Business Update Call

Company Participants

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

Other Participants

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

Presentation

Operator

Ladies and gentlemen, welcome to the Half Year Results 2020 Conference Call and Live Webcast. I am Sandra, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a Q&A session. (Operator Instructions)

At this time, it's my pleasure to hand over to Mr. Philipp Gmur, Group CEO. Please go ahead, sir.

Philipp Gmur

Thank you. Ladies and gentlemen, welcome to our analyst conference call on the results of the first half of the 2020 financial year. Within the next 30 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, Andre Keller, will be pleased to answer your questions as always.

On Slide 3, 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. The first half of 2020 was marked by the COVID-19 pandemic. Once again, we were able to demonstrate the stability of the business model and the solid capitalization of Helvetia in a difficult environment. Despite the pandemic, the business volume in the non-life business showed a significant increase of 9% in original currency. This is a pleasingly strong premium growth, driven mainly by specialty markets and property insurance in Switzerland and Europe.

In that life business, investment-linked products in Europe developed very positively with the currency adjusted increase of almost 27%. Nevertheless, as expected, the total volume in the life segment declined by 14.5% in original currency due to the planned introduction of a new tariff in Swiss group life, as already communicated. This led to a 3.2% in original currency decline in total business volume to roughly CHF5.6 billion.

On the earnings side, as already communicated on August 25, Helvetia has experienced three key effects that are extraordinary in this form. The pandemic left a clear mark on the IFRS result after tax, which amounted to a minus of CHF17 million in the first half of 2020. First, COVID-19 resulted in a major distortion on the capital markets which considerably weakened investment results in both the life and non-life business. On the other hand, the pandemic had an impact on the underwriting result in non-life business. In addition, a special effect, a one-off write down due to the realignment of a project to renew the system landscape in Swiss non-life was booked.

Compared to the previous year, there was also no one-off positive tax effect in Switzerland. The net combined ratio in the non-life business was 95.9%, which is a very good level considering COVID-19. The losses due to the pandemic affected the combined ratio by 4.4 percentage points. Without these burdens, the ratio clearly met the strategic target which shows the good quality of the portfolio. Paul will give you some more details later on.

The life business also proved to be robust. The new business margin of 2.8% was well above the strategic target. In addition to lower discount rates and improved business mix, as well as product and tariff adjustments contributed to this development. Helvetia continues to have a strong capital position. The SST ratio was 235% as of January 1, 2020. According to estimates, the SST ratio at the end of June and thus after the acquisition of Caser and its financing continues to meet the strategic target of 180% to 240%. The implementation of the helvetia 20.20 strategy is proceeding successfully and Helvetia is well on the way to achieving its strategic goals.

At the end of June 2020, Helvetia successfully completed the transaction to acquire the Spanish insurance company, Caser, and its financing. The acquisition only affects the balance sheet and not the income statement of the half-year financial statements. Caser developed positively in the first half of the year in a difficult environment in the insurance business. Above all, we are also on the home stretch on reaching our financial targets 2020. 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. Good morning, ladies and gentlemen. I'd also like to welcome you to our conference call today. Within the next approximately 25 minutes, I'll give you more detailed information on our financial performance in the first half of the 2020 financial year. For this conference, we have simplified the slide deck. The full presentation in the form we normally use and with additional information is on our website available for download.

I'd like to start with Slide 5 where we have summarized the main impacts of the COVID-19 crisis on the first half of 2020. As Philipp has already mentioned, the pandemic left clear traces on the IFRS earnings after taxes. On the one hand, the pandemic had an impact on the underwriting result in the non-life business. The net claims burden from COVID-19 due to regular claims from policyholders and from settlement solutions offered by Helvetia, especially in the Swiss epidemic insurance amounted to CHF89.4 million before taxes and mainly affected the Swiss business. Most of the claims payment Helvetia has incurred due to COVID-19 have been in connection with business interruption cover and travel and assistance insurance, primarily in Switzerland. The claims figure also include the settlement solution for Swiss gastronomy companies with a pandemic exclusion in epidemic insurance announced by Helvetia in May. This settlement solution was very well received, with over 95% of the affected companies agreeing to it to-date. The successful implementation of the settlement solution provides security for customers and Helvetia. In Germany, there was a similar solution, which has also been well received.

On the life side, we have not seen any significant effects of COVID-19 on the margin after costs. On the other hand, the coronavirus let to major distortions on the capital markets, which considerably weakened the investment results in the both life and non-life business. There were two main reasons for this. Firstly, Helvetia classifies a significant part of its equity portfolio as held for trading, and consecutively gains and losses went directly into the income statement, not as in many other companies through OCI in equity. Economically the volatility is the same, and accounting choice just magnified the P&L impact.

On the right side of the slide, you can see how the investment losses are divided between the P&L and OCI. Of the minus CHF365 million losses booked through P&L, some two-thirds are related to equity-related instruments. As part of Helvetia's group risk management, a loss limit concept has been used for many years to limit extraordinary losses within balance sheet year. The implementation of the loss limit concept includes a dynamic adjustment of the hedging instruments while limit losses can protect the balance sheet against further downturns. This adjustment of the hedging instruments meant Helvetia only partially participated in the subsequent recovery in the stock markets. Our prime aim was to protect the balance sheet and solvency, not the profit and loss account.

I would also like to emphasize that we have not significantly realized investment gains, i.e., sell them in order to compensate for booked losses. The vast majority of our unrealized gains on our bond portfolio keeps the higher frequency on competitive current market yields. We did not believe it essential to some high-yielding bonds, which results in having to re-invest in the future loan yields just to make gains to compensate these short term valuation fluctuations, which affected the vast majority of the market.

Current investment income was also impacted by COVID-19 with lower dividends from equities and funds. Various companies weren't part of a dividend payment in response to pressure from regulators and politicians. Additionally, interest income was lower because of the ongoing low interest rate environment. On the volume side, the measures to contain COVID-19 led to a temporary fall in new business during the lockdown period as well as a reduction in outflows. Nonetheless, we managed to achieve very pleasing growth in Europe in specialty markets and non-life business.

The bank distribution channels in Italy and Spain were less affected by the reduction in new business and proved to be stable, particularly in the life business with excellent growth in investment-linked products. However, the impact of the pandemic on the economic development will most probably lead to lower business volumes in certain lines of business in the future, e.g., the transport business.

Let's turn to results for our business areas on Slide 6. Slide 6 gives you an overview of the IFRS results after taxes of individual business units. In terms of business areas, the COVID-19 pandemic affected both the life and non-life businesses. Both businesses experienced significantly weaker investment results due to the collapse of the equity markets and limited participation in the subsequent recovery as the hedging instruments were adjusted consistent with aims -- with the aim of protecting the balance sheet. The non-life underwriting result was impacted by COVID-19 claims and higher costs due to projects and shifts in the business mix. Nevertheless, the combined ratio remains on a good level, which underpins the sound quality of our portfolio.

The non-technical result was burdened by a special effect; one-off write-down due to the realignment of a project to renew the system landscape in the Swiss non-life sector. In the life business, decline in the investment result was partially offset by a slightly higher margin after costs, driven by improved risk result and lower expenses for policyholder participation and for interest rate related reserve strengthening.

The new business also proved to be robust. The new business margin stands at 2.8% and thus remains well above the 2020 strategic target. The interest margin remained solid as well and is slightly decreased by 5 basis points compared to the previous year. The reason for this was a stronger decline of the direct yields compared to average technical rates. Decline in yields was due to the low interest environment and lower dividend income in the course of the pandemic.

The successful implementation of a settlement solution in the non-life business offered to customers with a pandemic exclusion in Swiss epidemic insurance creates security for customers and for Helvetia. In life insurance, Helvetia has also improved its risk position, strengthened future profitability by introducing a new tariff in the Swiss group life business.

Result in other activities also fell compared with the previous year, mainly due to COVID-19 claims in group reinsurance and costs in connection with the acquisition of the Spanish insurance company Caser as well as higher project costs.

With regard to reporting segments, the effects of the pandemic was strongest in Switzerland. Here Helvetia posted a lower result than in the previous year in both the non-life and the life business. This is mainly due to weak investment results in both business segments and the non-life to COVID-19 claims as well as a special effect due to one-off write-down. The losses on the stock markets also significantly reduced investment results in the non-life and life areas of the Europe segment. This was partly offset by a much stronger underwriting result in non-life business. Helvetia benefited from the good portfolio quality with low exposure to COVID-19 claims and the lower claims frequency during the lockdown period. Specialty markets segment also posted lower investment income and a slightly lower technical result due to COVID-19 losses in active reinsurance.

I will continue with our growth in business volume on Slide 7. In the first half of 2020, Helvetia Group achieved a business volume of roughly CHF5.7 billion. This equates to a currency adjusted decrease of 3.2% over the previous year. Despite the COVID-19 crisis, we achieved a pleasing increase in premium volume in the non-life business of 9% in original currency. The growth was mainly driven by Europe and specialty markets where premiums increased by 1.8% and 33%, respectively. The significant increase in the specialty markets segment can be attributed to a strong growth in all three market units, driven by both positive volume and price effects. In particular, I'd like to emphasize that specialty markets business has seen substantial rate increases as markets have hardened.

Viewed by line of business, growth was particularly supported by the property business, engineering, transport and art and active reinsurance. Motor business by contrast is under pressure in most European countries due to the lockdown restrictions. In our Swiss home market, we were able to increase premiums by 1.3%, property business has benefited from the expansion of partner business, the so-called B2B2C business at 4.7% higher premiums. This growth was partially offset by lower volume in liability business.

In the life business, business volume on Group level declined by 14.5% in original currency. The decrease is due to a strategic decision in the Swiss group life business. With the introduction of a new tariff on 1st of January 2020, Helvetia strengthened the future profitability of the group life business. As expected, this led to a significant premium decline of 20.5% in this line of business in the first half of 2020. A strong development of the business volume with capital light investment-linked products individualized in all country markets of the Europe segment, plus 26.8% in original currency had a partially compensating effect. Helvetia model of an agile and service-oriented organization, providing strong support for different sales channels and private customers were key in this development.

I'd now like to move to the net combined ratio on Slide 8. The net combined ratio amounted to 95.9% and thus increased compared to the previous year. Thanks to good quality of the portfolio, the ratio proved to be very robust despite high COVID-19 losses.

The net claims burden from COVID-19 due to regular claims and policyholders from settlement solutions offered by Helvetia, particularly in Swiss epidemic insurance, amounted to CHF89.4 million before taxes and affected the combined ratio by 4.4 percentage points. One point I'd like to make here, there is still uncertainty in the market regarding the treatment of reinsurance recoveries and this may take time to resolve and could lead to different results. We are, nevertheless, very confident that our insurance recoveries estimate at the present is robust. Relatively low impact is proving the resilience of the portfolio.

Additionally, Helvetia benefited from a lower burden to major losses from natural events and lower loss frequency in individual lines of business as a result of the lockdown to combat the pandemic. Cost ratio increased to 30.6%. The reasons were a higher administrative cost ratio, mainly driven by higher project costs as well as a slightly higher acquisition cost ratio due to shifts in the business mix. The one-off write-down of the IT project in Switzerland is not included in the combined ratio.

On a segment level, in Switzerland, the net combined ratio was higher than in the previous year, mainly resulting from a higher loss ratio due to COVID-19 related losses. With 91.2%, Europe recorded a better net combined ratio compared to the first half of 2020. While the claims ratio improved thanks to good portfolio quality, with a low exposure to COVID-19 losses and a lower claims frequency during the lock down period, the cost ratio remained more or less at the previous year's level. All European market units achieved combined ratios below 100%.

In the specialty markets segment, the net combined ratio increased slightly to 98.1%. Claims ratios slightly increased predominantly due to COVID-19 losses. Inactive reinsurance cost ratio was also slightly higher, mainly resulting in shifts in the business mix in active reinsurance.

Slide 9 shows the development of our investment result. With CHF457 million, current income was below the prior year level. The reasons for this are the ongoing low interest environment and lower dividends from equities and funds during the COVID-19 pandemic. Realized and book gains and losses amounted to CHF365 million minus, a substantial decrease compared to the first half of 2019, which resulted from the equity market crash triggered by the COVID-19 pandemic. Helvetia only partially participated in the subsequent recovery in stock markets as our priority was to protect the balance sheet and we adjusted our hedges accordingly.

Remaining book losses were mainly due to FX movements on fixed income instruments which are always booked through the P&L since currencies deteriorated against the Swiss franc. Unrealized gains and losses recorded in equity remained almost unchanged with a slight increase of CHF24 million. As a result of the development of the capital markets, investments with market risk for the policyholder decreased by CHF121 million.

On Slide 10 I'll provide you with some details with regard to the impact of Caser on the half year results. At the end of June 2020, Helvetia successfully completed the transaction to acquire the Spanish insurance company Caser and its financing. The acquisition only affects the balance sheet and not the income statement at the half year financial statements. As you can see in the left part of the slide, the purchase price plus minority interest, corresponds almost exactly to the net assets of the company. The transaction, therefore, results in a virtually no goodwill, only CHF2 million which means that the purchase price was reasonable and reflects the book value of the company.

Financing the transaction was completed at the end of June 2020. Helvetia successfully placed 3.3 million new shares at a price of CHF91 per share in a private placement by way of an accelerated book building process or ABB, generating gross proceeds of CHF300 million. The ABB was very successful with strong demand, leading to an oversubscription at a very low discount of 2.3% at the last closing price.

We also issued a hybrid bond of EUR600 million which is eligible as equity for SST and S&P at a very favorable coupon of 2.75% per annum which was also heavily oversubscribed. We believe this shows the strength and support in both equity and credit markets for the Helvetia story. After financing of Caser, the leverage ratio now stands at 28% in line with our targets. I'd also like to repeat the information that we gave at the time of announcing the Caser acquisition that we believe that the transaction is accretive to EPS in the first year.

If you move to Slide 11, a first look on Caser's half year results on a Spanish GAAP basis show that Caser has developed positively in the first six months of the year in a difficult environment in the insurance business. Risk premiums in the non-life and life business increased year-on-year. The growth rate is above the market. Underwriting also developed favorably in the life and non-life segments. Net income in the first half of the 2020 financial year amounted to EUR62 million.

I'd like to emphasize that due to the fact that Caser only reports on local GAAP and the results also include certain one-off gains, its figures are only comparable to Helvetia's numbers to a very limited extent. They can give a broad indication of the results on the Helvetia IFRS accounting policies, however. However, IFRS acquisition accounting will reduce profits in the following years. It's a bit similar to what we had under the Nationale Suisse. Therefore, these figures should not be taken as guidance for future performance. Caser's half year 2020 results have no impact on the Helvetia Group results because of the date of initial consolidation and the acquisition only affects the balance sheet.

On that note, I'll now hand over to Philipp Gmur again.

Philipp Gmur

Thank you, Paul, for the details of our financial performance in the first six months of 2020. It is by the way the last time you present the Helvetia results, I come back to this later on. In the last part of the presentation, I would like to briefly show you an update on strategy implementation. The implementation of our strategy helvetia 20.20 is proceeding successfully.

Slide 13 gives you the usual complete overview where we stand in terms of implementation. I would like to go into more details on two items.

So let's move to Slide 14. One milestone we achieved in the first six months this year is the acquisition of a majority stake in the Spanish insurer Caser announced in January. Helvetia is thus strengthening its core business, a key objective of our strategy. The takeover was successfully completed at the end of the first half of the year after refinancing with equity and hybrids capital in a challenging environment. It should be particularly emphasized that the new shares created by way of the capital increase could be placed on the market only at a small discount, thanks to the high demand.

Helvetia's anchor shareholder Patria Genossenschaft supported the acquisition and has purchased new shares at the issue price in proportion to its current shareholding of 34.09% in Helvetia. The acquisition represents a strategic milestone in the development of Helvetia. Caser will further expand the European business as the second pillar of the Group and increase the importance of the attractive non-life business. Helvetia is also opening up valuable new sales channels in the area of bank distribution. As Paul has already mentioned, Caser developed positively in the first half of the year in a difficult environment.

Another important thrust of the current strategy period is the development of new business models. Helvetia has taken an important step in this direction with the launch of its own asset management products. Helvetia Asset Management launched its first real estate fund in June. The initial issue met with widespread interest and generated proceeds of CHF450 million. With the launch of the real estate fund, Helvetia is broadening its product range and opening up new sources of income in the form of stable fee income.

Finally, Slide 15 shows that we are well on track to reach our financial targets. We are pleased with the development of the individual financial figures so far. The acquisition of Caser supports Helvetia's growth ambition without compromising its financial targets. It is very important for me to emphasize that together with Caser, Helvetia will reach its volume ambition of CHF10 billion by 2020, but without jeopardizing profitability. To the contrary, the transaction supports our strategy of profitable growth.

Helvetia's operating business has proved to be robust and resilient despite the consequences of COVID-19. In this respect, our geographical and business diversification was a major contributory factor. Of course, one-off special effects burdened our half-year results. However, if there are no more adverse developments in the second half of the year, we are confident to finally achieve the goals set forth in the framework of helvetia 20.20.

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

Questions And Answers

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. My first question was on the non-life walk actually on the Slide 29 from your extended slide pack. I'm just wondering if you can provide us with a little bit of help in understanding the moving parts. I mean, in particular, you show a 6.2 percentage points decline in the current year claims ratio. I mean, I think that comes from three things. Shift in the accounting, which shift things into PYD, probably some good claims from people driving less and things like that in the COVID environment and maybe also an underlying improvement. So I'm just wondering if you can help us understand maybe quantify what those three things are and in particular, if you're able to just put out the PYD, That would be very helpful.

The second area I wanted to focus on was on the investment portfolio. I guess the credit ratings have seen a decline just naturally from the -- from bringing Caser's assets in and obviously Caser's assets were basically rated to BBB and below. I'm just wondering if you can say what your plans are going forward with that. Whether there have been any sort of ratings migration that you've experienced to-date and how you see that portfolio. What your appetite is for re-risk and going forward? And maybe on that side, I mean, you mentioned your net equity exposure at the end of June. I was wondering if you could give us an update and also say what your view on real estate is in the current environment. Thank you very much.

A - Philipp Gmur

Thank you, Peter. I would ask Paul to answer your first question regarding the non-life walk and then Andre to answer the question with regard to the investment portfolio. Paul, go ahead.

A - Paul Norton {BIO 16145125 <GO>}

Okay. Peter, we don't give a great deal of detail out in the half year. I mean, a large part of the current year claims ratio improvement has been due to the fact that people simply are not driving and we've had lower claims in the -- in those areas which have been affected by lockdowns. Sot hat's the major element of that. That's the most important thing I can say. You can see then the COVID losses are pretty clear and NatCat ratio has barely moved and prior year claims development, there have been one or two larger clients, that's also due to the accounting element as well from the specialty markets business, which is growing and that's based on the underwriting year basis, not on an accounting year basis. So that's why. But it was not a shift, except for the growth in the prior year development. But the reduction is mainly due to, A, underlying as you said and that -- above all due to the impact of less activity due to COVID.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much, Paul, and enjoy your retirement. Very well deserved.

A - Philipp Gmur

Andre?

A - Andre Keller {BIO 18667591 <GO>}

Okay. Peter, this is Andre speaking. So the first part is about the credit portfolio. As you saw on the extended slide pack which I would guide you to on, the pages in like 49 and so on, you see that the acquisition of the Caser business brought government bonds especially in Spain and Italy with it, which mostly explains the credit ratings. So there was no general credit migration or negative credit migration in the overall book, so to say.

Then, as regards the outlook of that, as normal course of business and portfolio construction, we will also review this portfolio. And given all the insurance specific constraints like capital efficiency and others, we will also assess how to evolve their portfolio, but there is no like immediate change. It will be part of the strategic asset allocation process which we adhere on an annual basis. So that's for the bond portfolio.

Then the equity is the second. We included a slide in the extended slide pack, which is Slide 45 and there you see the evolution of the equity exposure, on the one hand total equity exposure and then including the hedges on a delta adjusted basis. And as part of executing on the loss limit concept, we are now gradually restoring our equity exposure back to the strategic asset allocation. So that's -- and you see the exact numbers on that slide on a quarterly increment.

Third, real estate. I would say, the real estate market outlook is dominated by the interest rate environment. As this is a cash flow producing asset, it's definitely, I would say, well positioned in comparison to other notional assets because it's a real asset. I would then differentiate whether it's residential and commercial and then refer to our own portfolio which differs from the general markets in two ways. First, it's a predominantly residential portfolio in Switzerland. So it has very little commercial exposure and this is also in COVID times, I would say, a good feature. And the second piece is that we do not actually acquire a lot of real estate in general, because we have actually a quite huge pipeline of own development, which we can do above market rates from our real estate portfolio. That's something to consider and this is also explains a bit the strategy with the real estate fund, which enables us to kind of nurture that ecosystem within the company.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thanks very much.

A - Philipp Gmur

Okay. Are there more questions?

Operator

The next question comes from Simon Fossmeier from Vontobel. Please go ahead.

Q - Simon Fossmeier

Thank you. Hello, everyone. First question is on the acquisition of Caser. I'm still puzzled a little bit on the accretion. From what I see, you paid a little bit more than you initially planned and obviously you have to issue more shares than initially planned, but it's still EPS and ROE accretive. And I just wonder if you could shed a little bit more light if anything else changed. Also on the appendix, I see that you acquired 71% versus 70%. Is this just a rounding error? And finally in the Annual Report on Page 34, you're saying that the Caser would have accounted for roughly 50 million in profits and that includes some special effects. If you could give us some idea of a potential run rate in the future, that would be great.

And then just some minor questions. I saw that you had a change in the actuarial reserve in life, pretty high 2.2 billion. Is this because of the reduction of the BVG business? And finally, on solvency. I know you don't give an exact number, but 180 to 240 is a pretty wide range. If you could maybe narrow that range a little bit for us where it stands at half year. And finally then Paul, just wanted to point out that Bank Vontobel has great retirement products, so maybe we should talk. Best of luck to you.

A - Philipp Gmur

Okay. Thanks for those three questions. First, the acquisition of Caser, then the actuarial reserves and the solvency topic. I think, I hand over to Paul.

A - Paul Norton {BIO 16145125 <GO>}

Okay. I can do them in almost reverse order. Actually the -- you're right, the reduction in the reserves is due to the (inaudible) 2020, the new tariff has led to a large outflow of life reserves there. The solvency is at the lower end of the range. We don't want to give any more details at the moment. As you know, SST is quite volatile, shifts up and down all over the place.

Yes, the acquisition of 70% -- 71% is roughly rounding differences. There were some light adjustments at the very end. And the price we paid was only slightly above what we had originally said. The original calculations, we gave the original estimate, it was -- it is price accretive -- sorry, EPS accretive from year one from the full-year one. See, the changes that have been made since the slight adjustment in an acquisition price and so on make no difference whatsoever really to that estimate.

Q - Simon Fossmeier

And any guidance on the 50 million profit contribution? Is that what we should expect going forward? And that would be relatively high if I just take the 49 multiplied by 2, that would be substantial.

A - Paul Norton {BIO 16145125 <GO>}

Yeah, I'd rather not, because it's all based on a local GAAP basis and there was also net of acquisition cost we had. We had -- obviously, as you all know, investment banks don't come cheap, plus we have the integration cost for the IFRS. And the gap is quite different. There is some one-off effects in there, both positive and negative. So I don't want to give any guidance, but it's to give you a kind of rough indication. We're not talking about going down to 20 million or anything like that. So -- but it's not going to be 100 million either. So it gives you some kind of rough indication, but unfortunately we can't give more and I think it'd be dangerous to do so.

Q - Simon Fossmeier

All right. Thank you.

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thanks a lot for letting me come back. Three further questions, if I may. The first one, on the COVID claims, the net claims of 4.4 points I think translates to 90 million claims. I mean, you mentioned that sort of reinsurance discussions were ongoing. Are you able to tell us what the gross claims are related to those 90 million? That would be the first one. The second one be non-life administration ratio. I mean, you mentioned the project costs there that deflated it. Should we expect that level going forward or is that an elevated sort of temporary one off as it were? And then third one on Caser. I mean, I appreciate it's difficult to give a forecast for earnings or underlying earnings. At the end of the day, it's different accounting frameworks. But I mean, probably what the most important thing is that today is what the sort of cash flows or cash implications might be. I'm just wondering if you can say anything on that and I appreciate the short term there is going to be some volatility, but do you have any feel for what it might be able to contribute on a long-term basis? Thank you very much.

A - Philipp Gmur

Again, Paul, may I ask you?

A - Paul Norton {BIO 16145125 <GO>}

We have not -- we don't want to give out the net and the gross because it also shows what the net is and position vis-a-vis reinsurers and so on. So we're leaving it at the moment deliberately at the net level. I think you understand with -- the situation we are in with discussing reinsurers. We just want to keep it really close to the chest.

The non-life admin cost, I mean we say predominantly, I mean, there were several factors impacting the admin cost. Probably the largest single one was project costs, but it doesn't mean it's -- overall, there are other impacts. I mean, the lower interest rates, the pension costs under IAS19 increased. We also had a change in the commission cost ratio due to more B2B2C business and broker business in Germany and there were -- the projects are also not just IT type cost, but they were also growth projects, particularly in the specialty markets business in France and specialty markets Switzerland, International with new business lines being introduced. So it's a mix of things, of which happens to be -- the one single element was project cost.

At the moment, short-term, yes. Mid-term we have started a project to improve the efficiency of our organization starting in Switzerland and in the Group functions, which will be one of the platforms for the 2025 strategy, which aims to improve efficiency and thus reduce costs overall.

In terms of the cash implications to Caser, I will say it's difficult to estimate, but what I can say is the banks, the previous bank of Caser wanted a dividend out of the company and they got a dividend out of the company and it was a regular dividend. Furthermore, they placed a hybrid in the market, which is -- falls due for repayment next year in the spring and we will renew that probably, very probably and we will probably renew that internally. I think some of it is held by the existing banks and some of it was placed with external investors. And at the moment, our thought is, it's not set in concrete, but that we can renew that internally and that would be another cash stream to us.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you.

Operator

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

Q - Rene Locher {BIO 1921075 <GO>}

Yes, good morning all. And so I would like to just start with this 40 million one-off in the non-life business. I mean, perhaps a little bit insight, what exactly happened and what your plans are going forward in IT non-life. So that's the first one. And then on -- in this context on Slide 20, you show all the investments of your Helvetia venture fund. Just out of curiosity, I'm wondering how do you kind of control your investments? What the returns are? Because I can see there are quite an impressive list. And the second one is on Slide 21 just for my understanding on decent -- the Swiss real estate fund. You have now proceeds of around CHF450 million. And I am just wondering that the real estate is coming from -- is that kind of carving or carve-out of your balance sheet and then you pack into a fund just that I get a better understanding here?

And on Slide 14, I guess you have explained this to me several times, but still struggling a bit to understand. Why do we have these 4.2 billion classified as available for sale -- as trading? So would it be easier just to reclassify it to available for sale? I mean, then it's just accounting gimmick, but then it would lower EBITDA volatility in your results. And last but not least, as a follow-up question on -- Peter asked this for on Page 46. These bond credit ratings, so for example, what is the reason for this increase in lower BBB and not rated. I guess this is something to do with Caser. If you could shed a little bit more light here. Thank you very much.

A - Philipp Gmur

Thank you, Rene. Five questions. Let me answer question one and two and then ask Andre to answer questions number three and five regarding the Swiss real estate fund and the bond credit ratings. And Paul will finally answer question number four regarding the investment portfolio classification.

Okay, question number one, our 40 million one-off writing down due to IT project in Switzerland, what are our plans. What we want to pursue is like a consolidation of our different back end IT systems in Switzerland. We have of course quite a lot of IT projects going on, be it with regard to front-end applications to back-end applications to enterprise content management topics. And why did we now write-off this 40 million? We have a periodic review of our different projects and we came to the conclusion that the risks to fulfill the targets we were setting forth for this project are too high and we came to the conclusion to better stop now than to try to work hard and to maybe to come to a better solution within one or two years' time. And it was for risk reasons that we came to the conclusion to stop this project. However, it's not a stop of the digitalization initiatives we have in Helvetia, but we just want to choose another way to get there.

Question number two, our investments in our venture fund. As you probably know, we have like CHF55 million for this investment portfolio. We are of course regularly tracking the funds and its investments and of course the valuation of different investments. And as we said, when we were launching this fund, we have different goals with this fund. The first goal is to find investment opportunities, which help us to like -- to bridge a modern world with the old traditional insurance world. A second goal might be to make an investment and after a couple of years to divest it again. Finally, we want to earn money also. It's not that that's only money to play with, if you will. And the third goal is to -- by investing in new ventures to get access to new business ideas as well. And so far we are pretty happy with the development of the fund and the development of our investments.

Now, Andre?

A - Andre Keller {BIO 18667591 <GO>}

Yes. On the year real estate fund, so let me give you a couple of details there. So there was, as you said, a carve-out from the life insurance portfolios in the amount of a bit more than CHF530 million. This was then appraised by independent appraiser, both actually seem like a collective investment scheme act and the insurance authority were involved. So they had to independently assess that this appraisal and the portfolio which was carved out is representative of a general insurance, the real estate portfolio that we have in these two as legal entities. So these are kind of mandatory criteria which we -- you need to or we need to fulfill, others as well.

And then it was kind of sold to the investment fund and the investment fund then took CHF450 million from unitholders and took CHF80 million of leverage or mortgage financing. So this explains the CHF450 million which was the unitholders. So CHF530 million broadly held portfolios were carved out from the insurance, life insurance legal entity in Switzerland, appraised by independent appraiser and sold to the real estate fund. So -- representative in terms of residential, commercial use, in terms of geographic footprint, so broadly representative of our portfolio.

Q - Rene Locher {BIO 1921075 <GO>}

That's okay. If I quickly make -- I mean, I've seen that with other companies. My question is, if I would be a life policyholder Helvetia, I'm not sure if I would like the company to sell a real estate to kind of an investment fund. So this is just my general remark. So this is a little bit -- but then I think it's -- this is how it's done in Switzerland.

A - Paul Norton {BIO 16145125 <GO>}

One of the reasons why we carved it out was because we had an overhang in the real estate. As I'm sure you're aware, the maximum amount of real estate, real estate related investments is 35% (inaudible) rules because of the outflow of assets for the (inaudible) 2020 we had to reduce that anyway.

A - Philipp Gmur

And finally, it remains in the Helvetia universe, if you will, because the fund this managed and then we'll payback the fees. Okay. The other question is the credit ratings with bonds.

A - Andre Keller {BIO 18667591 <GO>}

Yeah. So you were referring to Slide 46 in the extended slide deck. I would also add then Slide 49. And as I alluded to before to Peter, this is really related to the Caser acquisition. With acquiring Spanish insurance legal entity, you always have a lot of local bonds. In this case, it's portfolio of Spanish, but also other sovereign bonds like Italy or France, Belgium and other securities in these areas. So the BBB and not rated or below BBB and not rated these are not BBB or below BBB like high yields. These are not rated, so what Caser has in their portfolio was like structured vehicles that includes also sovereign bonds, for example, the predominant part there are Spanish sovereign bonds, Italy, France, which they have packaged in structured securities, but they are not rated. But it's not like high yield that we kind of increased investment risk in the high yield part. It's structured vehicles, which contain actually sovereign bonds, Spanish, Italy and France and others.

Q - Rene Locher {BIO 1921075 <GO>}

Okay, thanks.

A - Philipp Gmur

Now, Paul?

A - Paul Norton {BIO 16145125 <GO>}

Yes. We organize a lot of our investments through the equities and funds within our own funds, so mix funds. And these funds we set up for various operational reasons. It's much easy to handle and at the time also for tax benefits. So these funds are held centrally and then the market units participate in them. And the easiest way to do that from an accounting and an operational basis was to have them as fair value profit and loss. It is extremely difficult to start consolidating internally AFS funds.

We realized a couple of years ago, we looked at a couple of years and said, look, this is advantage, this is disadvantage. One disadvantage was the volatility, but then you see, I mean, IFRS 9 is coming in with IFRS 17. And it would have caused an awful lot of disruption just to set them up in a different way for a short time and then to reset them up again the IFRS 9. So we said, look, we'll look at the whole thing again when IFRS 9 comes in and we can set them up differently if necessary then.

Q - Rene Locher {BIO 1921075 <GO>}

Okay, thank you. So all the best, Paul.

A - Paul Norton {BIO 16145125 <GO>}

Thank you very much, Rene.

A - Philipp Gmur

More questions?

Operator

(Operator Instructions) We have a follow-up question from Rene Locher from MainFirst. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes, just final one, I mean. And what about new financial targets and the Investor Day?

A - Philipp Gmur

Sorry, you were...

Q - Rene Locher {BIO 1921075 <GO>}

Sorry, Philipp. Yeah, I mean, 2020 is now coming to an end. So I was wondering whether we get the new financial target matrix? When we...

A - Philipp Gmur

Yes. We are planning to hold an Investors Day in the first half of the new year.

Q - Rene Locher {BIO 1921075 <GO>}

Okay.

A - Philipp Gmur

Yes.

Q - Rene Locher {BIO 1921075 <GO>}

Fine. Okay, thank you very much.

A - Philipp Gmur

If there are no more questions, let me say a word to our CFO, Paul Norton as long as hopefully everybody is on the phone. He was now presenting the results for the last time since he is stepping down as the CFO of Helvetia by the end of the month. Back in 2007, he was first presenting at an analyst conference our -- at that time half-year numbers and since then he has been acting as CFO for more than 13 years.

Holding a BA in History, Paul is more than an ordinary accountant. He has a broad view on the developments in the world and in our industry specifically. He was modernizing our balance sheet management and strengthening the relationships with the financial analysts and the investors. At any time, Paul proved to be a reliable colleague and CFO. And I would like to thank Paul for all what he has done during the last 13 years for Helvetia, for me, and I hope also for the analysts and investors to explain our results. And I wish you all the best for the future, Paul.

A - Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. I'd also like to -- yes, I started off my first half year with also a crisis. But as you remember, we had hurricane Kyrill and I had to present the results with a combined ratio for the first time and only time over 100%. So I started the crisis, I finished with probably not the best results the one would expect to go out on, but I could probably joke that I am the only CFO actually cleans the decks for his or her successor the way around. So, I've had a great time for 13 years. I very much enjoyed the interaction with you. You've always been very good, very understanding. We've had some good debates, some good interactions and I also wish you all best of luck. And I hope you will be as supportive in that way, obviously critical, but supportive with my successor as well. Thank you.

A - Philipp Gmur

Thank you, Paul. Is there any other questions?

Operator

We have a follow-up question from Peter Eliot from Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Sorry, I didn't mean to prolong the call. I pressed star one before your conclusions. But if I've got the mic then very quickly, I was just going to ask if you had any view on the life's risk result which is obviously very good this period and just whether there is anything special there. I mean, whether it's just normal volatility, whether -- is there anything that should sort of change our view on that going forward? So apologies for adding another one.

A - Paul Norton {BIO 16145125 <GO>}

Yes, you're right, it's had a recovery. We've had over the last few years, if you follow -- you obviously follow us, Peter. We've had a deterioration in the risk results and we've been monitoring it and trying to manage it, in particularly in the BVG business and as a result of that monitoring and managing and the tariff changes and so on, the results have come back again.

I think to be fair, our actuaries in the past few years were also a little probably conservative in their estimates and their reserving for that because they weren't sure how it developed. I hope it's sustainable. Obviously, you don't know in a -- mainly it's invalidity business that's caused a problem and one of the features of recession is that you tend to get more invalidity claims. So obviously it may deteriorate given what's happening with COVID, but it seems to be as it is coming back to where it should be because of actions that we've taken.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much, Paul. And again, enjoy the time off. Many thanks.

A - Paul Norton {BIO 16145125 <GO>}

Thanks.

A - Philipp Gmur

Okay. So if there are no more questions, I would like to thank you very much for your attention, for your interest in Helvetia and I hope to see or hear you again in due time. Have a good time.

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.