Y 2021 Earnings Call

Company Participants

- Carsten Stolz, Head of Corporate Finance Division & Chief Financial Officer
- Markus Holtz, Head of Investor Relations
- Matthias Henny, Head of Corporate Division Asset Management

Other Participants

- Fulin Liang, Analyst
- Jimmy Fan, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst
- Thomas Bateman, Analyst
- Thomas Fossard, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Baloise Group Annual Results 2021 Analyst Audio Conference Call and Webcast. I am Alice, the Chorus Call operator. I would like to remind you that all participants will be listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions)

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 2021. On our call today we have our CFO, Carsten Stolz and our CIO Matthias Henny. Our CEO, Gert De Winter is as you know in treatment for his cancer disease. He is in the process of recovering as planned and looks forward to be fully back by summer.

Now I would like to hand over to Carsten. He will give you a short overview of our results before we start the Q&A.

Carsten Stolz {BIO 6055047 <GO>}

Thank you very much, Markus, and a warm welcome on behalf of the entire Baloise team from me. I am very pleased to present our annual results 2021 that are strong in all dimensions and demonstrate the strength, reliability, and resilience of Baloise Group.

In 2021, we were there for our customers when they needed us most. We helped more than 40,000 of our customers during the unprecedented floods and storms, which affected all our core markets in summer 2021. All stakeholders of Baloise can rely on us. When looking at the annual results of 2021, we are very pleased to deliver very strong annual results. We achieved substantial growth, in total 7.4%, 6.9% in non-life and 16.7% stemming from investment type premiums.

The underlying quality of our business is very good. In non-life, the combined ratio of 92.6% is safely within the target range despite the historically high nat cat claims, which negatively affected our results with a net amount of around CHF120 million. In life, we delivered an exceptionally strong EBIT of CHF407 million, driven by the strong uptrend in the capital markets in 2021, the easing of the interest rate situation, and the ongoing optimization of our business mix.

The shareholder profit is at very strong CHF588 million, up more than one-third year-on-year. Cash generation was very reliable with CHF431 million and our balance sheet remains very strong with a higher equity value of CHF7.3 billion and a very solid SST ratio that we expect to be greater than 210%. This strength, reliability, and resilience of Baloise is also reflected in the progression of our dividend. We propose an increase by over 9% to CHF7 per share.

2021 was a particularly important milestone for us since we successfully completed the first stage of our Simply Safe strategy. We started Season 1 with great ambitions to win 1 million additional customers, to improve to a top 10% employer in the financial industry, and to generate CHF2 billion of cash. So where do we stand after five years? First of all, we feel very proud of what we have achieved. We won 961,000 additional customers through organic growth. In addition, we grew by further 0.5 million customers as a result of our acquisition in Belgium.

The successful growth was driven by positive contributions from all business units, both from the core business and from new initiatives and products. Bolstered by this success we are ratcheting up our ambition even further for the next strategic phase and are aiming to attract 1.5 million additional customers within the next four years. We managed to break into the top 10% of employers in 2020 through a variety of measures and could confirm these outstanding results in a couple of measurements. The only exception was an unsatisfactory measurement point which we saw in December 2021, but the long-term trend of recent years shows a clear improvement in Baloise's attractiveness as an employer and even in December 2021, over 80% of our employees recommended Baloise as a great working place. This encourages us to continue on our chosen course and to set an even higher target of being in the top 5% of employers in Europe overall.

Finally, with respect to our shareholder target, we remitted a total of CHF2.173 billion in cash to the holding company from 2017 to 2021, thereby, even exceeding our ambition. The new target is to generate again CHF2 billion in cash until 2025, but now over four years, so that this corresponds to an increase of the target and ambition level of 25%.

Not only have we achieved a great deal in terms of our targets, we have also fundamentally strengthened our core business in recent years and accelerated our ability to innovate. We achieved high growth. Non-life premiums were increased by almost one-third and passed the threshold of CHF4 billion for the first time in 2021. We have improved profitability. The average combined ratio was 2 percentage points better compared with the prior five-year period and this, despite the pandemic and historically high losses from natural catastrophes.

And we retain a balance sheet that is very strong. Our equity increased by 26% to CHF7.5 billion in 2021. Also, our shareholders benefited from our successes. We increased the dividend on average by 6% per year, in total 35%. We returned CHF480 million in capital via share buybacks to our shareholders. And we achieved a total shareholder return of 51% for Season 1.

At the same time, we pushed ahead with Baloise's cultural and digital transformation. We collaborate more efficiently, have become faster, make greater use of digital technologies, have reduced complexity for our customers and by establishing the home and mobility ecosystems, have laid out the foundations for our future business model. In 2021, we have already generated more than CHF70 million in revenues from our innovation pipeline. It is our ambition to increase this revenue to CHF350 million until 2025.

Based on these successes of the first phase of our strategy, I am very proud that we can start with full force into our new strategic phase called Simply Safe Season 2. There, as presented during our Investor Day last October, we have three new targets: to become a top 5% employer in Europe; to win 1.5 million additional customers; and to increase our cash remittance capability by 25%, resulting in another CHF2 billion cash remittance during the full year period between 2022 and 2025.

And with this, I would like to open the Q&A session where Matthias Henny and myself are happy to take and respond to your questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) The first question comes from the line of Thomas Bateman with Berenberg. Please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Hi, good morning, everybody, and congratulations on the good results. And thanks for taking my questions. Just got two quick questions to begin with. You're guiding to a lower spend on innovation and only about CHF50 million or so for this year, which is towards the low end of your target. How should we think about that in terms of dividends and buybacks, especially given you've got the highest level of cash at the holding company, CHF885 million that you've had for a while, so should we be thinking higher dividend growth given that it's the focus or maybe more consensual dividend growth and essentially a buyback down the line or is this lower spend on innovation only temporary? And second question is on growth expectations, (inaudible) growth in non-life this year, what's the outlook for 2022, effectively given Belgium there's some non-organic growth, I think a lot of those are organic and also potential price increases in Germany? So, yeah, just growth outlook by market for 2022 in non-life. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Thank you very much, Thomas, for your questions. Now, with regard to your first question, let me put it a little bit into context. When we stated the new targets in the context of the Investor Day, we have made -- given guidance also with regard to cash deployment and we stated at that time that 60% to 80% of cash remittance is deployed into the dividend policy that we have a leeway of 10% to 30% for investing into innovation and that we will certainly look actively into our capital position, as well as we go along.

Now, the CHF50 million that you rightfully stated is an indication of what we think is the spend in 2022. I would like to reiterate that like we said in the past that we are not spending towards budget numbers, but we are spending towards business cases that we consider to be interesting in order to contribute to the ambitions in the innovation sphere. So that might fluctuate over time. 2022, that is our guidance as we see the innovation pipeline evolving for this year.

And with regards to dividend policy and share buybacks, as you mentioned them, dividend policy stays unchanged. It was in the guidance that I was just repeating. And with regard to share buybacks, we are actively looking into our capital position on a continuous basis. As we speak, we do not have a share buyback in place.

Now, to your second question with regards to the non-life segment and the outlook for the non-life segment in 2022, given where we come from by market, you mentioned Germany, Germany is a market where we do expect to see rising insurance rates, particularly in the home arena that has a link to the nat cat catastrophes in last year and the same thing might happen in Belgium, as well. We are certainly aiming from an organic perspective for above market growth, all retaining the profitability in the book. In all markets, we are well positioned to achieve this.

And with regard to Belgium, I come back to Belgium. Belgium has seen particularly strong growth last year. Part of it was due to the first year where the Athora portfolio was fully for a full year integrated into the numbers, but the largest part of the year, Belgium growth last year came from organic growth. And maybe more of a psychological argument there, potentially the risk aversion of people or the risk awareness of people has risen coming out of the pandemic and coming out of the year, unprecedented nat cat events in last year. So that forms a good environment with regard to rates development in the non-life book for 2022.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thanks. That's very clear. Thank you.

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. Three questions, if I may. The first one on the life division, very strong earnings this year. The interest rates effects were close to zero and I'm just wondering how we should think about that sort of going forward. I mean, if interest rates were just to stay at current level, I mean, how should we think about sort of the earnings power of the business compared with your guidance? That'll be very helpful.

The second question on non-life. Some very strong results, but I was maybe a little bit disappointed on the investment income in non-life. And if I just sort of look at it and try and think about how we should think about that going forward, the current income, I mean, has fallen over the last three years from 200 to 152 despite sort of 15% higher investments. So I'm just a bit surprised how quickly that's falling. I'm just wondering whether you could comment on sort of your expectations there. I mean, I realize realized gains are volatile, but we probably shouldn't expect too much from fixed income now and hedging costs are probably going to go up a bit. So just any help you could give on how we should think about that would be great.

And then the final question on cash. If I look at the contribution from the different divisions, then the life and banking remittance has become, I guess, a smaller fraction of the total. I kind of expected it might have caught up a bit. So I was wondering if you could just sort of share your thoughts on what we could expect from those going forward. Thank you very much.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah, good morning, Peter. Thanks very much for your three questions. We'll take them in turn. So I will address the life question and Matthias will then talk about the investment income perspective on the non-life book and I will address the cash question towards the end.

So, to your first point with regard to the interest rate effects and the impact on the life result, it is a fact that the interest rate effects have been positive last year. They are non-linear. So it's not fully predictable or one-on-one predictable on how they evolve over time. Yet, it is -- it goes without -- it is due to the positioning of our book that we are benefiting from rising interest rates as we have seen also in 2022 -- 2021, sorry. So, particularly 2021, we saw higher interest rates and therefore had no need to reserve further.

Now, with regards to the book overall, because I said that we are well positioned for rising interest rates, we still have a duration gap of one to three years in the book, which means that the liability side is longer than the asset side and therefore we are well positioned for rising interest rates. So we are already well reserved and that is part of the year of the work that has been done over the years, also to bring down guaranteed levels in the life back books. The reserve strengthening needs will fade out if interest rate developments remain as they are. And to conclude these thoughts, in stable markets, we think that 2022 could lead again to an EBIT contribution from the life segment of around CHF300 million as we speak again in a stable market environment. We all know that's currently, it's a little bit unpredictable where capital markets will go due to the geopolitical situation.

Now with regard to the non-life investment income and its involvement, I would like to hand over to Matthias.

A - Matthias Henny {BIO 17600048 <GO>}

Yeah, thank you for your question. Looking at the development of the investment income, of course, this very much driven by the current interest rate environment. We have been now in a situation of seven years in a row of negative interest rates and with a duration of six years, which is lower the duration non-life side than on the life side. This naturally leads to lower investment income on the fixed income side. And last year, the reduction was minor in a way and what would we do, we compensate maturing bonds by shifting into private debt just to offset the lower interest rate environment.

Regarding realized capital gains, this always depends on the capital market situation. Last year, the realized gains were not significant, so we could build up reserves which help us now in the current turbulences that we see in the capital markets. So, all in all, there is pressure -- certain pressure on the investment income given the low interest rate environment, but we try to manage to compensate low interest rates by shifting to asset classes with a high and stable current income as private debt. For the future, that depends highly on the further interest rate development. Of course, higher interest rates help after certain extent in the reinvestment.

A - Carsten Stolz {BIO 6055047 <GO>}

Then to your third question, Peter, with regards to cash and the contribution to cash remittance come from a life and the banking segment. Now with regard to life, accounting earnings in life do have very substantial non-cash items, for example, the valuation effects on the liability side and therefore, in life, accounting earnings are to some extent decoupled from cash remittance by nature. Still, life has contributed a higher percentage or a higher number to the cash remittance overall and has been remitting over the entire strategic phase. And it's expected to continue to do so.

With regard to the banking segment, a major contributor for the cash remittance from the banking segment is Baloise Bank SoBa in Switzerland and there were two reasons why Baloise Bank SoBa did not contribute to cash remittance in this year. One was growth from the operating business and the second reason is a changed regulatory environment with regards to requirements of FINMA in Switzerland and the re-, how do you say, activation of the anti-cyclical capital buffer for the Swiss market overall. And that is the reason why there has not been a dividend payment out of Baloise Bank SoBa for 2021.

Q - Peter Eliot {BIO 7556214 <GO>}

That was great. Thank you very much.

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 all. KBW, sorry. I have couple of questions. I would like to start -- just a follow-up on Peter's question on Slide 15. This CHF7 million cash contribution from banking, should we see as a one-off with the two reasons you just highlighted and should we expect again cash remittance from banking in the range of, let's say, CHF20 million to CHF30 million? So that's first question.

Then question on Slide 23. I have seen a slight increase in technical costs and I guess, this has to do with the Belgium operations, because in Belgium expense ratio is up by 1.2 percentage point, perhaps you can expand a little bit what is the reason for the slightly higher technical costs.

Then on Page 24, the underlying loss ratio increased from 58 to 64. I was just wondering, the 64, is that the entire CHF120 million from the nat cat events included.

Then Page 30, just wondered, this profit by sources, it's now the second year in a row that the cost result is at or above CHF50 million and looking at my spread sheet like in '18, '19, it was more at around CHF30 million-ish. So I was wondering is this -- is the 50 like the new normal for the cost result in life business?

Then if I may just for the CIO, very much just on Slide 42, the investment property, that's now total investments CHF8.5 billion, quite a substantial portfolio. So I was wondering if you could just elaborate little bit, first of all, on the revaluation gains. And the second one would be, how does that vacancy rate look like?

And the last one, if I may, at the very end on Page 49, which I think is always very interesting, just wondering, do I miss something in Belgium. I mean, Belgium EBIT is down like close to 40% year-over-year and then it's minus in the non-life business '21 and also especially the life business. So I was just wondering are there special one-offs in there? Thank you very much.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. Thank you, Rene, for your questions. Let us take them one by one. So your first question was regarding the cash remittance on Slide 15 and the question of an outlook with regard to the banking segment and banking contribution. So the underlying earnings strength of, particularly the Baloise Bank SoBa is unchanged. So Baloise Bank SoBa has always been 90% to 95% payout ratio in the last years. The reactivation of the anti-cyclical capital buffer has been in 2022. So we will look into this as we move through the year, together with the business development of the bank in order to see what this means with regard to capitalizing the bank in order to comply with the higher level of capital required. But over time, the segment has an unbroken strength to further contribute to cash remittance.

With regards to Slide 23, the technical costs is stemming from particularly the non-life business in Belgium in the context of the integration of Fidea. We had last year an adjustment with regard to the way acquisition costs are activated. So it's more due to the one-off effect in 2020 than to the run rates in 2021.

Now with regards to Slide 24, which is the underlying (Technical Difficulty) given the nat cat events, the 60.4% for 2021 that you see on the right hand side in the bubble thus only contain about half of the CHF120 million net losses coming from the nat cat events. And this represents 1.5% contained -- percentage points contained in the -- that are in this underlying loss ratio from these claims that are not large claims, maybe a little less technical. We have a certain definition on how large claims are defined and it's the size of the claim and not the origin of the claim. So in the case of nat cat events, we had, as I said in the beginning, 40,000 customers with claims and there were also the broken cars included there. And let's say the car had a value of 40,000 and this is part of the CHF120 million net. But it's not a large claim in a standalone perspective. And that's why we have half of the CHF120 million that are large claims, so exceeding our large claims definition thresholds that are, in quote-unquote, normalized and half of it remains in the underlying loss ratio because of the way it's looked at.

And that's kind of the lengthy explanation to your question. I hope I hope that clarifies this point.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Moving on to Slide 30, which is the profit by source analysis in the life segment and your question with regards to the development of the cost results being second year in a row in the 50 area now. And the question on where is it going, there's two elements that play a particular role with regards to the cost results. One of it is that the growth in the life segment also comes with acquisition costs. So there is a cost element coming from that perspective. And the second element that is worth mentioning here is part of the implementation costs of IFRS 79 and the finance transformation that we are undergoing that are also borne by the life segment. And that for -- therefore 50 at the moment is probably more reasonable than the 30 that we had in earlier years for the time being. That does not mean and you know that in Season 2 we are also working on corporate efficiency, that we are working on this, but as we speak, 50 is a more reasonable assumption.

That brings us to Slide 42 and your question on the investment property there and for this question, I hand over to Matthias.

A - Matthias Henny {BIO 17600048 <GO>}

Yes. So your question was about the revaluation gains of investment properties. If you look at Pages 26 and 32, there is the position gains and losses through income statement of investment property and most of it is coming from revaluation. As we have not sold a big part of the portfolio other than the transfer into Baloise's property fund, we have not sold any investment property. So, most of that is coming from the revaluation. It is in line with the general market revaluation of investment properties. Although, we try to be rather on the conservative side in valuing our real estate, we keep them on a ongoing basis. So this means we are more on the conservative side. Your question about vacancy rates in Switzerland, we have a, I would say, rather stable situation as most of our portfolio is with residential real estate, so the vacancy rate is around 5% which is consistent with market outreach.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Thank you, Matthias. And then to your last question in Slide 49, reference being made to the EBIT matrix, particularly development in Belgium. In Belgium, the non-life segment obviously had the nat cat claims that have been mentioned. And so there is a prior year effect in comparing the EBIT contribution from the non-life segment as well, which is that Belgium, as I said before, had activated acquisition costs in the context of the M&A integration in last year. And that effect was a one-off effect in 2020 that did not reoccur in the year 2021. Likewise, the development in the life segment is also due to an M&A integration effect in 2020 where we did have a one-off release of life reserves in the PD ultra premium deficiency reserves in the Belgium book and the effect that as such did not reoccur and therefore is fully attributable to 2020 and did not reoccur in 2021.

Q - Rene Locher {BIO 1921075 <GO>}

Perfect. Thank you very much.

Operator

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

Q - Jimmy Fan {BIO 18288294 <GO>}

Hi, thank you for taking my questions. I have two, please. And first, I'm going back to net cash remittance again and why the cats [ph] increase year-on-year. It's positive, but not so positive if I look at earnings -- relative to earnings and as you mentioned that there are elements like -- in terms of resolving and revaluation doesn't really impact, the positive revaluation doesn't really impact the cash remittance. So I guess, like what are the real underlying drivers for us to think about, there should be a higher cash remittance from the life business and as you mentioned, like the current interest rates environment is going to increase the earning power of the life business.

And my second question is around non-life combined ratio. So if I look at the moving parts, I mean, like last year was abnormal cats and underlying loss ratio is at strong level, perhaps the expense was a bit high. And could you give us a bit more color in terms of the moving parts in 2022, given you're now guiding to around 90%? And if this 32.2 the starting point that we need to think about in terms of -- for your efficiency gain targets? Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah, thank you for your two questions. With regard to cash remittance, you asked the question of what are the underlying drivers with regard to driving cash remittance capability and there is a multitude of them. First and foremost, it's the operational sustainable earnings power of the underlying business and so that is first of all an economic perspective. This economic perspective then translates into different relevant frameworks, be it statutory accounting, be it IFRS, be it solvency requirements, be it other regulatory needs that we have to be compliant with. And out of all of this stem then the boundary conditions for cash remittance from the different pillars of the business and that applies for all the three sources, the non-life, the life, and banking and asset management business in different colors.

Now, when we go into the life segment, and as I said, the interest rate increases help and supports and rise the earnings power capacity of the life segment into the future. And what then needs to happen and is happening, that the boundary conditions will release and therefore giving more leeway to upstream cash from the life segment in such a scenario. Now, unfortunately, I cannot give you a one-on-one relationship between IFRS accounting, earnings and cash remittance capability from the life segment. That is not possible because it's a multi-framework and multi-perspective consideration. But what's important is that the CHF2 billion and therefore the rising the bar of 25% in the next strategic phase is asking for strong cash remittance from life, non-life, and the asset management and banking division, and therefore will be well diversified as we move into a Simply Safe Season 2.

Now with regard to the non-life combined ratio and the underlying loss ratio that is a bit higher this year, brings me back to the charts that I've shared before. Please bear in mind that about half of the year CHF120 million net claims of the natural catastrophes are included there. And that is equal to 1.5 combined ratio points. And so if you -- if we were to exclude those, the picture might look different. The underlying quality of the books has not changed and therefore, we are also confident that 90% the target combined ratio until 2025 remains the right target.

And with regard to moving parts in it, it starts with pricing and pricing development of the book in force. We talked a little bit about it before that we see particularly following the floodings in 2021 hardening rates in some of our markets and then obviously it comes to the question of the claims intensity of the book. There risk selection remains pivotal and has been since the early 2000s, one of the DNAs of Baloise Group. So I think we -- in terms of risk selection and retaining the quality of the underlying books while growing, Baloise is well positioned to retain this profitability. And then last but not least, operating efficiency into Season 2 plays a more important role and will improve the operating efficiency. Growing the book profitably also means that we can play economies of scale better and that the fixed cost burden of running the business is weighing less. And those are the important drivers and as you said, the moving parts.

And I think that hopefully addresses your questions.

Q - Jimmy Fan {BIO 18288294 <GO>}

Yeah. That's very helpful. Thank you.

Operator

The next question comes from the line of Fulin Liang with Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Hello. Can you hear me?

A - Carsten Stolz {BIO 6055047 <GO>}

Yes. Good morning.

Q - Fulin Liang {BIO 21126177 <GO>}

Yeah, okay, sorry. Good morning. I've got hopefully three very quick questions. The first one is, sorry, again to ask the cash and the earning questions. But my question, I understand there will be some like disconnection between the two matrix. But in terms of the timing, so does your -- cash remittance is based on the results of last year or you actually upstream cash along the same? I guess what I'm trying to say is, if you see a good year in 2021, should the cash come out of next year or all the good results have been reflected in your remittance in 2021? That's the first question.

And secondly is, so your life result has been kind of improved a lot in 2021, but actually your new business margin in 2021 is actually lower than 2020, and I just wonder because this is related to your earning -- your future earning power. I just relate -- wanted to understand why is that lower life margin.

And the last one, also a very quick one on the life. Although you're still doing the reserve enhancement, but if I look at the numbers, you seem to have positive results from your reserve enhancements in life insurance and why is that? Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Okay, thank you very much for your question. The underlying and sustainable earnings capability is the main reference point when we think about cash remittance. And in that context, the annual results obviously play an important role, but as said before, we are also taking a broader perspective on this and therefore, there is no one-on-one link between current year earnings and the cash remittance by default. Again, it comes mainly from the local and statutory accounting-based balance sheets and that is what we look at bearing in mind this year's or the current year's results.

With regards to the life results and the new business, the margins that can stem from new business, we consider 39% still a very good level. The new business is compared to the in-force business, obviously, a relatively small part. So the way bigger levers is the active management of the back book, but we still consider the 39% to be a very good level in terms of new business margin.

And to your third question with regards to positive reserve interest rate impact when we look at the profit by source analysis and that's I suppose you're making reference to Slide 30, where we have the life profit by sources and where we see positive development from the life interest rate effects. And, yes, it's true. We had this year positive effects coming from small reserve releases in the context of rising interest rates.

Q - Fulin Liang {BIO 21126177 <GO>}

Sorry. As a follow-up, does that mean that if interest rates continue to rise from, say, end of 2021, we will see a larger positive on this item?

A - Carsten Stolz {BIO 6055047 <GO>}

Just reiterate my word of caution that these effects are non-linear, because they go through how the result of multiple actuarial calculations, but as a -- how do you say, as a tendency, absolutely, if we are benefiting from rising interest rates, duration gap being mentioned before and that will also impact the -- take off the pressure for further reserve strengthenings that are directly linked to the capital market performance. Obviously reserve strengthen, yes. So, yeah, exactly, yeah.

Operator

The next question comes from the line of Thomas Fossard with HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yes, good afternoon, everyone. Three questions from my side. The first one would be related to nat cat this year. Just wanted to understand if you changed your reinsurance protection in 2022 maybe to adapt it to what has been the experience in 2021 or to react to some price changes or, yeah, year-on-year evolution. That would be the first one. And the second one would be related to your new money reinvestment yield and on Slide 36 where you are showing the 1.1% reinvestments. Can you split that between life and non-life, please? And the last question would be kind of due diligence question related to any potential direct or indirect exposure investments, I would say, mainly I guess in Russia or Ukraine. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. Thank you. Thank you very much, Thomas, for your three questions, I will address the nat cat topic and the reinsurance question and I will hand over to Matthias for the new money investment yield on Slide 36 and to the Ukraine, Russia perspective.

Now with regards to your first question nat cat, we have -- for the renewal season 2022, we have not adjusted and changed the basic structure of our reinsurance program. For 2022, we will review the structure that might lead or may lead to adjustments then for the renewal season in 2023. But the structure placed for this year is structurally unchanged. Renewals reinsurance prices as you mentioned have gone up. It's been really bad years for reinsurers with the pandemic situation in 2020 and the to nat cat claim situation in 2021 and that is reflected also in rising reinsurance prices.

All of our programs are excess of loss programs. So that means that we are only assuring really tail events, while retaining the large part of the claims distribution for ourselves because we obviously want to benefit from the underlying technical profitability of the book. And that means that based on a 4 billion book, we are ceding pretty little to reinsurers, but the last three years have been quite, quite tough from a reinsurance perspective.

Q - Thomas Fossard {BIO 1941215 <GO>}

And it has no change in your per event retention?

A - Carsten Stolz {BIO 6055047 <GO>}

No. And for 2022, as I said, unchanged structure and reconsidering the structure for the 2023 renewal season.

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Okay, thanks.

A - Carsten Stolz {BIO 6055047 <GO>}

Does that answer your question?

Q - Thomas Fossard {BIO 1941215 <GO>}

Yeah. Thank you. Perfect. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Good. And then I hand over to Matthias for the two questions on new money and Russia and Ukraine.

A - Matthias Henny {BIO 17600048 <GO>}

Yes. So thank you for your questions. Coming to the reinvestment yield, this depends very much on the cash that actually needs to be reinvested, which again is a function of what kind of bonds do expire in which portfolios. The level of the reinvestment also depends very much on the opportunity that we have. So back in 2020 we could really benefit from the higher credit spreads that were prevalent during the corona crisis in March and April. Now, as regard to equation between non-life and life, at the margin, we have a higher reinvestment yield in life as we have a longer duration to reinvest. And these numbers also contain the private debt reinvestments where the big part is actually coming from life business.

Coming to your third question regarding Russia and Ukraine, we don't have any exposure in Ukraine. In Russia, we have no exposure to our shares. We have low double-digit million exposure in bonds stemming from Russian issuers. These are Swiss bonds, so Swiss jurisdiction with Swiss franc currency and given the context of the CHF60 billion joint asset book that we have the size is quite manageable.

Q - Thomas Fossard {BIO 1941215 <GO>}

Very good. Thank you.

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much for letting me come back. Yeah. Couple of follow-ups, please. On the ambition to be a top 10% employer, I appreciate your comments on the timing. I was just a little bit confused, to be honest, as to why the floods will have impacted it. I was just sort of thinking conceptually, if your staff are helping people that sort of makes them feel good and likewise with the pandemic and so, yeah, just wondering if you could give us a little bit more insight maybe as to why we saw the dip in that ranking in December would be very helpful.

Second question, the solvency ratio seems to have improved a lot in the last three months of the year. Are you able to give us any sort of splits in terms of the main drivers of that. Very helpful. And then finally, we talked about private debt a couple of times, so I guess that's the main driver, but I saw that you basically doubled your investments in alternatives. I was just wondering if you would give us a little bit more color on what you have done, whether it is all private debt and what your plans are going forward. Thank you very much.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah, thank you, Peter, for your follow-up questions. I will take the first two and give private debt to Matthias.

So with regard to the 10% or the employer -- 10% employer ambition and what has happened then towards the back end of last year, the flooding situation obviously has led to particularly high workloads in the entire organization on top of already high workloads overall and in -- with home office situations or hybrid working situations and that has led to less employee satisfaction as one of the drivers.

And with regard to the pandemic situation, we did experience towards the end of last year, how shall I say this, certain level of pandemic fatigue and I would be lying if I would exclude myself completely from that, people wanting to come back to more normal working modes, coming back to the office and having physical contact, one-on-one without technological intermediation by Zoom and Teams and all these things. So I think these or we think these two elements came into play. Obviously, it's very difficult to one-on-one attribute these elements. What's important is that, as I said, we still have very, very high recommendation levels and moving over time towards work environment that will lead us to achieve this target as well.

Now with regard to SST, we had indicated an area of 200% in the Q3 press release in mid of November. The better economics developments since then as well as the operating earnings are the main drivers that leads to the indication of above 210%. As we said on the slide as well, the final calculations are still underway and are going to be published as of end of April.

And with this, I hand over to you, Matthias, with regard to the private debt perspective.

A - Matthias Henny {BIO 17600048 <GO>}

Yes, thank you for your question. I make reference to Slide 44 where we have the overview on alternative financial investments and indeed they have roughly doubled compared to last year. Starting on the right hand side, private equity has increased. This is mainly driven by performance on private equity. And on the left hand side, private debt, this has been driven by actually allocation decisions. Now the mortgage receivables, that's a part of alternative investment structure. However, one could deem them as normal mortgage investments. So we are here at the lower end of the risk return table in private debt. So these mortgages deliver something around 1.6%, 1.7% of yield at the very low Solvency II requirement. What we have started to build up last year's infrastructure debt and we will further continue to build up that as a proxy for higher rated bonds with higher yields at comparable solvency requirement. And the third one here is the corporate direct lending. Here we are more in the higher risk and higher return area of corporate direct lending. This is more a substitute for senior loans with lower liquidity, but correspondingly higher illiquidity premium that we can capture.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much.

Operator

The next question is another follow-up from Mr. Bateman with Berenberg. Please go ahead.

Q - Thomas Bateman {BIO 21707516 <GO>}

Thank you for the follow-up. Just on claims inflation, we haven't touched on it too much during the call, I was wondering if you could give a view where you see maybe any rising input costs, perhaps in energy, spare parts, commodities et cetera where you're seeing that in different areas of your business, would be very helpful. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah, thank you, Thomas, for your question on claims inflation. By and large, we do not see particularly strong claims inflation as we speak. Particularly, in Switzerland, we don't see claims inflation. Belgium and Germany, we see some early signs that some claims inflation which could occur due to the effects that you have been mentioning. But, overall, it's not, how do you say, relevant claims inflation that we see as we speak. Obliviously -- and I was alluding a little bit towards the other side of the -- the flip side of the coin, which is pricing measures in the markets in order to retain then the technical margins.

Q - Thomas Bateman {BIO 21707516 <GO>}

Okay, lovely. That's great. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Thank you.

Operator

(Operator Instructions) There are no more questions at this time. Gentlemen, back to you for any closing remarks.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. So thank you. Again, on behalf of the entire Baloise team, thank you very much for your time and for being there and for talking to us. It's always much appreciated that we can put our annual results into context by being in a dialog with you. So, thank you very much for this.

I hope you can see through the telephone that we are in very good mood for three reasons, because the annual results of 2021 are strong, that's the reason. The first reason, why we are very happy. The second reason why we are very happy is that we could finish Simply Safe Season 1 with achieving our targets. And the third reason why we are very happy is that we are starting to travel into Season 2 with full force. And those three reasons make us very happy. And again, I hope you can see this through the telephone.

With this, I thank you very much. And we are closing the analyst call on the financial results of Baloise 2021. Thank you very much and have a great 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. Good-bye.