

# **Swiss Re AG SWX:SREN**

## **FY Nine Months 2019 Earnings Call**

### **Transcripts**

**Thursday, October 31, 2019 7:30 AM GMT**

S&P Global Market Intelligence Estimates

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# Call Participants

## EXECUTIVES

**Elena Logutenkova**

*Head of Media Relations &  
Corporate Reporting*

**John Robert Dacey**

*Group Chief Financial Officer*

## ANALYSTS

**Unknown Analyst**

## ATTENDEES

**Ben Dyson;S&P Global Markets**

**Marc Kaufmann;AWP**

**Ralph Oliver;Financial Times**

**Unknown Attendee**

# Presentation

## Operator

Ladies and gentlemen, welcome to the 9 months 2019 [ media ] results conference call. I'm Sarah, the Chorus Call operator. [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, Media Relations and Corporate Reporting. Please go ahead, madam.

## Elena Logutenkova

*Head of Media Relations & Corporate Reporting*

Good morning, and welcome to Swiss Re Media call on our 9 months results. I'm Elena Logutenkova, Swiss Re's Head of 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, Elena, and good morning also from me. Let me highlight some of the main points of the results we published today. We've reported a 23% increase in net income for the first 9 months, highlighting the strength of our franchise even in light of \$1.7 billion and large claims from natural catastrophes and man-made events. The group net income rose to \$1.3 billion, supported by growth at our reinsurance business unit and an excellent investment result with return on investment of 4.3%. The group's capital position remained very strong, with the Swiss Solvency Test ratio at 241% as of July 1, exceeding our 220% target.

Turning to the results of the business units. P&C Re delivered a 39% increase in net income to \$880 million for the first 9 months, supported by profitable business growth. Net premiums earned increased 17% and the segment's ROE improved to 11.8%, up from 8.3% a year ago. The underwriting performance was impacted by \$1.1 billion of large claims from natural catastrophes in the current year, including approximately \$460 million from typhoon Faxai in Japan and approximately \$300 million from Hurricane Dorian in the Atlantic.

On a normalized basis, P&C Re continues to be on track to achieve a combined ratio of 98% for 2019.

Turning to Life and Health Re. This segment continues to deliver strong results with net income of \$651 million and an ROE also of 11.8%. This was driven by active portfolio management actions and improved mortality developments in the Americas. Corporate Solutions reported a net loss of \$441 million in 9 months, largely due to the decisive management actions to reposition the business we announced with our first half results. Our earnings were also impacted by medium-sized and large claims. The transformation of corporate solutions continues apace, and the business is actively reducing risk exposure in specific lines of business to ensure a more focused and profitable portfolio going forward. We maintain our target of reaching a 98% combined ratio in 2021.

Life Capital delivered gross cash generation of \$831 million, which was bolstered by exceptional items such as the sale of subordinated bonds issued by ReAssure and proceeds from the sale of a 10% stake in ReAssure to MS&AD earlier in the year. Within Life Capital, the open book business grew strongly over the period with gross premiums written rising 21% year-on-year at constant exchange rates.

Overall, we're pleased with the profitable growth in reinsurance we achieved so far this year, and we continue to take advantage of opportunities in an improving price environment.

And with this, I hand back to Elena.

## Elena Logutenkova

*Head of Media Relations & Corporate Reporting*

Thank you, John. We'll now open the line for questions. Operator, could we take the first question, please?

# Question and Answer

## Operator

[Operator Instructions] The first question is from

[indiscernible]

## Unknown Analyst

[indiscernible] result. Maybe you can share with us the number, the exact number of the investment gains the company made and explain a bit whether you decided sort of taking -- or realizing profits in order to bolster the net income as the operating business is going rather slowly.

## John Robert Dacey

*Group Chief Financial Officer*

I apologize. I don't think I heard the beginning of the question. If I could ask you to repeat it.

## Unknown Analyst

Yes, of course. The question is to the investment result, whether you can state the number of investment results for the 9-month period.

## John Robert Dacey

*Group Chief Financial Officer*

Yes. So the -- what we've released here of 9 months is that we've got a running yield of 2.9%, which is the ordinary result from the fixed income portfolio. That's been sustained. Although, obviously, with the declining interest rates in many jurisdictions, that will be under pressure going forward. The difference between the 2.9% and the 4.3%, which we report as our actual investment performance is the set of realized gains, both in the equity portfolios and, in some cases, in fixed income. What we saw over the period was some opportunities, a significant one. For example, being the sale of a position that we established in 2013 in SulAmérica, a Brazilian primary company, which managed well a positive return for us as well as some repositioning of the portfolios in ReAssure's businesses and other parts of the group. I don't think -- to specifically answer your question that there was any attempt to try to bring forward specific gains to enhance the results. This is part of our normal business. We've got a very, very large balance sheet of invested assets, and you will see over time, that we constantly evaluate the repositioning of those assets as market moves and projections indicate.

## Unknown Analyst

Okay. And if I may add an add-on question. So the result of P&C Reinsurance, which is a positive result. Also, the combined ratio is above 100%. Does that mean that the positive result of that segment is mainly due to the investment return?

## John Robert Dacey

*Group Chief Financial Officer*

So there clearly was a strong investment return across all of our businesses, including P&C Re. So yes, that contributed to it. I would remind you that the combined ratio is reported in 9 months for P&C Re, also included a significant charge in the first quarter of over \$400 million for the late reported losses of Hurricane Jebi. And so one of the reasons why we're comfortable saying the underlying combined ratio of 98 is still expected to be achieved is these extraordinary losses coming through are not what we consider to be the normalized event.

## Operator

The next question is from Ben Dyson from S&P Global Markets.

**Ben Dyson;S&P Global Markets**

I've got a couple of questions. One, just if you've gotten any clarity at the moment about how much Typhoon Hagibis in Japan is going to cost you? And second one was really, I was wondering if you could break down the manmade loss of \$310 million in total. I'd be interested, in particular, if you could break out the Boeing 737 ones and the Thomas Cook ones.

**John Robert Dacey**

*Group Chief Financial Officer*

So with respect to Hagibis, you correctly identified this is a Q4 event, so it's not in the Q -- the 9-month numbers to date. At this point of time, we've got limited information. What that information indicates is that the industry losses are likely to be larger than what we've seen from the Typhoon Faxai. We take that one is about \$7 billion. And so Hagibis we think will be probably larger than that.

Much of the damage is flood-related rather than wind-related and understanding exactly what the cost will be to the industry broadly into Swiss Re is going to take us some time. There's not indications, at least to date, that this is a storm which will be worse than Hurricane Jebi in 2018. But again, that's based on preliminary information and discussions with our clients on the ground in Japan.

With respect to the man-made, we're not providing a great deal of detail. I think the situation from Boeing is one we continue to monitor. It is complicated in terms of ultimate liability, and we'll continue to review the appropriateness of our reserves as we go forward. Another important man-made that came through in the third quarter was Thomas Cook. There, I can suggest that our loss for reinsurance was approximately \$15 million and a similar number also for the Corporate Solutions business.

**Ben Dyson;S&P Global Markets**

Okay. Sorry, that was a 55 there, yes?

**John Robert Dacey**

*Group Chief Financial Officer*

Yes, correct.

**Operator**

The next question is from [indiscernible] from Reuters.

**Unknown Attendee**

Three questions, if I may. The first one is related to ReAssure. Is your plan -- are your plans still to do an IPO? Or do you prefer trade sale or taking in another partner? The second one is to the share buyback and related to the dividend after canceling the second tranche of the share buyback. Can you say anything to the dividend? Do you think the dividend will stay stable or maybe even increase? And the second one goes to the claims. I calculated and came to sum of about \$1.7 billion claims to the end of September. Is this correct?

**John Robert Dacey**

*Group Chief Financial Officer*

Sure. So your first question on ReAssure. When we suspended the IPO in the summer, we announced to the market that it remains our objective to reduce our ownership of this business. We think it's a good business. We just don't think that we're the right owners given the Swiss Solvency Test capital regime. That continues to be the case. What we did say was we would not restart an IPO in 2019. I think we'll continue to evaluate and in all options for this business on a going-forward basis. But our goal is to find a way to reduce Swiss Re's exposure and the capital that gets tied up in this business.

With respect to the share buyback, I think it's important to remember that when we had the Board and, ultimately, the shareholders approve the 2019 buyback, we specifically broke it into 2 tranches. The first tranche is well underway, and we continue to execute the \$1 billion buyback. The second one was linked

to the excess capital position, and we specifically referenced the potential IPO as well as the potential for a benign Nat Cat season. I think what we can say clearly is that this has not been a benign year for natural catastrophes. We see the losses through 9 months and a continuation potentially into the fourth quarter at least with Hagibis. And so those items did not provide us the opportunity to launch the second tranche of the 2019 buyback. I think we shouldn't read too much into what that means for 2020. What we've said previously in the capital management is we remain committed to a strong capitalization of the group. We expect to be able to maintain, if not increase, the dividend. If we find ourselves in a position of having more capital than we truly can deploy, we will go to other actions, including the more normal \$1 billion buyback. But we'll have to evaluate that when we have the full year results, discuss it with the Board and provide clarity on that, I think, with the full year results.

The third question was the total losses of USD 1.7 billion, that is a correct calculation, for the 9 months to date.

**Operator**

The next question is from the line of Ralph Oliver from Financial Times.

**Ralph Oliver;Financial Times**

Most of my questions have just been answered. I just have one more. When canceling the buyback, you said there were -- you wanted to deploy capital in the business. Perhaps can you give us a bit more detail about which specific areas you're deploying capital.

**John Robert Dacey**  
*Group Chief Financial Officer*

Sure. So the P&C Re 9 months premium earned is up 17%. We expect a continued positive pricing environment in the P&C business is broadly our reinsurance book as well as our Corporate Solutions book. But in terms of real growth, I expect our team on P&C Re will continue to be able to find opportunities to deploy capital. I think in Life and Health Re, a little bit under study here. It continues to deliver 9 months, an 11.8% return on equity. If we see opportunities to work with our clients, especially there with large transactions with important life companies around the world, we will continue to do so as another potential deployment of that capital. The Corporate Solutions is in the midst of a material restructuring. The pruning actions are being executed and most of that will flow through in 2020. I'd be surprised if there's a big capital deployment towards there. I will say that the price increases we're seeing in some lines of business make us comfortable that there are opportunities for growth that will balance the pruning that continues apace in Corporate Solutions.

**Operator**

[Operator Instructions] The next question is from [indiscernible] from Bloomberg.

**Unknown Attendee**

Just a quick one on gross premiums. Last year's 9 months, you provided a figure for that. But this year, you just said a 21% increase year-on-year. Just wanted to make sure that those 2 figures were comparable, particularly because you're in just open books on your fund versus the other one.

**John Robert Dacey**  
*Group Chief Financial Officer*

Yes. So the -- within the Life Capital segment, yes, the premium movement out for the ReAssure business is not a particularly useful insight there. We continue to manage the closed block business. I think for the open books, the 21% year-on-year growth is a positive movement. And we see that when you adjust for exchange rates, a number that we're actually very pleased to see continued is strong double-digit growth in those open books.

**Unknown Attendee**

Right. But is there a specific number because last year, you said it was \$28.4 billion?



**John Robert Dacey**  
*Group Chief Financial Officer*

In the Life Capital segment, I don't think so. That would have been for a group number -- the 21% increase is just for our open books.

**Operator**

[Operator Instructions] The next question is from Marc Kaufmann from AWP.

**Marc Kaufmann;AWP**

On the price development, can you maybe break down a bit on the segments or the countries where you see quite positive development of prices and where the prices will be still under pressure? And the second question, on the cost of restructuring, are there any, I don't know, major job cuts involved maybe as well in Switzerland?

**John Robert Dacey**  
*Group Chief Financial Officer*

Sure. So the first one, on the price improvements. I think here, the 9 months will stay fairly [indiscernible] the CorSo numbers show across the board, a 10% improvement in the business that they're putting on the books in '19. That continues to be strong also in the U.S., where I think the industry has recognized that the need for improved pricing is driven as much by an increase in claims cost as by a general challenge to the price environment. So the -- we expect -- and what we've seen is almost all competitors in this space are pushing for higher prices in the large corporate books. On the reinsurance side, it's -- clearly, the price improvements are visible on loss-affected portfolios. We would expect, among other things, major price adjustments in the Japanese market on the property covers that have been -- will renew primarily in the end of March next year, April 1. I think you'll see also strong pricing in place for other segments where the losses have come through in 2019.

With respect to CorSo, the question you had. In the restructuring, there are some lines of business which were simply not going to write on the 100% exit. We've announced those to the market. Examples would be the excess and surface lines casualty in the United States, general aviation and space, some parts of the marine business that we write. You should expect that as we no longer underwrite those businesses, the teams that have been focused on these will likely find new positions outside, of course. So I think the business will look for efficiencies, but there's nothing dramatic or wholesale across the business. We see the opportunities to come back to strong profitability to meet our financial targets in 2021, and we'll need the teams to be able to deliver that.

**Operator**

[Operator Instructions] The next question is a follow-up from [indiscernible].

**Unknown Attendee**

Okay. Just for clarification, your aim ratio is still below 50% so you can deconsolidate the company. Is this correct?

**John Robert Dacey**  
*Group Chief Financial Officer*

Yes. And the -- by definition, as we deconsolidated, that will make some changes in our accounting and also in our risk profile, vis-à-vis, that business.

**Operator**

The next question is from [ Natalie Olivares ] From [ ASB ].

**Unknown Analyst**

I would like to [ see ] 2 questions on the man-made disaster. First of all, I'd like to see if you've got any exposure to [indiscernible] France and if you have an estimate. And as for Thomas Cook, if you could provide a bit more clarity on how the -- how things are going to unfold. I mean when are you expecting the claims to come? And just to confirm as well the figures so far and what you're expecting for the next quarter -- next quarters to come.

**John Robert Dacey**  
*Group Chief Financial Officer*

So to your first question, exposure level. So I'm not aware of that loss. I don't have any information about it. So I can't suggest that we are on risk or not on risk or what the dimension might be. But as it hasn't come to my attention, I'm guessing it's not a material issue for us, at least to date. With respect to Thomas Cook, we think those losses are fairly clear for the group. And the reserves that we put up here in the third quarter, we expect to be final for the exposures that we have. So again, in the course of business, the primary writer, a USD 50 million exposure in reinsurance, an additional \$50 million coming through coverage with some of our primary clients there.

**Unknown Analyst**

\$50 million, 5-0?

**John Robert Dacey**  
*Group Chief Financial Officer*

5-0 both for P&C Re, 5 -- \$50 million, 5-0 for CorSo. A total exposure for the group of approximately USD 100 million.

**Operator**

The next question is a follow-up from Ben Dyson.

**Ben Dyson;S&P Global Markets**

[indiscernible] year or there's been talk about tightening in the retro market as a result of the 3 years of the heavy catastrophe losses. I was wondering what the implications would be for Swiss Re as both a buyer and the seller of retro? And would you expect to change your programs on the buying side? And is there opportunities to sell more retro on the -- as a provider of retro?

**John Robert Dacey**  
*Group Chief Financial Officer*

Sure. So the -- I think the premise is correct. There have been a number of investors that have been -- in this space that have been frustrated by the -- both the frequency and the scale of the losses as well as the continued requirement that the collateral is being held until claims finally of all -- this notion of claims creep that we saw with Typhoon Jebi, in particular, seems to have been under communicated to some investors, I think, and you'll see a response. I think, with some of the people being a little more cautious about who they work with. We think on balance for Swiss Re, this is positive. We do see premiums to the market. We do so on a basis which the same risks that are on our balance sheet are what we've seen on a proportional basis. There's no selection of risk where we might keep the good ones and put the less good ones to market. We are completely aligned with the people that participate in our retro programs.

And as such, I think we expect a continued access to what is a fairly modest program given the risks that stay on our balance sheet. That said, as we continue to grow the Nat Cat portfolios, in particular, there may be more opportunities to manage some of those peak risks with retro covers, and we've got a team in place to be able to manage that as we go into 2020.

**Operator**

[Operator Instructions] We have no questions at the moment.

**Elena Logutenkova**

*Head of Media Relations & Corporate Reporting*

All right. Many thanks, everyone, for participating, and have a good day.

**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.

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