Y 2018 Earnings Call

Company Participants

- Paul Norton, Chief Financial Officer CFO
- Philipp Gmur, Chief Executive Officer CEO
- Ralph-Thomas Honegger, Chief Investment Officer CIO

Other Participants

- Frank Kopfinger
- Jonny Urwin
- Kevin Ryan
- Peter Eliot
- Rene Locher

Presentation

Philipp Gmur

Ladies and gentlemen, welcome to our Analysts Conference and the Results of the 2018 Financial Year. I'm pleased to welcome you here today at MoneyPark's offices in Zurich. I'm going to explain to you why we have chosen this venue, when we go into the agenda. 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 2020.

After my presentation, Paul Norton and I, as well as our Chief Investment Officer, Ralph Honegger will be pleased to answer your questions as always. For those of you who are here in Zurich, we have then prepared two concrete use cases to show how our strategy is being implemented. Together with Martin Tschopp, our Head of Corporate Development; Stefan Heitmann, CEO MoneyPark; and Pierre Ocampo Piano [ph], CEO Smile. We want to present our vision and the current status of the "Home" ecosystem and the innovative offerings of Smile, our own digital insurance company. That's why we meet here, where the business is going on and not in a five-star hotel as usual.

On Slide 4, 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. For the 2018 financial year, Helvetia reports pleasing growth in business volume, very good underwriting results in Non-life and a solid profit. In 2018, we achieved a business volume at group level of just over CHF9 billion. On a currency adjusted basis, this represents an increase of 3.9%. The main growth driver was Non-Life business, which achieved almost 6% higher premiums year-on-year.

The European units, as well as the market units Active Reinsurance significantly contributed to this pleasing growth. In Life business, the business volume increased by 2.1% in original currency. This was mainly driven by higher volumes in investment linked products in Switzerland and in Germany and by the Swiss group life business. Here, periodic premium in the occupational pension business increased by 4%, particularly noteworthy is the development of new business in this area. A significantly large number of customers choose the so-called semi-autonomous solution from Swisscanto. Those products might give the customers more upside potential regarding the interest yield on their savings. At the same time, those products are much more capital efficient for Helvetia. At CHF 431 million, the IFRS result after-tax was above the IFRS result of CHF 400 million in 2017, but below the respective underlying earnings of CHF 502 million in 2017. The main reason for this was the weaker performance of stock markets, which was reflected in both Non-life and Life business.

In Non-life business, the quality of the portfolio is very good overall, as reflected by the solid net combined ratio of 91%. All segments were able to improve the net combined ratio year-on-year. I'm also pleased with the development of new business in life. The new business margin remains stable compared to 2017 and stands at 1.7%. Both in terms of combined ratio and new business margin, we continue to meet our targets for the current strategy period.

Helvetia continues to have a solid capital base and the strong dividends capacity. Our strong positioning in combination with our profitable growth strategy creates added value for our shareholders. Due to the robust operating cash production of CHF 290 million, the Board of Directors will propose to this year's shareholders meeting to increase dividend by CHF1 to CHF24, which gives an attractive dividend yield of 4.2%. Aside from Switzerland, the European entities as well as specialty markets also contribute to the group dividends. 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 would also like to welcome you to our analysts conference today. Within the next 25 minutes, I will give you more detailed information on our financial performance in 2018. I would like to start with Slide 6. We achieved a solid IFRS result of CHF 431 million against underlying earnings of CHF 502 million in 2017. As in the first half of the year, the full-year results was also impacted by the ongoing bond amortization to par, which is a pure accounting effect from the 2014 acquisitions. The bond amortizations amounted to CHF 16.4 million in 2018, after policyholder participation and tax, and the main reason for the low results was exceptional volatility in the equity markets at the end of the year.

Our technical results remain very strong indeed. I'd like to turn to Slide 7 with more details on the business areas. In the Non-life business, IFRS earnings amounted to CHF 332 million, against CHF 363 million underlying earnings in 2017. While the technical results improved significantly compared to the previous year, the decrease was mainly driven by investment result. We will have a closer look at the Non-Life profits by source in a few minutes on Slide 10.

IFRS earnings of the Life business stood at CHF 148 million. In addition to a number of other effects [ph], in particularly impact the lower investment returns. The amortization of bonds, I mentioned before had a negative impact of CHF 12 million after tax and policyholder participation. I'll provide you with details on the income streams on Slide 12 later. The result from other activities, which includes the corporate center, the non-insurance activities in markets systems such as MoneyPark and Defferrard & Lanz, slightly increase compared to 2017. The rise can mainly be attributed to consolidation effects from the funds allocated to this segment.

We will have a more detailed look on the profit sources on Slide 15. Let's turn to the segment results from Slide 8. All segments delivered good results, despite the impact of the financial markets. In the Switzerland segment, the IFRS result for 2018 was CHF 321 million. This includes a total of CHF 14 million of bond amortization, net to the tax and policyholder participation. In the Non-life business, we achieved a technical result compared to the previous year, which once more underpinned the good quality of the portfolio. Investment result however, was impacted by the weak performance of the stock markets.

In the Life business, lower expenses interest rated, reserve strengthening, and lower expense is a policyholder participation, only partly compensated for a reduced technical result margin after costs and significantly lower gains on investments. The ongoing amortization of bonds to par has an additional negative impacts of nearly CHF 12 million after tax and policyholder participation. This segment result for Europe, which comprises the market units in Germany, Italy, Spain, Austria amounted to CHF 117 million, against CHF 120 million underlying earnings in 2017. In Non-life, the improved technical result is offsetting a weaker investment result.

In Life, lower expenses for interest related additional reserve strengthening, as well as lower expenses rate policyholders participation, only partly compensated for a lower technical result, and considerably lower investment results. This segment result for specialty markets increased to CHF 35 million. The improvement was due to a better technical performance, as the last year was affected by NatCat events, EGHAM storms, which more than offset the lower investment result. The corporate segment includes the corporate functions and group reinsurance. In addition to the financing companies and the holding company. It's slightly improved result of CHF 42 million benefited from positive consolidation effects from the funds allocated to this segment.

I'll continue with our growth in business volume on Slide 9. In 2018, Helvetia group achieved a business volume of just over CHF 9 billion. This equates to a currency adjusted increase of 3.9% over the previous year. In the Non-life business, we achieved increasing premium volume of 5.8% in original currency. The growth was mainly different by active reinsurance, where premiums increased by 25.6% in line with our strategy. In addition, the European entities achieved 6.8% higher premiums year-on-year in original currency showing growth in all countries and all lines of business.

In our Swiss home market, we are able to increase premiums effectively by 2.4%, compared to the 9.5% of quarter growth, which was distorted due to one-off accounting adjustment in 2018.

In the Life business, businesses volume rose by 2.1% in original currency. The increase was mainly driven by a very good development of investment linked products, individual Life in Switzerland and Germany. Business volume for traditional Life products decreased in line with our strategy. That said, also recorded growth in the Group-Life business, which can mainly be attributed to Swiss group life business rising by 2.4%. Periodic premiums increase of 4%, the occupational pension business was satisfactory. Single premiums rose by 0.9%, which shows that we are still pursuing conservative underwriting in the occupational pension business, in view of the low interest rate environment.

Tricky [ph] noteworthy however is the development of new business. In this area, capital-efficient products examples Swisscanto and BVG [ph] invest showed significant growth over the previous year.

Now, I'd like to look at the profit by sources of an Non-life business on Slide 10. In 2018, the technical result improves significantly over the previous year, due to better claims environment in the second half of the year and higher volumes. Investment result net however decreased by 47%, compared to 2017, it was therefore the major driver for the total decrease in net income. While 2017 was exceptionally good year for the stock markets, and 2018 equities declined significantly.

I would now like to move to the net combined ratio on Slide 11. Group net combined ratio was 91% in 2018, which is exceptionally good level and once again underpins the good quality of our portfolio. It also wants more meets our financial strategy target of a net combined ratio below 93%. The claims ratio improved by one percentage point to 61.1%, the main reason was a better net claim ratio, as I said earlier if you remember last year we had quite a significant impact from the Hurricanes Harvey, Emma and Maria, as well as a better additional claims development.

Looking at the cost ratio, we were able to reduce the admin cost ratio by 0.4 percent points. The acquisition cost ratio was higher year-on-year, the increase resulted from opening up new distribution channels and new cooperation agreements.

On a segment level, Switzerland showed an improvement combined ratio of 82.7%, thanks to better attritional claims development and better run-off. With 95.1%, Europe also recorded a better net combined ratio compared to 2017. The improvement was also attributed to good attritional lost trends. All European markets achieved combined ratios below 100%. In specialty market segment, the net combined ratio improved to 96.2%, driven by a lower claims ratio, as the last year was badly affected by the higher NatCat events.

On Slide 12, we'll have a closer look at the Life business. In 2018, net income for the Life business was CHF 25 million, below the prior year's figures. Looking at the profit by sources, the margin after costs decreased. First, it should be positively emphasized that the sea result increased compared to 2017, all be it as a low level. All of our profits sources however declined. Decrease in the savings result was driven predominantly by Swissgrid life business, as to manage the interest rates for (inaudible) assets remained unchanged or market yields declined. Below risk result was also mainly resulted from Swiss group life business as a consequence of a poor mortality result in the first half a year.

In addition, we had a positive one off effect in Individual-Life business in the previous year, arising from the Nationale Suisse Integration. The other result was impacted by fluctuations in the valuation of options for investment link products, over the lifetime of the products these fluctuations will even themselves out. It should also be emphasized that in the savings result, this is where the amortization of the bonds comes through, so you can see a minus CHF 14 million effectively to the minus CHF 16 [ph] million which will impact that affect their fellow result. The gains and losses is decreased due to the poor stock market performance, the extraordinary result was affected by the following effects.

As a result of the persistently low interest rate environment, additional interest rate related to reserve strengthening was necessary in Switzerland and in Europe, although on a lower level compared to the prior year. In Switzerland, the necessary reserves strengthening to be financed by the ending of the industry-wide. (inaudible), which resulted in a one-off release, the excess reserve release not utilize to finance reserve strengthening had to be allocated to the policyholder participation fund. Expenses for policyholder participation were lower in both Switzerland and Europe, mainly due to the reduced investment result. The two aforementioned factors had a compensating effect on the net income.

I would now like to switch to new business, which is developed very positively as you can see from Slide 13. New business is developing well. The new business margin remained broadly stable, compared to 2017, at 1.7%, in 2017 it was 1.8%. Despite having had to adjust the risk discount rate due to higher capital market expectations, which resulted in the reduction of the new business margin. However, product measures and improved assumptions on the future development to new business largely offset the impact of discount rate adjustments.

We also made further progress in shifting from traditional savings products with interest rate guarantees to modern capital life products. At 1.7%, the new business margin is also above our target set within the Helvetia 2020 strategy.

I would now like to continue with the development to the interest margin on Slide 14. Direct yield in Switzerland and the European countries declined compared to last year, because of low interest rates. In Switzerland, the interest margin went down when comparing 2018 with 2017, this was attributable to the following reasons. The direct yield decreased on the one hand, because US bonds with higher coupons but also higher hedging costs to replace the Euro bonds with lower coupons, but also lower hedging costs.

As hedging costs are not included in current income, are therefore not considered in CapEx the direct yield, this shift had a negative effect on the number shown although not economically. The average technical rate, either rate that we need to also declined, the main drivers here were the successful revision of our traditional product portfolio and the focus sales of modern capital life products, maturing insurance contracts with high guaranteed rates, which replaced by modern capital life products, confined the additional reserve strengthening. However, as the direct yield declines at the faster rate than the average technical rate, the interest margin went down.

In Europe, the interest margin shows an increase from 0.49% in 2017 to 0.59% in the current year. Here, we see a sharp drop in the average interest rate, how that's he has to generate in order to meet its obligations due to additional reserve strengthening and new contracts with low guarantees replacing the old ones with a higher guarantee. As the average technical rate was dropping faster than direct yield interest margin improved. On a group level, the interest margin remain more or less stable.

On the following slide, I want to provide you with details on the profit for other activities. If you look at the profit by sources, the net technical result in group insurance decreased resulting from a few large loss events in Europe to the group insurance. Investment and FX result was high year-on-year, due to positive consolidation effect from our own investment funds. The costs and other result declined slightly, this can be attributed to plan investments in the new brand image and marketing campaign and business transformation activities, which are in line with our strategy. Slightly higher financing costs resulted from high interest expense with our Euro bond, as the bond was issued in March 2017, interest expenses were only included for nine months in 2017, compared to full-year in 2018.

If you look at Slide 16 on investments, we can see that current income of CHF 987 million remained to prior year's level, despite the low interest rates.

Realized and book losses amounted to CHF 193 million, mainly reflecting weak equity markets. The group investment result recognize an income statement, therefore stood at CHF 794 million. Unrealized gains and losses recorded in equity decreased by CHF 639 million, due to weak performance by equity markets, higher interest rates in the US and higher credit spreads. Total investment performance therefore was 0.3%. As a result of the development for capital markets, investments in market risk for the policyholder decreased by CHF 216 million.

On Slide 17, you can see the investment results broken down by asset class. The first table shows the performance of the total investment portfolio. About two-thirds of the current income of CHF 987 million came from bonds and mortgages, which contributed CHF 537 million and CHF 86 million respectively in absolute terms. Dividends accounted for CHF 75 million, and investment property for CHF 243 million. Realized and book losses and investments amounted to CHF 193 million, reflecting weak equity markets. As already mentioned, unrealized gains and losses decreased by CHF 639 million. The lower half of the slide shows the return new and reinvestments.

In 2018, the total new or reinvestments amounted to CHF 4.8 billion, almost 85% of the funds were allocated in Euro and Swiss franc fixed income securities, remainder mortgages, equities and real estate. Due to increased hedging cost reinvestments in US

Dollars, as a result of higher interest rates, the portfolio was partially relocated -- we allocated to reduce the weight of the American currency. The average return on reinvestments totaled 1.5%.

On Slide 18, I'd like to provide you with some details on the SST ratio. As you can see on that slide we have revised our target range from formerly 140% to 180%, to a new 180% to 240%. We will publish the definitive SST ratio as of January 1, 2019 with the disclosure of the financial condition report, so-called BFLO [ph] British Deputy Finance Laga [ph] at the end of April. I had already stated today that the ratio as of January 1, was above 200%. The new SST models that have been introduced in 2019 will have no negative impact on the SST ratio overall. They differ in some important structural elements from our old internal models. Therefore, we assume them to be more volatile in particular respect to increases in credit spreads. The higher volatility however is reflected in the adjusted SST target range.

The resilience of our capitalization will remain unchanged. We expect capital coverage to increase and our SST ratio to remain comfortably within the revised SST target range.

Slide 19 is the dividend per share. With regard to dividend as strategy, as I'm sure you're aware is to increase dividend year-on-year. Thus, the Board of Directors will propose to shareholders meeting to raise the dividend to CHF 24 per share. This corresponds to a dividend payout ratio of 58%, based on the IFRS result, which is above our target ratio 40% to 50%. The dividend yield is what we believe an attractive 4.2%.

On the next slide, you'll see the dividend is fully covered by our strong cash production, which means it is financed out of the operating business.

Look at Slide 20. Our web scale [ph] passes virtually all operating cash production, it's subsidy is to generate right through to its shareholders. We have the advantage that many of our foreign operations our branches of how that's the insurance companies in Gallen, which makes capital very tangible. All operating companies are subsidiaries of how that's insurance company, it receives cash from essence by the entities, and passes the part designated as dividends for external shareholders on to Helvetia Holding, which pays dividends out. You can see that on IFRS basis, the individual market units remitted substantial proportion of their IFRS earnings to the group.

I'd like to finish my presentation with our new discloser on the net economic dividend capacity on Slide 21. On this slide, we show you for the first time what we call the net economic dividend capacity, the NEDC This number reflects free available capital at the balance sheet date that can be used for dividends or growth purposes.

The NEDC is the free capital available to be dividend out to shareholders, it is primarily defined by local strategy accounting distribute to equity on the legal entity by legal entity basis. I would like to emphasize here that the group IFRS equity and group SST surplus, and to some extent individual market units (inaudible) of virtually irrelevant in the calculation of what can or cannot be paid its dividends by the group. This is because these metrics include non-distributor revised gains or the similar items and the defining factor to the dividend capacity is usually local strategy distributor equity at each legal entity.

The NEDC is determined by the available free local equity, method dividends and other capital effects, such as capital decreases or increases. Our available free tied assets over insurance technical liabilities, including a small security buffer in legal entities were such tight asset requirements still formal exist or are required by the prudent person principle. Surpluses defined by local solvency requirements i.e. SST in Switzerland though solvency II in Europe at each individual legal entity level. Group considerations such as group SST and S&P rating only play a minor role. And finally our own capital buffers on top of SST in solvency II requirements, in order to balance volatility of own funds or acquire capital EG from investments, as well as additional buffers EG to fund growth or to reflect restrictions in transferability of funds.

Please note that on this slide, we discuss NEDC for the 2017 financials. The starting basis for calculating this figure is as you can see SST risk-bearing capital. 2018 numbers will therefore only be available, when the buffer is published in April. We'll give you an update on this figure with our briefly presentation, that will be available on our website at the end of April.

However, we can broadly say that we have approximately CHF 500 million of additional dividend capacity, above the dividend begin to pay out this year and we are continuously looking to optimize this capacity. And on that note, I will now hand back to Philipp Gmur.

Philipp Gmur

Thank you, Paul. Ladies and gentlemen, let me add a word to our share. Its price in absolute numbers is rather high. The Board of Directors will propose to the Annual General meeting of our shareholders to split our shares by 1 to 5. Thus, we want to make sure that Helvetia remains an attractive investment, not only for institutional shareholders, but also for private persons. Now in the last part of the presentation, I would briefly like to share with you what we have already achieved last year with regard to our strategy implementation.

I'll start on Slide 23. With our strategy Helvetia 2020, we aim to create value for our key stakeholder groups, customers, employees and shareholders. We are achieving this by strengthening our core business, expanding and tapping into new sources of revenues as well as promoting targeted innovations. As you can see on this slide, we have made good progress in strategy implementation both in Switzerland and Europe. We successfully strengthened our core business by launching new simple products that are tailored to the needs of our customers. I am thinking in particular of cyber insurance coverage which we have introduced both in Switzerland and in Germany, or our own fund product in Switzerland which now enable our clients to benefit from our long-standing investment expertise. In the sales area, we have further expanded the B2B2C channel, via INZMO specialist dealers can quickly and easily offer suitable insurance coverage for their products in Switzerland.

In Italy, we successfully expanded our bank distribution channel. Finally in Spain, we are cooperating with the broker specializing in motorcycle insurance since 2018, covering around 10% of the Spanish market. In addition both in Switzerland and in Europe, our customers are benefiting from simplifications in claims handling due to a higher level of automation. In Switzerland for example, damage to buildings maybe handled very efficiently via an online tradesmen platform. Furthermore, we are tapping into new sources of income with Smile, the leading Swiss online insurer. At the end of 2018, Smile launched the first completely digitalized based insurance in Switzerland, which can be concluded online with just a few clicks and without the signature, before your own death of course.

In addition, we have further expanded our Home ecosystem. With the startups PriceHubble and Immoledo, we brought in two additional partners. We will provide you with detailed information on Smile and the Home ecosystem during the showcase presentations later on. Finally, we also use new innovative forms of interaction with customers in a targeted manner, for example in Switzerland, bicycle thefts can be easily reported by chatbots. In Spain, a chatbot acts as a virtual insurance assistant for the sale of burial insurance policies. These examples demonstrate that we are successfully implementing our brands promise, simple, clear Helvetia.

Slide 24 demonstrates that we are well on track to reach our financial targets. We are pleased with the development of the individual financial targets shown here on the right hand side of the slide. With regards to the business volume of CHF 10 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 CHF 10 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 that future.

This brings us to the end of the presentation. For the participants on the phone, a presentation of the showcases and two interviews with Stefan Heitmann and with The Angelo Campo Piano [ph] will be available on the website as of this afternoon.

My colleagues and I would now be pleased to answer your questions. I suggest that we start with the questions of the participants on the phone and then turn over to the participants in the room. Please go on.

Questions And Answers

Operator

(Question And Answer)

The first question is from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. The first one was on solvency, and I appreciate for the qualitative guidance you gave us Paul. I'm just wondering if you can give -- I need to replace the guide as to how the ratio may be compared to that of last year. And specifically given your comments and volatility, how the sensitivity to spreads compares to last year? I mean that was 17 percentage points per 50 basis point move that you reported before. I'm just wondering how that's changed under the new models, and whether there's anything that you can do in that in terms of some investment strategy or other management actions to limit that sensitivity of how it's grown a lot.

The second one was on the Life top-line, I mean that we saw some very impressive growth in on Life. I think the top line grew 10% in H2 in isolation, I'm just wondering if you could just tell the little bit deeper into the drivers of that and whether there was anything in those numbers already from any business you might be getting from the actions of one of the market leaders recently?

And then maybe finally just on cash, I guess the remittance ratio for Non-life is 52%, I'm just wondering whether that can be increased towards it's -- I guess compared with some of your Non-life period maybe it looks like it could be some upside and a group level, I'm just checking basically from the 290, we need to take off financing costs. If I do that, I get not very far of the dividend. I'm just wondering, if I missing anything there. Thank you very much.

A - Philipp Gmur

Thank you, Peter. I'll ask Paul to answer questions number one, with regard to solvency and three with regard to cash remittance. And I then turn to question number two. Paul?

A - Paul Norton {BIO 16145125 <GO>}

I'll give you some just a couple of broad comments on the solvency. I think we should wait until the buffer will come out when we have a full presentation as explains that. With the new models, we have more deterministic modeling in there and much more short-term modeling, because they're using a runoff approaches you probably were to more insisted on. So, that has an impact. There probably will be more effect from spreads, clearly more sensitivity to spreads. But at the moment, I don't want to quantify that I think, I appreciate if you waited until April, we'll give you some full details.

On the cash, yes, we are constantly looking to optimize the cash returns. I think we are reasonably conservative, we don't want to certainly the first year's disclosures be too aggressive. As I said the really defining feature is local strategy. And so, IFRS in itself is not a good guide, but clearly can be optimized and we're working on that. In terms of the financing costs, I'm not sure what you mean there, I mean basically we passed through virtually everything of the cash that we receive from the operating units up to the holding, which then go straight out to the shareholders.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. And just -- I guess I just wanted to -- the 290, basically it's fully available, but the distribution and right well --.

A - Philipp Gmur

Yeah, 290 is fully available for distribution that question of yours.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah. Perfect. Thank you.

A - Philipp Gmur

Now regarding the development of our life premiums, as you see we have an increase of our group life premiums by slightly 1%, talking about single life premiums that means customers which changed their provider and came to Helvetia. And roughly 4% of our periodic premiums, what does that indicate, that indicates that we are still very cautious in underwriting new risks, looking carefully at our capital position and intergroup Life business at our profitability. However, it also indicates that with an increase of 4% in periodic premiums, we have a portfolio in the Group-Life business which is in good shape. We have underwritten firms which have no problems with layoffs for instance of their employees. So, it's a really good portfolio.

Now, you might have talked about a main competitor in Group-Life business AXA which decided to give up the full coverage of their pension system coverage in their group life business. The numbers and the contracts we got from AXA are not yet visible in the 2018 numbers. And I can tell you today that is of course we benefited from the move of AXA, but at the same time we are still very cautious and we used to be very cautious in underwriting new businesses, whether they come from AXA or other competitors. We have benefited, but we were not very aggressively underwriting new contracts, and we'll tell you and show you those numbers in due time.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much. I had a couple other questions, but I'll be patient and rejoin the queue in case of time off to the ones in the room. Thank you.

A - Philipp Gmur

Other questions on the phone.

Operator

The next question is from Johnny Urwin from UBS Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my questions. Good results to date. So firstly, I guess just what was the message you're trying to send here on dividends by disclosing the net economic dividend capacity that looks strong. But, I guess on that earnings, which is the binding constraint the coverage is going to be lower. So, can you just tell us what the coverage is on that earnings?

I guess are you trying to say that continued gradual dividend growth, as well underpinned or you are trying to say signal that there could be a step-up in the payout ratio, that's question number one. And question number two, could you elaborate a little more on what your priorities might be to manage the SST, if you are in the fortunate position that the SST ratio rises above 240. Thank you. That's great.

A - Philipp Gmur

Thanks, Johnny. I'll ask Paul to answer those two questions with regard to dividend coverage payout ratio and the luxury problem of an SST of above 240%.

A - Paul Norton {BIO 16145125 <GO>}

We haven't given the statutory coverage ratio, because the complexities of dealing with lots of different statutory accounting. I mean, you ask what the messages, the message is that we have several measures. The first thing is we've been criticized in the past from you I think Johnny, particular there we haven't given enough disclosure on what our dividend capacities and how we manage the capital. And so, we clearly said look this is how we manage the capital. We have to do it from a bottom-up, we bring it together so, now you understand the framework hopefully.

The second message is, it is clearly defined to a large extent by the statutory accounting, but there are other elements too. The third message is, look we finance our dividend every year through the cash production generated each year, but we have additional capacity. We have roughly two years dividend capacity in excess of what we pay out, which we could pay. So, message is what is our policy, our policy is the fourth one. The message is we will continue to increase the dividend gradually. You have some amount of satisfaction that we have capacity to do that, we're not stretching ourselves. And that the last message is we are optimizing that capacity and there could be some time. What we consider that we can increase the dividends at a higher rate in a way of a relatively shallow path upwards and we could increase the steepness. We've mentioned several times before over the years, we do not believe in share buybacks, we do not believe in huge dividend payments out in one year only to fund with income pay dividends out in the following year. So, we're looking for a longer -- medium to longer term dividend capacity and repeat the message is that clearly exists and is clearly it's pretty potential to optimize that.

In terms of managing the SST, if it gets to that luxury position of over 240%, I'd like to repeat and repeat again, I think people seem to think that and automatically involves a payment out of cash, dividends. The connection between SST and dividends is extremely low, it may be the result, if there was the case that we could persistently see that our dividend to SST ratio was persistently over 240% and it was not due to what I call mathematical fluff, which the regulators and entries [ph] in risks managers dream up, but it was real hard equity. Then clearly we would consider an increase to dividend. If it's due to pure modeling, there's not a lot we can do, as a modeling it not just in our hands, it's out of our hands mainly.

If it's due to a business profile, then we can also consider changing the business profile, but it's also a very remote situation. I think that we would have persistently high SST ratios over 240%.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Thanks. Fair enough. And thank you for the disclosures and the sort of enhance capital management framework, you're right, I have been critical in the past. I much appreciate it. I guess just on the message on the dividends, that's very clear and it's -- I mean that is a good message. I think that's what the markets been looking for. But the missing piece in the puzzle is what it -- in the puzzle is what is the headroom on earnings? And so I guess any disclosure rules there.

A - Paul Norton {BIO 16145125 <GO>}

That's in the dark, I'm on slide where it is we show it's the 0.5 billion capacity.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Great. Thanks very much. Thanks, Paul.

A - Philipp Gmur

More questions? There's one more question on phone.

Operator

The next question is from Kevin Ryan from Bloomberg Intelligence. Please go ahead.

Q - Kevin Ryan {BIO 1814771 <GO>}

Good morning. Thank you for taking my question. I just like to explore a little more about your business volume targets, okay. Do you have any particular focus on either general insurance or life for boosting the volume. And could you explain a little bit about how you think about trying to improve margins on the business you've got? These are the buying in something that you might not be same familiar with pushing those margins along. Thank you.

A - Philipp Gmur

You see, as we tell again and again, we do not have a hard tough volume target. The 10 billion ambition indicates that we want to be an active player on the insurance market and playing an active role means that we have to take into account how are we able to grow our business. Because it is important in our position that we grow our businesses be it in Switzerland in the whole market and more important of course in our European units, where we have relatively small positions. Now when we are looking at portfolios, we would like to grow. Then of course we take into account their profitability, and if we have a look at our profitability, the P&C business of course is the most profitable business. However, in Switzerland it's a saturated market, so it is already and a very important task to keep our good margins in Switzerland.

Life on the other side is might be not as profitable as P&C, it's not as capitalization, but it's an area where we can realize growth throughout our country markets, that's why we changed our Life portfolio from pretty traditional very capital intensive products to rather modern capital efficient product lines. And as you can see in our 2018 numbers, we did all that pretty successfully. We realized growth in Non-life throughout our European countries, and we realized growth in Life business into modern non-traditional new product lines. And our heart targets for Helvetia to 2020 remain combined ratio below 93, we are standing at 91. And the new business margin of above 1%, we are standing at 1.7%. So all that demonstrates that we are well on track steering our different portfolio speed in Life or Non-life.

Q - Kevin Ryan {BIO 1814771 <GO>}

Brilliant. Very clear. Thank you.

A - Philipp Gmur

If there are no more questions on the phone, I now ask the financial analysts in the room to ask their questions.

The first question comes from Deutsche Bank from Frank Kopfinger.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Hey, it's Frank Kopfinger from Deutsche Bank. My first question is on the current income on investment side. You said that you pointed out it was stable. However, as we have now a lower yield environment, would you expect that investment income the regular income is further coming down? Or was this really to the bottom now? And then secondly on your risk result within the Life business, it was down 4% [ph] you pointed out that there was a pool mortality experience. How disappointed were you given also the fact that you're growing the book and despite you had this weak risk percentage.

A - Philipp Gmur

Okay. Thanks. I first ask Ralph Honegger, our Chief Investment Officer to answer the question regarding the current income, and then Paul to answer the second question with regards to the Life business.

A - Ralph-Thomas Honegger {BIO 4932832 <GO>}

Okay. I mean there was still some room for due to interest rates that the result is coming down a little bit more. I mean we have seen for the last year's always about 0.1 point. And obviously there's still higher yielding period [ph] set-up coming back that the lapse and obviously the new investment right around 1.5%, which I believe should be stable, a little bit further down.

A - Paul Norton {BIO 16145125 <GO>}

Going to the Life result, the risk result, there was a one-off positive effect in the prior year, which came from the integration of a Nationale Suisse portfolio, so that should be taken into consideration. In the first half of the year, the risk result was considerably worse and that was due to some one-off events where they just one loss, couple losses, a high-value losses and let us stabilize that out, so in fact actually when you look at it it's probably pretty much stable.

A - Philipp Gmur

More questions in the room? Rene Locher from MainFirst.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. I'm Rene Locher from MainFirst. So, just with big picture question, this morning when I saw this CHF 431 million net -- I thought myself, when equity markets are going back to normal, we should see quite a strong result in 2019. Yes, as I so -- perhaps you can just comment a little bit anyone one-offs technically results or is that just that with eternal in equity more that we should see a substantially higher net profit in 2019.

And then just a follow-up here on Slide 12. I see this extraordinary results, just for confirmation, so these are mainly reserve releases and reserves strengthening, right? And then perhaps very quickly, I guess Peter Eliot will ask again, what nevertheless -- on that cash generation I fully agree with Peter. This Non-life is 52%, some of your peers here in Switzerland they have a cash out of the Non-life IFRS result, which is 89% , 90%. And then on the Life, it's a little bit lower than. So, I'm just wondering, it's just something special within the healthy, it's here said.

If I made the last question here again big picture, I guess on Slide 16, you show sensitivities to the SST, here again very interesting to see that the credit spreads and they have this cost is now with a few insurance managers. And, I believe that the noise looking a bit from the wrong angle, because at the end of the day, if you don't have and default in your bond portfolio, it's just accounting gaining's. So, that means you are losing value on your corporate bond portfolio. But, when you get 100 back and maturity nothing else than accounting. Okay. So, I was wondering little bit where always this big discussion about the SST ratio on credits spreads.

A - Philipp Gmur

Okay. Is that I mean, you were going back and forward between assumptions and questions. I will now ask Paul -- the issue with the equity markets and are there any one-offs into technical result. And then the cash production and remittance topic. And third, the question with regard to the SST and the accounting the assumptions.

A - Paul Norton {BIO 16145125 <GO>}

Yeah, maybe I can take your assumption, so yeah the SST, the credit risks spreads whatever they are, you looking for mark-to-market which is a point landing point of view, it's not over a period of time. So, and that's the financial of our approach instead of there was -- models, they say fine if markets go up and down, then it will go straight through into the SST, and you're right, assuming that they companies behind or they sovereigns behind those debt instruments to not go bankrupt, and you don't have a problem. But, on a short-term basis at that particular point in time 1 January and July 1, Tim [ph] I want to see what the potential loss would be, and I agree with you. It's increases the volatility, but doesn't mean that we are going to actually lose that money.

On the extraordinary result, yes it is the reserves, basically the interest rates of is all that observing it, out. So, if we go back to the questions, which is when negative results go back to normal is the same things the spreads, yeah with the end of the year, the 31, December, when you cut the day with the equity markets were massively down and we showed big losses. If you cut the year-end now, we'll be back again, and make profits. So, I thought the comps [ph] it out ever periods it's question what do you want to choose that period. So, yes we'll should be back assuming of course liquidity market still carry on their the same route that they've done in the first couple of months.

And then the 80% to 90%, yes, I think there are some communication [ph]. As I said, IFRS is not always the best indicative. One thing I'll say is in two areas and then specialty lines switching markets and in Europe, there were far less capital repatriation within the prior year, mainly because of growth requirements in specialty markets and also in Europe there were some regulatory buffers we wanted to build in.

A - Philipp Gmur

There's another question on the phone, I think? Please go ahead

Operator

The next question is from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you for taking my follow-up questions. Well, just plus one point of clarification. Any DC pool, you set the position now was 500 million as of the end 2018 of the dividends?

A - Paul Norton {BIO 16145125 <GO>}

17 --

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah. But I thought you also commented on the position now and said that as at the end of 2018 it would also be about 500.

A - Paul Norton {BIO 16145125 <GO>}

No, I think it was we would give the final figures for '18, with the buffer, but it's roughly about that, yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. So just a check that we have understood that correctly, so they hasn't changed across the year. I'm just checking that the definition is the same there so after proposed dividend in both cases?

A - Paul Norton {BIO 16145125 <GO>}

Yeah. The definition is the same. It will changes to them, when we finalized, put this way I can't expect -- I can't imagine it will be below 500 million.

Q - Peter Eliot {BIO 7556214 <GO>}

Yeah, okay. Great. Thank you. And the other one it just on the other result. I mean I guess the cost of line was basically in line with the guidance that you gave, but if I look at H2 and isolation minus 38, it's a little bit much higher run rate. Should we always expect that sort of seasonality or is there anything just maybe helping and trying to expect that how that should develop in future years H1, H2, et cetera.

A - Philipp Gmur

It's actually quite difficult to predict the run rate. I mean the costs will depend on large projects or special costs. As I said we have the in the cost result was the advertising and marketing campaign, it all depends when that to and starts and the other one was some developments in the corporate development where we've increased expenditure to campus strategic developments. So, it's difficult to predict, when those kind of things will actually fold you.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much. Thank you.

A - Philipp Gmur

More questions in the room? Rene Locher?

Q - Rene Locher {BIO 1921075 <GO>}

Yes.

A - Philipp Gmur

Yes. Continue with the question.

Q - Rene Locher {BIO 1921075 <GO>}

No, but I think given that we are going to see two showcases. But, first of all my question is, when I'm looking at the Swiss and expense ratio, I would have argued that should be a little bit lower because you are selling more and more products by a Smile direct.

A - Paul Norton {BIO 16145125 <GO>}

Smile is a relatively small percentage and it's 90 million of their overall premium.

Q - Rene Locher {BIO 1921075 <GO>}

90, okay, yes. And then the other question is on MoneyPark, where do I see MoneyPark within the group now?

A - Philipp Gmur

You don't, it's too small at the moment.

Q - Rene Locher {BIO 1921075 <GO>}

Okay.

A - Philipp Gmur

More questions in the room? Okay. So, before concluding this conference, I would like to say a word with regards to our Chief Investment Officer, Ralph Honegger. Every so young, but 60 years old. Ralph Honegger is going to step down from his position by the end of March 2019, that's why he is here present in this room for the last time.

With Ralph Honegger, we have a long-standing Helvetia manager leaving the company and enjoying his retirement, and apart from that other positions of course. Ralph, and I would like to mention that in this room especially with the financial analysts, Ralph successfully helped to steer our balance sheet through many ups and downs during the last roughly 17 years. He took over as the Group Chief Investment Officer in 2002, and he saw quite a few and that many different capital market situations during that time.

Helvetia share is nowadays roughly 5x worth, what it used to be when he took over. And talking about dividends as we were before, I think it's a true for Helvetia, as well as for many other insurance companies. Our dividends are earned by our technical results of course, but at the same time by our investment income, and that's why Ralph, I think contributed a lot to the Helvetia equity story, and its success during the last roughly 30 years, and I wish him all the best. And I think we're going to see him again in the financial community, but today it's time to say goodbye as Helvetia Manager.

Now, I would like to conclude.