Y 2021 Earnings Call

Company Participants

- Annelis Luscher Hammerli, Chief Financial Officer
- Philipp Gmur, Chief Executive Officer

Other Participants

- Jimmy-Yu Fan
- Peter Eliot
- Rene Locher
- Simon Fossmeier
- Thomas Bateman
- Thomas Chong

Presentation

Philipp Gmur

Ladies and gentlemen, welcome to our Analysts Conference Call on the Full-Year Results of 2021. Within the next 30 minutes we would like to give you detailed information on our business development and the key financials of the reporting period.

Who is we? I welcome in this conference call next to me our CFO, Annelis Luscher. She will go through the financial figures after my short introduction and overview. After Annelis' update on the financial figures, I then would like to give you an update on the implementation of our strategy, helvetia 20.25, and then of course open for a Q&A session.

Let me now turn to Slide number 4. The highlights at a glance. Helvetia can look back on a very successful year 2021. I would like to point out three highlights of the past year in particular. First, we are very pleased with Helvetia's strong profitable growth, the increase in profit and Caser's contribution to the result.

Second, the second highlight is the proposed dividend increase of 10%. This gives our shareholders a dividend yield of 5.1%, with the dividend of CHF5.50 per share. Third, we have made a dynamic start to the new strategy period and are approaching our strategic ambitions. The unchanged positive development of Smile stands out here, building on this development, we will scale Smile on a European level. I would also like to mention our sustainability strategy and the very good start of the strategy implementation in all different business segments. More on all of that follows at the end of the presentation.

Now, I would like to hand over to our CFO, Annelis Luscher, who will present you the key financial figures of 2021.

Annelis Luscher Hammerli

Ladies and gentlemen, I would also like to welcome you from my side. One year ago when I presented the results for the first time, I just had the impression that Helvetia is a good company. Now, one year later I know it. Therefore I am especially pleased to present you this year's or last year's figures as they are very good.

Let's turn to the first page of the key figures. Helvetia group looks back on a very successful business development in the past year. Our core business is in good shape and we are well on track to reach our financial target.

The return on equity increased to 10.3% and lies well within our target range, this is based on a strong net income of CHF520 million. These figures underline the strong and profitable growth Helvetia achieved in its core insurance business, as well as with the generated fee income. Business volume increased by 15% in original currency to more than CHF11 billion, while fee and commission incomes grew by more than 50% to CHF354 million. At the same time, technical profitability of both our non-life and life business developed very solidly. Despite an exceptionally high claims burden from natural catastrophes, the net combined ratio in non-life remains on a good level at 94.8%, demonstrating the portfolio's strong resilience.

In life business, the new business margin was nearly stable at 2.5%, well within our target range. On the second page of the key figures. We are now -- Helvetia has not only strong results, but they are also built on a strong foundation. Helvetia made significant progress on operational efficiency, capitalization and dividends.

With regards to operational efficiency, the aim is to realize cost efficiencies of CHF100 million by 2025. Helvetia has already achieved efficiencies of CHF39 million in '21, this is equivalent to more than a third of the five-year target. Our capitalization remains at the strong level, this provides a valuable safety net in uncertain times. On the one hand, this is demonstrated by the financial strength rating of A+ which has been upgraded by Standard & Poor's in September 2021. Our target rating of A has just been exceeded.

On the other hand, Helvetia's regulatory solvency stays at a very healthy level. We estimate our Swiss Solvency Test ratio to be above 240% as of 1st of January, 2022. Based on our solid capitalization and the strong results, the Board of Directors proposes a substantial increase of the dividend per share of 10% to CHF5.50.

This reflects our successful business development as well as the strengthening of our earnings and dividend capacities through the Caser acquisition in 2020. By growing profitably both organically and inorganically, Helvetia has built a strong basis to deliver future dividends growth. With this increasing dividends, Helvetia is on a reliable path to reach its target of cumulatively distributing dividends of more than CHF1.5 billion by 2025.

The next slide provides you with an overview of the net income after tax of the individual segments and business areas as well as its main drivers. Net income increased to CHF520 million in 2021. This strong result is based on a solid technical development and the excellent profit contribution of Caser in the amount of CHF72 million. Both the net technical result in non-life and the margin of the cost in life benefited from the quality of the portfolios and the contribution of Caser. They improved despite an exceptionally high impact from natural catastrophes in non-life and in non-recurring positive one-off effects in the prior year in life.

The large storms and floods in June and July caused net claims of CHF126 million before taxes for the group. This has mainly impacted Switzerland and Germany. Favorable investment results supported the net income. In light of the recent market turbulences resulting from the war in Ukraine, please let me emphasize that our direct asset exposure to Russia and Ukraine is zero.

Let's now look at the individual segments. Switzerland clearly increased its result. Compared to the previous year, Switzerland recorded a significantly higher result of CHF419 million after 2020 had been affected by the pandemic. In Swiss non-life the technical results proved very solid in view of elevated claims from natural catastrophes, non-recurrence of COVID-19 losses in the prior year and the positive one-off effect attributable to an adjustment of reserves in the first half years had a partly compensating effect.

On the cost side, realized efficiency gains had a positive impact. At the same time strong growth of the B2B2C business led to an increase in acquisition costs. In this Swiss life business, the margin after costs remained on a very robust level despite the non-recurring positive one-off effect in the risk result of the prior year. This is mainly attributable to a stronger savings result due to further decreasing technical rates. The strong performance of the financial markets in 2021, mainly from equities and real estate supported the positive development of the life results in Switzerland.

Also, Europe clearly increased its result. In the Europe segment, net income after tax increased to CHF196 million. The development was positively influenced in both the life and non-life business areas by solid technical development, the first fully inclusion of Caser and stronger investment results. Caser contributed an excellent profit of CHF72 million to the segment result.

In non-life the net technical results remained close to the previous year's level. Our profitable organic growth and the contribution of Caser compensated for a normalization of claims frequencies. These have been reduced in individual lines of business in the prior year because of the lockdowns. The life business in Europe showed an increase in the margin after costs. The savings, risk and fee results all improved. This is attributable to strong growth of investment linked products and the positive impact of Caser.

Also, Specialty Markets clearly increased their results. The net income of the Specialty Markets segment amounted to CHF62 million, a significant increase compared to 2020. The increase was driven by an improved technical development based on profitable growth and related economies of scale, and a higher investment results due to well performing equity markets.

In the Corporate segment, the net result of minus CHF157 million were somewhat below the prior year. The decrease is primarily attributable to a negative currency impact from the liquidation of an own investment fund. And for the financing of Caser, we have issued a hybrid bond in June 2020. The financing costs increased as it has this bond is now recognized for a full year and not only for half year.

Let me continue with our growth in business volume on the next slide. Helvetia was growing profitably in 2021 and achieved a total business volume of CHF11.2 billion. This equates to a currency adjusted increase of 15% of the previous years. The growth was driven by a remarkable organic increase in non-life and investment-linked life business, as well as the first full year inclusion of Caser which contributed around 60% to total growth. Almost three quarters of Caser's business volume relates to non-life business.

In Switzerland, Helvetia grew it's business volumes by 2.6% in original currency. Being a strong growth driver, the non-life business increased by 15.5% in original currency. This was attributable to the following three components; the traditional non-life business, the B2B2C business, and Smile. With a broad-based growth rate of over 4% in the traditional non-life business, we significantly strengthened our market position in our profitable Swiss Code business.

With the growth in the B2B2C business, we have set a solid anchor in the new business area of embedded insurance. And remarkably, online insurer Smile increased its premium volume by 11.8% to CHF111 million. In the life business in Switzerland, we recorded a very successful development of the investment-linked products in the individual life. The growth in this line of business was over 17% in 2021. Business volume of group life decreased due to the market-wide trends of a shift from full insurance to semi-autonomous solution.

Business volume of the Europe segment grew by 31.5% in original currency, driven by both organic growth and the first full year inclusion of Caser. In the non-life business of the Europe segment, Helvetia was able to grow by 4.4% organically. Growth was above market level in all countries and broad-based across lines of business.

In life insurance in Europe, organic growth amounted to almost 12%. This increase was driven by remarkable growth rates with investment-linked business in all country markets. The business volume of the Specialty Markets segment also developed very positively, it's grew by 12.6%. Besides the development of new lines of business in-line with the strategy, Helvetia also benefited from favorable price effects, which accounted for around a third of the growth in this segment.

Helvetia is not only strengthening its core business through profitable growth in the insurance line of business. Helvetia also significantly increases its fee income. The group's fee and commission income rose by 56% in original currency to CHF354 million. A strong organic development of +13.2% in original currency was mainly driven by asset management fee income due to higher volumes. Both new assets and the rising market values contributed to this. In addition, Caser and it's non-insurance businesses were a strong growth driver. Caser generated a fee volume of CHF212 million in 2021.

With this, we are moving to the next slide and the next combined ratio. The year 2021 was facing an elevated claims burden from natural catastrophes because of an exceptional number of large storms and floods in June and July 2021. Taking this into consideration, our net combined ratio proved to remain strong and very robust at 94.8%. The claims ratio only increased by 0.9 percentage points compared to the prior year, underlying the resilience of the portfolio. The development benefited from non-recurrence of COVID-19 losses, which has impacted the prior year and the positive one-off effect in Switzerland in the first half year related to a periodic review of the level of resource.

In addition to this, Helvetia recognized the normalization of claims frequencies in individual lines of business after a reduction in the prior year during the lockdown periods. The cost ratio on the other hand slightly improved by 0.1 percentage points. The administration cost ratio improved significantly. Our efficiency program and our profitable growth make their marks. This shows that we are well on track regarding our financial targets and on cost efficiencies. The positive impact on the administration cost ratio more than offset an increase in the acquisition cost ratio.

On the next slide, we will have a close look on the new business margin in life. The new business in the life business area developed well in 2021. Helvetia has increased the new business volume measured by the present value of new business premiums by a strong rate of 16.5%. Growth was driven by the Europe segment where each country markets reported an increase. The main contributor was investment-linked business.

Additionally, the inclusion of Caser had a positive effect on the volume of the new business as Caser has not yet been included in the 2020 figures. Growth of new business was profitable with the value of new business increasing by 10.6%. Accordingly, the new business margin remained close to the level of the prior year at 2.5% and thus well within our target range of 2% to 3%. This slight decrease resulted from a minor negative effect of including Caser. It was partially compensated by improved cost assumptions, model changes and higher interest rate consumption.

On the next Slide. I would like to give you an update in terms of our financial targets on cost efficiencies. With our new strategy, helvetia 20.25, we have introduced a financial target of realizing cost efficiencies amounting to CHF100 million by 2025. In the first year, we're working towards this target. We have already made good progress. Helvetia has realized efficiencies of CHF39 million in 2021. All three segments Switzerland, Europe and Specialty Markets contributed to this success. About half of the efficiencies were realized in Switzerland.

Europe and Specialty Markets each contributed about the quarter to the total number. The realization of cost efficiencies in '21 was based on two main drivers. First, the efficiency program we have started as part of the strategy showed its effect. Second, efficiency gains incurred as a result of the strong and profitable growth in non-life.

Let's now have a look at the operating cash production we have generated in 2021. The operating cash production of CHF322 million is another indicator of our successful business development in 2021. It was strong across all segments and business areas. Compared to the prior year it's likely increased. Therefore, we were able to compensate for a one-off benefit in the prior year due to proceeds related to the launch of a third-party Swiss properly fund. Life business on the other hand showed an increase which is mainly attributable to a positive development in Switzerland. Total operating cash production also includes a contribution from Caser in the amount of EUR24 million, the same level as in the prior year.

Our operating cash production is a strong basis for our dividend policy. It's comfortably covers the recommended dividend distribution of CHF292 million and therefore ensures a sustainable payout to shareholders in line with our dividend policy. Helvetia pursued a dividend policy of paying out sustainable dividends to its shareholders. That means, that we aim for an yearly increase of the dividend per share or in exceptional years such as 2020 to at least keep it stable on the level of the prior year.

For 2021, Helvetia's Board of Directors will therefore propose a substantial increase of the dividend to CHF5.50 per share. This 10% increase reflects a regular increase based on the successful business development in 2021, and it is based on the additional profits and dividend potential that we have acquired with Caser. Shareholders are now benefiting from this acquisition through an additional one-time rate of the dividend per share. This leads to an attractive dividend yield of 5.1%.

Now let me conclude. 2021 was a very good year for Helvetia. Why? First, we have been able to grow our business profitably both through broad-based organic growth as well as through successful contribution from Caser. Based on this, Helvetia generated a strong net income of CHF520 million. Second point, at the same time, we kept out capitalization on an excellent level, this is underlined by the upgrade of our S&P rating to A+ in September '21, and our strong regulatory solvency measured by the SST ratio, which is estimated to be above 240%.

Third, the profitable growth and ongoing strong capitalization enable us to increase the dividend per share by an attractive10%. Shareholders thus benefit from Helvetia's successful development in '21 and in particular the acquisition of Caser the year before. These three points makes 2021 a success for Helvetia. On that note, I will now hand over to Philipp Gmur, again.

Philipp Gmur

Thank you, Annelis for presenting the financial figures of the past financial year. A year ago, we presented the helvetia 20.25 strategy. In June 2021, we gave a more detailed insights into the new strategy at our Capital Markets Day. And this was followed by a first strategy update on the occasion of the half-year results in September 2021.

On the next slide, I will give you an overview of the current implementation status. Let us start on Slide number 18. With the new strategy we are pursuing the ambition to be best partner for financial security and setting standards in customer convenience and accessibility. In order to achieve this ambition, we have defined four different strategic priorities.

We embrace customer convenience, we have the right offering, we grow profitably in our core business and we make use of new opportunities. This slide provides an overview of the most important achievements for each strategic priority. The first one customer convenience. We are for example, investing in automation and improved claims processes in all markets. In Austria for instance, we acquired faircheck last year, which is the leader in the Austrian market for independent claims assessment.

The right offering, among other things we are focusing strongly on SME business in all segments. Here for example, we are building in Switzerland an ecosystem around Atlanto a service platform, which relieves SMEs of administrative tasks such as financial accounting and the preparation of offers, order confirmations, delivery notes and invoices.

Living customer convenience and providing the customers with the right offering leads to profitable growth. The last financial year's results have shown that we are very successful in this regard. Once again, I would like to emphasize the organic growth in all segments. The basis for this is among other things further corporations and the use of sales capacities across all our sales channels.

And fourth, we use new opportunities. The development of the partner business was very successful. With this so-called B2B2C business, we are taking a big step in customer access, which is part of our strategic ambition. We are present whenever insurance needs might arise. And with that, I would like to turn to Slide 19.

For several years now we have been able to report on the very pleasing development of Smile, the leading Swiss online insurer. This development continued. Last autumn, Smile launched a freemium offer, this allows non-customers to experience Smile services as well. Smile established itself as a digital lifestyle brand and so to speak the Netflix of insurance. Significant growth of around 12% last year with unchanged good profitability. Smile has now over 165,000 customers in Switzerland. And that's why in line with our strategy, we want to make Smile a European unit. This is another step towards achieving our vision of being the best partner for financial security and setting standards in customer convenience and accessibility. We are also responding to the increasing importance of digital channels and business models. We will start in Austria this year.

Now let us turn to Slide number 20. How do we do that? With the European scaling of Smile, we are exploiting digital growth potential. The chosen approach builds on the very successful Swiss model, a profitable unit in Switzerland with a combined ratio of around 90%, a solid basis. A consistent customer experience is insured with a uniform front-end across all markets. At the same time however, Smile's European operations will be embedded in our local units. Among other things this allows us to build on existing IT infrastructure, which allows for cost efficient scale.

There is no need to build our own expensive IT platform. Thus, we rely on the interaction of a service unit which takes care of the customer presence and the existing market units whose infrastructure can be used. As already mentioned the start will be in Austria and Spain will follow next year. With this step, we are strengthening our profitable core business with a complementary business model. We are pursuing ambitious goals and working towards the number one position in the Austrian online insurance market.

And let me turn to Slide number 21 and talking about sustainability. A year ago we presented our purpose to you, life is full of risks and opportunities, and we are there when it matters. We also want to live up to this purpose in terms of sustainability. As a European financial services provider, Helvetia want to contribute tributes to the sustainable development of the economy and society. In doing so, Helvetia applies the concept of double materiality and focuses on priority areas that are relevant to its stakeholders and its industry.

The sustainability strategy 20.25 therefore focuses on four areas; the environment, the products, the investments and last but not least culture and governance. We have also set ourselves a clear goal in the area of sustainability. We want to improve our MSCI rating to at least A by the end of 2025.

On Slide number '22, you see that the implementation of the sustainability strategy is carried out along six broad topics that can be assigned to the four areas mentioned above. In the area of environment, we focus on limiting climate change and its consequences. In the area of products, the focus is on sustainable products and the integration of sustainability aspects into underwriting. In the area of investments, the focus is on the topic of responsible investing.

Helvetia has the objective of achieving an attractive risk-adjusted return while at the same time benefiting society and the environment. Three topics are assigned to the culture and governance area. It is sustainability, culture and governance. Sustainability risk management and responsible workplace. This implementation framework forms the basis for achieving our sustainability goal mainly improving our MSCI rating to at least A by 2025. This ambition is based on a solid foundation.

The insurance business is long-term oriented. Therefore acting sustainably is part of our DNA. That is why our sustainability strategy does not start with zero. As you can see in this overview, we have already achieved a lot over the past years. I would like to highlight the significant reduction of the CO2 footprint in the business activity.

Since 2017, we have completely offset our CO2 emissions. First, sustainable products have already been launched for instance some products in life insurance that invest sustainably. Signing the UN principles for responsible investments in 2020 and adopting a responsible investment strategy in 2021. And in Switzerland, the We Pay Fair certification confirms equal pay at Helvetia. We now want to continue consistently along the paths we have chosen.

Ladies and gentlemen, let me wrap up and give a short outlook. In summary, Helvetia achieved a strong performance last year, both in terms of profitable growth as well as in the dividends and progress on our strategic ambitions. Based on the successful last year, the outlook remains ambitious. We want to continue our profitable growth. We are well on track to continue our current very attractive dividend policy and we are very well positioned in our segments Switzerland, Europe and Specialty Markets. With the scaling of Smile in our European units, we are further strengthening our core business.

Helvetia is therefore making good progress towards achieving its financial targets and creating asset value for all stakeholders. This brings us to the end of the presentation. Annelis and I would now be pleased to answer your questions. Thank you for your attention.

Questions And Answers

Operator

(Question And Answer)

The first question comes from the line of Simon Fossmeier with Vontobel. Please go ahead.

Q - Simon Fossmeier

Hello everyone, two questions if I may. First is on life insurance. Life net profit is the highest in a number of years and if you could help us maybe in calculating what you think is the future run rate from net profit in life and also, I was wondering how much of that profit increase comes from the new tariff that you implemented in the Swiss BVG business.

The second question relates to non-life. On the occasion of your Investor Day in summer last year, you pointed to a number of growth initiatives, two of which were reinsurance and Eastern Europe and one was aviation. And obviously those areas look, maybe a little bit less attractive than they did, when you thought about your strategic plan. I was wondering, if you see a delay or change in your growth ambitions there.

And if I may squeeze in a third question, on Smile, if you see any substantial investment needs for the expansion there, that's it. Thank you.

A - Philipp Gmur

Thank you. So, if I understood it correctly, there are three different questions. The first one deals with the future run-rate of the life profit and the life business. How much of increase, we see from new tariffs and so on. Then the second, goes with non-life change in growth ambitions specifically in the active reinsurance business. And the third question deals with Smile.

Let me start with the third question and then hand over to Annelis. Of course Smile comes up with some investments. However, as we are calculating them, we think that they're very, very moderate like that. Unlike other competitors, we are not establishing a propriety IT system in all different country markets, to the contrary but we are exploiting across our country markets is the front end system, which is the same for each and every country market more or less and then we are like combining the front-end system of Smile with the backend systems in the different country markets.

That helps us to be very fast. So we have an advantage in terms of time to market. And it's very cost efficient, because we have a still existing, already existing basis of the different back-end systems in the various country markets.

So, we are calculating with great moderate investments in Smile. Now, for the question dealing with the active reinsurance, I hand over to Annelis.

A - Annelis Luscher Hammerli

Yes, thank you. So when introducing the new strategy, we also confirmed that we want to grow in the area of active reinsurance and also to grow this unit or this business unit. Why is this interesting. This is very interesting because we can profit from a diversification in the required risk capital by adding this active reinsurance business. That is not possible for the direct investor or the shareholders to achieve this diversification benefit. I'm not sure, if I did understand this right, you said something of Eastern Europe. It was never our strategy to grow active reinsurance in Eastern Europe. Just to make that clear.

Q - Thomas Chong {BIO 20051280 <GO>}

Okay. Understood. Yeah.

A - Annelis Luscher Hammerli

We follow a strategy in different lines of business which we have gradually built-up over the recent years and which we are continuing to building up in the area of liability, property, motor and engineering. And also in biometric risks in active reinsurance. And we do that globally that -- that's correct. So, in the U.S. and also in Europe, and to a smaller parts in Asia.

And to come to the first question you had on life insurance, the life result in 2021 benefited from different effects. The first one is a very good savings result. This was driven by various effects, by the small lower technical rates for example and also some benefits from the interest rate site versus yes.

And the fee result benefited from strong growth in investment linked products, where as the risk result is a bit smaller than in 2020, maybe you remember in 2020, we've had a special effect in the risk results, due to a favorable effect on these results, due to the change in Paris in 2020. And the cost result remained more or less stable, when looking ahead to the next year's, we are very comfortable with the new tariff as they ensure profitable growth. The development of the life result will, of course, also depend on the interest rate levels.

What do I mean by that? If we have, if we continue to have low interest rate levels, then the classic life insurance product will not be very attractive as it can only give very low guarantees. However, if interest rates go up in the near future, then the traditional life products may become attractive again and will, of course, also influence our results.

Q - Thomas Chong {BIO 20051280 <GO>}

Okay. That is right. Yeah. Thank you very much. Very helpful.

A - Philipp Gmur

You're welcome. So let's go with the next question, may we.

Operator

The next question comes from the line of Peter Eliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. If I could start on Slide 14, please the non-life combined ratio components, then the and thank you very much for the underlying PYD dispose, which is helpful. And if I look at the current year, claims ratio and last year, you said it was 55.3% ex-COVID. So it's gone up by 1.6 percentage points. And I guess, I was a little bit surprised with the increase because if I look at the half year, you showed a 3.5 percentage point improvement year-on-year. So it seems to suggest that a quite a big deterioration may to is that all due to the sort of post COVID recovery and frequency that you mentioned. And if that is the case, then should we expect that to -- for the range run rate to continue? That was the first question.

The second question is, if I look at the admin cost ratio there it has come down 9.2% to 8.2%. If I apply those percentages to your premiums, it suggests that admin expenses only rose by 20 million. But if I look in your annual report, I see it is increasing by 17 million, so I'm just trying to understand what's happening there. I wanted to see if we could help on that front.

And then maybe my third question, you mentioned the direct exposure to Russia, Ukraine being zero potentially, could you just sort of mention, what risks do you see in terms of indirect exposure and possibly one aspect there is aviation that Simon just touched on, the aviation leasing. I'd be interested to hear what risks you see there? Thank you very much.

A - Philipp Gmur

Okay, Peter. And there are three questions. The first one deals with the run rate of the combined ratio, the second with the admin costs and the third one Russia, Ukraine. I go ahead with the first question and then hand over to Annelis. There is no such guidance as to a run rate of the combined ratio, except the corridor of 92% to 94% which is of course our heart target. As you mentioned, we have special effects in 2020 with COVID, and at the same time of course now in 2021, we had the biggest nat cat events ever in our book. However, the book is pretty resilient which is reflected in a combined of 94.8%, so we could pretty much, offset this nat cat events by a good portfolio, which comes up with a pleasing around right. So our combined ratio targets remains unchanged between 92% and 94%. Now the other questions Annelis, admin costs and Russia, Ukraine.

A - Annelis Luscher Hammerli

Yes, so I will first start with Russia and Ukraine. As concerns, the direct exposure we have said, we have zero exposure towards Russia and Ukraine and also zero exposure to Belarus. On the passive side, we have some direct exposure in the low double-digit million of premium. What was the nature, do these exposures have? Imagine for example, a Swiss watch company, who has stores all over the world and which is insured by us, so which insures the stores by us and logically such a company also has a store in Moscow for example. So we have some smaller, some small exposure non-relevant exposure to Russia, on the passive side.

Now, what concerns the indirect effect, one indirect effect would of course, be the effect on the whole economy and the possible recession and therefore, pressure on the financial markets. The other thing that we discussed and looking at closely is inflation due to a supply chain issues, due to shortages in certain materials coming, and commodities coming out of Ukraine and Russia. And concerning the general market impact of this crisis, we have already in China we adapted the hedging position on our equity portfolio and on the inflation side, since the last Autumn, we have started to adapt the prices to increasing inflation in non-life in our various country markets. So we are together with very strong solvency position well equipped for whatever turbulences may come. That was on Russia and Ukraine and now regarding the admin cost ratio, there is the important that we plan, that the admin costs will reduce each year in the future. So we have a strong eye on the admin cost ratio and I'm sure that we have -- can increase the profitability of the portfolio.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I guess my one specific area of interest to on the Russia, Ukraine or the general crisis with the aviation exposure.

A - Annelis Luscher Hammerli

So yes, sorry. I forgot that part of the question. We have no aviation leasing exposure. And we have also no political risk exposure.

Q - Peter Eliot {BIO 7556214 <GO>}

Right, that very helpful. Thanks very much. And on the admin cost ratio. I mean, I guess my specific question was just trying to reconcile the slide with the annual report, but I can take that up with IR afterwards, if that's easier.

A - Philipp Gmur

Okay.

A - Annelis Luscher Hammerli

Yeah that might be helpful.

A - Philipp Gmur

If there are another, a next question.

Operator

The next question comes from the line of Jimmy Fan with UBS, please go ahead.

Q - Jimmy-Yu Fan

Hi. Thank you for taking my questions. I have three please. And first, if I look at Slides 56, along the SST ratio. I mean, now you indicated that -- could come to 40%. And if I look at our charge. So it's saying it's in the possibly it is in the range of values, would need to take a management actions or capital actions. Could you give some color on what actions you have considered and I mean developments there.

So my second question is on my growth and perhaps is it related to the first one I guess. The growth was very strongly in Switzerland and also specialty markets in 2020 and what's the level of course, we have planned for '22. And maybe could you a bit color on -- and Annelis what you already touched on about inflation and reserving. I guess my home -- how much more have you seen in terms of the inflation, you have factored in your reserving actions versus maybe the level, it was in 2020. And my third question is on the expense ratio, so basically, you will achieve a quite substantial amount of that, efficiency program you set yourself for 2025. Would you consider to revise that targets why you, you are essentially ahead of plan. Thank you.

A - Philipp Gmur

Okay, thanks. As I understood it, there are not only three but four questions.

Q - Jimmy-Yu Fan

Alright.

A - Philipp Gmur

SST, growth, inflation and expense ratio. Let me start with answering the question number two, growth and then hand over to Annelis. We do not provide you with any growth guidance. However, you mentioned two larger let's say, segments or business lines. The first one Switzerland. In Switzerland, we are specifically growing in the bread-and-butter business. And this growth of course is on a rather reliable basis year-on-year, we are getting again and again a higher market share in Switzerland. And that remains of course, our ambition.

Talking about specialty markets, however, as you mentioned before. In specialty markets, we have to manage the cycles and unlike the bread-and-butter business, we might, come down with the volume or go up with the volume on a rather, let's say more dynamic manner than in the bread-and-butter business. And given the uncertainties for instance, around the Ukraine crisis and the war. We might have to manage this cycle proactively. There are no signals as of today, but we are ready to manage those cycles. And then we are proving again and again that we are able to manage the cycle. For instance a have a look at the developments in our France franchise.

We came up with reducing our portfolio in France, within the last two to three years. And in the meantime we see a rather attractive rebound there. So it's really it's two different business areas we have to manage. So far to the growth. Now Annelis, please the SST question and then inflation and the expense ratio.

A - Annelis Luscher Hammerli

Yes. Sure. So the SST ratio as of the 1st of January '22 is higher than 240% and given this high capitalization, one could ask the question, why are we not increasing or re-risking a little bit? However, we are convinced that in these uncertain times it's wise to have a buffer, which is large enough to I guess to be able to take up any market turbulence there is.

So we are currently not re-risking based on the high SST ratio. But we are revising and discussing that in a regular manner. Regarding, inflation we are active in different countries in Europe and Switzerland and these different countries all have different inflation readings. Therefore, the answer to inflation is specific to each country, also in the year of 2021, even though inflation increased towards the end of '21, in the numbers there is all almost no effect of inflation in '21.

This may be different in the years 2022, now all the countries took measures to adapt to the increasing of inflation in non-life, meaning that prices were adapted either automatically as for example in Austria or very pro-actively as for example in Germany and Spain and also in Italy.

Now on the asset side, we don't see inflation and interest rate increase as such a big topic rather, we welcome it as our reinvestment rates would be higher with higher inflation. And just to recall, our duration gap is zero in the regulatory model and very small economically. Therefore a change in interest rates is not affecting us at all regarding the solvency. And very importantly, it does also not impact cash generation, as independent of the value of a bond. It still pays the same amount of coupons.

Regarding the expense ratio we are on very, very good track regarding our efficiency program where we have reached or already over one-third of our target. We will not revive the target at each balance sheet date, but in 2023, we will report for the first time on the IFRS 17 and 9. And there we will anyway have to revise part of the targets, and we will look at all targets for December of 2023.

A - Philipp Gmur

Okay, are there more questions.

Operator

The next question comes from the line of Thomas Bateman with Berenberg, please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi. Good morning. Good afternoon, everybody. And it's just coming back to the cost target a little bit. Obviously, you made such good progress and I'm just thinking about how we get to the 100 million. Do we expect a similar level each year, or is it kind of -- there has been a big jump in the first year. Yeah, that's my first question.

And second question, just on the SST ratio, and it's clearly very, very strong and I appreciate your comments on the addition but can you give us some of the moving parts? So I'm thinking maybe benefit from interest rates and the benefit from the new credit risk module and also organic capital generation on the dividend that would be really helpful.

And again, just going back to the claims inflation, could you maybe put your non-life markets into three different buckets? So, maybe one way you see, no claims inflation at all to where you see pricing reacting to claims inflation and maybe in the third bucket, one that you're concerned about and fourth, the fourth question is on life.

On life reserve, the result was quite high in 2022, I think driven by reserve strengthening there. Should we be worried about that CHF450 million or so, I guess it was quite high, I wasn't expecting that, it's actually a large number, given interest rates have gone-up a little bit and any comment on that would very helpful. Thanks very much.

A - Philipp Gmur

Thank you. So, there's a whole bunch of questions which go to the CFO. It's about efficiency target, how to get to the CHF100 million? It's about the SST ratio, benefiting in 2021 about the inflation, and where do we see claims inflation. And where or whether we should be worried because of the life reserves strengthening. Now Annelis can you?

A - Annelis Luscher Hammerli

Yes I can. I should start. So, let me start with the SST ratio. There are a similar -- no there are different influence factors. As always, there is the market, there is multiple change and there is, of course, also our business development. One effect we have is you mentioned it the new credit risk model and others are the quite low credit spreads as of year-end and other effects. There is no -- not really one dominating effect, it's really a collection of smaller effects and as always you will have the details on that in the (Foreign Language) the name in English, I don't know. The stability report which will be published by the end of April.

Then on the cost target, will you see similar level of cost deficiency each year until 2025 not quite each year for 5 years. But the aim is to have a large part of these efficiencies realized in the first part of the strategy period in order, then to be able to fully start already in the next strategy period. So we aim to, just to confirm -- to have a lot of cost efficiencies let's say in the first three years of them -- of the strategy period and then to gain efficiencies also through profitable growth for the remaining two years until 2025. We have different efficiency initiatives in place, especially in Switzerland and some of them do take longer to take effect and some are already taking or showing their effects now.

Now, regarding inflation and claims inflation, we mitigate claims inflation by adapting the prices of the premium prices of insurance in non-life in all our country markets and it's a bit like, like if you would have a financial crisis with everything happen very fast, we have a problem. But if things change slowly then we are well adapted with our mitigating measures.

What do I mean, by that. If from one day to another markets dropped by 30% and stay at that level then, of course, our asset cycle is impacted. At the same time, if from one-day to another inflation increase to 10% or 20% to be extreme then, of course, we have a problem on the claims inflation because then our policies are too cheap regarding the claims that are incoming.

However, if changes happen gradually then we are well prepared for any claims inflation. Now, your last question was on life, right?

Q - Jimmy-Yu Fan

On the reserve strengthening. I think it was 450 million in the extraordinary reserve. Is that -- is that a number, we should be worried about. Is that going to be borne by the shareholder or there's some other mechanisms at play here.

A - Annelis Luscher Hammerli

So I'm not worried at all. And we had -- we did a change in the reserving, which we would have to do anyway. It's in German -- it's called (Foreign Language) statistic. And I'm looking to IR for the translation, but they are -- they don't know it at the moment. But the point is that this is a required change in Switzerland, which accounts for the fact that if you are a rich person, you generally or you statistically live longer. And this has not been accounted before in the reserving tables, but it is now accounted for in the so-called change to the (Foreign Language) statistic, and this change needed a strengthening and that's what we did in this year 2021.

Q - Jimmy-Yu Fan

Understood. So it's not necessarily driven by interest rate movements, it's driven by this change in requirement.

A - Annelis Luscher Hammerli

Yes.

Q - Jimmy-Yu Fan

Okay, that's great, thank you.

A - Philipp Gmur

More questions?

Operator

The next question comes from the line of Rene Locher with Stifel, please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes, good morning. Can you hear me loud?

A - Annelis Luscher Hammerli

Yes,

Q - Rene Locher {BIO 1921075 <GO>}

Okay, So let's start in Slides, 14, 15. I mean -- I was just looking at this combined ratio and you have -- in the last 20 years, and interestingly the Swiss combined ratio was hopping always at around 85%. We just channeled question, this times over should we more model with Swiss combined ratio of around 90%-ish. Here again, I mean no number, just how the Swiss non-life market is developing.

Then on Slide 19. It's Caser, interesting. So the first question here is 72 million from Caser is this a sustainable numbers, do we have like one-off in there? And then the Caser contributed with 24 million to the dividend, that's our remittance ratio of roughly 33%. And here again, I'm wondering if this is -- a percentage point for remittance ratio, which looks reasonable going forward?

And again it might not be a little bit a nice question. Is there a bridge from these CHF497 million net profit allocated to share holder to be the operating cash production of CHF322 million, but that's roughly 65% of these shareholder net profit growth, or equals these operating cash-flow. And I was wondering, if there's something and we could calculate.

Then on Slide 41. And this is the moving -- this quarter activities and then I mean no details, but just get a little bit of feel, what is a reasonable run-rate going forward. Is it more the 144, you're seeing in 2020, or is it more than 174, you have seen in 2021. Then yes, I mean something with it. On Slide 49 and what we have also looked at, is a spillover effect from Russia Ukraine crisis to oil and gas, corporate bonds, so you have like CHF750 million invested in oil and gas.

And I was wondering, if you were -- this as should. And just a last one on -- you showed last year, we have a trading portfolio. Roughly 4.6 billion in tiering and I do know it's counting game it. And I was just wondering, do we know -- how this trading portfolio has developed in Q1 given that bonds lost in value and equity markets are down in Q1. Thank you.

A - Philipp Gmur

Rene. I'm just wondering whether I understood all of your six different questions. The last one was about the trading portfolio and it's achievements. Number five, Ukraine, Russia, spillover effects to our oil and gas assets. Then question number four, deals with the other activities which however was pretty difficult to understand but you're really looking for, but then we get -- then the 497 million, is there any bridge to the operating cash production. Caser delivering 72 million and the combined ratio guidance for Switzerland. I am starting with questions number one and two, and then I'm handing over to Annelis.

The first question. Do we give any guidance as to a specific country markets? We don't -- the guidance we gave is our target on the group level is between 92% and 94%. However, in order to achieve this target, Switzerland as the backbone of its non-life portfolio has to deliver of course, but we do not give you a specific guidance with regards on what we are calculating with. But it's still the most profitable backbone in our portfolio, and we do everything that it remains.

So, second Caser CHF72 million is that sustainable? Yes, it is. The dividends is the dividend sustainable. Yes, it is why that. We have banking corporation partners which are at the same time shareholders of Caser, and they are benefiting in three areas. First, they are gaining and earning commissions by giving us business, bringing us business. Second, they are benefiting if the business they are, bringing to help to Caser is profitable. So there are specific profit sharing schemes and third they are relying on the dividends. And dividends, what comes with that the commission's and so on, account for depending on the bank, as much to more than a third of their bottom line profits. So the dividend is sustainable.

Not only because the businesses is sustainable, but also because the different shareholders to make sure that the dividend flow is sustainable itself. Now question number 3, the bridge from the 497 to the operating cash production. Annelis?

A - Annelis Luscher Hammerli

So, so let's start like this. So the net profit is an IFRS number. And the cash production is a number that is generated out of the local statutory accounts. So there are of course, differences between local stats and IFRS and therefore the bridge or the comparison is not easy at all. As, we use IFRS in order to have a comparable basis to compare all the counting numbers for our various countries with all different local accounting schemes. So that the cash production has to be looked at a bit separate of the IFRS net profit and the cash production is in that sense a more to economic output than the IFRS net profit. So currently we have no bridge and but -- and I'm happy to discuss with you the -- your thought about that maybe in the call once.

Q - Rene Locher {BIO 1921075 <GO>}

That's fine. And I mean you are not the only one that's okay. Analysts they like to calculate so I thought this 65% be quite a good number, just to get these operating cash product, but it's okay fully understood. Thank you.

A - Annelis Luscher Hammerli

Then asset exposure to oil and gas. As we have a diversified corporate bond portfolio with a really solid rating of single A mostly in oil and gas -- oil and gas even single A plus. And of course, we are invested as a large assets owner in oil and gas. Now, we also looked at the exposure on a line by line item, and yes and the effect on oil and gas is not a general effect, but it really depends also on each of the holdings and each of the companies we have there. We currently have no bad nights due to our oil and gas exposure. And then we are still happy with the exposure we have in this sector.

All the oil and gas funds, they of course go through OCI and not through P&L, which leads me to your last question. Yes. It's classified as trading, they have developed well, especially on the equity side and also the just the bonds we have there as trading the convertible bonds due to a favorable spread development towards the end of '21, they had a favorable development.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Thank you very much.

Operator

We have a follow-up question coming from the line of Peter Eliot with Kepler Cheuvreux, please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. One of my follow-up questions, actually was one that -- Rene's thought actually. I'm not sure if we covered what you felt was a good run rate for the other activities segment going forwards, whether 2020 was a good level or 2021 or some other level. And then I just have to other questions, please. Firstly on the dividend, and if you ignore the capital related increase of 0.25, then the set of two normal increase is 0.25. I guess it always used to always used to be 0.2 up to 2020 and then it was held flat in 2020.

My question really is, should we think of the 0.25 as a bit of a catch-up the last year or is that simply your sort of current view of the appropriate annual? And then my other question was on Smile. Just wondering, what the thinking yours is, why this is the right time to expand into other markets. Yes, just to be interested in main drivers of that decision on the timing. Thank you very much.

A - Philipp Gmur

Okay, if I understood you correctly, the first one is referring to Slide 41, the other activities, whether there is some guidance. The second one, is about the dividend policy. And the third one, could you repeat please question number three?

Q - Peter Eliot {BIO 7556214 <GO>}

Yes, certainly, it was on smile and I was just wondering, why now basically, what was the main reason for the decision to expand it now?

A - Philipp Gmur

Yeah, let me start with question number two, dividends then go to Smile and finally hand over for question number one to Annelis. Our dividend policy as you mentioned correctly there were steps like, 0.20 over the years or before the split it was rather, CHF1 per year. And our guidance regarding dividends is that we want to pay out at least 1.5 billion by the end of this strategy period.

So, from your point of view, it's not unfair to calculate in 0.25 steps rather than 0.20 steps. And of course, if the business is running well, then we might increase the dividend, we want to at least hold the dividend even in adverse scenarios, and we are pretty proud to be, I think in the meantime the only stock on the SPI in Switzerland, which paid out dividends since its existence. So, and we want to keep and stick to this promise going down the road, of course.

Now that the third question regarding Smile, why now. We are proud having established a model, which is not fantasy. It's a profitable business, it's not about, any numbers in an excel sheet, promising earnings in either 2040. We really have an established direct online insurance business unit in Switzerland. Which is coming up with more than CHF110 million with a combined ratio on average over the last few years of 90%, with new business models such as freemium, which gives us access in the meantime to more than 50,000 non-clients but people using our apps.

So we have a tremendous achievement around that and this gives us a strong basis now in order to go to our other country markets. Why now, we think that it is a trend of all clients or of many clients, let's put it that way of many clients in all our country markets to go and to look for online models more and more. And why Austria, Austria is in our view under developed in terms of online insurance solutions. So then we have, like a first mover advantage. Austria is a market we know, and Austria is a market where we already have a small franchising online business under another name and now where we are launching Smile.

Then the second step, why Spain? Spain is a developed market. However, it's not as competitive in terms of online business as Germany, for instance. So we want to enter as a second market into Spain, which gives us in terms of scales a totally different, of course, potential compared to Switzerland and Austria. It's a developed market but not as competitive as Germany, and it opens us new opportunities. And we think that in terms of time to market and of efficiency of cost efficiency of the model we are based on, it is now the right moment to do so. Now let's turn to the first question Annelis.

A - Annelis Luscher Hammerli

Yes. So the run rate on other activities was hit in the year 2021 by various negative one-off effects like the realization of a liquidation of a known investment fund, which is realization we realized 20 million of FX losses that have accumulated over the last five or ten years. And this effect of course, will not recur again and also in the year '21, we had not a good tactical results from group reinsurance due to the high net cat claims in summer. And generally there were also some effects from project costs which we switched to do rather smaller call projects which we directly show in the profit and loss rather than activating them and amortizing them over time.

So there are a few one-off effects in the 2021 figures, and we expect these other activities number to be -- to become lower over the next I mean less negative over the last -- next few years.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much. I guess the area that maybe is most difficult for us to forecast is the costs other line that obviously were impacted by the project costs that you mentioned. It sounded from what you were saying, like maybe we should expect that line to continue at the current rate or should we expect you to change that -- the number of small projects, that were ongoing with the sort of minus 120 days for the fair-line to the ongoing cost another?

A - Annelis Luscher Hammerli

Yeah, so there are -- of course there are the project costs in there. But not only there in there is also at least that's how we currently show it. Fees we get from launching the Helvetia Swiss Property Fund. So the real estate fund, which will be a positive effect in this line. And as you know, we have already announced to launch another tranche of this Swiss Property Fund this year. So, there are different parts in these costs other line, but definitely we work at reducing project costs for the future.

Q - Peter Eliot {BIO 7556214 <GO>}

Well, thanks very much.

Operator

The next question is another follow-up from Mr.Jimmy Fan with UBS. Please go ahead.

Q - Jimmy-Yu Fan

Hi, just a very quick one. I think, you mentioned that, you're going to restate your targets in 2023, so I guess my, is it going to be re-calibration of the existing target just a different accounting standard or use completely reset the target, given where you will be in the future.

A - Annelis Luscher Hammerli

It will be mainly a recalibration to IFRS 17. This will not affect all our targets for example, the dividend target of 1.5 billion is not affected by IFRS 17. However, for example, combined ratio is affected and return on equity will be affected as examples.

Q - Jimmy-Yu Fan

Thank you.

A - Philipp Gmur

If there may be a last question.

Operator

Yes, the last question is a follow-up from Mr.Bateman with Berenberg, please go ahead sir.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi there. I'm sorry last question. We've obviously had a good track record of doing M&A over a number of years and just thinking about the very height, solvency level, in terms of cash generation. There is another deal on the table at some point down the road, or which markets do you think are particularly attracted to you and is there any color or directions of business in early would be these available. Thank you very much.

A - Philipp Gmur

Okay. I mean, first of all we are pretty happy having a strong capitalization why that. I mean our business is specifically also a long-term business, our clients rely on the insurance company to pay also in adverse scenarios. So, talking about the war in Ukraine and so on, we are we are pretty happy to have this strong capital base.

Now, talking about M&A. As of today, there are no such plans. Why that, we first have now to consolidate our acquisition in Spain of course, Caser is delivering what we promised. However, it's also about the operating model in the Spanish market and so on. So, we want to really go down the road by even better leveraging, what we acquired in Spain. It's about consolidation. However, as we say again and again, if there are appropriate targets within our country markets. So it's not about expanding our geographies of course, but if there are appropriate and reasonable targets in our country markets, where we are in, than we are of course, looking at those different targets. So that there is, for the time being no specific plan, but of course we want to develop our company.

However, it has of course, to cope with our financial targets. We do not want to dilute our ROE, our dividend policy, our profitability goals, we do not want to dilute them. So, the standards, in terms of having a look and then realizing acquisitions are pretty high.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thank you.

A - Philipp Gmur

So I thank you very much for your interest in Helvetia. Again, we are happy having delivered, what we promised. Profitable growth, which has been and they're nat cats, which have been offset by a very resilient non-life portfolio. Caser delivered to what it promised, the dividend is increasing by 10% and the group is in good shape, which is reflected in a very attractive capital -- capitalization talking about S&P and SST. So, we are happy to answer your question whenever they might arise, please do not hesitate to contact us. I wish you all the best for the remainder of the day. Thanks.