S1 2019 Earnings Call

Company Participants

- Andre Keller, Chief Investment Officer
- Paul Norton, Chief Financial Officer
- Philipp Gmur, Chief Executive Officer

Other Participants

- Kevin Ryan, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Simon Fossmeier, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Half Year Results 2019 Conference Call and Live Webcast. I'm Andre, 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 Mr. Philipp Gmur, Group CEO. Please go ahead, sir.

Philipp Gmur

Thank you sir. Ladies and gentlemen, welcome to our analyst conference call on the results of the first half of the 2019 financial year. Within the next 45 minutes, we would like to give you detailed information on our business development and the key financials of the reporting period. Following my introduction, our CFO Paul Norton will go through the financial figures. Then I would like to give you an update on the implementation of our strategy, helvetia 20.20. After my presentation, Paul and I as well as our new Chief Investment Officer, Andre Keller, will be pleased to answer your questions as always. Andre took up his position as CIO and successor to Ralph Honegger on April 1st. Today, he is present for the first time at the analyst conference call.

On slide four, I would like to share with you a brief overview of the main performance indicators. Paul will give you detailed information on the developments of these figures later on. In the first half of the 2019 financial year, Helvetia achieved a pleasing growth in business volume, good underwriting results in both life and non-life, and benefited from tailwinds. In the first half, we achieved a business volume at group level of roughly CHF6 billion. On a currency-adjusted basis, this represents an increase of 3.3%. The main growth driver was non-life business, which achieved 6.4% higher premiums compared to the first six months of 2018. From a regional perspective, the European units as well as the specialty markets were the main growth drivers. Switzerland also contributed to the growth, but with a lower growth rate.

With regard to the lines of business, the increase in premiums was driven by property business in all segments and supported by engineering and active reinsurance. In life business, the business volume increased by 0.6% in original currency. Particularly noteworthy are the higher volumes in investment-linked products in individual life in Switzerland and Germany as well as in group life business in Switzerland.

Here, a significantly large number of customers chose the so-called semi-autonomous solutions from Swisscanto. Those products might give the customers more upside potential regarding the interest yield on their savings. The savings part is covered by Swisscanto while Helvetia assumes the risks of death and disability. Thus, those products are much more capital efficient for Helvetia.

In the first half of 2019, premiums for Swisscanto rose by almost 50%. The main reason for this strong growth was the withdrawal of a competitor from the Swiss group life business. At CHF290 million, the IFRS result after tax was significantly above the prior year result.

Aside from better technical results, the non-life business benefited from the better performance of the capital markets, which is reflected in a significantly improved investment result. In non-life, the quality of the portfolio is very good overall, as reflected by the solid net combined ratio of 92.5%. The life business also improved compared to the prior year. This was due to an increase in the margin after costs due to a better performance of all profit sources as well as significantly higher gains on investments, following the good equity market development. Both the non-life and the life business additionally benefited from a positive tax effect as a result of the federal tax reform and associated cantonal tax reductions in Switzerland.

Also worth mentioning is the development of new business in life. The new business margin increased by 1.8 percentage points to 3.1%. The positive development was due to lower capital needs resulting from model changes and the more favorable new business mix. Both in terms of combined ratio and in terms of new business margin, we continue to meet our targets for the current strategy period. Above all, we are also making good progress in implementing our strategy. I will come back to this later in the second part of my presentation.

With that, I would like to hand over to our CFO Paul Norton who will now provide you with the most important information about the financial figures.

Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Ladies and gentlemen, I'd also like to welcome you to our conference today, and within the next 25 minutes, I'll give you more detailed information on our financial performance in the first half of 2019.

We can start with slide six. We achieved a solid IFRS result of CHF290 million against CHF224 million in the first half of 2018. The good result was driven by strong investment results, following the favorable development of the stock markets, technical development, especially in life business also contributed to the profit increase. Finally, Helvetia benefited from a one-off positive tax effect amounting more than CHF63 million. This resulted mainly from the reduction of deferred tax provisions as a result of the federal tax reform and associated cantonal tax reductions in Switzerland.

In terms of business areas, both life and non-life business increased their earnings compared to the first half of 2018. In the non-life business, IFRS earnings amounted to CHF199 million against the CHF147 million in the first half of 2018. The non-life technical result increased slightly, partly due to volume and as a good attritional claims development and a lower burden of major claims from nat cats were partly offset by higher acquisition costs. In the life business, IFRS earnings stood at CHF109 million. The margin after costs increased significantly, thanks to improvements in all profit sources. Both life and non-life businesses also benefited from gains on investments. In the life business, this was offset by significantly higher expenses for policyholder participation, an additional interest related reserve strengthening and the aforementioned tax effect -- positive tax effect. By contrast, earnings in the other activities area fell year-on-year due to consolidation effects. We will have a more detailed look on the profit sources of the non-life, life and other activities in a moment.

So I'd like to turn to slide seven with the earnings by segments. Helvetia improved its results in all segments with the exception of corporate. In Switzerland, the results in life and non-life business was significantly higher than in the first half of 2018. The increase is mainly due to better investment performance, good technical results and the positive effect -- tax effect of CHF63 million. In Europe, Helvetia generated a higher result in non-life business, which was due to more favorable claims environment on the one hand and capital gains on the other. Despite higher capital gains, lower interest related additional reserving and a stronger margin after costs, the life results in Europe remained at the previous year's level as these effects were offset by higher expenses for policyholder participation. The specialty market segment was able to increase its result, thanks to higher investment income. The corporate result was below the previous year's figure due to the usual consolidation effects from funds allocated to this segment.

I would like to continue with the growth on slide eight. In the first half of 2019, Helvetia Group achieved a business volume of roughly CHF6 billion. This equates to a currency adjusted increase of 3.3% over the previous year. In the non-life business, we achieved an increase in premium volume of 6.4% in original currency. The growth was mainly driven by Europe and specialty markets where premiums increased by 5.9% and 17.5% respectively. Here, growth was particularly supported by the property, engineering and active reinsurance business. In our Swiss home market, we are able to increase premiums by 0.8%. Property business, which benefited from the expansion of partner business, so called B2B2C, showed 4.4% higher premiums. Now, this growth was partly offset by decline in the liability business.

In the life business, business volume rose by 0.6% in original currency. I would like to particularly emphasize the very good development of investment-linked products in individual life in Switzerland and Germany and in the group life business in Switzerland. Here, Swisscanto achieved almost 50% higher premiums compared to the first half of 2018. The extraordinary growth was mainly driven by the withdrawal of a competitor from the full-insurance business last year. Despite the growth opportunities, Helvetia has pursued a conservative underwriting in the full-insurance business in view of the low interest rate environment. Business volume for traditional life products decreased in line with our strategy.

I'd like to now look at the profit by source of the non-life business on page nine. In the first half of 2019, IFRS earnings in the non-life segment increased by 35% to CHF199 million. The main driver was the investment result, thanks to favorable performance of the capital markets, particularly equity markets. Technical result also improved slightly over the previous year, thanks to good attritional claims development and a lower burden of major claims on nat cats. Finally, the non-life business benefited from the already mentioned one-time positive effect from the reduction of deferred tax provisions.

I would now like to move to the net combined ratio on slide 10. The Group net combined ratio was 92.5% in the first half of 2019 against 92.7% in the first half one year ago, which is a very good level, and once again, underpins the good quality of our portfolio. The claims ratio improved by 0.6% to 63.3%. The main reason was a better nat cat ratio as well as a better attritional claims development. Looking at the cost ratio, the admin cost ratio was stable year-on-year while the acquisition cost ratio increased. The reasons were shifts in the distribution channel and product mix in Switzerland and in Europe and an adjustment to the reinsurance structure, which led to lower commissions from reinsurers.

On a segment level, Switzerland showed stable net combined ratio of 86.5%. The claims ratio improved, thanks to a better attritional claims development and a lower net cat burden. The cost ratio increased, however, due to the adjustment of the reinsurance structure and because we expanded the higher commission partner business.

With 94.5%, Europe recorded a better net combined ratio compared to the first half of 2018. The improvement was mainly attributable to a more favorable claims environment in Germany. All European market units achieved combined ratios below 100%.

In the specialty markets segment, the net combined ratio increased to 97.4%, while the cost ratio improved due to growth related economies of scale. Specialty markets recorded a higher claims ratio, mainly resulting from the commutation of a retrocession agreement in the active reinsurance business and an unfavorable development of the two major claims from previous years. The current year claims ratio, however, improved.

On slide 11, we'll have a closer look at the life business. In the first half of 2019, net income for the life business was 39.6% above the prior year's figure. Looking at the profit by sources, the margin after costs increased significantly, thanks to improvement in all profit sources. The increased savings result can be attributed to higher asset returns in Switzerland, on the one hand. On the other hand, technical interest rates decreased in both Switzerland and Europe, resulting from the replacement of old contracts with high guarantees with new contracts with low guarantees, as well as from reserve strengthening. The higher risk result also mainly resulted from Swiss group life business as a consequence of a better mortality result in the first half of the year. The other result was positively impacted by fluctuations in the valuation of options for investment-linked products.

And finally, the cost result improved, thanks to reduced costs and a higher income from cost premiums. Gains and losses on investments significantly increased due to the good equity market performance. The extraordinary result was stable compared to the previous year. A high interest related reserve strengthening in Switzerland was largely compensated by lower reserves for future conversion rate losses resulting from the new tariffs in the Swiss group life business, it's a one-off effect, and lower interest related reserve strengthening in Europe, predominantly the (inaudible) in Germany. Expenses for policyholder participation significantly increased as clients benefited from higher capital gains, a better margin after costs and a contribution to earnings from tax reductions in Switzerland. This has an adverse effect on the net income before tax. Finally, as already mentioned, we benefited from a one-time positive tax effect.

I would now like to switch to new business, which has developed very positively, as you can see from slide 12. The new business also developed positively in the first half of 2019. The new business margin rose by 1.8 percentage points year-on-year to 3.1%; half year 2018 was 1.4%. This improvement was driven by the Swiss group life business. On the one hand, model changes that led to lower capital requirements had a positive effect. On the other hand, the new business margin also benefited from a more advantageous business mix in Swiss group life due to higher new business growth with more profitable capital efficient insurance solutions. It's predominantly the Swisscanto.

I would now like to continue with the development of the interest margin on slide 13. The direct yield increased in Switzerland and declined in the EU countries compared to last year. In Switzerland, the interest margin went up when comparing the first half of 2019 against the previous year. This was attributable to the following reasons; firstly, a direct yield increase due to higher income from real estate, increased income from equities and funds and also because of negative one-off effects in the previous year. The average technical rate, i.e., the rate that we need to earn also declined. The main drivers here were the successful revision of our traditional product portfolio and the focused sales of modern capital-light products, replacing maturing insurance contracts with high-guaranteed rates and additional reserve strengthening.

In Europe, the interest margin remained stable compared to the first half of 2018. Here, we see a drop in the average interest rate Helvetia has to generate in order to meet its obligations due to additional reserve strengthening and new contracts with lower guarantees replacing old ones with higher guarantees. However, yields were also declining due to the low interest rate environment and therefore the margin remained at the previous half year's level. In total, the interest margin for the Group as a whole increased.

On the following slide, slide 14, I want to provide you with details on the profit for other activities. Looking at the profit by sources of other activities, the net technical result in group reinsurance decreased slightly, resulting from a few large loss events in Europe ceded to group reinsurance. The investment FX result was lower year-on-year due to the usual consolidation effect from our own investment funds. Here, the positive impact of capital market development shown in the individual market units is balanced out in the other activities business area. The costs/other result, however, declined. This can be attributed to higher project costs and financing costs remained on the prior-year level.

The next slide shows development of our investment result, slide 15. The current investment income of CHF511 million slightly exceeded the previous year's level of CHF506 million due to higher dividend income. Annualized direct yield remained at 2.1%. Thanks to positive performance of the equity markets, Helvetia generated capital gains on investments of CHF144 million. The investment result recognized in profit and loss amounted to CHF656 million, giving Helvetia a return of 1.4%, which is not annualized. The level of unrealized gains and losses in equity increased by CHF1.4 billion both on the AFS classified shares and due to the lower interest rates on the bonds, resulting in an overall performance of 4.2%, again not annualized.

On slide 16, you can see the investment result broken down by asset class. The first table shows the performance of total investment portfolio. About 60% of the current income of CHF511 million came from bonds and mortgages, which contributed CHF256 million and CHF42 million respectively. In absolute terms -- sorry, and dividends accounted for CHF63 million and investment property for CHF132 million. Realized and booked gains on investments amounted to CHF144 million, reflecting the strong equity markets.

As I mentioned already, unrealized gains and losses increased by CHF1.4 billion. The lower half of the slide shows return on new and reinvestments. In the first half of 2019, the total new or reinvestments amounted to CHF1.8 billion. 74% of the funds allocated in the year [ph] are Swiss franc, fixed income securities, the remainder in mortgages, equities and real estate. Short-term money market investments were reduced in favor of real estate and alternative investments. Due to the interest rate induced rise in hedging costs for the US dollar, the portfolio was partly restructured in order to reduce the weight of the American currency. The new investments achieved an average return of 1.6% overall.

On that note, I will hand over to Philipp Gmur again.

Philipp Gmur

Thank you, Paul, for the details of our financial performance in the first half of the 2019 financial year. In the last part of the presentation, I would like to briefly show you the progress we have made in implementing our strategy. I will start on slide 18. The implementation of our strategy helvetia 20.20 is proceeding successfully. If you have followed us through the last periods, you might know that our strategy is built on three pillars. We aim first to strengthen our core business; second, to explore new business models, and third, to promote targeted innovations. With our strategy, we are able to create added value for our key stakeholder groups such as customers, employees and shareholders. In the first half of the 2019 financial year, we can look back on an exciting and favorable progress both in Switzerland and in Europe. We have once again intensified our efforts to transform and therefore strengthen our core business to reflect the new reality of our business environment and the changing needs of our customers.

Among other things, we have further expanded the B2B2C channel. The B2B2C business contributes to the expansion of sales capacities. It enables customers to purchase insurance covers directly at the point of sale, thus taking into account the need to insure specific items individually. We pursue this approach for electrical and electronic products as well as the automotive sector. Against this backdrop, Helvetia acquired Helvetic Warranty GmbH as of July 1st, 2019. Helvetic Warranty acts as an intermediary between distribution partners and insurance carriers and provides comprehensive services from distribution to claims settlement. Helvetic Warranty has extensive know-how in efficient claims handling.

In the first half of 2019, we have also made good progress with regard to the automation of the claims process in general, which not only brings us more efficiency, but strives to achieve much more convenience for customers and partners. We progressed with our platform for Swiss tradesmen that has been launched with JAROWA last year. The idea of the platform is to provide our customers with the network of available and reliable tradesmen in case of a building damage and digitalize their relationship. The customer simply has to agree on an appointment with the tradesman. There is no need for him or her to get a quote or clarify which repairs are covered. Since March 2019, damages can be reported electronically. This enables us to increase efficiency as well as to provide transparency for customers who can access the damage reports. Within one year, over 4,000 claims were handled via the platform, thereof 2,300 damages were reported electronically.

We have always known that strengthening the core will not be sufficient to meet the challenges that the future brings. Thus, we are also making efforts to expand our business and explore new business models. For example, with our subsidiary, Smile, we are opening up new business models in the mobile world. I will come back to this in more detail later on.

Innovative business models are also accessed with investments into start-ups of our venture fund. Just recently, we invested in an Italian company called MyPass. The company creates apps such as MyPass Venezia or MyPassci, which enables consumers to stay in the same app ecosystem to organize their trips and buy tickets, ski passes or parking cards. This corresponds perfectly with our intent to make the life of our customer more convenient and enables Helvetia to be closer to the customer. It also offers us the opportunity to sell, for instance, ski insurance solutions through MyPass apps.

As just mentioned, on the following charts, I want to deep [ph] in the recent developments of our subsidiary, Smile. Let's move on to slide 19. With Smile, the leading Swiss online insurer, Helvetia is opening up new business models in the mobile world.

Smile wants to offer its customers a unique digital customer experience and is the first Swiss provider to focus on mobile first. Although reaching the age of 25 years, Smile is regarding its culture and structures more comparable to a startup than to an incumbent. By the start of July this year, Smile completely renewed its brand identity to position itself more as an insure-tech and to differentiate itself even better from the incumbent insurance companies on the market. Smile strives for a cooperative partnership with customers and is the first insurer in Switzerland to address customers on their first name. Helvetia expands with Smile its target market and reaches an increasing complementary customer segment, which demands for convenient and flexible solutions. With Smile, we offer a unique digital customer experience in the Swiss market and strive for growth in a promising segment.

Smile offers -- turning to slide 20, Smile offers customers a unique digital customer experience, which will be permanently improved based on a consumer data. Smile will also launch a consumer app by September this year, which serves as a hub for all customer interaction. This makes Smile the first insurer in Switzerland to pursue a mobile first strategy. We believe that mobile devices are increasingly used by customers to organize their entire lives. By the new mobile solution, we are even closer to the customers and are able to meet customer needs right where they arise. The so-called point of sale transforms to the point of need. The promising future of our strategy with Smile has been once again verified at the leading conference on insure-tech and insurance innovation worldwide, the Digital Insurance Agenda or DIA. Smile and the Helvetia spin-off mitipi won the Diamond Award by combining smart home technology and insurance to create digital solutions making life safer.

Finally, slide 21 shows that we are well on track to reach our financial targets. We are pleased with the development of the individual financial figures so far. With regard to the business volume of CHF10 billion, I would like to reiterate that this is not a fixed goal, but an ambition. Our organic growth is proceeding according to plan. In order to achieve the CHF10 billion ambition, we would also have to grow through M&A, which is difficult to plan in advance and depends on targets being available in the market. Overall, we are happy with what we have achieved so far and we are confident that we are well prepared to remain fit for the future.

This brings us to the end of the presentation. My colleagues and I would now be pleased to answer your questions. Thank you for your attention.

Questions And Answers

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks very much all. I have three initial questions, please. The first one was on the tax reform. I was just wondering if you are able to give us any guidance on what tax rate you expect on an ongoing basis in future and how much sort of certainty you can place on that or how much might depend on the further decisions of cantons and also what sort of one-offs we might expect in -- beyond the H1 one-offs that you've shown this time.

The second question was on the prior-year developments in the non-life. I mean, I know you give the delta rather than the absolute number, but if I look over the last four years, half year results, they've been sort of consistently falling and it's sort of 3.8 percentage points, I think, in total, lower than three years ago. So I was just wondering if you could sort of give us any color on the trend and how you expect that to continue. I mean, obviously Swiss whiplash has been a big factor, but just to maybe understand how you see that progressing.

And then the final question was on the life new business. Just wondering if you could comment on perhaps the reasons that you didn't see the same acts or effect as others. I mean, appreciate -- I've had some conversations with IR and appreciate that you've been disciplined, but I was just wondering if you could give us a bit more color whether you've sort of just seen the business not to be profitable or whether there are other factors there. Thanks very much.

A - Philipp Gmur

Thank you, Peter, for those three questions. I suggest that Paul is going to answer the first two questions and then I'm going to explore a little bit on your third questions -- question with regard to the group life business in Switzerland. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Okay. First question regarding tax, there are still several cantons to vote. At the moment, we have an effective tax rate of about 18% across the whole group, and last year it was 22%. Obviously that's been covered by the one-offs that have an impact on that. Our underlying assumption is somewhere around about 18% plus, maybe 18.5%, I don't know, going forward, compared with, say, roughly 21%, 22% in the prior years. So we expect a 2% to 3% benefit going forward, which equates to about CHF10 million, CHF15 million of the pre-tax profit, so improvement in the bottom line each year, if that helps you. So that is -- exactly.

In terms of the run-off result, we had, in the prior years, yes, the Swiss whiplash reserves have been running off and we expect them to decrease the run-off there, so that won't be a positive in the following years. The one big change we had -- well, two changes we had this year, one was a change in the reinsurance structure. We increased the deductibles and changed the risk profile slightly, which meant there was much less ceding commission coming to the companies and also we had a commutation of one of the big policies in the specialty markets area. So there were two effects there. One was on the acquisition cost ratio and the other one was actually on the run-offs, so that run-off was affected by the commutation of this coverage we had in the specialty markets area. And then we had two individual claims from prior years, which we had to additionally reserve. One was a recycling plant in the States and the other was transport claims, a huge fraud in China, in one of the ports where large amounts of cargo was stolen and there was further investigations and we had to re-reserve for that. The ongoing trend, difficult to say. I would suggest it's -- certainly in Switzerland, the effect of the whiplash claims will reduce over time.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Can I just follow up very quickly on that? So I mean, it sounds like the reinsurance effects and the two large claims were kind of one-off, if you like.

A - Paul Norton {BIO 16145125 <GO>}

Yeah.

Q - Peter Eliot {BIO 7556214 <GO>}

So you just put those to reserves out in future periods.

A - Paul Norton {BIO 16145125 <GO>}

I mean, there's always -- there can be, particularly in the specialty markets side, we have very individual claims, certain circumstances can arise where you need to re-reserve, but generally on the day-to-day business, the normal attritional business, we would not expect that. So yeah.

Q - Peter Eliot {BIO 7556214 <GO>}

And probably pushing my luck a little bit, but you are not able to sort of quantify those impacts, are you?

A - Paul Norton {BIO 16145125 <GO>}

We certainly wouldn't give you the details. No. We can quantify them, but whether we disclose them is the matter.

A - Philipp Gmur

Turning to your third question, Peter, with regard to the group life business, it's true AXA had a major impact in our second pillar business, of course. We were pretty restrictive, and as you said, disciplined with regard to underwriting new business in our so-called full-insurance model. And why that? First, we think that the political environment and all the numbers influencing the second pillar business is still very difficult, so to say. And the second point is, we want to steer our balance sheet on a group basis in a way not to be too much being dependent on the second pillar business. So that's why we are pretty disciplined.

Now, what's the impact of the AXA business in the first half of 2019 in our business volume? Roughly 90% of the new business, we were underwriting in the second pillar full-insurance coverage solution came from AXA and more or less 60% of the new business we were doing with Swisscanto came from AXA. So in a nutshell, we were pretty much strengthening our second pillar business in the capital efficient sector we do with Swisscanto, which has not as many premium -- as much premium volume as the other business of course, but we think it's more attractive.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much.

Operator

Next question comes from the line of Kevin Ryan from Bloomberg Intelligence. Please go ahead.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks very much. I just have one question regarding the model change, which produced a good jump in new business profit assumptions. Could you just give us a little more background on that, and whether you can say whether your reexamining of your life model in this area has now been completed or whether we can expect some more tweaks going forward? Thank you.

A - Philipp Gmur

Paul, please answer this question.

A - Paul Norton {BIO 16145125 <GO>}

About two-thirds of the increase in the new business margin were due to the model changes and the reason we did this was because we had a very simplistic capital allocation just based on the percentage of overall, for every line of business, percentage allocation of solvency capital and with the old solvency capital, so Solvency I, which is clearly inadequate in the days of SST and Solvency II. And we are introducing at the moment a whole new risk-based capital allocation methodology across the group internally and so that was part of that change. So I expect that predominantly those changes have been done. There may be some tweaks as we -- as the experience shows that it's not appropriate or the improvement or something, but I don't expect to see any huge changes as a result of a further tweak to the model.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thank you.

A - Philipp Gmur

More questions?

Operator

(Operator Instructions) The next question comes from the line of Simon Fossmeier from Bank Vontobel. Please go ahead.

Q - Simon Fossmeier

Good morning, everyone. It's Simon. Just one question on the BVG business as well. I understand that you're planning a change in the conversion rate and that lowered the reserve for future conversion rate losses. Will this -- do you think this will have any impact on the new business? And secondly, I was under the impression that you cannot change the conversion rate in a mandatory part of the business. Can you help me out there, if I'm totally wrong there.

A - Philipp Gmur

Okay. Simon. Let me answer this question in this way. First, of course, we are lowering the conversion rate on the extra mandatory part of our business. And I mean, it's a question of -- or it might be a question of timing. We think that going forward, those conversion rates will be lowered everywhere. So it's rather a question of timing.

The second question with regards to whether we are allowed to do so or not, we are overlooking both parts, the mandatory part and the extra mandatory part as a whole part of the insured person. So if we are lowering the conversion rate to a level which is below the mandatory, let's say 6.4 or 6 or whatever percentage, then we have to make sure that on a holistic view, we still are meeting the mandatory and the legally foreseen conversion rate, of course. But we are looking at it on a rather holistic basis from the point of view of the client. And then finally, it's the market who will decide what's going forward the real and the finally right conversion rate.

Q - Simon Fossmeier

Okay. Understood. Very helpful. Thank you.

Operator

The next question comes from the line of Rene Locher from MainFirst. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Good morning. It's Rene from MainFirst. So I was going to start about the slide 11, just profit by sources in the life business, and yeah, I was so much surprised to see the very strong result here, and when I was listening to Paul, I got a bit of feeling that we have not that much one-off in the first two lines like the saving result, also the risk result. So if you just can confirm that, yeah, these two sources are sustainable.

Then on slide 19, I mean, this is more like a big picture question. I do know that -- or I guess, I know that Smile has a cost ratio of some 20%. I've just checked normalized Switzerland runs at 26%. So I do believe that when I buy a car insurance via Smile, then I should get a better price. Perhaps you can quickly explain again how -- how can I say, how is your own sales force happy with the push you are giving Smile. And perhaps what is also interesting on slide 19, I can see just different offers here. So I was wondering, is there kind of a cross-selling, so that means there is a guy who is buying a car insurance and he is then also buying some home insurance via Smile?

And then I would like to welcome Mr. Keller. On the investment income, if I go to slide 16, I'm happy to see that the reinvestment yield equities increased from 1.7% in H1 '18 to 26% and I have also seen on slide 24 that you have slightly increased your equity exposure by some 4.7% to 5.4% in H1. So I'm wondering if we should expect further shifts in the asset allocation? And last question if I may. How have you achieved the partnership with Tesla, I mean, mid-cap? So this insurance company now in a exclusive partnership with Tesla in 16 European countries, (inaudible) parade or do you have a special relationship with Elon Musk? Thank you very much.

A - Philipp Gmur

Thank you, Rene. Four questions. Let's get started with Paul on the life result and then I will explain pretty quickly some Smile issues. Then I will ask Andre to comment on the investment income and then we are going to finalize this questionnaire with Tesla. Paul?

A - Paul Norton {BIO 16145125 <GO>}

Yeah. Okay. So sales, sorry -- savings result, start with on page 11. In 2018, we actually had a bit of a reduction because we have one large investment package, which is in -- actually in (inaudible) where the dividend normally comes in the first half of the year and last year it came in the second of the half year. So that reduced it slightly. So that was lower down. Also, we had a one-off impairment, which was booked through the savings result in the first half of 2018. So the savings result in 2018 was a bit too low. Obviously this year, in this half year, we've had a very good equity market performance. So whether that continues is questionable, but I would say it's closer to the sustainable level than it was last year.

On the other result, the risk result we've had for a couple of years, some poor results in risk side, particularly where both mortality and invalidity results, to a large extent, in the Swiss (inaudible). But our chief actuary was telling -- keeping on saying, look, this is -- it's usual volatility and so I think we've kind of -- we got after that and we have more than sustainable level, one hopes, particularly the new tariffs that we're having in the (inaudible). The other result is volatile because it has the valuation of the index options in there, and the costs, yes, we reduced the cost in the life business, so above the line and the margin after costs, I think, which should be reasonably sustainable.

The extraordinary result is a factor reserving and you can see it's roughly on the same level. It all depends on the impact of these new changes in the (inaudible) tariffs and on what that does in a customer behavior and so on. And the gains and losses investments are totally dependent on the capital markets and obviously the policyholder participation, and to a large extent, it depended on various other factors. So I would say the margins after costs, the operating margin is on a pretty good level and plus or minus should hopefully stay there and the others are very much dependent on factors outside our control, but also are balanced out by the policyholder participation.

Then on --

A - Philipp Gmur

Okay. Smile.

Q - Rene Locher {BIO 1921075 <GO>}

Yeah. Thank you very much.

A - Philipp Gmur

Smile is one of our different sales channels. A client buying with or via Smile is buying another product than he might be buying with an agent. Why that? It's a self-service product and that's why it might be priced in another way. And finally, our own sales network, our agents do not have to fear Smile. Up to now, most of our private clients are looking for advice and more than 85% to 90% of our new business is still coming -- in the retail segment is still coming in via our agents networks. It's another sales channel, it's another product, it's another distribution and access to our clients.

Now I will ask Andre with regards to the investment income.

A - Andre Keller {BIO 18667591 <GO>}

Yes. Thank you for the question. And two parts of that question I heard. It's the driver of the change year-to-date, which was mainly driven by the strong rebound in global equity markets, which we participated, and the second part of your question I heard was if there are any major changes to the asset allocation planned. And this is not the plan. What we will obviously do is continue to evolve our asset allocation based on relative value consideration in order to achieve an attractive return on our risk-adjusted capital. So the evolution, no major changes.

A - Philipp Gmur

Okay. Then turning to Tesla, unfortunately Rene, Elon Musk did not show up yet in St. Gallen or Basel. So there was no personal relationship between us which led to this cooperation. We have, however, a broker, Marsh & McLennan, which we have cooperations with in other B2B2C environments, and via this contact, we got this new collaboration.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Interesting. Thank you very much.

A - Philipp Gmur

More questions?

Operator

The next question is a follow-up question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks a lot for allowing me to come back. I'd like to ask three further questions, please. The first one, I was just wondering if you could give any comment on the press release from FINMA yesterday, which talked about sort of leveling the playing field between banks and insurers in terms of the real estate investment properties. I mean, I'm kind of thinking with -- there shouldn't really be any sort of impact initially, but I'm just wondering if you've had any discussions with FINMA on the subject that you can share.

The second question was your investments in -- well, just carrying on the theme, I guess, your investments in property, you talked about increasing this, but I actually noticed it slightly decreased from the year-end to the half year. I mean, my calculation is 14.2%, down to 13.9%. So I'm just wondering if you could comment whether you are sort of still increasing that proportion.

And then the final one was the duration gap. I mean, it's increased and I know you want to benefit from the upside in interest rates as and when that comes, but I guess that hasn't happened so far. And I'm just wondering whether it's worth commenting on that in light of the falls we've seen over the last couple of months. That would be great. Thank you.

A - Philipp Gmur

Peter, thanks. For the time being, there is nothing to share with regard to the FINMA press release. And for the other two questions, I would like to hand over to Paul.

A - Paul Norton {BIO 16145125 <GO>}

So your question was on the property percentage. I mean, I don't think we've actively changed the property. I think it could be due to the mark-to-market, but basically other assets have increased in value greater than the property because we don't revalue it, mark-to-market that much in the half year. So that could be the rationale. And as far as the duration gap, it's really an impact out of the change in the new SST standard models and the way they are calculated, but I mean, it's not massive increase when we look at from 31st of the 12, it's 1.7% to 1.9%. And on a regulatory basis, from zero up to 0.2%, and we monitor that on a regular basis.

Q - Peter Eliot {BIO 7556214 <GO>}

All right. Thank you. Just quickly, if I could on the --

A - Paul Norton {BIO 16145125 <GO>}

Sorry, there is also a reduction in the interest rates in the half year, has also had an impact on that.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah. Okay. And just quickly on the property, should we expect the sort of share of best properties within the investment portfolio to increase in future? Are you able to comment on that still?

A - Andre Keller {BIO 18667591 <GO>}

Peter, this is Andre speaking. So what we will, as I alluded to before, on relative value consideration, so we look at, let's say, the property market as a risk factor on a holistic basis, also in combination with mortgages, and as you see and I think what maybe helpful for you is on page 51, which gives you more color on the details where we are on the mortgage side more, I would say, cautious while we see still because we own longstanding real estate portfolio, which also has a decent pipeline where we can build and develop our own properties more value. So we are not forced to buy like competitors or others on the market, so we can build based on our portfolio and see still attractive relative value in properties. But we do not expect major shifts, as I alluded to, but more on a relative value basis, especially versus mortgages.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thanks very much.

A - Philipp Gmur

If there are no more questions, I would like to thank you for your attention and for your participation in this call, for your interest in Helvetia. Of course, we are always ready and happy to answer your questions. If you have any further questions, please do not hesitate to contact us, especially via our Investor Relations people such as Susanne Tengler. Have a good day. Thank you.

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.