums across our businesses and we're not particularly interested in growing to a larger market share on that. We think prices continued price improvements are required for the nature of this risk, and we are working with our primary clients, in particular, from the reinsurance side with the corporate clients from [indiscernible] to find better ways to focus on risk mitigation and the ability to partner with key players in this space that can help manage the identification of cyberattacks early and minimize the actual economic loss and insured loss associated with it. So I think if there's one word I'd use for Swiss Re and cyber, it's cautious. We participate, but we have an enormous respect for the various risks in this line of business.

Operator

That was the last question. Back to you for closing remarks.

John Robert Dacey
Group Chief Financial Officer

Thanks everyone for your questions. Again, a solid quarter from Swiss Re following on a solid fourth quarter as we continue to drive towards our targets for the full year. We look forward to seeing you in 3 months. Thanks very much.

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.