Y 2019 Earnings Call

FINAL

Bloomberg Transcript

Company Participants

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

Other Participants

- Dieter Hein, Analyst
- Jonny Urwin, Analyst
- Peter Eliot, Analyst
- Rene Locher, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Full Year 2019 Results 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) The conference must not be recorded for publication or broadcast.

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

Philipp Gmur

Thank you, ladies and gentlemen, welcome to our analyst conference call on the results of the 2019 financial year. Within the next 45 minutes or so, we would like to give you detailed information on our business development and the key financials of the reporting period.

Please turn to Slide 2. Following my introduction, our CFO, Paul Norton, will go through the financial figures. Then I would like to give you an update on the implementation of our strategy Helvetia 2020. After my presentation, Paul Norton and I, as well as our Chief Investment Officer, 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. In 2019, we achieved a business volume at Group level of approximately CHF9.5 billion. On a currency-adjusted basis this represents an increase of 5.6%. The main growth driver was non-life business, which achieved 8.3% higher premiums in original currency year-on-year. The European units as well as specialty markets significantly contributed to this pleasing growth. In non-life [ph] business, the most important growth drivers were property business on the one hand, which also benefited from the expansion of the B2B2C channel in Switzerland and engineering and active reinsurance on the other hand.

In life business, business volume increased by 3% in original currency. This was mainly driven by higher volumes in investment linked products in Switzerland, Germany and Italy and by the Swiss Group's life business. Here, particularly noteworthy is the strong development of new business with capital efficient insurance solutions, such as Swisscanto and BVG Invest.

Helvetia generated an IFRS profit after tax of CHF538 million in 2019, which was significantly higher than the net profit of CHF431 million in 2018. In addition to solid underwriting results in both life and non-life business, strong Investment results due to the favorable development of the stock markets were the drivers of the good results. Finally, Helvetia benefited from a one-off positive tax effect. This was mainly due to the revaluation of deferred tax provisions in the course of the federal tax reform and related cantonal tax reductions in Switzerland. The net combined ratio at Group level was 92.3%, somewhat higher than in the previous year. However, the ratio remains at a very good level within the strategic target of below 93%. Paul will give you more details on the development of claims and the cost ratio in a few minute.

I am also pleased with the development of new business in life. The new business margin rose to 2.9% and it's just above the strategic target of Helvetia 2020. The improvement was driven by the Swiss group life business. The new business margin was positively affected by a model adjustment, which resulted in lower capital requirements on the one hand and a more favorable business mix on the other hand.

Our strong positioning in combination with our profitable growth strategy creates added value for our shareholders. Helvetia again generated a strong operating cash production of CHF279 million. Thus, the Board of Directors will propose to this year's shareholders' meeting to increase the dividend by CHF0.20 to CHF5, which gives an attractive dividend yield of 3.7%. Aside from Switzerland, the European entities (inaudible) specialty markets also contributes to the Group dividend. Above all, ladies and gentlemen, we are on the home stretch on implementing our strategy. I will come back to this later in the second part of my presentation.

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

Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Ladies and gentlemen, I'd also like to welcome you to our conference call today. Within the next approximately 25 minutes, I'll give you more detailed information on our financial performance in the 2019 financial year. I'd like to start with Slide 5.

Net income increased by 2.9%, thanks to strong capital markets and tax effects for the solid technical result. We achieved a solid IFRS result of CHF538 million against CHF431 million in 2018. Based on continuing solid technical results in life and non-life, a significantly stronger performance on investments was the main driver of the increased results. Finally Helvetia benefited from a one-off positive tax effect of CHF93 million. This resulted mainly from the revaluation of deferred tax provisions as a result of federal tax reform and the associated cantonal tax reductions in Switzerland.

In terms of business areas, we increased earnings in the life and non-life business compared to 2018. First, the life and non-life business benefited from gains on investments and the positive tax that I mentioned. In the life business, the margin after costs increased, important drivers of the improvement were positive valuation effects on investment linked products and a better development of the cost result. These effects were largely offset as we strengthened reserves, mainly relating to continuing low interest rate environment and the result of an increase in expenses for policyholder participation.

The non-life technical result on the other hand declined because of an improved claims ratio from the current year business, was unable to fully compensate for higher acquisition and project costs and lower run-off profits from reserves for losses from previous years. However, the good development of the current year claims ratio underpins sound quality of our portfolio.

Results in other activities was lower than in the previous year due to the usual effects from the consolidation of our own internal funds, recession [ph] and weather-related claims in Europe and large losses in the specialty lines, Swiss International to Group reinsurance, as well as higher project costs. We'll have a more detailed look on the profit sources of the non-life, the life business and other activities in a moment.

If you turn to Slide 6, on the earnings improvement in all the main segments. Helvetia improved its results in all segments with the exception of Corporate. In Switzerland, Helvetia recorded significantly higher profits in life and non-life business compared to 2018. Based on ongoing solid technical results, the increase is mainly due to better investment results and the positive tax effect on the national and various cantonal tax reforms.

In non-life, technical results were below the previous year, as a lower current year claims burden could not compensate for higher costs and run-off effects from reserves for losses from previous year. In the life business, a better margin after costs and higher gains on investments were partly offset by significantly higher interest-related reserve strengthening and an increase in expenses for policyholder participation.

In Europe, now that's generated a better result in the non-life business which resulted on the one hand from a growth related to high technical results and on the other hand from capital gains. The life results in Europe remained at the level of the previous year. High capital gains were outweighed by increased expenses for reserve strengthening, notably in Germany, so called ZZR and higher expenses for policyholder participation.

Specialty Markets segment increased its result, thanks to higher investment income and a higher technical income, driven by increased volumes. Result of the Corporate segment declined year-on-year. The reasons were the usual consolidation effects of the Group's own funds and losses from weather-related claims in Europe and large losses in Specialty Lines Switzerland and international were ceded to Group reinsurance. Additionally, Helvetia had higher project costs.

And I'd like to now continue with our growth in business volume on Slide 7. In 2019, Helvetia Group achieved a business volume of roughly CHF9.5 billion, this equates to a currency adjusted increase of 5.6% over the previous year. In the non-life business, we achieved an increase in premium volume of 8.3% in original currency. The growth was mainly driven by Europe and Specialty Markets where premiums increased by 5.8% and 23.7% respectively. Viewed by [ph] line of business growth was particularly supported by the property business, engineering and active reinsurance.

In our Swiss home market, we were able to increase premiums by just under 1%. Property business, which benefited from the expansion of the partner business, B2B2C, showed 3.4% higher premiums. This growth was partly offset by a decline in the motor business.

In the life business, volume on a Group level rose by 3% in original currency. I'd like to emphasize the very good development of investment linked products in individual life in Switzerland, Germany, Italy and of the Group life business in Switzerland. Here particularly noteworthy was the good development of our model capital efficient insurance solutions Swisscanto and BVG Invest.

Now I'd like to look at the profit by sources of the non-life business on Slide 8. In 2019, IFRS earnings in the non-life segment increased by 20% to CHF398 million. Main driver of the investment result, thanks to favorable performance of the capital markets, particularly the equity market. The non-life technical result on the other hand declined because of favorable claims experienced in the current year, unable to fully compensate for higher acquisition and project costs and lower run-off profits from reserves for losses from previous year. I'll provide you with more details on the next slide. Finally, the non-life business benefited from the already mentioned onetime positive effect from the revaluation of deferred tax provisions.

I'd now like to move to the net combined ratio on Slide 9. The Group net combined ratio was 92.3% against 91% a year ago. Still at a very good level, and once again underpins the good quality of our portfolio. The claims ratio increased by 0.6 percentage points to 61.7%. We had a very pleasing decrease in the current year claims ratio which emphasizes the quality of our current business. However, this was not able to compensate for an expected decline in run-off profits as old portfolios run off. I would like to emphasize, particularly the prior-year developments additionally impacted by the strong growth in active reinsurance and also in the French market due to its underwriting year accounting logic, which leads to a gradual shift of claims from current year ratio to prior year development. In the annexe on the Slide 31, the mechanism of the underwriting year accounting logic is explained in detail.

Looking at the cost ratio, the administration cost ratio was almost stable year-on-year as the growth rates -- improvement in Europe was offset by an increase of project costs in Switzerland. The acquisition cost ratio increased. The reasons were shifts in the distribution channel and product mix in Switzerland and Europe.

On a segment level, in Switzerland, the net combined ratio was higher than in the previous year. The claims ratio increased due to a decrease in run-off gains from reserves for claims from prior years. As a result, expected gradual run-off of whiplash loss reserves, the reserves for the portfolios acquired from Alba and Phenix in 2010. At 94.8%, Europe recorded a better net combined ratio compared to 2018, while the claims ratio remained more or less at the previous year's level, cost ratios slightly improved mainly as a consequence of our volumes. All the European market units achieved combined ratios below 100%.

In the Specialty Markets segment, the net combined ratio increased slightly to 96.4%, the cost ratio improved due to growth rate economies of scale. However, specialty markets recorded a higher claims ratio, mainly resulting from a less favorable development of a few major claims from previous years in France and Specialty Lines International/Switzerland and a one-off effect from the commutation of a retrocession agreement in active reinsurance.

On Slide 10, we'll have a closer look at the life business. In 2019, net income for the life business was 52% above the prior year's figure. If we look at the profit by sources, the margin after costs increased significantly, thanks to positive fluctuations in the valuation of options for investment linked products and a better development of the cost result. Savings, though, however, declined, mainly due to declining investment returns, while interest expenses for retirement assets in Swiss group life remained unchanged. The lower risk result also mainly resulting from a weaker disability result in Swiss group life business.

Gains and losses on investments significantly increased due to good equity market performance. Extraordinary result was lower compared to the previous year. A high interest-related reserve strengthening in Switzerland, Europe and the absence of positive one-off effect of previous year in Switzerland, the release of the so-called cost living adjustment fund were partially offset by lower future conversion rate losses due to the new tariff in the Swiss group life business. It's a one-off effect. The better margin after costs on our capital gains and the contribution to earnings from tax reduction in Switzerland led to material increase in expenses for policyholder participation. Finally, as I already mentioned, we benefited from a one-time positive tax effect.

And now I'd like to switch to the new business, which has developed very positively, as you can see from Slide 11.The new business also developed positively in 2019. The margin rose by 1.2 percentage points year-on-year to 2.9 percentage -- percent -- 1.7% in 2018. This improvement was driven by the Swiss group life business. On the one hand, model changes that led to more capital requirements had a positive effect, on the other hand, the new business margin also benefited from a more advantageous business mix in Swiss group life to higher new business growth with more profitable capital efficient insurance solutions.

I'd now like to continue with the development of the interest margin on Slide 12. The direct yield declined in both Switzerland and Europe segment compared to last year. In Switzerland, the interest margin went up when comparing 2019 against the previous year. This is attributable to the following reasons. The direct yield decreased due to the ongoing low interest rate environment, the average technical rate, i.e. the rate that we meet also declined, probably more sharply than the direct yield. The main drivers here were the successful revision of our traditional product portfolio and the focused sales of modern capital-light products replacing maturing insurance contracts with high-guaranteed rates and additional reserve strengthening.

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

On the following slide, I want to provide you with details on the profit for other activities. Looking at the profit by source, the net technical result in Group reinsurance declined resulting from weather related claims in Europe and large losses in Specialty Lines Switzerland International which were to a large extent ceded to in Group reinsurance. The investment FX result was lower year-on-year due to the usual consolidation effect from our own investment funds. Here the positive impact of capital market development shown in the individual market units is balanced out in the other activities business area. The costs/other result decreased. This can be attributed to higher project costs. And financing costs remained at the prior year level.

The next slide, Slide 14, shows the development of our investment result. The current investment income of CHF947 million has been almost has been pained [ph] on the previous year's level, despite the continuing low interest rate environment. Direct yield is at 1.9% compared to 2% in 2018. Thanks to positive performance of the equity markets, Helvetia generated capital gains on investments of CHF456 million. The investment result recognized in profit and loss amounted to CHF1.4 billion, giving Helvetia return of 2.9%. Level of unrealized gains and losses in equity increased by CHF1.4 billion, both on the AFS classified shares and due to lower interest rates on the bonds, resulting in an overall performance of 5.9%. Investments in market risk for the policyholder increased by CHF469 million, driven by the growth of units in the index-linked insurance solutions and rising share prices.

On Slide 15, you can see the investment result broken down by asset class. The first table shows the performance of the total investment portfolio. About 60% of the current income of CHF947 million came from bonds and mortgages, which contributed CHF498 million and CHF82 million respectively in absolute terms. Dividends accounted for over CHF60 million, CHF75 million [ph] and investment property for CHF252 million. Realized and booked gains on investments amounted to CHF456 million, reflecting the strong equity market.

As we mentioned, unrealized gains and losses increased by CHF1.4 billion. The lower half of the slide shows return on new and reinvestment. 2019, the total new or reinvestments amounted to CHF2.7 billion. 77% of the funds are allocated in euro and Swiss franc bonds, remainder in mortgages, equities and real estate. Due to the interest rate-induced rise in hedging costs for the US dollar, the portfolio was partly restructured in order to reduce the weight of the American currency. The new investments achieved an average return of 1.5%, overall return.

On Slide 16, we will go and look at the dividend. Regarding the dividend, our strategy is to increase dividend year-on-year. The Board of Directors will therefore propose to the Shareholders' Meeting to raise the dividend to CHF5 per share. This corresponds to a dividend payout ratio of 58% based on the IFRS result, adjusted for the one-off tax effect, and this is above our target range of 40% to 50%. The dividend yield is what we believe an attractive (Technical Difficulty). On the next slide, you see the dividend is fully covered by our strong cash production, which means (inaudible) out of the operating businesses.

I'll now turn to slide 17. Helvetia captures [ph] virtually all operating cash production that it generates right through to its shareholders. We have the advantage that many of our foreign operations or branches cover insurance companies (inaudible) which makes capital very fungible. All operating companies or subsidiary of Helvetia insurance company, it receives cash submitted by them (inaudible) dividends for our external shareholders that we are holding paid [ph] dividends out. You can see that on IFRS basis, individual market units remit substantial proportion of their IFRS (inaudible). Compared to the previous year, Specialty Markets operating cash growth was lower, the reason for this is Group reinsurance, which is included here in the remissions figures as Specialty Markets. Group reinsurance provided a lower dividend contribution, because it's impacted by claims from the nat cat events in Europe and the large losses from specialty lines. And I'd like to emphasize Group reinsurance mandates to provide Group-wide internal interest [ph] coverage and these are subject to profit volatility.

And on that I will now hand back over to Philipp Gmur.

Philipp Gmur

Thank you, Paul, for all the details of our financial performance in 2019 financial year. In the last part of the presentation, I would now like to briefly show you an update on strategy implementation. Please turn to slide 21. The implementation of our strategy Helvetia 2020 is proceeding as planned. If you have followed us through the last periods you might know that our strategy is built on three pillars. We aim, first, to strengthen our core business. Second, to explore new business models, and third, to promote targeted innovation. The relevant projects and measures are on track. In addition, we are well on our way to exceeding the financial target set for the end of 2020, thereby laying a solid foundation for further successful development.

With Helvetia 2020, we are creating added value for our key stakeholder groups; customers, employees and shareholders. A milestone to strengthen the core business was reached at the beginning of 2020 with the acquisition of the Spanish insurer Caser. I will go into details on the next slide.

The acquisition of Caser is an important but not the only step Helvetia has taken. In order to meet the changing needs of customers even better, Helvetia has launched new products such as cyber coverage on its own fund insurance policies, opened up new business lines, such as aviation and revised existing offers. For example, the property insurance in Switzerland.

The new products are very well received by customers. Helvetia has also introduced the new tariff in the Swiss group life business. I will provide you with more details in a minute.

With regard to distribution channels, Helvetia significantly expanded its bank distribution in Italy and Spain, as well as its brokerage business in Spain. Via the B2B2C channel, Helvetia also enables its customers to purchase insurance coverage directly at the point of sale, thus taking into account the need of insure specific items individually.

Another focus in strengthening the core business was increasing the level of automation, especially in claims processing. In Spain for example, Helvetia customers can report household insurance claims directly in the new customer portal or via smartphone. In Switzerland, Austria and Italy, in particular, claims processing for motor vehicle claims has been simplified and automated. This with the aim of offering the customer more comfort.

We have always known that strengthening the core will not be sufficient to meet the challenges that the future brings. Thus, Helvetia is opening up new business models, among other things, by setting up ecosystems in Switzerland, in particular with the ecosystem home, with MoneyPark as a strong anchor.

The new app from Smile, the leading Swiss online insurer, gave Helvetia access to the mobile world. In 2019, Smile received the Swiss Insurance Industries Innovation Award for its customer experience revolution project by introducing numerous innovations such as the flexible monthly subscription with a monthly cancellation period, a monthly payment option by credit card, the change over to a so-called You Culture and its own app. The jury was impressed by the holistic approach which consistently puts the customer at the center.

Helvetia is also taking another important step with the launch of offers in the asset management segment. Helvetia asset management incorporate company was founded for this purpose. In future, this company will make Helvetia's investment expertise in the real estate sector available to third parties. The first property fund will be launched in April 2020. Helvetia is thus broadening its product range and diversifying its sources of income in the form of EBIT.

Finally, Helvetia is making targeted use of innovations in customer interaction. We are increasingly using chatbots to handle customer concerns. For example, 20% of all bicycle thefts in German-speaking Switzerland are processed via our chatbots, but also in other areas such as the extension of contracts. For us, chatbots are becoming more popular.

Furthermore, Helvetia has important access to innovation with its own venture fund, which is in contact with -- between 600 to 700 startups every year. In 2019, the venture fund invested among others in two companies with a strong focus on the B2B2C business.

Let's move on to slide 21, as I have already mentioned, we have also made a major step to strengthen our core business by the acquisition of Caser. Helvetia's European businesses have developed very well in recent years. We have been increasing profitability and the net combined ratio in the non-life business improved significantly, reflecting our efforts to increase portfolio quality. The acquisition of Pallas Austria helped us to substantially improve our market position in the non-life business in Austria.

In the life business, we continuously improved our business mix by increasing the share of modern products and new businesses to over 80% for products with (technical difficulty) Spain would be very interesting. And now we have been seizing the opportunity offered to us.

The acquisition of Caser in Spain considerably reinforced the European business as a second pillar of the group. We will be gaining substantial market share in Spain and, together with Caser, we will improve our positioning to a meaningful number seven in non-life. Moreover, we will also improve the business mix for the group throughout higher share of non-life and a more balanced geographical mix.

Helvetia is also significantly improving its distribution channel mix by increasing its presence in the area of bank distribution. Caser operates very successfully in Spain. For our shareholders, the good news is that Caser will also immediately make a significant profit contribution and the acquisition is EPS accretive. Furthermore, Helvetia will be preserving its strong capital position.

The Annual General Meeting will decide on the creation of new shares by way of an authorized capital of 10% of the outstanding share capital. Around half of this authorized capital is to be used to partially refinance the acquisition of Caser. It is planned that one-third of the financing will be equity and two-third is debt. The newly created authorized share capital is intended to give the Board of Directors the greatest possible flexibility to implement this equity financing in the best interests of the company, taking into account the relevant market conditions.

Patria Genossenschaft, as anchor shareholder, supports the acquisition and the proposed creation of authorized capital.

Let's move to Slide 22. Another measure to strengthen the core business was the introduction of a new tariffs in Swiss Group Life business as -- from January 1, 2020. In addition to selective premium, a key element of the new tariffs is the gradual reduction of the conversion rate for the mandatory pensions up to 2023, 6%, while the conversion rate for non-mandatory pensions will be cut on a step-by-step basis to 4.4%.

Helvetia is introducing the so-called crediting principle for the pension conversion rate and is thus following a path that many pension funds have already successfully embarked upon. Helvetia is now the first insurance company that has decided to take this step in order to enable it to still offer its customers the full range of products.

At the same time, the new tariffs will improve the profitability on the life business -- of the life business as it has a positive impact on future conversion rate losses. We also expect a balance sheet shortening and the positive effect on the Swiss Solvency Test ratio in the single-digit percentage points range. Due to the premium adjustments, customers, however, had an extraordinary right of contract termination, which is why there will be a premium decline in full insurance solutions in 2020.

With the modern capital-efficient products of Swisscanto and BVG Invest, Helvetia offers attractive alternatives for customers and the large number of customers has already made use of these alternative. We have thus succeeded in mitigating the decline in premiums and significantly strengthening the modern capital efficient insurance solutions of Swisscanto and BVG Invest.

Finally, slide 23 shows that we are well on track to reach our financial target. We are pleased with the development of the individual financial figures so far. The acquisition of Caser support Helvetia's growth ambition without compromising its financial target. 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. Overall, we are happy with what we have achieved so far and we are confident that we are well prepared to remain fit for the future.

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

Questions And Answers

Operator

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

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions, please. The first one comes from the reinsurance effects that you explained on slide 31 about claims cost basically get transferred from current year to prior year development. And I just wondering if you could quantify the size of that impact, i.e. what might the current year and PYD have been without that, just so we can get a feel for the sort of the year-on-year development? Yeah, it would be great.

And second question was on the SST. I see that fell by 7 percentage points across H1. I was just wondering if you could explain what drove that? And also what the timing would be of the benefit from this new product, the new tariff that you were describing?

And then the third question was, I guess, just coming back to Caser. I'm just wondering if you've got any more sort of information in terms of the likely contribution to earnings, cash flows, solvency, et cetera. Yeah. That would be great. Thank you very much.

A - Philipp Gmur

Thank you, Peter.

A - Paul Norton {BIO 16145125 <GO>}

Okay.

A - Philipp Gmur

I'd like to hand over to Paul in order to answer those three questions.

A - Paul Norton {BIO 16145125 <GO>}

The impact of the group reinsurance is quite significant, but and also France to some extent. So France is growing and France as a transport business that is typical in the transport business that use the underwriting aerologic. If you exclude France and group reinsurance, we're talking about a run-off result that would be this year round about 4.5%. You obviously have to compare that with the prior year, which would be also have been higher, because -- they were netted then. So, it was still a healthy one-off result without the group reinsurance.

There is definitely a reduction in the run-off results, no doubt about that, in absolute terms. And, as we said -- and we mentioned that in the past, the old whiplash claims, we reserve them pretty strongly and a lot of companies released them in one large lumpsum when the first court cases in favor of the insurance came out. We said, no, we're going to run those off slightly and that's what's happening.

And the same with the Alba and Phoenix book we bought in 2010. So you're seeing a run-off for those, a run-off results will decline. But -- so the run-off result would have been round about 4.5% and -- which is about just over 7% last year without the group -- without the reinsurance in that.

Q - Peter Eliot {BIO 7556214 <GO>}

Can I very quickly, Paul, just ask, do you have any sort of feel for what we should expect in the future? I mean I know you don't give official guidance, but just the front change.

A - Paul Norton {BIO 16145125 <GO>}

Run-off results, if you take out the reinsurance upfront, the run-off results will tend to decline, I said, because of -- and we mentioned before, because of the run-off of the old book and the pricing is much sharper in the Swiss market because most reserves are there. But we still expect a reasonably healthy run-off profit. We tend to reserve more carefully, but the extremely good run-off from the past is probably less likely in the future.

A - Philipp Gmur

Then you had the question on SST. SST is provisional at the moment, very provisional. One of the biggest driver seems to be -- in the early results, seems to be the impact of currencies weakening. And, also, you got to kind of paradox effect that although the nominal equity base has increased because of unrealized gains from particularly equities that increases your risk exposure as we have seen in the last couple of weeks. And, therefore, the risk charges increase. But to be honest with you, there's nothing that worries me or concerns, because all the, should we say, complex interactions in there but I don't see anything fundamental in the SST. In terms of Caser, no, we haven't got anything new. We've just started our kick off with them and I cannot really give you any figures on that.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. That's great. So I'd just follow up quickly on the sort of second half, my SST question, the new tariffs, you said a single-digit percentage point increase. I'm just wondering on the timing of that coming through?

A - Philipp Gmur

That should start to come through by the middle of this year.

Q - Peter Eliot {BIO 7556214 <GO>}

Right. Thank you very much.

Operator

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

Q - Jonny Urwin {BIO 17445508 <GO>}

Well, thanks. So just two for me, please, actually three, why not. And so, firstly on going back to that current year loss ratio. I mean with that reinsurance impact, it looks like the current year got a little bit better year-on-year on a pure kind of underlying view? Is that right.

A - Paul Norton {BIO 16145125 <GO>}

That's right.

Q - Jonny Urwin {BIO 17445508 <GO>}

That's right. Okay. That's quick.

And then secondly, just thinking about (inaudible), so I think for a while companies have been talking about pricing, getting a bit tough, claims inflation rising a little bit, I think last year the message from everyone was, kind of, that the scope to cut costs to offset that. But I guess is that still the case or should we expect the Swiss major combined ratios to creep up a little bit, especially as whiplash releases slow?

And then, finally, just on the acquisition cost in non-life. So that was a bit high. It sounds like kind of mix and channel shift that sounds sustainable. Is that right? Thank you.

A - Philipp Gmur

Let me -- okay. Your first question -- if there are actually three questions have been answered by Paul. I would like to say some words on the costs and then ask Paul maybe to add some thoughts. I mean the margins, of course, there are under pressure. There are new players coming in and that's not given by whoever that the margins remain stable. They used to be during the last decade. However, we are still prudent in our pricing and underwriting policy. Pricing is one thing, underwriting risks is the other one. And at the same time, of course, costs are an issue, used to be and will be an issue in the future.

Talking about the acquisition costs, especially the B2B2C business and the bancassurance business has specifically higher costs, but usually lower claims ratio. So as you probably saw in Italy, for instance, we might have higher cost with the bank distribution network, but lower claims ratio. So the combined ratio is even better than with the agents network.

A - Paul Norton {BIO 16145125 <GO>}

Okay. I think that covers a fair point. As Philipp said, we see and we're expecting further competition in the motor business and that will have an impact on the -- particularly the non-liability side of it where we see the combined ratios definitely creeping up. And in terms of the cost base, now truly motor has a lower commission basis than the other, so sort of the opposite to what Philipp is saying as businesses we have and particularly in the new business we're developing where the combined ratio mix is different. We have relatively high commission ratios, but very good claims ratios and here mostly of the volatility being paid less than the commission ratio.

There's always a scope to cut costs and that will be part of the strategy period 2025. We will start looking at our processes in much greater detail.

One of the issues we have here is that we have started already with that in non-life. We are undergoing, and we mentioned that last year, a major renewal of our non-life IP systems. We just went live actually last week with one module and that's clearly an expensive exercise, but it's necessary to improve the non-life processes for the future, like digital and Internet capable. And those costs, we booked directly through the cost ratio. I'm not sure that every one of our peers actually book that since IT development costs through their cost ratios.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you very much. And then just on the underlying points, it got a bit better, can you tell us how much on your view? Thank you.

A - Paul Norton {BIO 16145125 <GO>}

On the underlying, at the moment, I'd probably rather not say how much we're talking about, not substantial, but a slight improvement on the underlying.

Q - Jonny Urwin {BIO 17445508 <GO>}

Brilliant. Thank you.

Operator

(Operator Instructions) The next question comes from Rene Locher from MainFirst. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Good morning, all. Thank you very much. So, perhaps, could you comment from your side on your new real estate fund. So is this -- are you going to be an active buyer in the Swiss real estate market? This is the first question.

And then just as an add-on, when I look on Page 15 or Slide 15, I can see that the direct yield in investment property on the new and reinvestment of maturing funds decreased from 4.8% to 3.7%. So I was just wondering what is the key driver here?

And then another question on the operating cash production on Slide 17. Yes. What's the reason why specialty markets via cash generation decreased from CHF32 million to CHF17 million? And then, yes, I mean I don't want to challenge you too much, but just to make sure, I guess, Philipp mentioned before that Caser will be EPS accretive from year one, right? Thank you.

A - Philipp Gmur

Okay, Rene. I suggest that your three questions are answered as follows. Paul will answer question number three, regarding the cash production, and Andre then will turn to the answers of real estate and direct yield on the two slides you just mentioned. Paul, would you please go ahead?

A - Paul Norton {BIO 16145125 <GO>}

Okay. I think that we mentioned in my speech that within the specialty markets, for this purpose of cash remittance, we've included group reinsurance. And we know we make a profit out a group reinsurance and that has -- obviously it's not there, so they didn't pay dividend. To be open, I mean, group insurance is not a legal entity, it's internal subdivision, if you like, so it's just a left pocket, right pocket. At the end of the day, we have sufficient dividends within, what we call, the Steinhauserberg [ph] Insurance Company in Switzerland whether we take it out of the group reinsurance when we take it out of the Swiss market unit is almost a midpoint. That's why you see it in the underlying specialty markets themselves are producing almost as much dividend as they did last year and have met their dividend targets. We said dividend targets for each of these units and they met them.

A - Philipp Gmur

Okay. Andre?

A - Andre Keller {BIO 18667591 <GO>}

Yes, Rene. This is Andre Keller speaking. So on the first question about being an active buyer and the answer is, no. As we know, we are a large investor on our balance sheet with more than CHF7 billion of real estate, Swiss real estate on our balance sheet and now with launching this Swiss Property Fund, we are capitalizing on our capabilities in that area and also by doing so we actually will transfer and sell-out of our life insurance book into this new fund and this transaction will be at market conditions. And so, we are not an active buyer. It's -- obviously we are an active investor and by managing our investment portfolio in real estate, we are also there active, but we are not kind of sourcing that funds by buying real estate on the market. So this is to the first one.

The second question on the yield, on Page 15, this is always an instant snapshot of a collection of real estate, which we either acquire or develop ourselves. So, the 3.7% that you see there is broadly reflective of our investment portfolio, which you see. On the top line, you see the current income of our investment property, overall portfolio is around 3.4%. So the 3.7% is largely in line. I cannot exactly tell you the kind of attribution to what has been the differences between the 4.9% and 3.7%, but the 3.7% is largely in line and representative for our portfolio.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Thanks.

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 for the option to come back. Just a couple of numbers questions, please. The first one was, I guess, we've had a few more cantonal decisions in the second half of the year and obviously the tax one-off went up. Just wanted to check whether that, I assume the answer is no, but whether there is any change to your guidance on the tax rate going forward?

And then second question was, I guess just returning to Slide 13 on your life profit by sources, we had a, I guess, a few deviations just from the sort of the normal level. I was just wondering if you could just very quickly remind us of what you expect or what your sort of guidance is for the various sources on an ongoing basis? Thank you very much.

A - Philipp Gmur

I ask Paul, please, to answer those questions.

A - Paul Norton {BIO 16145125 <GO>}

At the moment, I don't think there is any adjustment to ask tax guidance. We sort of expect just between 18% and 19% as opposed to previously 20% ongoing tax rate. There may be some adjustments coming through, but I wouldn't say substantial. Most of the major cantons have already decided. In terms of the underlying activities in the life business, yes, we've had a couple of lifts on the risk result. I mean, the savings result is likely to decline slightly. We have stabilized it, but it should -- because of the low interest rates. One thing which we will -- we're looking at it, definitely the risk result, because most of those blips came out of the two areas. One is the invalidity in the Swiss BVG business and we discussed at length with our actuaries, but they think it's definitely a blip and should come back. Obviously, we don't know we're with corona and so on, but that should be okay. I've have been very conservative and they're reserving for the cases.

The other is just in Spain that we noticed really a blip in the number of mortality cases. Again, which is not ordinary, not expected to continue. Certainly, what you should see clearly is with the reduction and shortening of our balance sheet as a result of the changes in the tariffs for the business. The BVG business in Switzerland, we should hope to see an improvement, particularly an extraordinary result, which is the reserving, because we are going to be reserving, hopefully, much less for the losses that come out of the retirements out of those the BVG. And so that should be, obviously, a positive benefit longer term.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. All right. Thank you.

Operator

The next question is also a follow-up question from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thanks. Just one more, please. Just thinking about some of the growth coming through, for instance, specialty lines, so property engineering and also the active reinsurance. I mean how do you think about the potential extra volatility that could bring to book? And how are you controlling for that? Thank you.

A - Philipp Gmur

Of course, the specialty line business has a little bit more volatility in its books than, for instance, Swiss household insurance. However, we are still prudent in underwriting. We are very prudent in reserving. And, also, as Paul mentioned before, prudent with our group-wide own reinsurance strategy and a concession within our group in order to mitigate the risks and the volatility. So we are -- we do not have any concerns that there is a volatility would be higher than we expect, of course.

A - Paul Norton {BIO 16145125 <GO>}

If you remember, Peter (sic - Jonny), when the -- at this question when the hurricanes HIM hit in 2017, you've been growing rapidly in this business. So when you going to be a big problem for you. When you remember our combined ratio and I think group insurance around about 103 or something like that. And when you compare that with the sort of the Swiss Res and Munichs and the lease people, I think you can see that our growth has been handled pretty conservatively.

A - Philipp Gmur

Even if you have a look at the last decade or so, if you have a look at our combined ratios in the Specialty Lines business and compare it to Caser [ph] business, for instance, of other companies, it's a pretty solid book.

Q - Jonny Urwin {BIO 17445508 <GO>}

Brilliant. Thanks, guys.

Operator

The next question comes from Dieter Hein from AlphaValue. Sorry. Please go ahead.

Q - Dieter Hein {BIO 1557192 <GO>}

So. Hi. It's Dieter. Hi. I have a question of what your Chief Investment Officer said regarding your strategy of that third-party can participate on your investment expertise in the real estate sector in Switzerland. So did I understand you right that you don't want to buy real estate for this third-party fund over the market, but you want to buy it on market prices from your life real estate portfolio. So I do not really -- if that it's right, understand the business logic behind such steps, so are you know the weakness in your life real estate portfolio. So why not buying over of the market.

A - Philipp Gmur

I would like to hand over to Andre Keller.

A - Andre Keller {BIO 18667591 <GO>}

Yes. Thank you for this question. So, I think it's important to understand that you've seen our growth figures that we are actually in a strategy to not substantially grow or not grow our life, traditional life business at all. Our strategy is actually to grow also capital-light products. And, as you can imagine, as our traditional life portfolio as the balance sheet declines or is stable over time. And while we on the other hand have the substantial pipeline of owned real estate, because we have like a multi-decade portfolio. And this is actually putting us at the benefit to actually capitalize on these real estates by generating a fee over time by managing these real estate in the real estate funds and as we have to kind of transition the portfolio and obviously at these transactions need to be at market prices. So they will be valued by independent parties appraisal values and this will kind of benefit us by catering to the situation that our balance sheet on the life side is actually declining or are not growing. And, on the other hand, we can generate the fee by managing these real estates going forward.

And, as you can imagine, as we continue to manage a substantial book of real estate, the kind of marginal cost to manage these assets for third-party is really very low, so they generate very quickly a contribution to earnings, because we, anyway, do these activities for ourselves. So it's not a standalone kind of organization that need to set up everything from scratch. So I think that's important to understand what's the overall strategic rationale, how to capitalize on fee generation, which is also consistent with our strategy and the marginal cost that we incurred, which is very low, because we do it anyway.

Q - Dieter Hein {BIO 1557192 <GO>}

Okay. Thank you very much. I have understood that. So but this mean in the future, if there are bigger demand forces third-party fund, you would as well by over the market.

A - Andre Keller {BIO 18667591 <GO>}

Yes we --

Q - Dieter Hein {BIO 1557192 <GO>}

Is it right?

A - Andre Keller {BIO 18667591 <GO>}

Exactly. So we will do that and we assess obviously investment opportunities as we do for our own portfolio. We will have the same expertise and do that also for third parties. So it's the sweet spot of kind of catering additional customers and just our balance sheets as well.

Q - Dieter Hein {BIO 1557192 <GO>}

Yes. Thank you.

Operator

Ladies and gentlemen, that was the last question. I would like now to turn the conference back to Philipp Gmur for any closing remarks.

A - Philipp Gmur

Thank you. I would like to thank you all for the participation in this conference for your interest in Helvetia. And if you have any questions, please do not hesitate to contact us, be it our Media Relations people or our Investor Relations personnel represented by the Head of IR, Susanne Tengler. Thank you, and goodbye.

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.