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Solvency discussion, qx-Club, Zürich

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- **Solvency one of many aspects**
- Solvency and Investor's views
- Conclusion

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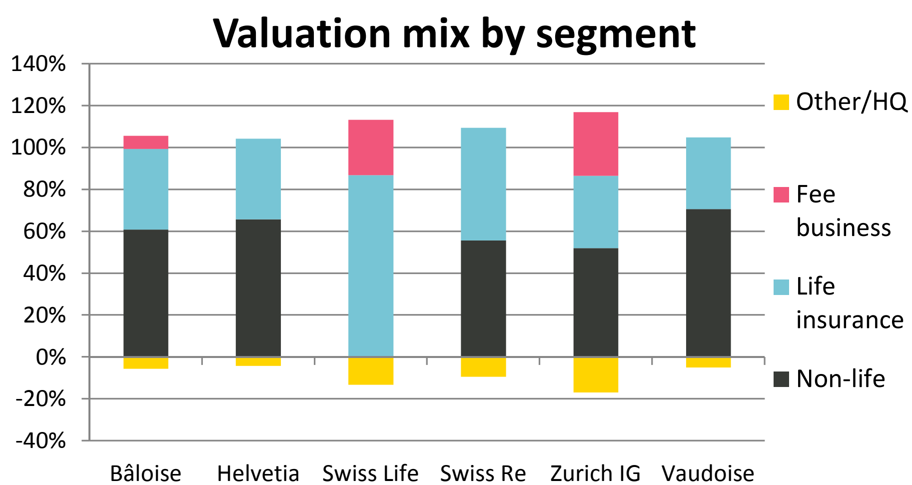
Communication to investors starts with valuation

Swiss peer group Company	Curr.	Price as of 22-11-17	Perf. YTD	ROE 2016	ROE 2017E	EPS 2016	EPS 2017E	EPS 2018E	P/E 2017E	P/E 2018E	Price/ NAV 2017E	Div. yield 2017	P/B 2017E	Market cap. in CHF mns
- weighted average			4.2	9.9	7.0				39.8	11.8	1.31	5.1	1.14	
- average			7.0	8.9	7.5				26.4	11.7	1.18	4.2	1.04	
Bâloise	CHF	151.7	18.2	9.6	10.2	11.3	13.0	12.3	11.7	12.3	1.24	3.6	1.16	7'403
Helvetia	CHF	540.0	-1.5	8.0	8.8	38.1	43.5	48.8	12.4	11.1	1.37	4.1	1.08	5'370
Swiss Life	CHF	333.8	15.8	7.1	7.1	28.9	30.8	31.3	10.8	10.7	0.84	3.9	0.76	10'856
Swiss Re	CHF	92.2	-4.5	10.6	2.5	10.5	1.0	8.1	93.8	11.3	1.10	5.3	0.98	32'864
Vaudoise	CHF	520.5	8.0	7.8	7.1	41.6	39.4	42.0	13.2	12.4	0.92	2.5	0.92	1'562
Zurich IG	CHF	296.9	5.9	10.4	9.6	21.2	17.8	24.0	16.7	12.4	1.58	5.7	1.34	45'831



Source: Vontobel, Bloomberg

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SST solvency position important for dividend view

Swiss market SST ratio	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	Change 2016 / 2012
SST total market	**144%**	**184%**	**205%**	**152%**	**190%**	**193%**	**185%**	**176%**	**194%**	***193%***	4%
SST Non-life market	152%	236%	225%	188%	206%	203%	191%	193%	228%	*225%*	22%
SST Life ins market	87%	117%	145%	105%	145%	153%	149%	146%	160%	*160%*	15%
SST reinsurers			246%	220%	219%	233%	217%	201%	*224%*	*222%*	5%
Bâloise (VTe)					*130-180%*	*0-190%*	*0-190%*	*150-200%*	*160-220%*	*160-220%*	NA
Helvetia					150-200%	50-200%	50-200%	150-200%	140-180%	*140-180%*	NA
Swiss Life					*90-140%*	*0-150%*	*0-160%*	146%	161%	170%	NA
Swiss Re			>200%	213%	245%	241%	223%	223%	262%	262%	17%
Vaudoise					>200%	>200%	>200%	233%	272%	275%	NA
Zurich IG		257%	237%	183%	185%	217%	196%	189%	227%	223%	42%

- E.g. **Bâloise** comment:
  - SST ratio above 140% even if 100bp lower I rates and equities crash by 50%
  - SST still characterized by high model volatility; SCFR Report May 2017: no transitional and no volatility adjustment but all in the "green"
- S&P confirmed "A" with stable outlook (with "AAA"-capitalisation)
- Standard model for CH group life to be implemented on **opting-in mode as of 1.1. 2018;** FINMA statement: standard model with **no impact** on reported SST overall
- Next step 2018: standard model implementation for individual life and non-life

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Solvency II for peer group comparison

Solvency II ratios	2014 (1.1.2015)	FY15	FY16	Remark
Aegon	n.a.	~160%	157%	
Axa	190%	205%	197%	*170%-230 target range; internal model based*
CNP	160%	192%	177%	*Standard model, vola adj, (11pts)*
NN	n.a.	239%	241%	*180% including Delta Lloyd acquisition*
Storebrand	152%	n.a.	157%	*Target at least 150% incl transitional rule*
Vienna	*~170%*	196%	195%	*Partial internal model, incl vola adj*
Swiss Life	>200%	180-200%	>200%	*Standard model, vola adj, no transitional measures*

– We do use Solvency II (group) to compare Swiss Life's solvency level relative to its European life insurance peers

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Focus on ROE – Insurance industry delivers

ROE expectations	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017E	2018E	2019E	MIN	MAX	Range
Bâloise	8.5%	10.3%	10.3%	1.6%	10.3%	9.3%	13.3%	9.1%	9.6%	10.2%	9.3%	9.2%	1.6%	13.3%	11.7%
Helvetia	8.6%	10.8%	11%	8.9%	9.5%	9.6%	8.9%	6.4%	8.7%	9.1%	9.7%	9.8%	6.4%	10.9%	4.5%
Swiss Life	0.5%	4.0%	7.6%	7.3%	1.0%	10.1%	7.4%	7.0%	7.1%	7.1%	7.2%	7.2%	0.5%	10.1%	9.6%
Swiss Re	-3.3%	2.2%	3.3%	9.6%	13.4%	13.7%	10.5%	13.7%	10.6%	2.5%	7.8%	8.5%	-3.3%	13.7%	17.0%
Zurich IG	21.6%	12.6%	11.3%	11.9%	11.7%	12.0%	11.6%	5.6%	10.4%	9.6%	10.7%	11.2%	5.6%	21.6%	16.0%
Vaudoise	26.3%	18.2%	15.8%	12.4%	11.5%	10.4%	11.1%	8.6%	7.8%	7.0%	7.1%	7.1%	7.0%	26.3%	19.2%
Simple average	10.3%	9.7%	9.9%	8.6%	9.6%	10.9%	10.5%	8.4%	9.0%	7.6%	8.6%	8.9%	3.0%	16.0%	13.0%

Financial targets	Mid/Long-Term Guidance	Comment
BALOISE mid term targets	**8-12% ROE**; combined ratio target 93-96%; grow in key target market segments	15% ROE was cut back to 8-12% (wide range due to volatile "E")
HELVETIA 2015+	Financial objectives 2015+: organic growth > market; 94-96% combined ratio; 1.2%-1.5% life NB margin; **10-12% ROE**; 30-50% payout ratio; "A"-Rating	Currently guiding towards the lower end of the 10-12% ROE target (low interest rate environment)
SWISS LIFE: Mid-term Guidance	**8-10% ROE** 2015, Div payout 20-40%, CHF350-400mn cost cutting	8-10% ROE on equity ex-revaluation gains on bonds
SWISS RE: mid/long-term guidance 2011-15	**ROE 700bp > US 5-year risk free** bond yield; 10% EPS growth over 5-years, 10% economic net worth & dividend growth over next 5 years	Segment ROE's (Non-life Re and CoSo 10-15%; L&H Re 10-12%; Admin Re new business 11%)
ZURN mid/long-term guidance - across-the-cycle	**>12% BOP** after tax ROE on equity ex-revaluations on Afs investments and cash flow hedges	New targets announced in 2014 (old was 16% over-the-cycle BOP ROE)
VAUDOISE Mid-term	**9-11% ROE** target; 2-6% annual growth and combined ratio among the best in class; total payout ratio >30%	Achieved more than 11% in most of last few years

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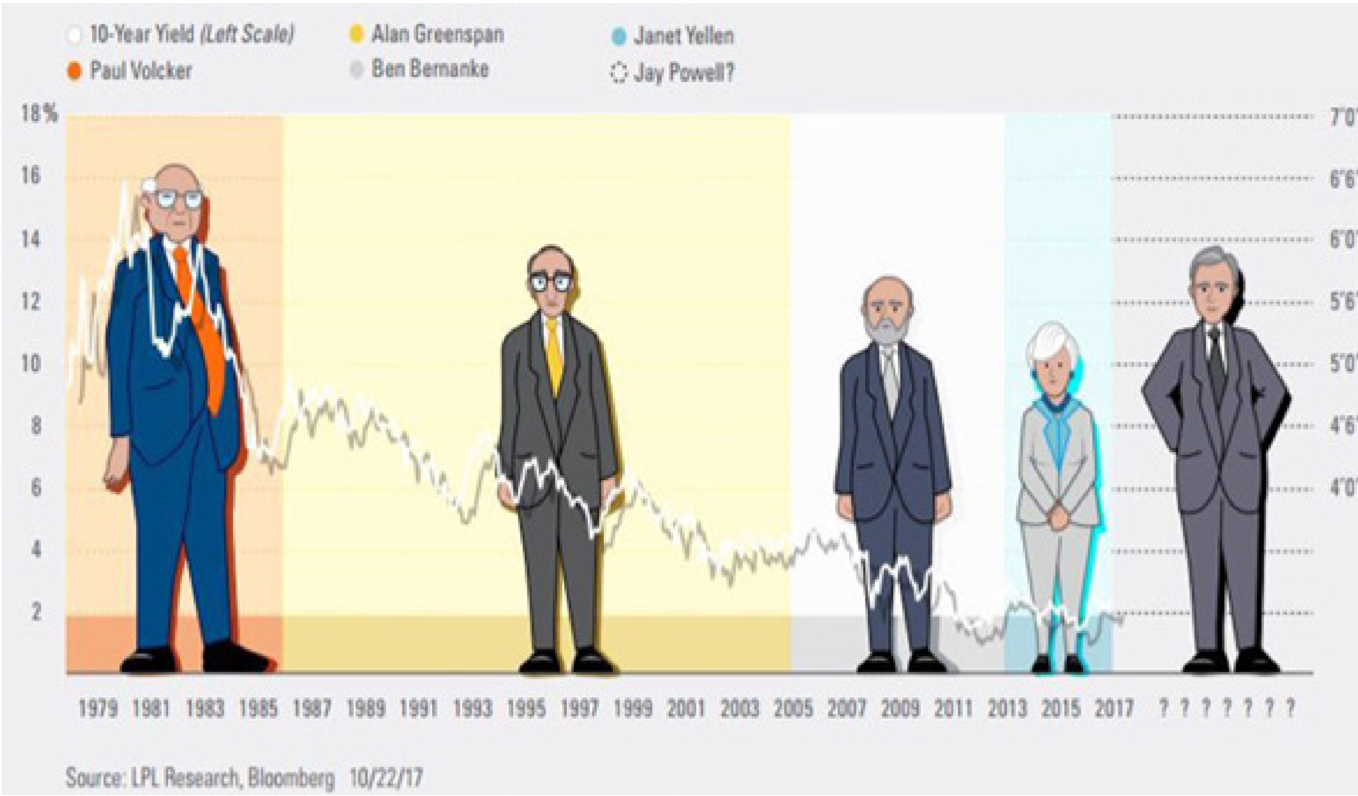
Key topic: interest rates



- Will interest rate finally increase?
- The height of the FED chair and rates have fallen accordingly…, but now with Jerome Powel?

Source: Company data, Vontobel Research

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Key topic: non-life reinsurance market outlook

Vontobel Oct 2017 sector report:

We see reinsurance **pricing** improving in 2018 with 3Q17 nat cat events acting as a wake up call for the industry

i) Industry was ready for a price stabilization in general. 3Q17 losses will be taken as reason to do so.

ii) Reinsurance demand to increase, as sellers will be more cognizant of cat risk

iii) Increasing ceding rates, that are still below their long-term average

iv) Alternative capital looking for higher pricing as well… and other cap raising (CATCo USD1.8bn, Ascot Re USD 1bn…)

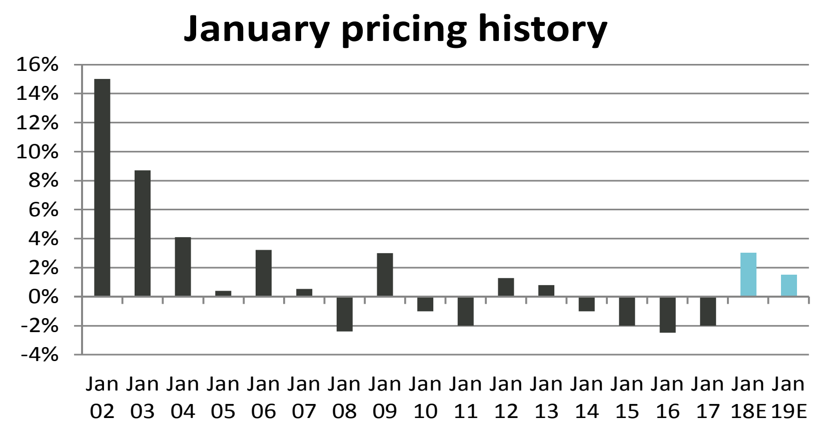
v) Industry ROE's, currently ~6-8% normalised, need to improve going forward

vi) Less support from benign claims inflation – increasing pressure to work on pricing going forward

The pricing increase will be a step-by-step process

Non-life reinsurance pricing trend	Price trend 2018	Up for renewals January	Up for renewals April	Up for renewals July
Reinsuarnce business renewed in %		60%	10-15%	15-20%
Property	?	X		
European property nat cat		X		
Asian property nat cat			X	
US property nat cat				X
Motor		X		
Casualty	?	X	X	X
Specialty lines	?	X	X	X

We estimate an average of <u>2-5% increase</u> of pricing across lines for 2018, with a question mark of sustainability into 2019



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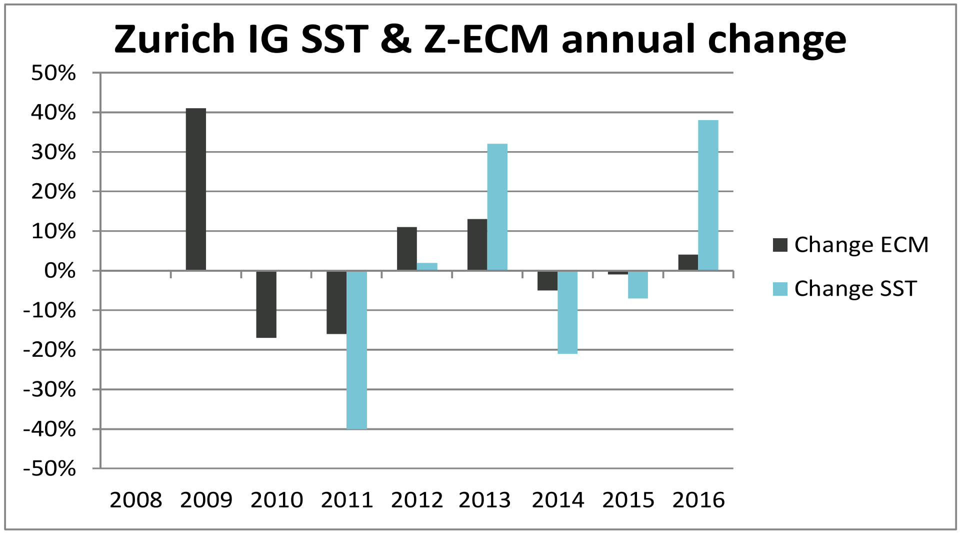
SST reporting – industry and company level

SST capital requirement (FINMA "target capital"), CHF bn	2009	2010	2011	2012	2013	2014	2015	CAGR 2009-2015
Life insurance	25.6	24.6	25.9	28.8	33.0	33.6	40.9	10%
Non-life insurance	32.8	34.6	34.2	36.6	41.0	45.2	41.0	4%
Total insurance market	78.5	78.9	81.1	89.6	96.8	106.7	113.3	7%

- Capital requirement increased the most for life insurance since 2009



- Solvency ratios are volatile… here based on Zurich IG disclosure

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SST sensitivities are important!

Helvetia				
Last reported SST ratio	140-180%			
2016 FY	Equities -30%	Interest rates -100bps	Credit spreads +100 bps	
ppt impact on SST ratio	-10%	-14%	-24%	
Swiss Life				
Last reported SST ratio	161%			
2017 H1	Equities -30%	Interest rates -100bps	Credit spreads +100 bps	Real estate -10%
ppt impact on SST ratio	-8%	-12%	-7%	-14%
Zurich IG				
Last reported Z-ECM ratio	125%			
Last reported SST ratio	227%			
2017 H1	Equities -20%	Interest rates -100bps	Interest rates +100bps	Credit spreads +100 bps
ppt impact on Z-ECM ratio	-2%	-7%	3%	-18%
ppt impact on SST ratio	Equities -20%	Interest rates -100bps	Interest rates +100bps	Credit spreads +100 bps
	-4%	-20%	6%	-33%
Swiss Re				
SST Ratio FY 16	220%			
SST Capital (ENW) FY 16	36.6	USDb		
ppt impact on SST	Equities -30%	Interest rates -100bps	Credit spreads +100 bps	Real estate -15%
	-7%	-0.3%	-12%	-2%

– Sensitivities are important for investors, in order to assess potential change in case of financial market movements (dividend, capital adequacy)

– Bâloise disclosure: >140% even in scenario of stress (-100bp I rates, -50% equities)

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SFCR reporting – what did we do with it?

Solvency II disclosure	Number of legal entities to report ?	Capital allocation method ?	Model?
Bâloise	All EU entities (**Belgium, Germany, Lux, Liecht**)	i) local regulatory, ii) Solvency II, iii) SST	Standard formula
Helvetia	**13 legal entities**	regulatory minium & buffer	Standard formula
Swiss Life	**9 legal entities**	n.a.	Standard formula
Swiss Re	**3 major units** "SR Europe", "SR I'al", "Reassure" & some smaller units	i) local regulatory, ii) rating agency, iii) SST/Solvency II	Internal model (except Life Capital)
Zurich IG	**15 units**; biggest: ZIP (NL Dublin), ZAL (UK), Dt Herold (Germany)	minimum regulatory & buffer	ZIP internal model, rest. standard model

– Only from a Swiss perspective, a great many units reporting under the Solvency II framework

– **Vontobel conclusion to investors** (ahead of reporting): "In Europe, starting on 19 May 2017, SFCR (solvency II) reports and ratios for each legal entity will be published…However, we expect an overflow of information and only limited tangible news from a European perspective, confirming that Solvency II is a multitude of frameworks rather than a single economic solvency regime. From a **Swiss perspective**, despite quite a number of legal entities to be reported on, we expect this to be **a "no"issue**, as group SST ratios are very solid for our Swiss universe and if need be, capital or loans can back up a local situation which might run on a regulatory minimum.

	Bedeckungsquote (MCR)	ohne Übergangspufer (SCR)
SwissLife		
De	1136%	391%
LU	-	179%
Li	-	-
Fr:		
-Property insurance	411%	173%
-Life	534%	240%
-other	292%	131%
Helvetia		
Fr	310%	142%
Bâloise		
Germany:		
-Non-Life	200%	200%
-Life	241%	108%
Belgium:		
-Non-Life	143%	121%
Luxembourg:		
-Non-Life	305%	305%
-Life	206%	194%
Swiss Re		
Europe		276%
International		379%
Zurich		
Austria	492%	221%
Germany (ZIP)	279%	132%
Ireland (Life)	515%	143%
Italy (ZIP)	279%	132%
Luxembourg	203%	226%
UK	682%	173%
Spain (ZIP)	279%	132%

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SFCR reporting – what did the market do?

- **<u>A.M. Best</u>** has begun to capture the Solvency II disclosures for European insurers, and in a new briefing, comments on some important aspects of the new disclosures. The Best's Briefing, titled "A.M. Best Explains Impact of New Solvency II Disclosure Rules on European Insurers," comments on what information will be included and how it compares with previous public regulatory disclosures….
- Anthony Silverman, senior financial analyst, said: "A.M. Best believes that most companies will maintain regulatory SCR ratios well in excess of 100%. However, A.M. Best will ascertain the relevance or otherwise of disclosures to its own assessment of the underlying economic level of solvency. It is not anticipated there will be any direct impact."

– **<u>Commerzbank</u>**: «**Solvency inflation**»: We collected solvency data for all 85 German life insurers from their SFCR reports. Including the impact from the LTG measures, i.e., 16-year transitional and volatility adjustment, all German life insurers have S-II ratios above 100%. If we exclude the transitional measure, 11 life insurers show S-II ratios below 100%, including Debeka. Leben (87%) and HDI Leben (93%). The industry in total operates on an S-II ratio of 344%. This reduces to 207% without the use of transitional measures. Although the high solvency ratios reported present a relief to investors the ultimate truth lies in local GAAP accounts which form the basis of profit generation, profit recognition and profit sharing.

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What do investors think about solvency?

Vontobel investor survey 11/2017:

Investor survey Nov 2017	CH	Cont Europe	UK	US	Total
Investor with focus on financials	4	1	2	2	9

Is solvency currently a major decision factor in your insurance company assessment?	Yes	No
No of answers	7	2

Comments:

It helps to better assess the capital based of an ins company

It ultimately drives the dividend capacity

Yes, even if not comparable, it gives an idea about capital strength

It determines shareholder returns and capital deployment optionality

Yes, but it is not comparable across companies; I look to the capital actions of a company, not just its ratio

Is Solvency II better or worse compared to the Swiss SST?	Better	Worse	No answer
No of answers	3	2	4

Comments:

SST is better because more stringent than S II

Not better, but "tighter"

Doesn't matter, applies only to CH companies, irrelevant for others

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What do investors think about solvency?

Did you use/number crunch the May 2017 solvency reporting details published by EIPOA?	Yes	No
No of answers	2	7

Comments:

Not really, not especially….

SFCR's for subsidiaries give an indication of dividend paying capcaity within the group

Do you use alternative factors for your solvency assessment?	Yes	No
No of answers	4	5

Comments:

We use some stress test procedures from rating agencies, e.g. Fitch

No, with the exception of Z-ECM for Zurich IG

Yes, rating agency ratings and insight reports

I look at capital decisions: dividend policy, buybacks, M&A to gauge capital flexibility, also debt leverage

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Conclusion

- SFCR or economic solvency in general remains one of the assessment factors for an investment decision into a listed insurance company
- Currently solvency ratios appear quite solid and are **not** the key focus for specialized investors
- Solvency remains a **key factor for the dividend paying capacity**
- The solvency topic will come back into focus in case of a financial market correction

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Thank you!