Q4 2018 Earnings Call

Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmür, Chief Executive Officer
- Ralph-Thomas Honegger, Chief Investment Officer
- Unverified Participant

Other Participants

- Frank Kopfinger, Analyst
- Jonny Urwin, Analyst
- Kevin Ryan, Analyst
- Peter D. Eliot, Analyst
- René Locher, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, welcome to the Full Year 2018 Results Conference Call and Live Webcast. I am Ira, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode, and the conference has been recorded.

The presentation will be followed by a Q&A session. The conference must not be recorded for publication or broadcast. At this time, it's my pleasure to hand over to Mr. Philipp Gmür, Group CEO. Please go ahead, sir.

Philipp Gmür

Thank you. Ladies and gentlemen, welcome to our analyst conference and the results of the 2018 financial year. I am pleased to welcome you here today at MoneyPark 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 20.20. 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 (00:01:34) concrete used cases to show how our strategy is being implemented. Together with Martin Tschopp, our Head of Corporate Development; Stefan Heitmann, CEO of MoneyPark; and Pier Campopiano, CEO of 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 it's not in a five-star hotel as usual.

Unverified Participant

We're not used to five-star (00:02:11).

Philipp Gmür

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 the business volume at group level of just over CHF 9 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 unit, 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 pensions 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. That's 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 next 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 the dividend by CHF 1 to CHF 24, which gives us an attractive dividend yield of 4.2%.

Aside from Switzerland, the European entities as well as specialty markets also contribute to the group dividend. 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 analyst 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 solid IFRS results of CHF 431 million against underlying earnings of CHF 502 million in 2017. As in the first half year, the full year result 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 the exceptional volatility in the equity markets at the end of the year. Our technical results remained 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 considerably lower 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 and particularly the impact to lower investment returns, the amortization of bonds I mentioned before has 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 of Market Switzerland such as MoneyPark and Defferrard & Lanz slightly increased 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 on 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 underpins 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 for interest-related reserve strengthening and lower expenses for policyholder participation only partly compensated for reduced technical result margin after costs and significantly lower gains on investments. The ongoing amortization of bonds to par has additional (00:09:43) negative impact of nearly CHF 12 million after tax and policyholder participation.

The segment result for Europe, which comprises the market units of Germany, Italy, Spain and Austria, amounts to CHF 117 million against CHF 120 million underlying earnings in 2017.

In non-life, the improved technical results is offsetting a weaker investment result. In life, a lower expenses for interest-related additional reserves strengthening as well as lower expenses for policyholder participation only partly compensated for a lower technical result and a considerably lower investment results.

The segment result for Specialty Markets increased to CHF 35 million. The improvement was due to better technical performance as the last year was affected by NatCat events, (00:10:36) 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. Its slightly improved result to CHF 42 million benefited from positive consolidation effects from the funds allocated to this segment.

I will continue with our growth and 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 increase in premium volume of 5.8% in original currency. The growth was mainly driven by Active Reinsurance where premiums increased by 25.6% in line with our strategy. In addition, the European entities achieved 6.8% higher premiums during the 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 0.5% reported growth, which was distorted due to a one-off accounting adjustment in 2018. In the life business, business volume rose by 2.1% in original currency. The increase was mainly driven by a very good development of investment-linked products for individual life in Switzerland and Germany. Business volume for traditional life products decreased in line with our strategy.

Helvetia also recorded growth in the group life business, which can mainly be attributed to Swiss group life business rising by 2.4%. Periodic premium increase of 4% in 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. Particularly noteworthy, however, is the development of new business. In this area, capital-efficient products, for example, Swisscanto and BVG Invest showed significant growth over the previous year.

Now, I'd like to look at the profit by sources of the non-life business on slide 10. In 2018, the technical result improved significantly over the previous year due to a better claims environment in the second half year and higher volumes. The investment result, net, however, decreased by 47% compared to 2017 and was, therefore, the major driver to the total decrease in net income. While 2017 was an exceptionally good year for the stock markets, in 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 once more meets our financial strategy target of a net combined ratio below 93%. The claims ratio improved by 1 percentage point to 61.1%. The main reason was a better NatCat ratio. As I said earlier, if you remember last year, we had quite a significant impact from the hurricanes Harvey, Irma, and Maria, as well as a better attritional claims development.

Looking at the cost ratio, we were able to reduce the admin cost ratio by 0.4% points. The acquisition cost ratio was higher year-on-year. The increase resulted from opening up new distribution channels and new corporation agreements. On a segment level, system showed an improved net 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 attributable to good attritional loss trends. All European markets achieved combined ratios below 100%. In the Specialty Markets segment, the net combined ratio improved to 96.2% driven by our lower claims ratio, as the last year was probably affected by the higher NatCat events.

On slide 12, we 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, is we positively emphasized that the fee result increased compared to 2017, albeit at a low level. All of our profit sources, however, declined. The decrease in the savings result was driven predominantly by Swiss group life business as the mandatory interest rates for retirement assets remained unchanged while market yields declined. The lower risk result was also mainly resulted from Swiss group life business as a consequence of a poor mortality result in the first half year. In addition, we had a positive one-off effect in individual life in Switzerland from the previous year arising from the National Suisse integration.

The other result was impacted by fluctuations in the valuation of options for investment-linked products. Over the lifetime of the products, these fluctuations will even their sales out. It should also be emphasized that in the savings result, this is where the amortization of the bonds come through. So, you can see a minus CHF 40 million effect to the year. So, they're minus CHF 60 million which will impact that effect – that result.

The gains and losses decreased due to the poor stock market performance. The extraordinary result was affected by the following effects: As a result of the persistent low interest rate environment, additional interest rate-related reserves 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 Teuerungsfonds, which resulted in a one-off release. The excess reserve release not utilized to finance the reserve strengthening had to be allocated to the policyholder participation fund. Expenses of policyholder participation were lower in both Switzerland and Europe mainly due to 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 has 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 high capital market expectations, which resulted in reduction of the new business margin. However, product measures and improved assumptions in the future development of 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-light 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 of the interest margin on slide 14. Direct yield in Switzerland and the EU declined compared to last year because of low interest rates. In Switzerland, the interest margin went down when comparing 2018 with 2017. This is attributable to the following reasons. The direct yield decreased on the one hand because U.S. bonds with higher coupons, but also higher hedging costs, will replace (00:19:08) the euro bonds with lower coupons but also lower hedging costs.

As hedging costs are not included in current income and are therefore not considered on cap rates and direct yield, this shift had a negative effect on the numbers shown, although not economically. The average technical rate, or the rate that we need to (00:19:29), also declined. The main drivers here were the successful revision of our traditional product portfolio and the focused sales of modern, capital-light products. Maturing insurance contracts with high guaranteed rates is replaced by modern, capital-light products and finding additional reserve strengthening. However, as the direct yield declines at a 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 Helvetia 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 the interest margin improved. On a group level, the interest rate – 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 we look at the profit by sources, the net technical result in group reinsurance increased (00:20:43), resulting from a few large loss events in Europe to the group reinsurance.

The investment and FX result was higher year-on-year due to positive consolidation effect from our own investment funds. The costs and other results declined slightly. This can be attributed to planned 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 the full year in 2018.

If you look at slide 16 on investments, we can see that the current income of CHF 987 million remained at prior year's level despite the persistently low interest rates. Realized and book losses amounted to CHF 193 million mainly reflecting weak equity markets. The Group investment result recognized an income statement, therefore, stood at CHF 794 million. Unrealized gains and losses recorded in equity decreased CHF 639 million due to weak performance by equity markets, higher interest rates in the U.S., and high credit spreads. Total investment performance therefore was 0.3%.

As a result of the development of the capital markets, investments with market risk for the policyholder decreased by CHF 216 million.

On slide 17, you can see the investment result 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 contrary to CHF 537 million and CHF 86 million respectively in absolute terms. Dividends accounted for CHF 75 million, 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 return on 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; the remainder (00:23:25), mortgages, equities and real estate. Due to increased hedging cost reinvestments in U.S. dollars, as a result of higher interest rates, the portfolio was partially reallocated to reduce the weight of the American currency. The average return on new investments 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 00:24:04 SST ratio as of 1st of January, 2019, with the disclosure and the financial condition report, the so-called (00:24:13) at the end of April. I can already state today that the ratio as of 1st of January was about 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 seem 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 SST ratio to remain comfortably within the revised SST target range.

Slide 19 is the dividend per share. With regard to the dividend, our strategy, as I'm sure you're aware, is to increase dividend year-on-year. Thus, the board of directors will propose to the 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 of 40% to 50%. The dividend yield is what we believe an attractive 4.2%.

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

Looking at slide 20. Helvetia passes virtually all operating cash production it is able (00:25:52) to generate right through to its shareholders. We have the advantage that many of our foreign operations are branches of Helvetia Insurance Company in St. Gallen, which makes capital very fungible.

All operating companies are subsidiaries of Helvetia Insurance Company. It receives cash remittance by the entities and passes the part designated as dividends for our external shareholders on to Helvetia Holding, which pays the dividends out. You can see that on an IFRS basis, the individual market units remit a substantial proportion of their IFRS earnings to the Group.

I'd like to finish my presentation with our new disclosure on the net economic dividend capacity on slide 21. On this slide, we really 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 a local statutory accounting distributable equity on the legal entity by a 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' solvency surpluses are virtually irrelevant in the calculation of what can or cannot be paid as dividends by the Group. This is because these metrics include non-distributable valuations gains and other similar items, and the defining factor of the dividend capacity is usually local statutory distributable equity at each legal entity. The NEDC is determined by the available free local equity, net of 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 where such tied asset requirements still formally exist or are required by the prudent person principle. Surpluses defined by local solvency requirements, i.e. SST in Switzerland or 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 and Solvency II requirements in order to balance volatility of own funds or required capital, e.g. from investments, as well as additional buffers, e.g. to fund growth or to reflect restrictions in transferability of funds.

Please note that on this slide, we discussed NEDC for the 2017 financial year. The starting basis to calculating this figure is as you can see SST risk bearing capital. 2018 numbers will therefore only be available when the visual is published in April. We'll give you an update on this figure with our visual 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 we're going to pay out this year and we are continuously looking to optimize its capacity.

And on that note, I will now hand back to Philipp Gmür.

Philipp Gmür

Thank you, Paul. Ladies and gentlemen, let me add a word to our share. It's 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 one to five. 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 start on slide 23. With our strategy, helvetia 20.20, 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 innovation.

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 funds product in Switzerland which now enable our clients to benefit from our longstanding 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 a 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 may be handled very efficiently by an online tradesman platform. Furthermore, we are tapping into new sources of income with smile death leading Swiss online insurer.

At the end of 2018, smile launched the first completely digitalized death 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 start-ups, 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 sets (00:32:50) can be easily reported by a chatbot. 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 brand 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 the future.

This brings us to the end of the presentation. For the participants on the phone, the presentation of the showcases and two interviews with Stefan Heizmann and with Pierre Angelo Campopiano (00:34:22), we will be available on the websites 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.

Q&A

Operator

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

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. The first one was on solvency and I appreciate the sort of qualitative guidance you gave us, Paul. I'm just wondering if you can give any sort of closer guidance to how the ratio may be compared to that of last year. And specifically given your comments on volatility, how the sensitivity to spread compared 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 sort of investment strategy or other management actions to limit that sensitivity if it has grown a lot?

The second one was on the life top line. I mean, we saw some very impressive growth in life. I think the top line grew 10% in H2 in isolation. I'm just wondering if you could just delve a 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, 52%, I'm just wondering whether that can be increased at all? I guess, compared with some of your non-life peers, maybe it looks like it could be some upside. And at Group level, I'm just checking, basically from the CHF 290 million, we need to take off financing costs. If I do that, I get knocked very far off the dividend. I'm just wondering if I'm missing anything there? Thank you very much.

A - Philipp Gmür

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

A - Paul Norton {BIO 16145125 <GO>}

Okay. I'll give you some – just a couple of broad comments on the solvency. I think we should wait until the (00:37:03) will come out and we have a full presentation which 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 approach, as you're probably aware, that (00:37:20) 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 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 received from the operating units up to the holding which then goes straight out to the policy – to the shareholders.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Now, I guess, I just want to – the CHF 290 million, basically, it's fully available for distribution and (00:38:45)?

A – [09RLW5-E Paul Norton]>: Yeah. The CHF 290 million is fully available for distribution [indiscernible] (00:38:49).

Perfect. Thank you.

A - Philipp Gmür

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 in the group 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, of course, we've 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 will tell you and show you those numbers in due time.

Q - Peter D. 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 it's time off (00:41:15). Thank you.

A - Paul Norton {BIO 16145125 <GO>}

Other questions on the phone?

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my questions. Good results today. 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 stat earnings which is the binding constraint, the coverage is going to be lower. So, could you just tell us what the coverage is on stat earnings? So, I guess, are you trying to say that continued gradual dividend growth that's well underpinned? Are you trying to say signal that it could be a slow step-up in the payout ratio? That's question number one. 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 Gmür

Thanks. Jonny. I ask Paul to answer those two questions with regard to dividend coverage payout ratio and the luxury (00:42:36) problem of an SST of above 240%.

A - Paul Norton {BIO 16145125 <GO>}

We haven't given the statutory coverage ratio because of the complexity dealing with lots of different statutory accounting. I mean, you asked what the message is. The message is that we have several messages. The first thing is, we've been criticized in the past from you, I think, Jonny, in particular, that we haven't given enough disclosure on what our dividend capacity is 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 our 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 financed 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, the 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 a set amount (00:43:57) of satisfaction that we have capacity to do that. We're not stretching ourselves. And the last message is, we are optimizing that capacity and there could be some time when we consider that we can increase the dividends at a higher rate and we have 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 having (00:44:30) one year only to find that we then can't pay dividends out in the following year. So, we're looking for a longer – medium to longer term dividend capacity. And, I repeat, the message is that clearly exists and it's clearly 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 (00:45:03) involves a payment out of cash, of dividends. The connection between SST and dividends is extremely low, it may be the result. If it was the case, we persistently see that our dividend at SST ratio was persistently over 240%, and it was not due to what I call mathematical fluff, which the regulators and actuaries and risk managers dream up, but it was real, hard equity, then clearly we would consider an increased dividend.

If it's due to pure modeling, there's not a lot we can do. I say modeling is not in our hand. It's out of our hands mainly. If it's due to our business profile, then clearly 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>}

Yes. Thanks for that. Fair enough. And thank you for the disclosures and the sort of enhanced capital management framework. You're right. I have been critical in the past. Much, much appreciated. I guess, just on the message on the dividends, that's very clear, and is it – I mean, that is a good message. I think that's what the market's been looking for. But the missing piece in the puzzle is why – in the puzzle is what's the – what is the headroom on the stat earnings? So, I guess any disclosure or...

A - Paul Norton {BIO 16145125 <GO>}

CHF 0.5 billion. (00:46:41) in the diagram -- on slide really is, we showed it (00:46:42), it's the CHF 0.5 billion capacity.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. Fine. All right. Great. Thank you very much. Thanks, Paul.

A - Paul Norton {BIO 16145125 <GO>}

More question? I guess one more question on the 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'd just like to explore a little more about your business volume targets. Do you have any particular focus on either 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 vis-à-vis buying in something that you might not be familiar with and pushing those margins along? Thank you.

A - Philipp Gmür

You see as we tell again and again, we do not have a hard tough volume target. That CHF 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 to 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 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 capital-efficient, 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 in the modern, non-traditional new product lines.

And our hard targets for helvetia 20.20 remain a 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 portfolios, be it in life or non-life.

Q - Kevin Ryan {BIO 1814771 <GO>}

Brilliant. Very clear. Thank you.

A - Philipp Gmür

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>}

Thank you. Frank Kopfinger, Deutsche Bank. My first question is on the current income on the 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 just really the problem now (00:51:26)?

And then, secondly, on your risk result within the life business, it was down by 5%. You pointed out that there was a poor mortality experience. How disappointed were you given also the fact that you're growing the book and despite you had this weaker risk result?

A - Philipp Gmür

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 regard to the life business.

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

Okay. I mean, there is still some room for Q2 (00:52:11) interest rates that the result is coming down a little bit more. I mean, we have seen for the last year as always about 0.1 point. And, obviously, there's still higher yielding (00:52:24) that are coming back at the lab (00:52:27). And, obviously, the new investment rate about 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 the 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, really just one loss, a couple of losses to be high-value losses and that has stabilized out. So, in fact, actually, when you look at it, it's probably pretty much stable. More questions in the room?

A - Philipp Gmür

René Locher from MainFirst.

Q - René Locher

MainFirst, yes. René Locher, MainFirst. So just with a big picture question. This morning when I saw this CHF 431 million net (00:53:25) when equity markets are going back to normal we should see quite a strong result in 2019, yes? And so, perhaps you can just comment a little bit any one-offs in the technical results or is that just – that was the turn in equity mark (00:53:48) that we should see substantially higher net profit in 2019?

Then just a follow-up here on slide 12. As it is extraordinary result, just a confirmation, so these are mainly reserve releases and reserve strengthening, right? Then perhaps very quickly from (00:54:13), I guess Peter Eliot will ask again, you know what? Nevertheless, on the cash generation if we'll agree with Peter, this non-life, this 52%, some of your peers in Switzerland they have a cash out of the non-life IFRS result which is 80%, 90%. And then on the life, it's a little bit lower than you know. So I'm just wondering, is there something special within the Helvetia (00:54:46)?

If I may the last question, here again a big picture, I guess on slide 6, that you show sensitivities to the asset fee. And here again very interesting to see that the credit spreads and as this cost is now with a few insurance managers and I believe that FINMA look a little bit (00:55:10) from the wrong angle, because at the end of the day, if you don't have defaults in your bond portfolio, it's just accounting gimmicks. So, that means that you are losing value on your corporate bond portfolio but when you get 100% back at maturity, nothing else than accounting.

A - Paul Norton {BIO 16145125 <GO>}

Yeah?

Q - René Locher

Okay. So, I'm wondering a little bit, where is always this big discussion about the SST ratio on credit spreads?

A - Philipp Gmür

Okay. Is that – I mean, you were going back and forth with between assumptions and questions. I would now ask Paul the issue with the equity markets and are there any-offs in the technical result; and then the cash production and the remittance topic; and third, the question with regard to the SST and accounting issues.

A - Paul Norton {BIO 16145125 <GO>}

On the extraordinary result, yeah (00:56:26).

A - Philipp Gmür

Okay.

A - Paul Norton {BIO 16145125 <GO>}

Yeah. Maybe I can take the assumptions also. Yeah, the SST and the credit risks, the spreads, whatever they are, you're looking at a mark-to-market which is a point, a landing point of view. It's not over a period of time. So – and that's the FINMA (00:56:43) approach outside of the other solvency models. They say, fine, if the markets go up and down, then it will go straight through into the SST and, you're right, assuming that the companies behind or the sovereigns behind those debt instruments do not go bankrupt in the event of a problem.

But, on a short-term basis, at that particular point in time, 1st of January and 1st of July, FINMA (00:57:12) want to see what the potential loss would be and I agree with you. It increases the volatility but it doesn't mean that we all going to actually lose that money.

On the extraordinary result, yes it is. It is the reserves, particularly at the interest rate. So, there is always (00:57:28).

So, if we go back to the questions which is when negative results go back to normal? It's the same thing as the spreads. At the end of the year, particularly last December, when you cut the day, the equity markets (00:57:40) rebound and we showed big losses. If you cut the year-end now, we'll be back again and make profits. So, unfortunately, you can't see that out over a period. It's a question of when you want to choose that period. So, yes, it should be back assuming of course (00:57:58) still carry on the same route that they've done in the first couple of months.

And then the 18% and 19%, yes, I think there are some companies that show that. As I said, IFRS is not always the best indicator. One thing I will say is that in two areas in Specialty Lines, Specialty 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 Gmür

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 D. Eliot {BIO 7556214 <GO>}

Thank you for taking my follow-up questions. (00:58:56) cash, but well – just one point of clarification. The NEDC, Paul, you said the position now was at CHF 500 million as of the end of 2018 after the proposed dividend.

A - Paul Norton {BIO 16145125 <GO>}

(00:59:10).

Q - Peter D. Eliot {BIO 7556214 <GO>}

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

A - Paul Norton {BIO 16145125 <GO>}

Yeah. I said – no. I think I said – it was – we would give the final figures for 2018 with the (00:59:26), but It's roughly about that, yes.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yes. Okay. So just to check that I've understood that correctly. So, it hasn't changed across the year. I'm just checking that the definition is the same, they said after proposed dividend in both cases?

A - Paul Norton {BIO 16145125 <GO>}

Yeah. This is just the same – it will – there'll be changes to them as when we finalize them. Put it this way, I can't expect – I can't imagine they'll be below the CHF 500 million.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Yeah. Okay. Great. Thank you. And the other one was just on the other results. I mean, I guess the cost line was basically in line with the guidance that you gave, but if I look at H2 in isolation at minus CHF 38 million (01:00:14) much higher run-rate. Should we always expect that sort of seasonality or is there anything -- just maybe could we have some help into trying to (01:00:24) expect that and how that should develop in future years H1, H2, et cetera?

A - Paul Norton {BIO 16145125 <GO>}

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 – and the cost result was the advertising and marketing campaign. It all depends when that starts. And the other one was some developments in corporate development where we've increased the expenditure to (01:00:57) strategic developments. So, it's difficult to predict when those kind of things will actually (01:01:02).

Q - Peter D. Eliot {BIO 7556214 <GO>}

Okay. Thanks very much. (01:01:07). Thank you.

A - Philipp Gmür

More questions in the room? René Locher?

Q - René Locher

Yes.

A - Philipp Gmür

Okay. There is other question?

Q - René Locher

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

A - Paul Norton {BIO 16145125 <GO>}

Smile is a relatively small percentage. I mean, it's CHF 90 million of the overall premium.

Q - René Locher

CHF 90 million, okay, yes. And then the other question is on MoneyPark, where do I see MoneyPark within the Group's P&L?

A - Paul Norton {BIO 16145125 <GO>}

You don't. It's too small at the moment.

Q - René Locher

Okay. Cheers.

A - Philipp Gmür

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, ever 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's here, present in this room, for the last time. With Ralph Honegger, we have a longstanding 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 many different capital market situations during that time. Helvetia share is nowadays roughly 5 times worse what it used to be when he took over when

And talking about dividends as we were before, I think it's 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. 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 are 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.

Operator

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