Y 2019 Earnings Call

Company Participants

- Carsten Stolz, Head of Finance and Chief Financial Officer
- Gert De Winter, Group Chief Executive Officer
- Markus Holtz, Head of Investor Relations
- Matthias Henny, Head of Corporate Division Asset Management

Other Participants

- Dieter Hein, Analyst
- Farquhar Murray, Analyst
- Fulin Liang, Analyst
- Jonny Urwin, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Thomas Fossard, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Baloise Group Annual Results 2019 Analyst Conference Call. I am Sandra, the Chorus Call operator.

I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions) The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Markus Holtz, Head of Investor Relations. Please go ahead, sir.

Markus Holtz {BIO 20240672 <GO>}

Good morning, and welcome to Baloise Q&A call on our annual results 2019. In our call today, we have our CEO, Gert De Winter; our CFO, Carsten Stolz; and our CIO, Matthias Henny.

So, now, I hand over to Gert, who will give you a quick overview of our results, before we start the Q&A.

Gert De Winter {BIO 19720616 <GO>}

Many thanks, sir. Markus, and everybody also very good morning from my side and from our side.

Let me start by saying that despite the hectic that is going on we are extremely proud to present our 2019 results, very strong annual results. We have been accelerating the initiatives we've been doing in terms of innovation, in terms of a very strong core business and two strategic acquisitions in Belgium.

If you take our Simply Safe three strategic targets, we are extremely well on track to reach them by the end of 2021. We have moved into our top 15 percent position as best employer in the financial industry in Europe. We have won over 200,000 net new customers, which is 12% higher than 2018. And we, again, generated over CHF450 million of operational cash, which is also more than 2018.

And we are focusing on two strategic pillars, on one side to strengthen, optimize and diversify our core business; and, on the other side, to continue to innovate in our digital initiatives. If you take a number of milestones in 2019, of course, the acquisition of the Fidea and Athora, the former Generali portfolio in Belgium, has been a milestone.

If you look at Germany, where we have communicated our strategy at the Investor Day 2016, we are well on our way to execute them and you can see that in the quality of the non-life portfolio with an excellent combined ratio.

And in Switzerland, again, Switzerland plays again the part of a very strong contributor to the earnings and to the cash, both in life and non-life business.

So, overall, in terms of growth, we have grown about 10%. You've seen the combined ratio of the group, 90.4%, which is absolutely excellent, and we have generated earnings of close to CHF700 million. So we are very proud and really delighted to present these results, despite, as I said, the bit of hectical times we are in. Given the success, we are proposing an increase of our dividend of 40 -- CHF0.40 to our Annual Shareholders Meeting, end of April, so increasing to CHF6.40. And we are planning our next Investor Day at the end of October this year to look back of how we have delivered on Simply Safe as a strategy and for most to look forward on how we will continue the successful journey.

Having said that, I think it's time to open up for questions. We will be pleased to answer them.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. And I had three questions, please. The first one is, I mean, I think I guess we've seen a bit of movement in your guidance with the life earnings recently been up and down, I'm just wondering if you can update us on what we should expect going forward? I mean, I presume, given the low interest rate environment that we can expect another sort of period of reserve strengthening this year, but any guidance that you can give us on this year or future years would be very helpful?

And the second question would be on the solvency ratio and I was just wondering if you can give us a rough idea of the movements that we saw. I mean it maybe optimistic to give any indication of what it might be now, but I mean I'm assuming part of the reduction was due to the equity markets rise at the year-end and they've come back. So just -- I mean, I presume that that will be a little bit of a tailwind amongst all of the headwinds that we're seeing at the moment. I wonder if you could comment.

And then, finally, on the non-life loss ratio. I mean a great combined ratio for the group. I guess, if I look at Switzerland individually, the loss ratio seems to be quite a lot higher in the second half of 2019 -- than the second half of 2018 by about sort of 7 percentage points. It looks like I was just wondering if you could explain that movement? And if it's not too cheeky, wondering also on the expense ratio, which was up a little bit, just wondering? Thank you very much.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Peter. Gert here. Let me try to give some guidance on question one and three, and I think then Carsten and potentially Matthias will jump in on question two.

In terms of life earnings, I'm going a bit back to the Investor Day 2016 where we said, well, we have a bottom -- we have a certain result of CHF200 million in life EBIT and that is a sort of stop loss, if you want. So that's really the bottom line.

Of course, if you look at the evolution over to '17 and '18, where interest rates have been stabilizing and increasing a bit and that's why we came, actually it would be more in the area -- and that's mid-2018, I think, in the area of CHF300 million of the life EBIT guidance.

Of course, if you look after the summer of last year, with the drop in interest rates, we have taken a careful position and that's why we have to -- reiterated the guidance on CHF200 million to CHF300 million of EBIT. And at the end of last year, of course, with a bit of relief, I would say, on the financial markets on the interest rate environment. That's why our EBIT is in the area of CHF275 million going forward. And, of course, especially with what is happening today. Today, over the last couple of weeks, if we can say so, in the interest rate environment, we have again a careful position where we say guidance going forward is CHF200 million to CHF300 million EBIT. That's guidance on life earnings.

On non-life, in Switzerland, we don't steer by semester and normally the second semester is always in terms of claims intensity higher than the first semester, which was also the case in the second semester in Switzerland with a couple of storms and so forth. So that's pretty normal and we don't steer it by time period.

What certainly is the case is that, if you look at Switzerland and combined ratio, I think, it's the eighth or the ninth time in a row that we have a combined ratio below 90%. So that's excellent quality of the portfolio and excellent management of the portfolio.

Expense ratio, you mentioned, this in detail that the expenses have increased slightly. This is the fact across the whole group, by the way, not only in Switzerland where we are clearly investing in our core IT systems and in innovation and growth in the different distribution channels there. So that's a conscious investment in IT, in innovation and in growth in the different distribution channels.

In terms of solvency and SST ratio, Carsten, up to you.

A - Carsten Stolz {BIO 6055047 <GO>}

Sure. Good morning, Peter. Thank you for your questions. I'm happy to shed some light on SST. We expect the SST to come in around 200%. So we had a couple of effects explaining the movement in the SST ratio, one was certainly the acquisition of Fidea that we did last year. If you recall, we financed it with non-risk bearing capital, because we could take advantage of the of the strength of the group and the investment -- financing environment by issuing senior bonds with negative yields and that certainly explains part of the movement.

You already talked about the market risk movement and you're absolutely right, the market risk movement due to the performance of markets last year has risen our market risk exposure and has contributed also to a slight decrease in the SST ratio. And beyond that the model changes have also contributed a little bit, but that's more or less normal business.

By and large with SST 200%, we are -- we remain to be safely in the blue zone as you've seen on Slide 12 of the presentation, even if we would chop the markets much beyond the current environment. So I feel very safe with regard to the SST ratio and the SST ratio remains not a boundary condition, especially when we talk about remitting cash to the holding.

So I hope that shed some light on the SST ratio and its movements.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah. That's great. Thank you. Could I just come back very quickly on the non-life expense ratio. I'm just -- should we think about that as a level also going forward? Are those sort of investments going to continue?

A - Gert De Winter {BIO 19720616 <GO>}

I think costs and cost containment is always high on the agenda, Peter. So we continuously looking for efficiency gains and cost reductions, and that would say -- that -- it will balance out. So we're not expecting increasing expense ratios, given the investments we are doing. We are, at the same time, working on efficiency. So that should level out going forward.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thanks a lot.

Operator

The next question comes from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Good morning. Thanks for taking my questions. Two for me, please. So, firstly, on the German combined ratios, obviously running at a pretty good level now, I mean where do you see a normalized level for the combined? And I guess what I'm really asking is, where do you think you are on that turnaround plan? And are you declaring victory yet?

And then, secondly, on the -- also on the SST, there was a bit of negative model change again. I mean I can't remember a year when we haven't really seen the SST changing for a long time, but I had thought that we'd reach a bit more of a kind of stable backdrop now. I mean are we there yet? Is some more change to come? What's your expectation there? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Mr. Urwin. Let me tackle the first question about Germany and then Carsten will take over on the model changes on the SST.

Three years ago, we explained at the Investor Day our strategy moving forward in Germany. So that's the end of 2016. In life, it was clearly on capital-light solutions and 95% of our new business is really fund-driven or a biometric solutions, so that's really working.

On the non-life side, we have set well. We are in an unbalanced non-life portfolio where we have -- we are over-exposed on industrial risks and we are going to decrease that and we're going to increase the part of the retail and SME business, which is profitably going forward.

If you look at where we stand, end of 2019, we have reduced our industrial risk rate about 60% compared to 2016. So we have actually done what we have promised and we have increased our private line, so retail lines and SME business with about 20%. So we have really shifted the non-life portfolio completely. And what we've seen in 2019 is that it actually has reached a very good quality.

The claims ratio in retail, for example, is 53%. Of course, we must say that 2019 in Germany be benefited from a very good or very benign claims year and going forward we therefore actually apply the same guidance that we have given in 2016 that we want to reach a combined ratio, stable combined ratio moving forward in the area of 96% to 98%.

Having said that your question about, do we declare victory? No, but we are close to the finish line, so in terms of turnaround. I think we need another -- we need to work hard to continue this quality -- to keep up the quality of our non-life portfolio, but we have proven in 2019 that we are extremely well on track to really achieve the turnaround.

A - Carsten Stolz {BIO 6055047 <GO>}

To your question on SST and modeling, I deliberately mentioned the model developments as a last point in answering the prior question. It's not a major impact this year, but models keep evolving. And to shed a little bit more granularity on that, we are basically living in a hybrid world, because we have standard models for some components, but we also have individual models for others. So as probably most of the others do as well, so these models keep evolving. And I think they will never be completely unchanged year-on-year also in the future. So model adjustments will be a normal business in both in the SST world and by the way also in the Solvency II environment where things are moving also driven by a yield par.

So I think we will continue to have model evolvement on -- and the areas that things are being looked at is, for example, modeling of natural catastrophes that is being looked at. In some areas, people look at tax modeling and others. So just to give a little bit of a feeling, models will keep evolving its right to that on the standard model components, we have achieved more stability. That is what I was expecting also from the regulatory perspective, so that came through. And -- but I think -- as we had another frameworks, model changes will be part of normal.

But, again, having said that, I deliberately mentioned them last in comparison to the other effects the integration of Fidea and the higher market risk due to markets on the investments. The effect was way smaller than the first two.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you. Could I just follow-up on Germany, quickly, please. Just once you were able to finish line, what are your thoughts on M&A on that, Gert, because I guess when we look across the group now, it's very little that you could do in Switzerland, Belgium you've already scaled up and Luxembourg is obviously very, very small anyway and there is not much for sale. So, Germany is kind of the obvious country where you could do something. So any comments there would be great. Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Let me pick up that one. I think if you look at our strategy, we always have been focusing on organic growth. So given partnerships, organic growth and a smaller participations or acquisitions, of course, in our core markets, we have always looked at opportunities if they are from a strategic point of view, from a cultural fit point of view and from a business kind of point of view, they were actually attractive. So, we will continue to do that.

You're right. If you look at the Swiss, the Luxembourg and also partly the Belgian market, the market is pretty consolidated. Over the last couple of years, we deliberately and consciously did not seek for M&A opportunities in Germany, given the fact that we have to make the turnaround, we have to stabilize the business, we have to prove that we were on our own -- that we were on our own successful. Of course, given the stabilization in the turnaround we have achieved in Germany M&A opportunities will also be looked at if they come along in Germany, but always from a strategic point of view, from a cultural point of view, and from a business case point of view. But the M&A window for Germany will reopen given the turnaround we have achieved.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much.

Operator

The next question comes from Fulin Liang from Morgan Stanley. Please go ahead. Ms. Fulin Liang, your line is open.

Q - Fulin Liang {BIO 21126177 <GO>}

Hi. Thank you. I have two questions, if I may. So the first one is, if I look at the cash, so obviously you have about CHF450 million cash remittance, your cost of dividend is less than CHF300 million with a bit of central costs, it seems like you have about CHF100 million excess cash remained. So what's the planned use of the cash, is it like going to be used for reinvestment or is it going to be like reserve for M&A or any other, so that's the first question.

And the second question is, if I look at how you disclose your new money kind of you pursued in 2009, you significantly increased your allocation to fixed income, which is generally relatively low, kind of, yields than some other kind of asset classes like property. I think with your current solvency situation, is there actually -- are those consistent with what you kind of intend to do before? Is actually the plan should be to kind of invest more into property, so you we increase our investment yield, because if I look at the reinvestment yield now, it's like -- it's actually kind of lower than your average guarantee of the life book. It sounds a bit of a stretched from my perspective -- if I look at it that way. So is there any thought on the re-risking to increase your investment return would be great?Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you for your questions. I will happily address the cash remittance question and I think Matthias will then take up of the asset allocation and investment question if that is fine for you.

So, first of all, and let me share this joy with you, I'm very happy that we could have another third year in a role of a strong cash remittance with all the business segments contributing, I think that is a success that we can look back at and which means that overall, since we started focusing on cash, we have remitted CHF1.3 billion from the operations to the holding company. So it give me that little moment of joy I'm sharing it with you now.

Addressing your question, the remitted cash is deployed in different ways. And one of the ways of deploying cash is obviously by reinvesting it into either our core business or innovation. Another way, that's the organic route, another way of redeploying cash is using it fully or partially in inorganic moves. That's the inorganic way. And then obviously there is the third road, which is buying and using it for dynamics on dividend side and/or share buybacks, and we currently still have to execute the share buyback, which by the way we promised to fully complete by the beginning of April, and we will fully complete by the beginning of April, if you look at our 96% completion ratio.

Just to complete the picture. Yes, there is some cost on holding level to be covered out of that and we also have to serve our debt that we have outstanding. So those are the routes of redeploying the cash. And, currently, you're right, the dividend sum is around CHF300 million based on current dividend levels, but we also have all the other routes in running, especially the share buyback that we are finishing as we speak. So I hope that shed some light on how we deploy with the different routes of potential deployment of the remitted cash.

A - Matthias Henny {BIO 17600048 <GO>}

Coming to your question on the asset allocation, it's right that the quote on fixed income has actually increased. However, this is not due to allocation shifts, but due to market performance. Given the drop in interest rates and the tightening of credit spreads, bonds have significantly increased in market value such that the allocation to bonds has increased during 2019. So that's the explanation for the increase.

And we have somehow somewhat shifted towards more property and other asset classes that deliver higher stable returns. We have invested CHF300 million in real estate. We are somewhat cautious here, because also we buy only selectively properties since the prices have also increased in this market and yields have come down also in real estate, quite significantly, over the last few years. But still looking at the relative level of real estate yields versus the bond yields, we consider real estate as an attractive asset class.

To your question regarding re-risking, of course, we have to consider the constraints that we have from SST and Solvency II. And so, therefore, it's always a balance to be taken between -- taking investment risks and generating higher yield, on the one hand side, and also respecting the capital constraints given by SST and Solvency II.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you very much. So is there any -- so it a -- is there -- it's a target like allocation to property, because, right now, it's only like 3%, 4% of your new money allocation.

A - Matthias Henny {BIO 17600048 <GO>}

We have target to increase property over the next few years, but it will be in the low-single-digit percentage point range.

Q - Fulin Liang {BIO 21126177 <GO>}

Low-single-digit? Thank you very much.

Operator

(Operator Instructions) The next question comes from Thomas Fossard from HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon. Couple of questions for me. The first one would be on the P&C side. Can you tell us how you see your book currently recession proof going into 2020 and maybe into 2021? I mean, now you're seeing US being exposed to lines of business where in the past you had, I would say, negative coalition or positive coalition with more difficult business climate.

The second question would be related to your life business and actually we had some moving parts, especially in terms of business mix in 2019 for obvious reasons. Maybe you could shed some light about where you expect this mix and maybe also the gross rate to trend into 2020? And also, maybe, I would like to come back on the cash remittance totaled CHF455 million. Clearly, I mean '19 results have been positively impacted by very strong delivery on the German combined ratio side, also on one-off tax effect. So how should we read the cash remittance for 2020 if we wait you normalize some of these item and also it takes that see interest rate environment maybe slightly less favorable?

And maybe the last one would be, could you remind us your impairment, equity impairment routes? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Good. Thank you, Mr. Fossard. Let me tackle, at least, the first two question and then I hand over to Carsten and Matthias question three and four.

On the question P&C business and whether or not recession proof, if you look at our track record in non-life, so P&C, over the last 10, 15 years, it is really part of our DNA in order to actively manage the portfolio, the quality of the portfolio, the underwriting of the risk, the pricing of the risk, the re-underwriting of the risks, and we are also very much focused on private lines and on SME lines. So, look, outlook of our non-life P&C business is clearly stable and as good as it was over the last years, given the fact that is -- this is really core -- the core business of what we do.

In the life business, you're right, in 2019, there has been a one-off effect of the AXA in Switzerland leaving the second pillar life insurance part. So that's certainly a one-off in terms of volume. It will normalize back to the same kind of levels as we had the years before. If you look at non-life and life in 2019, taken away Fidea and the AXA effect, for example, the growth in non-life is 3%, the growth in the life is approximately 4% to 5%, so very solid healthy growth in also in life.

The strategy life is clear, it is capital-light solutions, it is no guarantees or it is a very limited in time guarantees, it's biometrics solutions, it's risk solutions. So that's the overall strategy in life, but the one-off effect of 2019 needs to be taken out. That will not reoccur in this year. So that's about P&C outlook and life outlook.

On the cash remittance part, Carsten, up to you, sir.

A - Carsten Stolz {BIO 6055047 <GO>}

Sure. Thank you for your question. The -- basically and since last three years, we are aiming at a higher cash quality of the IFRS earnings overall. So the "cash content" is in focus and we are trying to rise the cash remittable part of IFRS earnings over time. And you see that we have been successful in doing that in the last few years.

And now, with regards to the effect that you have mentioned, the tax effect especially is a non-cash effect and non-cash event. So that has not an impact if it doesn't reoccur and it will not reoccur in the same order of magnitude this year. So that will not negatively impact the capability to remit cash. Also obviously due to the nature of our business, there is further non-cash earnings elements that will always be non-cash, but nothing has fundamentally changed there. So I think we have reached and we are going to continue to rise or try to rise the cash content of our IFRS earnings.

What is in our attention moving forward? That was part of your question as well, it's for me relatively straightforward. We have committed to CHF2 billion until and including 2021. We have done CHF1.3 billion, so the rest remains to be delivered and will be delivered.

Now on your question with regard to equity impairment rules, if we are -- Matthias?

A - Matthias Henny {BIO 17600048 <GO>}

I mean, it's a standard impairment rules. It's either if the equity has lost more than 20% or if an equity is below book value for more than 12 months then we make an impairment.

Operator

Your next question comes from Rene Locher from MainFirst. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Can you hear me?

A - Gert De Winter {BIO 19720616 <GO>}

Yes, Rene.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. So I would like to start with slide 28, 20% growth in third party access and just wondering a little bit where the growth coming from, which as planned. And then also remind me what the target is for the asset management growth.

And then since we offloaded quite a lot question on the asset side of the balance sheet, remind me a little bit back in 2018, on slide 38, the small amount, the senior secured loans, perhaps just a little bit more insight on how they behave in the current market environment?

And then also on the asset I have another question I got from clients is exposed to energy. And perhaps quick one on credit spread widening, what's the impact on the SST?

And then the next question is on slide 9. (inaudible) cash radar. So on the left side, there is free reserves, attributable free reserves in holding (inaudible) I've got another question I got from client, how safe is the dividend going forward? I remember over many, many years and borrowers was very, very cautioned a little bit of extra cash at the holding level to pay a dividend even in -- on big times, so perhaps you can give a bit more insight here?

And last, but not least, on the buyback. You should be ended alternate in April, then I think you're going to cancel the number, the shares at the AGM or after the AGM, which is set for 24th of April? Thank you.

A - Matthias Henny {BIO 17600048 <GO>}

Good. So, bunch of questions. Many thanks for those questions. We'll try to answer them. So the first question was about the third-party asset management business, here we had a growth of 20% of total assets in the last year from CHF9 billion to CHF10.7 billion, about half of it is net new assets and about half of it is market performance. The net new assets you see on the bottom part of Page 28, accumulated over the last three years, is now at CHF2 billion and while the ambition is CHF5 billion for the period until 2021. So we are very happy that we can accelerate this business and grow it further.

Then your second question on SSL and your reference to the year 2008, I think we cannot really compare the situation back then. At the time of the financial crisis, the issue for SSL, for senior loans, was that most of them were packaged in CLOs and those CLOs were forced to sell, to liquidate, which led to an entire market crash. This is not the kind of investment that we do. We do direct investments in senior loans, so there is no packaging around it and it is part of our diversified asset allocation. We hold something around 3% or almost 3% of senior loans as part of the total asset allocation and this adds to the overall diversification of our asset portfolio and it contributes to the current income and helps to offset the negative impacts of the low interest rate environment.

Now coming to the loans as part of our credit portfolio. First of all, I have to say we have a relative conservative credit portfolio, more than 70% of our bonds is still in the AAA/AA area and this allows us, to a certain extent, also to add some risk in areas where we think risk/return is well rewarded.

Now coming to the components of the senior loans portfolio. We have a well-diversified portfolio and the weighted average rating factor is lower, although the credit rating is better than the average market, so it's -- again, here, it's a more conservative portfolio and the the amount to exposure to energy in the senior loan part is somewhere around 3%. And if we look at the BBB part of the portfolio, there are also the exposure to oil and gas is 1.3% and to transportation it's also 1.3%, so that's BBB part of our portfolio.

So you can see it's quite a small exposure that we have in our credit portfolio towards those sectors, which have come under pressure in recent days.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Now, building on what Matthias just said, your question was around credit spread and SST. The credit spread is an important risk driver in the SST framework. Now you could still look at the sensitivity disclosure that we've done on Slide 12, you could argue that market rally move only on the interest rate side, then they also move on the spread side. So that we implicit also have a little bit of a sensitivity disclosure here. We will remain safely in the blue zone, even if we have a sound market crisis with high correlation. So I feel safe at the moment with regards to credit spread.

Then on the next question with regards to the cash radar and the question on how safe is the dividend, I would like to remind you that our stated dividend policy mean up only. That is, if we are suggesting dividend rises as we are doing to the AGM this year, then we are doing this on the back of the year up only dividend policy, which means that in going concern environments dividends are sustainable. And if you look at the balance sheet of Baloise Holding overall, the Baloise Holding balance sheet can buffer situations largely. So there is no risk from a balance sheet perspective and cash remittance likewise, because we have installed the pipelines from the operating entities. So, therefore, I hope that shed some light and gives also security on that level to your customer who asked that question.

And then the final one that you did ask, Rene, was on buybacks, it's true the buyback is executed over the second line, so the final journey that these shares are taken one spot back is going through a capital reduction and, therefore, ceasing to exist. The former capital reduction will most likely not be done in this year's AGM, but the next year's AGM, but I say this with a twinkle in the eye, we probably don't need not worry this year, and we need not worry for doing this, so we're saving the cost. But from an economic perspective, it doesn't change anything. It will -- they will be canceled at the AGM in 2021.

So you can consider them to be off and therefore the earnings accretion effect to be permanent.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Sounds good to me. Thank you very much.

Operator

The next question comes from Farquhar Murray from Autonomous. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Good day, gentlemen. Just one question, if I may. Unfortunately, it is on the topic of the coronavirus. I do appreciate the sensitivity around that. Please can you just outline what you see as the most likely impacts on the business? My presumption is that most of that would come through the macroeconomic stress, but I would be interested to understand whether there are other new avenues of impact in particular, could it come through your health business in a way and what might be exposures be there? Thanks.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Mr. Muray. Let me start by saying that the first priority that we have is, of course, the health of our people, of our customers, and of our partners, that's the first priority that we have. Second priority, of course, to get -- keep the business going. So actually to safeguard the operations of our business. Having said that, we were very early in taking the necessary measures in terms of prevention for our people, so that's working out well.

If you look at insurance business impact and even capital markets business impact, it is very early to come with very clear statements on what will happen, what will not happen. What is clear, of course, is that the world economy will slow down, is slowing down, has slowed down and it will have an impact.

If you look at our business across the whole group, there are number of areas, I would say, that might be impacted, one is event insurances on one side, the other side is travel insurance, the third one would be transport, for example. If you look at all these branches in the insurance business that might be impacted, we are -- our exposure in these lines of business is very limited.

So in terms of travel, in terms of transport, in terms of event insurances and so forth. So what we are expecting today, but, of course, with all the uncertainty that we have is to have an impact in the lower second -- two-digit side. So that's the impact we see today in our core insurance business, given the fact that we have very limited exposure in the lines of business that might be exposed.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. And on the life side?

A - Gert De Winter {BIO 19720616 <GO>}

Same applies for the health side and the life side actually. Also there it's -- in Switzerland, for example, it depends on the waiting time that we have before we start reimbursing in health. The normal disease length is 10 days to 14 days. In most of the contracts, we have a waiting period of 30 days. So that's not impacted there. Yeah, so it's also on the life side, it's limited exposure, so expectation for both P&C and life is in the lower two-digit million side.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks so much indeed.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. Maybe just to add one element to this and I'm deliberately stating this in a technical way, neglecting the human side, depending on where the pandemic situation goes, there could be a rise on mortality on the life side, which from an actuarial perspective then has to be figured in, but again that's -- I say this technically without looking at the human side of things.

Q - Farquhar Murray {BIO 15345435 <GO>}

Thanks.

A - Carsten Stolz {BIO 6055047 <GO>}

And then on the asset side?

A - Matthias Henny {BIO 17600048 <GO>}

Yeah. I mean, on investment side, we, of course, have a direct impact. I mean markets are very volatile these days, some times even in panic mode, so we are watching very closely what's happening and currently we have -- the good thing is that we have relatively conservative credit portfolio. So the impact on the P&L, we will only see if there is really a default, so spread widening doesn't have an impact on the P&L directly and that's just mentioned before, the exposure to the sectors that have been hit quite heavily is quite low in our portfolio.

On the equity side, we have low equity exposure of 3% and this equity exposure is fully hedged with put options. So there we are relatively safe regarding further downside risks.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Thanks much indeed.

Operator

The next question comes from Dieter Hein from Alpha Value. Please go ahead.

Q - Dieter Hein {BIO 1557192 <GO>}

Yeah. Hello. I have two questions. Firstly, you mentioned how proud you are of what you have achieved in 2019. If I look to your pre-tax profit, it was down by 2%, so are you proud on this pretax profit level you achieved last year? And could you give us maybe an outlook regarding the pre-tax profit development for the current year?

And the second question is regarding share buybacks. How likely is that we can expect or -- in -- after April the next or next share buyback program starting in 2020? That's it.

A - Carsten Stolz {BIO 6055047 <GO>}

Okay. Yeah. Thank you, Mr. Hein, for your question. The price remains despite the EBIT down that you mentioned, because since the beginning of Simply Safe, we are less focusing on IFRS earnings only and have shed our light much more on the cash side, as I explained, and I think the business has inbuilt volatility that will always be there. So despite the EBIT development that you mentioned, we are happy and remain happy with the result achieved in 2019.

We have deliberately, therefore, also not had a target on the EBIT. Overall, the target set remains unchanged with regard to the financial KPIs that we are pursuing, that is the 90% to 95% bracket for the non-life combined ratio performance, that is the life EBIT guidance that we have given. That is the guidance on 8% to 12% return on equity based on IFRS disclosure, as well as the three strategic targets for the Simply Safe season looking at customers and employees and shareholders. So, that remains unchanged.

Now, with regard to your second question on the share buyback. We will now finish the program. By the end of the program, we will have remitted by and large CHF0.5 billion back to the shareholders since the beginning of the program three years ago. There will be no direct program after April and I will target you point to the Investor Day scheduled for October 29 where we will intercept in the beginning level of shed light on all strategic topics.

A - Gert De Winter {BIO 19720616 <GO>}

Maybe just one addition from my side on the EBIT question, if you look at the EBIT non-life, it has increased by 7% in 2019 compared to 2018, so very solid technical performance. And, of course, the 2018 EBIT in life was actually positively influenced by a one-off release of reserves in Belgium that we did no longer need. So that's actually what you see the CHF275 million EBIT in life and not to over CHF300 million, which was this one-time of effect. I think if you take that into consideration, EBIT has clearly increased, especially in the very profitable non-life business.

Q - Dieter Hein {BIO 1557192 <GO>}

Yeah. Can -- would you expect or can we expect this trend to continue in 2020?

A - Gert De Winter {BIO 19720616 <GO>}

Which trend, Mr. Hein, sorry I'm -- did not --

Q - Dieter Hein {BIO 1557192 <GO>}

So you mentioned if you adjust this one-off effect in life to '18, then you have a positive pre-tax profit trend as well in 2019 and that is the basis of the question, do you expect then, on this basis, positive development in 2020 as well?

A - Carsten Stolz {BIO 6055047 <GO>}

I think it's too early to say what 2020 will bring, especially with the volatility and uncertainty we've seen in the markets. We -- I think on the non-life side, where we have a proven track record over years, it is clear that we have a stable very solid high quality portfolio. That's one on the life side. As we said, we have the guidance, CHF200 million to CHF300 million, and we certainly stick to that despite the volatile times. But too early to say what 2020 will bring, as we speak, mid-March.

Q - Dieter Hein {BIO 1557192 <GO>}

Yeah. Thank you very much.

Operator

The last question comes from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much. Just one final one. I just want to give you the opportunity to talk a little bit about FRIDAY or indeed some of your other initiatives. And I'm just wondering if you can sort of have any view on when this might break even, assuming if it hasn't already? And I note that it's expanded into other products outside Movu [ph] now, there was talk potentially of expanding into other regions. Just wondering if you could sort of update us on the strategy and where -- which is in its cost there? Thanks very much.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Peter. FRIDAY, of course, is a bit of the spearhead I would say of all the innovation in digital initiatives we have launched. It's certainly not the only one. There is a full pipeline of innovation and alternative business model initiatives that we have taken and are taking. Specifically on FRIDAY, FRIDAY in 2019 has won 50,000 new clients, that's more than 2017 and 2018 together. If you look at the quality of the portfolio and the claims ratio, given the improved quality is going down, and is now already below 100, so portfolio quality is improving.

As we have said, we have launched, beside the car insurance products, a home product and it's -- the cross-selling is functioning very well. We have achieved in 2019 an insurance premium of EUR17 million, so about CHF20 million already. If you look at the investment that the two media companies have made in 2019, we have used that explicitly to increase the market awareness in Germany. FRIDAY although still small, online direct insurer is spontaneously recognized by one out of seven German citizens. So that's a very high brand recognition. We have expanded into other products, we'll continue to do so also in 2020 and are evaluating the expansion into other geographies.

If you take another example of initiatives, which is Movu, which is the digital moving platform in Switzerland, that -- Movu will break even next year. In FRIDAY, it's clearly a growth. Growth has the priority there opposed to breakeven, but we also expect of course FRIDAY to breakeven in the midterm.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. That's great. Thank you very much.

A - Gert De Winter {BIO 19720616 <GO>}

If there are no further questions, then I would like to thank you all for the discussion and the debate and your questions. Won't be able to see you probably over the next coming weeks, given the restrictions on travel and so forth, but we will certainly be in touch via phone, I would suppose. So, thank you very much. Enjoy the rest of the day.

Operator

Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.