

# How does Swiss Re navigate in the new normal?

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18 November 2022

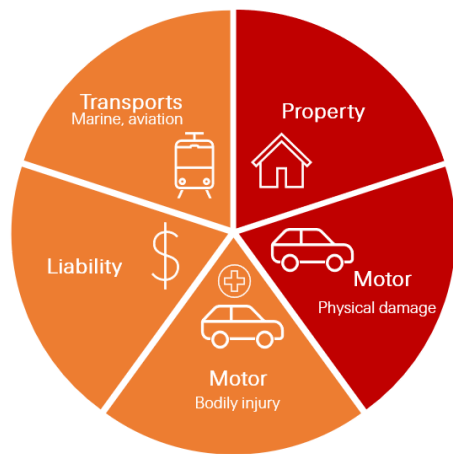
Nat cat as an asset class: The benefits of alternatives

# Multiple crises lead to challenges and opportunities



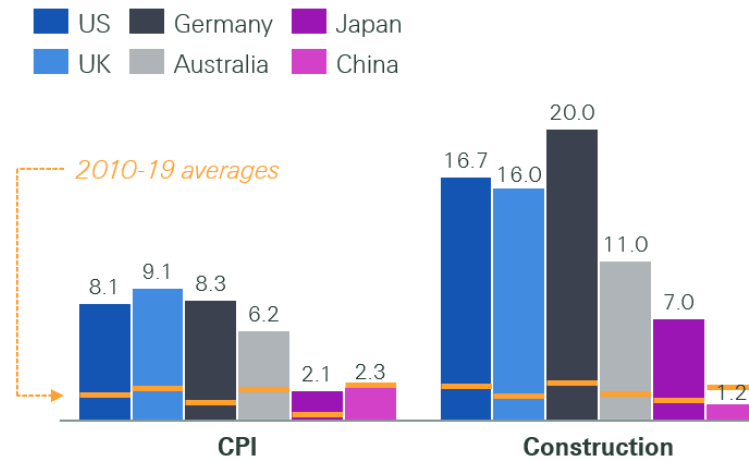
# High inflation to increase claims severity this year and sustain rate hardening in 2022 and 2023

Property and Motor Physical Damage are most impacted by the **current inflation surge**

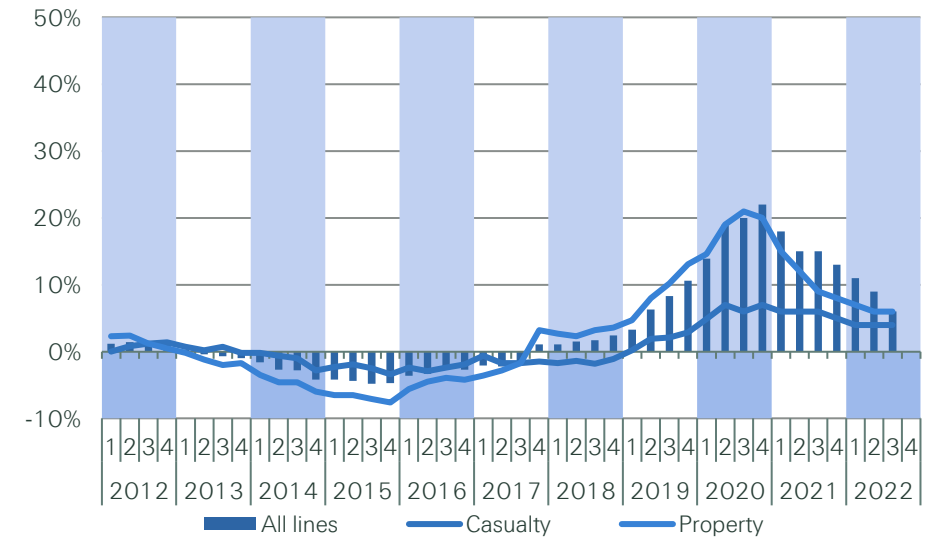


Low impact High impact

Property inflation indicators for selected markets show massive increase compared to the preceding 10-year average



**Primary insurance market:**  
the longest round of price increases continues



All types of inflation are reflected in our natural catastrophe models and UW decisions in a forward-looking manner

## Socio-economic inflation (non-Economic inflation)

### Examples:

Peril / region dependent, built in the models:

TC North Atlantic: 20-25% load for Assignment of benefits (AOB) in Florida

EQ California: 5-10% load for extension of coverage, reconstruction to new building code, more vulnerable / high tech homes (e.g. solar panels, outdoor kitchens)

## Economic inflation

### Examples

Consumer Price Index (CPI): 6-9% in 2022 vs approx. 2% (prior 10-year average)

Construction Cost Index (CCI): 11-20% in 2022 vs approx. 2% (prior 10-year average)

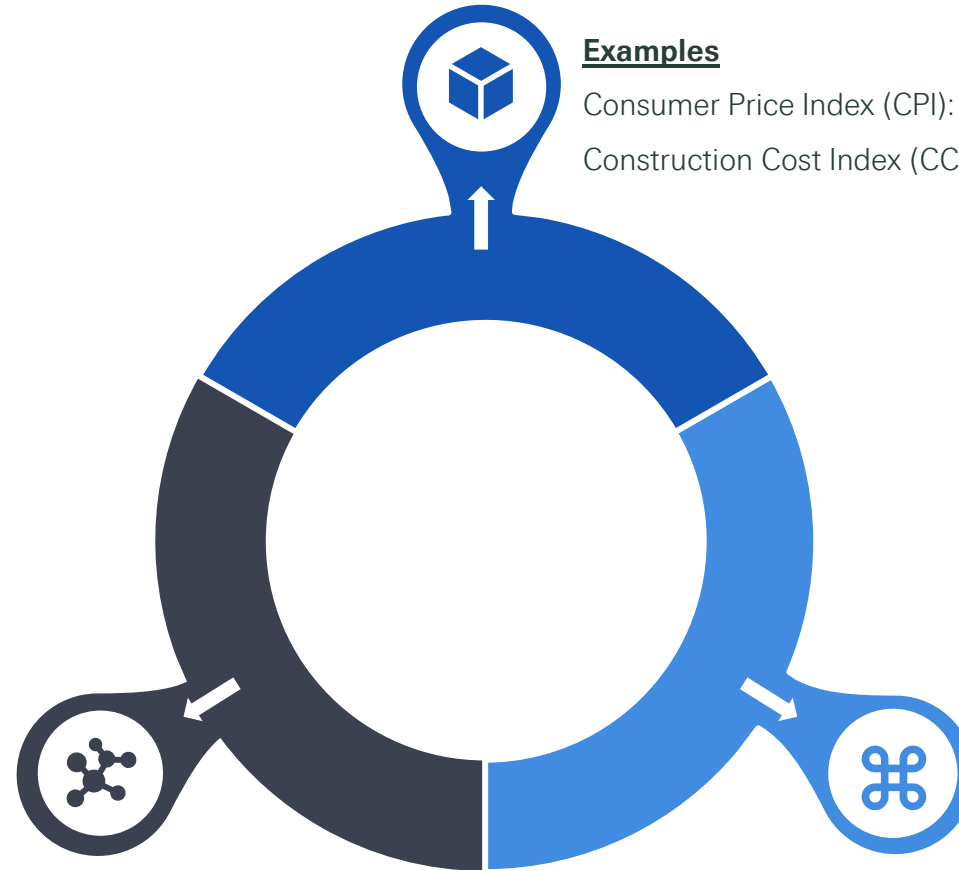
## Demand Surge post Event (Post-event loss amplification)

### Examples:

Event size dependent, built in the models:

TC North Atlantic: 10-50%

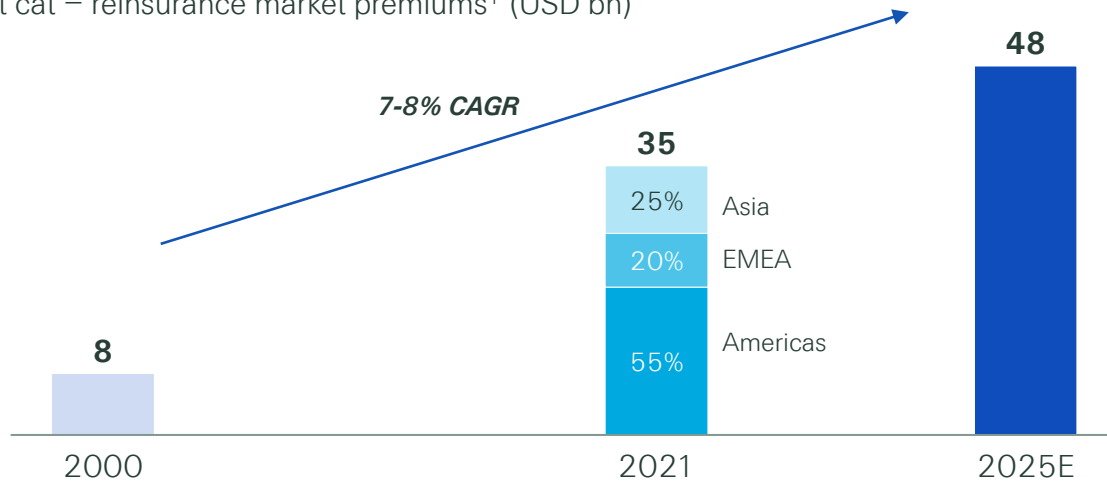
EQ California: 25-50%



# Nat cat is a core line of business and an area of structural growth

Nat cat is a USD 35bn reinsurance market, growing faster than GDP

Nat cat – reinsurance market premiums<sup>1</sup> (USD bn)



## Growth drivers today

- > Higher population density and increasing property values
- > Global migration to coastlines, overbuilding of flood zones
- > Climate change impact on secondary perils

More than 60% of nat cat losses still uninsured

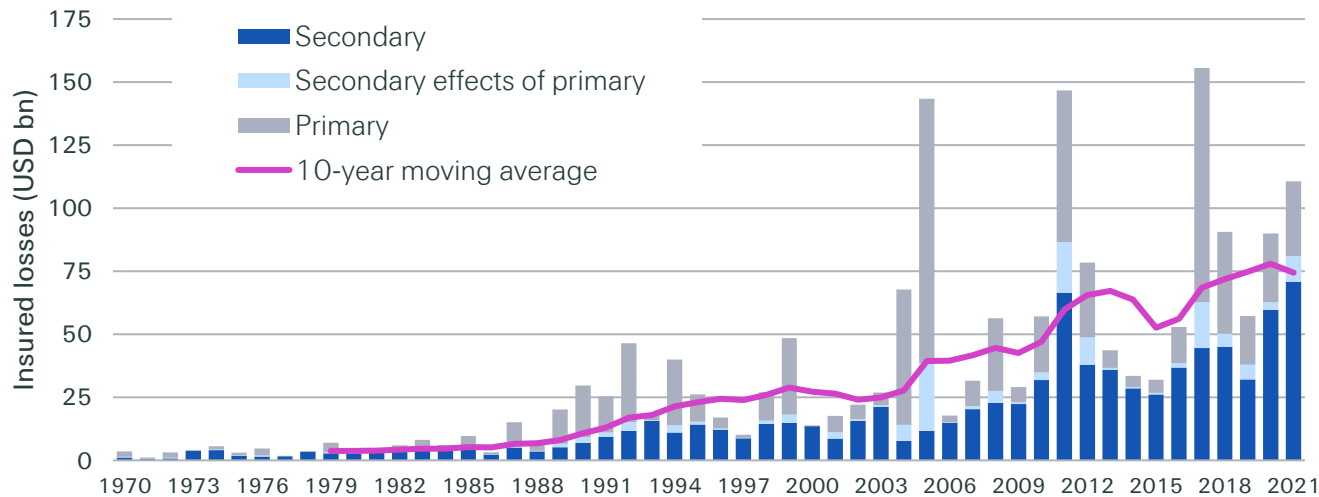
Average nat cat losses<sup>1</sup> (2012-2021, USD bn)



## Growth perspectives

- > Rising insurance penetration, for flood in particular
- > Growing middle class in High Growth Markets
- > Public entities increasingly adopting re/insurance

# Rapid urbanisation, wealth accumulation and climate change drive natural catastrophe losses and climate change



## Industry in catch-up mode since 2017:

- Lacking modelling discipline for secondary perils
- Exposure data gaps
- Too optimistic loss experience observation windows

- Surprise losses, occurrence frequency and severity
- Underpriced secondary perils
- Diminished reinsurance risk appetite

## On the way to more sustainable reinsurance:

- Elevate secondary perils to primary perils: exposure data availability and modelling
- Reflect newest risk growth trends since 2017

# Rising losses are the result of complex interplay of various macro risk drivers

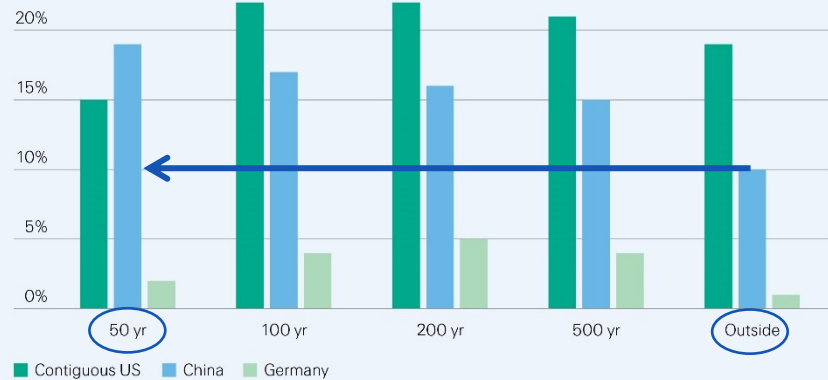


Shanghai, 1990



Shanghai, today

## Growth rate of population exposed to inland flooding at different return periods between 2000 and 2020



Source: Swiss Re CatNet®, GHS population grid multitemporal, World Pop



### Economic development

Increasing values in line with GDP growth



### Concentration in exposed areas

Urbanisation, population growth



### Insurance penetration

Take-up rates, broader coverage, socio-economic inflation, regulatory changes



### Changing vulnerability

Sealing of surfaces, overbuilding in flood-prone areas, flood protection measures



### Changing hazard

Natural climate variability, anthropogenic climate change

# We have sophisticated proprietary nat cat modelling capabilities

*illustrative*

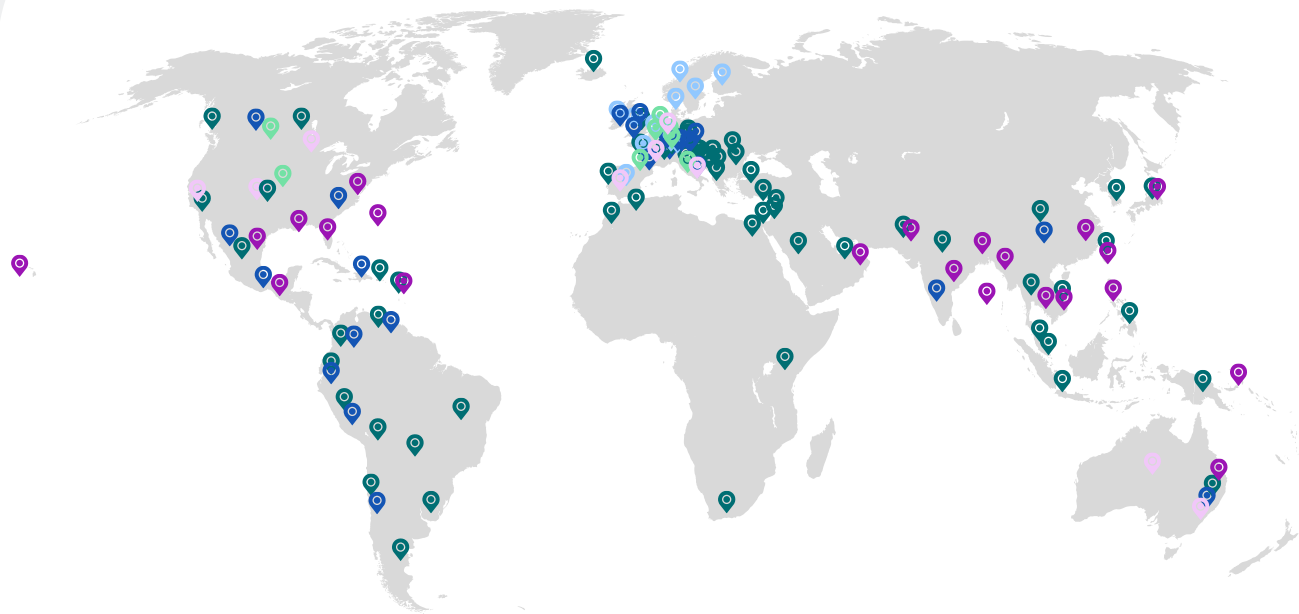
Powerful resources



**150 years**  
of extensive nat cat  
risk knowledge

**190+**  
models, covering  
>90% of global  
insured exposures



**200**  
terabyte of curated  
portfolio data

**~50**  
full-time scientists



-  Tropical cyclone<sup>1</sup>
-  Hailstorm/tornado<sup>2</sup>

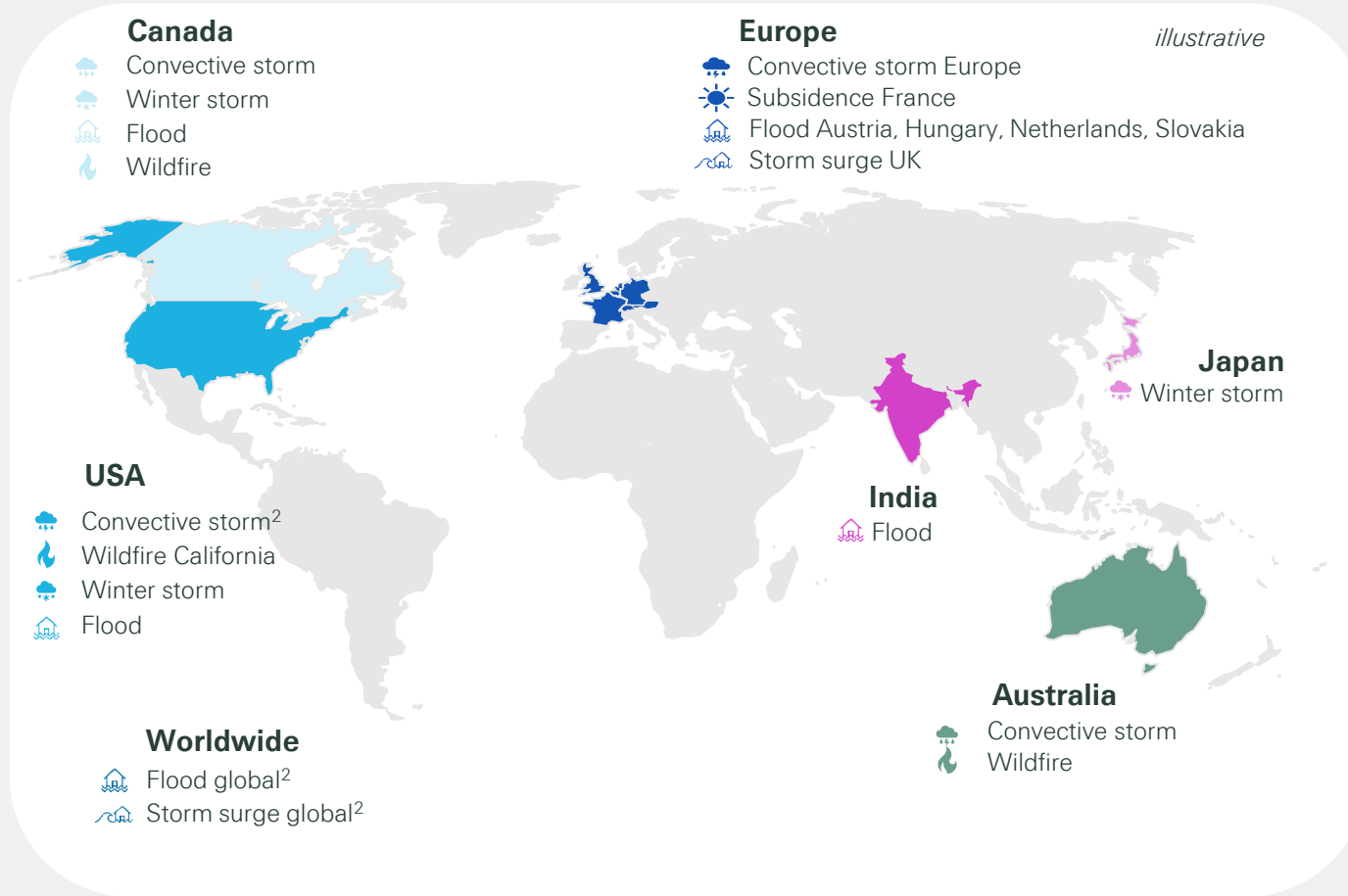
-  Earthquake<sup>1</sup>
-  Flood<sup>2</sup>

-  Winter storm<sup>1</sup>
-  Other secondary perils<sup>2</sup>

# We refine our models continuously to reflect changes to risk drivers, including climate

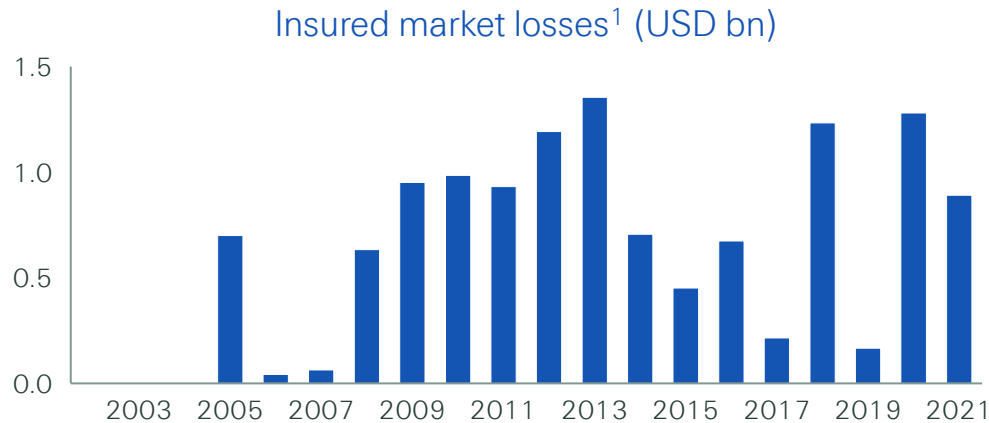
## Selected enhanced secondary perils since 2019

## Actions taken since 2019

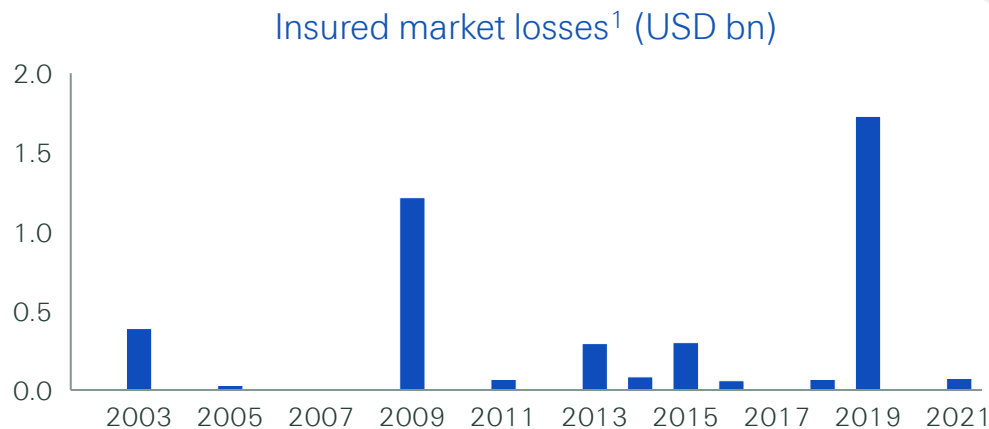


# Rising secondary peril losses have driven increased loss expectations and pricing

Example  
**Convective  
storm Canada**



Example  
**Wildfire  
Australia**



## Risk trends

- Hail loss frequency up: spatial expansion of built-up land
- Hail loss severity up: higher vulnerability, and socio-economic drivers

## Our response

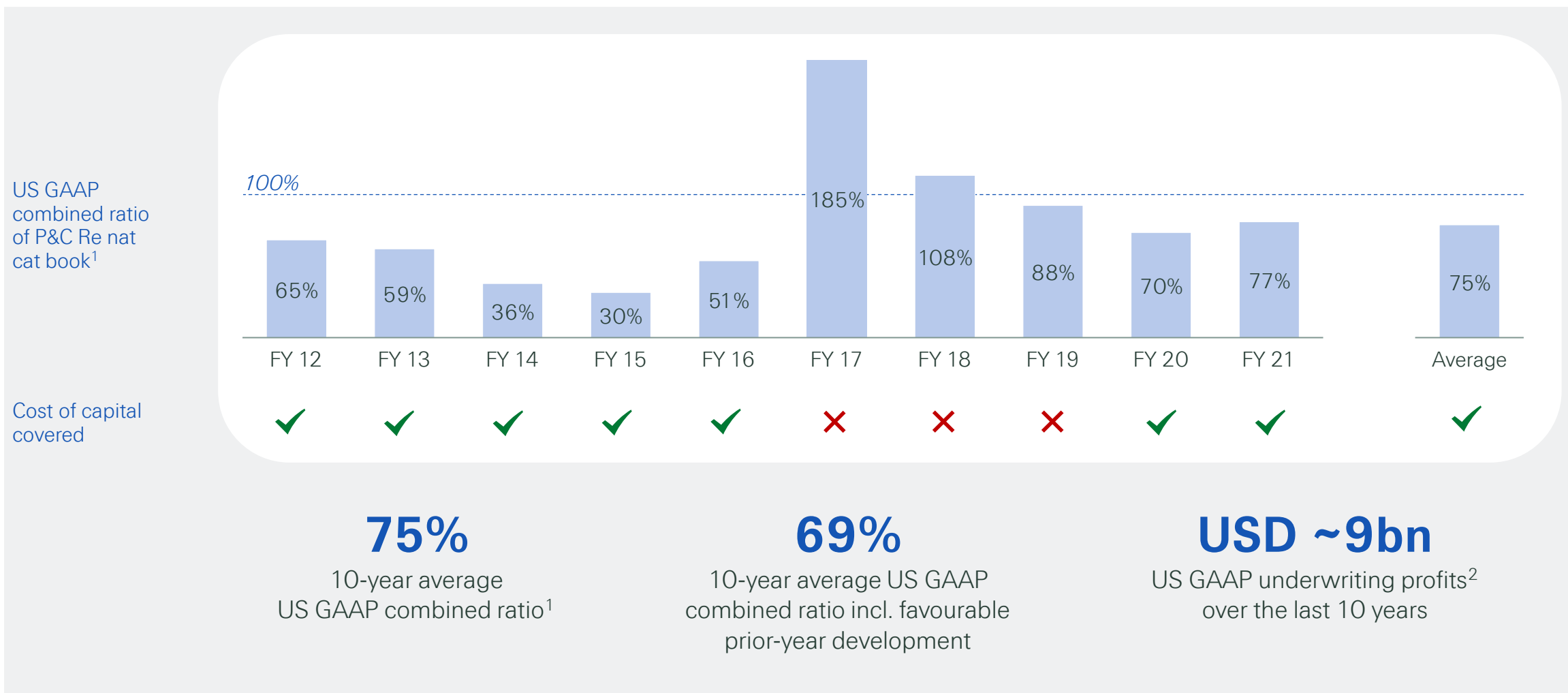
**10-40%**

higher loss expectations, driving higher pricing<sup>2</sup>

**20-50%**

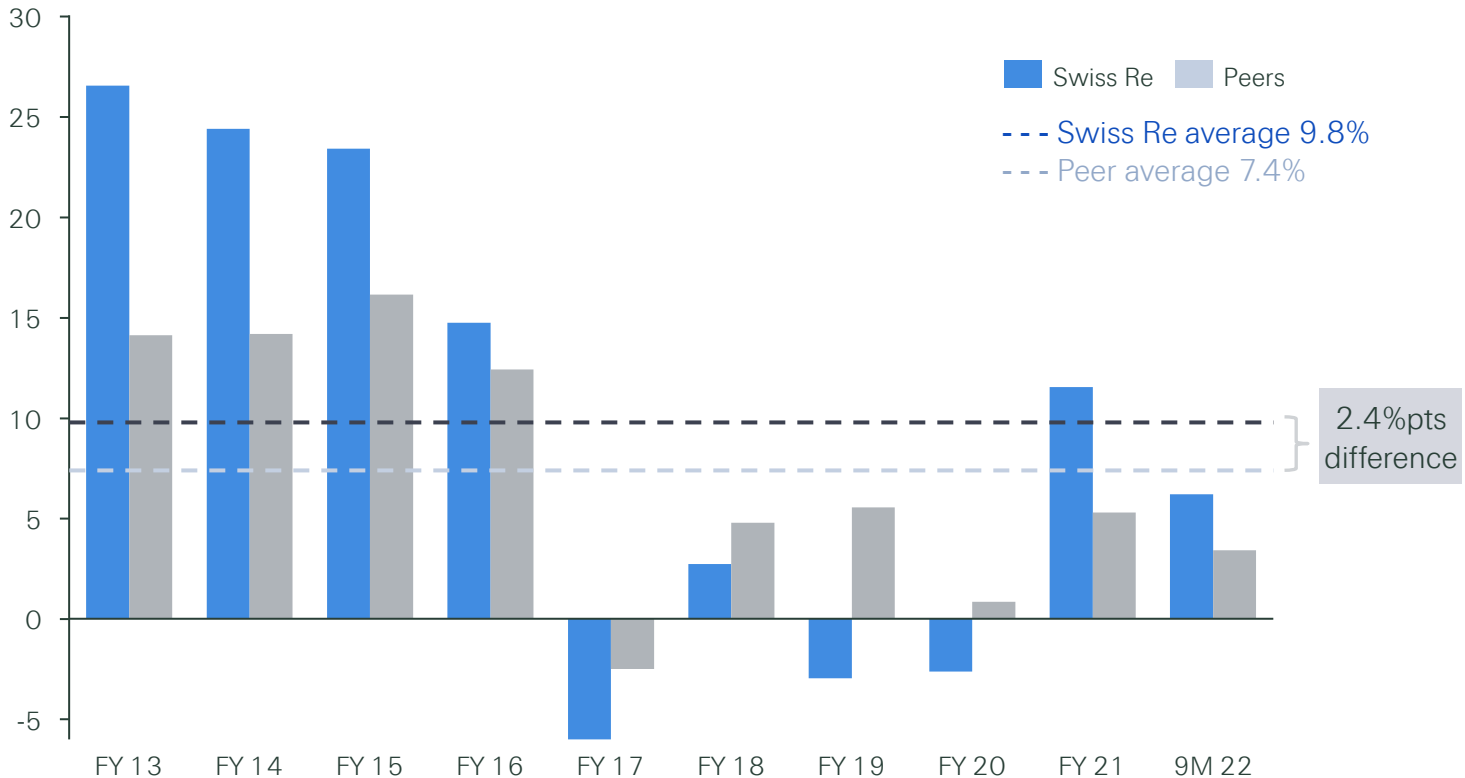
higher loss expectations, driving higher pricing<sup>2</sup>

# The global scale and diversification of our nat cat book drives resilient profitability



# UW outperformance in 9M 2022 P&C margins, despite large Q3 nat cat losses

## Gross underwriting margin<sup>1</sup> (P&C Reinsurance and Corporate Solutions, %)



### Performance difference (% points)

12.4	10.2	7.3	2.3	-3.5	-2.1	-8.5	-3.5	6.2	2.8
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## Key factors

- P&C underwriting results impacted in Q3 by large nat cat losses (mainly driven by hurricane Ian) and higher claims fuelled by economic inflation.
- Overall, UW outperformance vs. peers (+2.8% points in 9M 22, up from +0.7% points in H1 22) supported by robust technical underwriting performance, portfolio quality improvements, and focus on active portfolio management.
- Gross UW margin remains behind Munich Re's (-2.6% points in 9M 22, up from -4.5% points in H1 22).

## Key messages

- 9M 2022 performance heavily impacted by elevated P&C Reinsurance loss activity
- Despite higher-than-expected losses to-date in 2022, **nat cat** is a core line of business and an area of structural growth. We have a **track record of attractive underwriting results**, driven by deep modelling expertise and a global, diversified portfolio
- We remain **confident in our mid-term outlook**, given **rising interest rates** and our **favourable position for upcoming renewals** amid rising prices and constrained market capacity
- We **remain committed to our priorities**



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