Swiss Re's half-yearly profits up by 43%; similar profit increase expected for the whole year

19 Sep 1997 CET Press Release

Compared with the same period last year, Swiss Reinsurance Company increased its half-yearly result after tax by 43% to CHF 1 138 million. This improvement reflects a good technical result in non-life reinsurance (up 28% to CHF 435 million) and life reinsurance (up 67% to CHF 139 million), as well as an exceptionally favourable investment result (up 38% to CHF 2 310 million). The return on equity was 15.7% calculated on an annual basis, and taking into account the 24% increase in capital funds to CHF 12 272 million. Taking the year as a whole, we expect profits to increase at the same rate as during the first half of the year, providing there are no unexpected developments in the claims ratio or on the currency and capital markets.

This year saw Swiss Re publish its Annual Report for the first time before the middle of the following year, and we now present our first interim report. The half-yearly figures are determined using the same principles as for the annual results. In order to facilitate comparisons with last year's results, we have calculated some of the half-yearly ratios on an annual basis.

Scope of consolidation extended

The companies which formerly belonged to the Mercantile & General Re Group are included in the results for the first time. The majority of these companies now do business under the name Swiss Re Life & Health" and are part of the Swiss Re Life & Health division. Our holding in Unione Italiana di Riassicurazione (Uniorias) is also consolidated for the first time. It is included on the equity method, with a proportion of profits and shareholders' capital and reserves. The restructuring of our holdings in Société Anonyme Française de Réassurances (SAFR) and PartnerRe will take effect in the second half of 1997.

Premiums and technical result

Gross premiums increased by 36% compared with the same period last year. Of this, 24% is accounted for by the extended scope of consolidation, and 9% by changes in exchange rates. In the previous scope of consolidation, growth in original currencies was 3%.

Non-life reinsurance

The technical result was 28% higher than the previous year. For the first time, this result takes into account the non-life business of the former Mercantile & General Re, including its extensive accident and health business. Health business in the USA took an unfavourable turn. In some sectors, pressure on premium rates in the insurance and reinsurance business had its first noticeable effects on results. The fact that the overall claims experience remained good meant, however, that the combined ratio (the sum of claims and expenses in relation to premiums) remained unchanged at 109%.

Life reinsurance

Our life business expanded dramatically due to the acquisition of Mercantile & General Re. Its share of total premiums rose to 18%. The increase in the technical result for the life sector mainly reflects this change.

Investment result

The investment result increased by 38% to CHF 2 310 million. The positive development in current investment income is due mainly to larger volumes resulting from the extension of the scope of consolidation. The strength of dollar-linked currencies and the continuing cash flow from the reinsurance business have also had a favourable effect. Excellent market conditions led to greater realised capital gains. The greater part of the investment result is accounted for by current income. The return on our investment portfolio, which has grown considerably due to rises in share prices and the extended scope of consolidation, amounted to 7.6% (calculated on an annual basis) and was thus virtually unchanged compared with the same period of the previous year.

Other income and outgo

Debt financing and interest charges increased in the wake of the acquisition of Mercantile & General Re. Income from service companies and currency differences was positive. Total net outgo amounted to CHF 66 million. Restructuring costs of CHF 25 million for the integration of Mercantile & General Re were incurred during the first half of the year. These costs were taken from the provisions set aside for this purpose in 1996 and therefore had no impact on the profit and loss account.

Balance sheet

Total invested assets increased to CHF 63.3 billion. This resulted from increases in share values, positive cash flow from the reinsurance business and currency effects. Technical provisions amounted to CHF 45.9 billion.

Shareholders' capital and reserves

Shareholders' capital and reserves grew significantly to CHF 12.3 billion. This increase was mainly due to the good results during the period under review and changes in the value of the share portfolio, which are allocated direct to shareholders' capital and reserves. Calculated on an annual basis, the return on equity was 15.7%. This figure is unchanged compared with the same period last year, but on a considerably higher basis due to value changes. Return on equity is calculated after adding back and depreciating goodwill on acquisitions made since the previous year. Shareholders' capital and reserves at market value also increased considerably to CHF 15.3 billion.

Outlook

We expect premium volume for the year as a whole to be approximately 25% higher than in the previous year. Currency fluctuations in late 1996 will reduce the growth rate in premium in the second half of 1997, which will be significantly lower than the 36% achieved during the first six months. We foresee no fundamental changes in claims experience in the non-life sector. Unless unexpected developments occur on the claims side we anticipate an unchanged combined ratio for the year as a whole, with similar amounts as last year being added to provisions for large and catastrophe losses. In life business, we expect profits to rise slightly more than premiums. In investments, current returns are growing largely at the same rate as total investments and contributing primarily to the investment result. The excellent situation on the capital markets during the first half of the year and the subsequent deterioration mean that during the second half of the year, we cannot expect to make realised capital gains as high as those achieved during the first six months.

Taking 1997 as a whole, we expect profits to increase at the same rate as during the first six months providing there are no unexpected developments in the claims ratio, in exchange rates or ongoing negative trends on the capital markets.

For further information please contact:

Media Communications:
Johann Thinnhof, tel. +41 1 285 3281