Swiss Re has gone through the crisis with confidence and strength

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Christian Mumenthaler
Group Chief Executive Officer

Dear shareholders,
The COVID-19 pandemic changed everyone's lives, seemingly overnight. Swiss Re Institute estimates a cumulative global economic output loss of USD 12 trillion over 2020 and 2021 from the pandemic and the unprecedented wave of lockdowns around the globe. Some people have called this event a 'black swan' – a concept for something that cannot be predicted. But it isn't a black swan.

For decades, the insurance industry has warned of the potentially devastating effect of a pandemic. Thirteen years ago, Chief Risk Officers from the insurance industry, including me, co-authored a paper on influenza pandemics. We looked at the circumstances under which the 1918 Spanish flu broke out and asked what the impact would be if a global influenza pandemic happened again.

Many of the predictions we made in 2007 sound almost eery today: we thought that an outbreak would likely start in Asia and quickly spread to other regions; the rapid spread could hamper timely preventive measures; and, central banks would react by lowering interest rates. If anything has changed since our assessment in 2007, it's that the world has become even more interconnected, further increasing the likelihood of a pandemic spreading.

In spite of the warnings, most countries were not ready for COVID-19. Part of the explanation lies in behavioural economics: it requires a significant effort to intellectually anticipate and act on risks that one hasn't personally experienced in the past. The means to be better prepared for pandemics were known, but the risk was considered too remote by many governments and other stakeholders. In the trade-off between current-cost optimisation and future resilience, the decisions too often favoured economic, not systemic, benefits.

We need to draw lessons from this experience. While COVID-19 is still very fresh in our minds, we have a unique opportunity – if not an obligation – to build greater resilience against future pandemics and other systemic risks. The re/insurance industry alone cannot cover a risk that hits many countries and areas of life simultaneously. Public-private partnerships are the only solution for future pandemic preparedness. Swiss Re is working with many countries to initiate such schemes and we are encouraged by early progress in this regard.

We are also doing our part to help cover losses from the pandemic. Our Group went into this crisis with a very strong balance sheet and capital position. Our operations continued uninterrupted even when the vast majority of our employees had to work remotely. From the start of the pandemic, we took a disciplined and prudent approach to building reserves, as actual claims have been slow to come in.

In total, claims and reserves for COVID-19 amounted to USD 3.9 billion across the Swiss Re Group in 2020, and resulted in a Group net loss of USD 878 million for the year – our first annual loss since the global financial crisis of 2008. Excluding the impact from COVID-19, our Group net income amounted to USD 2.2 billion, a significant increase from USD 727 million in 2019.

Our Group has gone through this crisis with confidence and strength. We acted early in 2020 to protect our balance sheet from market turmoil with hedges. The strong 3.5% return on investments we achieved for the year also reflects decisive portfolio management actions to cut exposure to sectors that were vulnerable to COVID-19. As a result, impairments in the portfolio were very low at USD 27 million.

Our capital position remained very strong throughout 2020. As of 1 January 2021, the Group Swiss Solvency Test (SST) ratio was at 215% – within our new target range of 200–250%. The Group's very strong capital position and positive outlook enabled the Board of Directors to propose a stable dividend of CHF 5.90 per share at the upcoming Annual General Meeting.

While some further COVID-19 losses are expected for 2021, we have dramatically reduced relevant exposures in property and casualty lines. All of our businesses have delivered strong underlying performance in 2020 and are confident of hitting their financial targets for 2021.

Property & Casualty Reinsurance (P&C Re) improved its normalised[1] combined ratio to 96.9% in 2020 from 98.4% in the previous year. P&C Re continued to focus on underwriting quality and improved terms and conditions in the January 2021 renewals, achieving a nominal price increase of 6.5%, more than offsetting lower interest rates and higher loss assumptions. The successful renewals allow for an improved normalised[2] combined ratio estimate of less than 95% for P&C Re for 2021.

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[1] Assumes an average large natural catastrophe loss burden and excludes prior-year reserve developments as well as the COVID-19 impact for 2020 and the Adverse Development Cover with Corporate Solutions for the 2019 figure.
[2] Assumes an average large natural catastrophe loss burden and excludes prior-year reserve developments as well as the COVID-19 impact.

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Life & Health Reinsurance (L&H Re) maintained its strong underlying performance in 2020, with return on equity, excluding the impact of COVID-19 losses, at 10.4%. The segment also reported strong growth in net premiums earned of 6.9%, driven mainly by longevity deals. We continue to see attractive opportunities to grow our L&H Re business, particularly in high-growth markets and through large transactions.

Corporate Solutions is well ahead of plan in its turnaround, thanks to the decisive management actions announced in 2019 and more positive market movements than originally anticipated. The Business Unit has largely achieved its planned portfolio pruning and gross cost reductions. Together with rate increases of 15% over the past year, this has lowered the normalised[3] combined ratio to 96.8% in 2020, well ahead of the 105% estimate for the year. Given the tremendous progress so far and favourable market expectations, Corporate Solutions will now target a normalised combined ratio of less than 97% in 2021, compared with the original 98% goal.

With the completed sale of ReAssure to Phoenix Group, we delivered on another strategic milestone. Swiss Re received a cash payment of GBP 1.2 billion and shares in Phoenix representing a 13.3% stake, which we believe maximises value for Swiss Re's shareholders.

As a result of the sale, we decided to simplify our legal entity structure by disbanding the Life Capital Business Unit. Corporate Solutions has assumed responsibility for elipsLife, which provides life and health insurance solutions and services for corporate clients, while the white-labelling digital insurance platform iptiQ is now operating as a standalone division, enabling a greater focus on this business. After increasing the number of partners by 11 and achieving 76% premium growth in its core business in 2020, iptiQ is on track to becoming a leading player in its field.

Having only started the iptiQ business in 2016, its market-implied valuation has already grown to approximately USD 2 billion, based on the current growth trajectory and peer valuation. The growth of iptiQ is a perfect example of a new field of business for us which goes beyond traditional risk transfer. Namely, we are combining our risk knowledge with the smart use of data and technology to create insurance solutions for our partners.

In line with this approach, Corporate Solutions is also evolving from a pure risk taker in the broad corporate insurance market to a much more specialised and focused business, which provides complementary access to corporate clients for the Swiss Re Group. For example, thanks to its long-established relationships, Corporate Solutions gave access to partners such as BMW and Daimler for Reinsurance Solutions and IKEA for iptiQ, to name just a few.

Therefore, while Reinsurance will remain our key earnings contributor in the foreseeable future, we are also seeing more opportunities to capitalise on synergies among our businesses and approach the future as 'One Swiss Re' with strong Group foundations. We remain flexible towards creating new businesses and partnerships, based on our competitive strengths. We are convinced that this will position Swiss Re for success over the long term, even as re/insurance markets change and evolve.

We are also focused on building a truly sustainable business. We have committed to reaching net-zero emissions from our own operations by 2030 and made the pledge to transition our investment and underwriting portfolios to net zero by 2050. To help curb our operational emissions, as of 2021 we stepped up our internal carbon levy to USD 100 per tonne and will gradually increase it to USD 200 by 2030.

[3] Assumes an average large natural catastrophe loss burden and excludes prior-year reserve developments as well as the COVID-19 impact.

On the underwriting side, we tightened our policies for providing re/insurance support to businesses with thermal coal, oil and gas exposure. In Asset Management, we set a target to reduce the carbon intensity of our listed equity and corporate bond portfolio by 35% by 2025. We also aim to increase our investments in renewable and social infrastructure by USD 750 million by the end of 2024.

These are just a few examples of measures we are taking to transition to net zero, and I invite you to have a look at our Sustainability Report 2020 as well as our climate-related financial disclosures in the Financial Report 2020 for more details.

Beyond our own net zero commitments, Swiss Re is actively involved in the work of the World Economic Forum's Alliance of CEO Climate Leaders, which I have the privilege of co-chairing. In this alliance, we are working together with other CEOs around the globe to make the transition towards a low-carbon economy possible. Businesses have vast resources to address the climate crisis if they come together, and I am very encouraged by the strong commitment I am seeing from many of my fellow CEOs.

COVID-19 lockdowns may have reduced CO_2 temporarily, but they will neither stop global warming nor reverse the harm greenhouse gas emissions are causing to our planet and its natural ecosystems. I am looking forward to supporting the climate transition through the work we do at Swiss Re as well as my engagement in the WEF Alliance.

With tailor-made risk-transfer options, the re/insurance industry can provide data for climate adaptation, protect businesses, individuals and governments against catastrophes and support low-carbon and carbon-removal technologies in the green transition.

The year 2020 has not been an easy one, but we are looking ahead with confidence in our business and resolve to continue working towards our vision – to make the world more resilient. I would like to thank our employees for their engagement and dedication in these unprecedented times. They had to work from home, sometimes in challenging personal situations, and ensured that we didn't miss a beat.

I would also like to thank you, our shareholders, for your continued support.

Zurich, 18 March 2021

Christian Mumenthaler
Group Chief Executive Officer