Q2 2015 Earnings Call

Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmür, Chief Executive Officer, Helvetia Switzerland
- Ralph-Thomas Honegger, Chief Investment Officer
- Stefan Loacker, Chief Executive Officer

Other Participants

- Daniel Bischof, Analyst
- Jonny Urwin, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning. Welcome to the Half Year Results 2015 Conference Call and Live Webcast. I am Maria, the Chorus Call operator. I would like to remind you that all participants will be listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. The conference must not be recorded for publication or broadcast.

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

Stefan Loacker {BIO 15157193 <GO>}

Thank you, Maria. Ladies and gentlemen, we are delighted to present now for the first time the half year results of the new Helvetia and we want to welcome you to this event. As you can imagine, we can look back on a very busy but also successful first six months, which were dominated by the integration of Nationale Suisse and Basler Austria. We would now like to provide you with detailed information on the progress we have made and the key aspects of our half year financial statements during this presentation.

As you already know from the past, this presentation will entail after my introduction our CFO, Paul Norton, explaining our key financial figures. Then our Chief Investment Officer, Ralph-Thomas Honegger, who will tell you about the investment results, and our CEO of Switzerland, Philipp Gmür, who will report on the business performance in our home market. At the end of the presentation, I will provide a brief update on our strategic position before we take the questions as usual.

Let me now open the material report by looking on slide three, which is indicating the performance of the underlying earnings which increased by 12% to CHF 221 million. The improvement has mainly come from the non-life business, where profit rose by 46% to CHF 158 million year-on-year. This strong increase was supported by the acquisitions and is also based on a very good technical result, which is reflected in the excellent combined ratio of 92.4%, which is the best figure within the last five years. The result in life insurance also increased by 18% to CHF 85 million.

Only the result in the business area Other activities was at minus CHF 22 million below the previous years' figures. Premiums were also influenced by both acquisitions. Total business volume in original currency rose by around 15%. The strongest impetus here also came from the non-life business, which increased by 50% to just under CHF 2.4 billion.

On slide four, you see that transaction is literally completed, while the integration is fully on track. The legal and financial acquisition of Nationale Suisse has been fully completed in the meantime. As you know, Helvetia controlled 100% of all shares already in April and then merged the legal entities of Nationale Suisse in Switzerland into the existing Helvetia companies. The merger in Austria also took place already.

Spain, Italy and Germany are in preparation and will be completed step by step by the end of 2016. Thanks to this rapid progress within the legal transaction, the way was paved for completing all operational aspects of the integration. On the next few slides, I will provide you with further details along the market areas Switzerland, Europe and Specialty Markets.

Let us start with Switzerland on slide five, which already achieved all key integration milestones. The joint market launch of the integrated product range took place on May 1 as scheduled along with the rebranding of Nationale Suisse to Helvetia. Those of you in Switzerland may have had the opportunity to see yourselves that we have replaced illuminated signs, logos, posters and all the other elements throughout Switzerland.

In terms of personnel and organizational aspects, we have also made good progress. The new organizational model for back office and sales force has been operational since the beginning of May. The overall organization is stable and efficient. The majority of the around 3,700 FTEs are actively integrating into the new Helvetia and are dealing positively with the new situation.

As expected, natural fluctuation helped us to achieve the necessary staff synergies as gently as possible. This means that a net figure of 186 FTEs have left us since June 2014. As the labor market in the Swiss insurance sector is very receptive, this figure will presumably increase further as we go along. Additionally, around 35 early retirements are expected. The 75 employees who will be made redundant as a result of staff reductions will be given active support in finding a new job via the agreed social plan. A salary guarantee also applies until the end of 2015.

In Switzerland, we are now starting a stabilization phase in the new organization, with a focus on fine-tuning the processes and systems. We are now making a staged transition of the remaining insurance policies in claims, claims files from the former Nationale Suisse to the IT systems of the new Helvetia.

In Europe, we are also on track, although some steps are taking slightly more time than in Switzerland due to a different local regulation for staff reductions and legal mergers. Joint management teams have also been established and are operational since the beginning of this year in all country markets of our group.

The integration of the product range is also being implemented in Austria to some extent already since the beginning of this year. In the other country markets, the preparations are ongoing or the implementation is just now gradually taking place. The rebranding into Helvetia will also be largely completed by the end of the year.

As you know, Nationale Suisse position in Belgium was under review since roughly one year. The withdrawal from the Belgian market will be completed these days. All necessary official permits are available by now. In future, we will only continue to write art insurance there via our Liechtenstein subsidiary.

I turn now to slide six to the segment Specialty Markets, which has been also realigned and freshly newly established in the beginning of May this year. Through Specialty Markets, Helvetia is pursuing a strategy that focuses clearly on profitability, which is to a certain degree a bit in contrast to the previous focus on growth at Nationale Suisse. Against this background, we have already started analyzing and partly realigning the portfolio of international and major risks in engineering as part of our right-sizing.

The French unit will continue to pursue its strategy as a successful niche player in the marine business. We will also continue to drive the successful approach of global risk diversification in our active reinsurance business. The segment Specialty Markets is currently also focusing on stabilizing systems and processes. At the level of group functions, the consolidation of the operating systems and the corresponding data are also progressing as scheduled. Employees who have come across Helvetia have been active in their new roles also since the beginning of May this year.

All in all, as you can see, we have really achieved a lot regarding the integration of Nationale Suisse and Basler Austria in the first six months of 2015. This shows that the new companies are also a good cultural fit with Helvetia; otherwise, it would not have been possible to make such rapid progress. I'm convinced that we will also jointly and successfully cope with the planned integration work still ahead of us.

On slide seven, you'll find an overview on the current status on the synergies achieved. At the top left of the slide, you can see the year-on-year change in FTEs at group level. As of June 30, Helvetia's staff base was 292 FTEs below the same date in the previous year. Of these 292 FTEs, 232 left as a result of the two acquisitions and can be classified as synergies while the remaining 60 are in conjunction with the sales in Belgium.

The staff reductions equate to pro rata cost savings on personnel costs of CHF 9 million at the first six months of this reporting period. We have also achieved savings in the nonpersonnel costs of CHF 6 million in the first half of this year, while synergies especially resulted from reducing redundancies in IT, logistics, marketing and Corporate departments. Overall, the volume of synergies amounted to around CHF 15 million pro rata and, therefore, we are also already ahead or at least well on our way to achieving our annual goal in this respect.

Let me conclude with slide eight and looking back one year ago when we just published our half year results last year, 2014, obviously, we were at the very start of this process to acquire Nationale Suisse. In the meantime, we have taken the opportunity to create an even stronger Swiss insurance group out of the merger of two successful companies. The new Helvetia is already ideally positioned. We are among the market leaders in Switzerland. We have a presence in four key European insurance markets and we have a strong niche position in attractive specialty markets that have been developed over many years.

As you know, the new Helvetia also has a major value to leverage its financial success and we will now realize the potential of this step by step. Thanks to the growing profit share of the non-life business as well as the expected cost synergies, there is a significant potential to raise the dividend further in the next coming years. We have created the best possible conditions for this through the successful integration which took place in the last six months.

I would now like to hand over to our CFO, Paul Norton, to provide you the key information on our financial figures.

Paul Norton {BIO 16145125 <GO>}

Ladies and gentlemen, I'd also like to welcome you to the conference call. I'd like to give you a more detailed information on the successful first six months of 2015, starting with slide nine.

Through acquiring Nationale Suisse and Basler Austria, the IFRS result for the period was strongly influenced by temporary special effects. As we've already announced, Helvetia is therefore focusing underlying earnings until the end of the 2017 financial year, which eliminates these temporary special effects and therefore reflects the operating performance of the new Helvetia group.

I'll therefore start by moving from underlying earnings to the IFRS result on slide 10. The underlying earnings were CHF 221 million. This includes already realized synergies of CHF 15 million as well as additional financing costs of CHF 7 million. I will discuss the synergies in more detail later on.

As required by IFRS, we recorded the following special effects as a result of the two acquisitions, which had a negative impact in the IFRS result for the first six months of 2015. These were integration and restructuring costs of CHF 27 million, planned amortization of intangible assets, CHF 30 million, and additional planned amortization due to revaluation of interest-bearing securities to market values of CHF 21 million.

Finally, we also booked CHF 19 million predominantly related to taxes on these special effects. The IFRS result, corrected for these effects, was therefore CHF 162 million. As there were no major special effects from acquisitions in the previous year, we did not adjust the 2014 result.

Before I discuss results by business areas on slide 11, I would like to point out the acquisitions of Nationale Suisse and Basler Austria took place in the second half of 2014, meaning the two acquired companies were not yet included in the comparative figures to the first half 2014.

On slide 11, we can see that Helvetia Group had impressive underlying earnings of CHF 221 million, up 12% year-on-year. Nationale Suisse and Basler Austria, acquired in the previous year, made a major contribution to this earnings increase. Against this was the effect of the unpegging of the euro minimum exchange rate by the SNB in January 2015 and the associated exchange rate effects, which together with low interest income had a negative effect on earnings growth in Swiss francs.

In the non-life business, we generated CHF 158 million, up 46% year-on-year. The strong increase is due to improved technical result and the additional volume from both acquisitions. All the non-life units achieved a combined ratio of below 100%. Earnings in the life business were CHF 85 million, which corresponds to a year-on-year increase of 18%. Increase in profits was driven primarily by lower expenses for interest-related additional reserves in Switzerland.

The earnings contribution made by Other activities was at CHF 22 million, below the previous year's figure of CHF 16 million. This was mainly due to the lower result from group reinsurance, was primarily attributable to severe weather losses and large losses in Germany. Gains/losses on investments, net, were also lower year-on-year. In addition to a higher cost base and financing costs due to the acquisitions, investment result was also lower compared to the previous year.

I'll continue with the result by segment on slide 12. We have changed the segmentation since January 1, 2015. The operating segments of Helvetia Group now consist of Switzerland, Europe, Specialty Markets and Corporate, and reflect the new alignment of Helvetia Group. We have adjusted the previous year's results accordingly.

Currency effects had a negative impact on the results for the segments Europe, Specialty Markets and Corporate, in particular, supplied (15:55) the unpegging of the euro from the Swiss franc. Currency translation differences therefore decreased results by CHF 16 million when converted into group currency of Swiss francs.

The segment Switzerland, which includes the Swiss market unit, was the strongest pillar of the Helvetia Group in the first six months of 2015m with an earnings contribution of CHF 169 million and an increase of 46%. Philipp Gmür will give you more detailed information about the segment results, which are once again very good.

The Europe segment comprises the market units of Germany, Italy, Spain and Austria. The result from the segment Europe increased by 5% to CHF 54 million. In original currency, earnings growth was 22%. In non-life, we increased our result year-on-year by 12%, which was largely due to the better technical result and the additional earnings contributions made by Basler Austria and Nationale Suisse. The life result fell by 9% as a result of lower profits from investments and stronger reserves in the Germany and Austria market units due to the low interest rate environment.

The segment Specialty Market includes the specialty lines of marine, engineering and art insurance in the unit Switzerland/International, the France market unit, which specializes in marine insurance as well as the globally operating active reinsurance. The segment result for Specialty Markets was at CHF 20 million, up 46% year-on-year. This positive performance is due to the improved technical results and additional earnings contribution made by the market unit Switzerland/International. It also includes the former multinational Specialty Lines business of Nationale Suisse.

In addition to the financing companies and the holding company, the segment Corporate includes the Corporate Center and Group reinsurance. The earnings contribution made by the segment Corporate was at minus CHF 22 million, below the previous year's figure of CHF 16 million. As already mentioned, declining earnings was due to a weaker result in Group re, higher costs due to acquisitions, a low investment result and the financing costs.

I'll continue with our business volume on slide 13. In the first six months of 2015, the new Helvetia Group generated a business volume of CHF 5.3 billion. Compared to the previous year, this was an increase of 15% in original currency. The two companies acquired in the 2014 financial year, Nationale Suisse and Basler Austria, made significant contributions to this growth. Growth was driven by our non-life business, which rose by 48% in original currency. In the life business area, investment-linked insurance solutions and deposits increased, while traditional insurance solutions declined. The overall result in the life business was a reduction in volume of 3%.

In terms of segments, Switzerland produced the largest increase with a rise of 15%. Philipp Gmür will tell you about this later. The expected positive effect of acquisitions could also be seen in the segment Europe with growth of 10% in original currency. In non-life, all market units assigned to the segment rose with satisfying double-digit growth rates in original currency. With increase of 70% in original currency, Austria achieved the biggest growth rate.

However, life business volume fell by 16% in original currency. This decline was largely caused by volume reductions in traditional life business in Italy and Germany, which could not be offset by the good growth in investment-linked products. In contrast, we increased business volume in Austria and Spain in original currency, particularly with investment-linked insurance solutions.

In the segment Specialty Markets, we also generated a volume that was 37% higher in original currency year-on-year. Growth was driven by the market unit

Switzerland/International, which comprises the Specialty Lines business in Switzerland and international markets. This growth resulted mainly from the first-time consolidation of the former Nationale Suisse business. Active reinsurance also grew strongly with an increase in premiums of 21%. This growth is the result to targeted diversification by region of business lines, as well as the selective expansion of existing business relationships.

I'll continue on slide 14 with the satisfying performance of the net combined ratio. Compared to the previous year, the net combined ratio improved by 1.6 percentage points to 92.4%. This improvement is the result of a lower claims ratio. Due to a good claims performance and also thanks to efficient reinsurance programs, the claims ratio was 1.6 percentage points down year-on-year.

It was particularly satisfying that all market units were once again able to achieve a combined ratio below 100%. Due to initial synergy effects, the cost ratio remained unchanged at the previous year's level despite historic higher cost ratio at Nationale Suisse. I'll now move on to the life business and start with the breakdown of profit by source on slide 15.

I would now like to start by noting the breakdown of profit is based on the reported IFRS figures, and therefore does not contain any adjustments for (21:29) acquisition effect. While the risk results remained at high level and even improved slightly on the previous year, interest result fell year-on-year. The lower yields were the main influence here. As a result of the two acquisitions, the (21:47) interest result was negatively affected by additional amortizations due to the revaluation of interest-bearing securities to market values.

Earnings before taxes in the life business increased by CHF 6 million or 7%. The main reason for this increase was a lower cost for reserve strengthening. Realized gains fell year-on-year. The result is also reflected accordingly in the policyholder participation result.

I'll now discuss the performance of embedded value and the new business margin on slide 16. The embedded value of Helvetia Group was CHF 2.9 billion as of June 30, 2015. This represents an increase of CHF 91 million or 3% compared to the first half of 2014.

Compared to the beginning of year, however, the embedded value of Helvetia Group decreased by CHF 78 million or 3%, of which CHF 38 million comprised dividend payments from our life units to the parent company in the first half of the year. The remaining difference is mainly due to negative economic variances. The decision of the Swiss National Bank to no longer support the Swiss francs against the euro resulted in sharp falls in investment yields and negative currency variances. However, this is partially offset by the positive contribution of new business.

The new business volume fell compared to the first six months of 2014. In Switzerland, we were unable to place index-linked tranche products in capital life business, individual life business to the desired extent as a result of the weak investment and capital market environment. In the occupational pensions business, volume for full insurance solutions was also lower due to the interest rate environment. In foreign markets, new business volumes for capital-intensive traditional savings products declined in particular.

The value of the new business written in 2015 was lower than in the first six months of 2014. This is mainly due to the lower reinvestment rates year-on-year in all countries, as well as the lower new business volume. As a result, new business profitability, which is calculated from the performance of new business volume and value, also declined from 1% to 0.3%.

As you can see from slide 17, direct yield in Switzerland and EU countries fell further due to the lower level of interest rates. However, it needs to borne in mind that the average interest rate that Helvetia must generate to meet its obligation also continues to fall. So far we've been able to keep the interest margin at an acceptable level, particularly in Switzerland, our largest market unit. This is because expiring contracts with high guaranteed interest rates are being replaced by others with lower guaranteed interest rates, and the increases made in reserves also reduce the average interest rate required.

We are continually adjusting our products to the low interest rate environment. From today's perspective, the interest margin in our projection should also remain positive for the foreseeable future, even in a continued low interest rate environment. On slide 18, I'd like to come back to the temporary special effects due to the acquisition. We are on track to reach the approximate estimations of synergies and integration costs for the 2015 financial year, which we gave you at our financial results conference in March. For that reason, we have kept the forecast basically unchanged through to 2017. I would nevertheless once again like to point out this is an approximate indication, as the individual items may change.

In the first six months of 2015, we achieved synergies of CHF 15 million, mainly from Switzerland, Corporate Center and Austria. We have therefore already almost reached our expected average synergy target of around CHF 18 million for the whole year 2015. Integration costs were CHF 27 million in the first six months and therefore also within the expected target range on a half year basis.

The financing costs of CHF 7 million in the first six months of 2015 and the amortization of intangible assets under IFRS of CHF 30 million were also at expected level and should not change. We adjusted the forecast slightly in respect of the additional planned amortization due to the revaluation interest-bearing securities to market values. We budgeted a value of CHF 21 million for this for the first six months of 2015.

I'll now end my presentation by looking at changes in equity on slide 19. Helvetia has a strong capital position even after the two acquisitions. The Solvency I ratio was 200% as of 30 June 2015, and SST ratio was in the target range of 150% to 200% as of the end of 2014. As of 30 June 2015, the group's equity was 10% lower compared to year-end 2014 at CHF 5.1 billion. The reasons for this were the reduction in the net gains and losses on our AFS financial assets recognized in equity, currency losses when translating the equity of European market units, and higher values of pension liabilities in Switzerland as a result of reduction of the discount rate to reflect lower interest rates. Furthermore, we pay dividends to our shareholders of CHF 196 million. A positive influence in equity was the group earnings for the period of CHF 162 million.

My colleague Ralph-Thomas Honegger will now provide you with more information on the investment result.

Ralph-Thomas Honegger {BIO 4932832 <GO>}

Ladies and gentlemen, with the unpegging of the euro exchange rate on January 15 of this year, the Swiss National Bank provoked a severe market reaction. The euro immediately lost almost 20% against the Swiss franc and fell below parity. It then stabilized again for a long period of time at a level of CHF 1.04 against the euro.

The Swiss equity market fell by around 15% immediately after the SNB's decision, but recovered remarkably quickly from this fall. Interest rates fell further and settled below the 0% threshold also in the long term driven by the negative interest rate policy of the National Bank.

The property market saw a mixed performance. Whereas residential property continues to benefit from low interest rates, the prices of commercial property came under pressure due to the higher vacancy rates and economic concerns in the wake of the strong Swiss franc. European equity markets began to surge, encouraged by the European Central Bank's bond purchasing program and the imminent economic recovery. The liquidity glut pushed interest rates to historic lows and interest rate spreads continued to narrow.

The Greece crisis, which became more acute around mid-year, triggered strong corrections in equities and resulted more broadly in further rises in interest rates. Nevertheless, the markets were not hugely impacted by the increasingly confusing situation. The U.S. equity market took a break after a strong 2014 and consolidated in expectation of an initial interest rate hike by the Fed at high level. Interest rates saw a volatile performance. From the 10-year maturity range, coupons were almost mostly above 2% in the second quarter. The U.S. bond market, especially in the Corporate segment, was comparatively attractive, although the required currency headwind reduced yields.

Overall, the market environment was demanding and challenging, not only due to the continuing low interest environment, but also due to the lack of liquidity in the bond markets. In the first six months, Helvetia achieved an investment result recognized in the income statement of CHF 522 million. Details of the investment performance can be seen in slide 21.

Helvetia generated current income of CHF 503 million in the first six months of 2015. Despite the integration of the Nationale Suisse assets, earnings were CHF 7 million lower year-on-year. This was due to two reasons. Firstly, the devaluation of the euro meant that current investment income generated in euro was significantly lower year-on-year after translation to Swiss francs. Secondly, the continuing low interest rates put pressure on investment income. Direct yield on investments fell to 1.1% not annualized. This performance is largely due to the extremely low yields on new investments and reinvestments.

In addition to the current income, realized and book gains of CHF 19 million were achieved. These resulted from equity market gains and proceed from the sale of bonds, mainly as a consequence of targeted shifts in the bond portfolios away from the low-yielding euro to currently more attractive U.S. dollar bonds. The currency losses, resulting from the SNB's decision, were largely offset by our hedging programs. In total, an investment result of CHF 522 million was achieved, CHF 60 million less than in the very strong previous year.

The reduction in unrealized gains of CHF 539 million recognized in equity neutralized the effect on the income statement, meaning that the overall investment result for the group was negative at CHF 17 million. The investment performance was at 0%. This decrease was especially due to the rising interest rates and interest rate spreads in euro, which occurred in the course of the unresolved Greek crisis.

Finally, I would also like to point out that we generated income of CHF 87 million on investment-linked insurance solutions for our customers. Slide 22 shows the investment result broken down by the individual asset classes. Just under two-thirds of the current income of CHF 503 million comes from fixed interest securities and mortgages, which contributed CHF 272 million, respectively, CHF 45 million in absolute figures. CHF 49 million was earned from dividends from shares, and CHF 119 million from rental income.

Taking into account the (34:05) periodic dividend income, investment properties again achieved the highest direct yield on a non-annualized basis. Gains and losses on investments were CHF 19 million. The main contributors to these results were equities and income from currency hedges, recognized under Other in the table, while fixed interest securities suffered losses due to the euro devaluation. The investment result of CHF 522 million recognized in the income statement came from equities, investment property, mortgages and income from currency hedging.

Unrealized losses recognized in equity resulted from the interest and spread performance as mentioned already. The valuation margin on the fixed interest portfolio fell by CHF 468 million. To explain this fall, I would like to remind you that an increase of almost CHF 1.7 billion was posted for the whole year 2014.

The reinvestment returns achieved are stated on an annualized basis in the bottom half of the chart. A total of around CHF 3 billion was reinvested in the first half of 2015, 80% of which flowed into fixed interest values and, particularly, in the newly established BBB corporate segment in U.S. dollar bonds and in convertibles. This allowed us to more or less navigate around the negative interest rates in Switzerland. However, the foreign currency investments also resulted in higher hedging costs. In addition, the funds to be reinvested were invested mainly in equities and in mortgages.

In the latter investment category, Swiss life insurers were able to offer attractive terms due to the long-term liabilities. Helvetia benefited from this market opportunity and expanded its mortgage portfolio above budget via its own sales force and via third-party channels, doing so at comparatively attractive spreads and without watering down the high security requirements. By contrast, the prevailing market situation permitted an even more beneficial risk direction. The overall direct yield on new investments is therefore 1.7% annualized.

Asset allocation changed only marginally in the first six months of 2015, as you can see on slide 23. In short, you can see that the weighting towards interest-bearing securities fell in favor of property and mortgages. The investment portfolio reduced from CHF 48 billion to CHF 46 billion due to the sharp euro devaluation. This was mainly due to currency related to lower values of euro investments of our European subsidiaries. This is reflected by corresponding decline in Swiss franc denominated insurance liabilities.

The rating quality of the bond portfolio is shown in the following slide 24. The quality of the portfolio continues to be very strong. The proportion of securities with at least an A-rating was at 87%. Almost half of these have the top rating of AAA. The establishment of the BBB corporate segment was seen in a slight rise in the proportion of BBB.

I would like now to give you an outlook for the second six months. We can assume that interest rates will remain at a low level due to the expansionary monetary policy of central banks in general and the ECB's bond purchasing program in particular. Although the expected interest rate hike by the Fed may result in slightly higher yields, we do not expect a natural turnaround in interest rates. In this environment, we will continue the investment policy adopted in the first half of 2015 and test out alternative investment options with attractive risk/return profiles.

I will now hand over to my colleague, Philipp Gmür.

Philipp Gmür

Ladies and gentlemen, I am delighted that I can once again report a successful business performance in Switzerland. With the acquisition of Nationale Suisse, Helvetia has further strengthened its strong top-three position in Switzerland as a leading all-lines insurance company. With the consolidation of Nationale Suisse, we were able to increase our business volume particularly in non-life and to generate satisfying growth in profits.

On slide 26, you see the highlights of the Swiss business. As an introduction, please allow me to provide you with a brief summary of the key figures for the Swiss business. Premium volume increased by a total of 15%, with the non-life business acting as the main driver of growth following the consolidation of Nationale Suisse.

The life business remains stable at a continued difficult interest rate environment. Regular premium business continues to grow and could therefore offset the decline in single premium business. Underlying earnings stood at CHF 169 million and were thus 46% above the comparable figure for the previous year. Both life and especially non-life contributed to this satisfying result. In non-life, the earnings improvement was mainly due to the higher volume as a result of the acquisition. Although the combined ratio, net, increased by 2.5 percentage points, it is still at a very good level of 86.7%.

Turning to slide 27, you see that life business volume remained at around the previous year's level in a still challenging low interest rate environment. In individual life, premium volume increased by 15.2% to CHF 438 million. Growth was mainly driven by the first-time consolidation of the former Nationale Suisse portfolio. Due to the difficult capital market environment, single premium business remained below that of the previous year. In the first half of 2015, we succeeded in marketing the single premium tranche product, Helvetia Market Trend, despite a challenging environment. However, it turned out to be more difficult to place the desired volumes than in previous years.

The decline in demand for the payment plan product also contributed to the reduction in volume. However, regular premiums, which are key to assessing business performance, grew by 1% on a comparative basis. The unit-linked product Garantieplan and pension products performed in a satisfactory manner.

In group life business, there is ongoing demand for full insurance solutions. Regular premium business is important for long-term performance and, here, Helvetia achieved growth of around 3%. The broker channel made a particular contribution to the expansion of business in this area. However, the growth in regular premium business failed to offset the decline in single premium business in the first half of 2015, which resulted in an overall decrease of minus 3% for group life business. In the current low interest rate environment, a reduction in single premium business has been consciously accepted through a selective approach to underwriting new business.

In the life business in Switzerland, we also achieved continuing strong results. The risk results in the death and disability business lines, together with lower quality holder participation, partly offset the lower interest rate results. Furthermore, expenses for additional reserves were lower, which resulted in a higher overall life result year-on-year.

Our next slide, 28, focuses on the very profitable non-life business. In non-life, we increased premium volume by 88% to over CHF 1 billion. As already mentioned before, this increase is mainly due to the acquisition of Nationale Suisse. Growth was mainly driven by the motor and property business line, and by the newly acquired accident/health portfolio. However, there was also a slight increase in non-life business on a comparable basis. I would particularly like to highlight the motor business line where we generated strong growth. The key sales channel in Switzerland is still our own field sales force. However, Helvetia also achieved pleasing growth in the online sales channel via the new acquired smile.direct.

The net combined ratio increased by 2.5 percentage points in the reporting period, with both a higher claims and cost ratio. This drive is largely due to changes in the portfolio structure as a result of the acquisition of Nationale Suisse. At 86.7%, the combined ratio is still at a very good level. With the integration, we see further possible efficiency measures with the corresponding potential to reduce costs.

The claims from the severe weather events from July to August are, of course, not yet included in the figures presented. However, on the basis of the claims reports we have received so far, we only expect claims in the single-digit million range, which will not have any significant effect on the results for the second half of the year.

In summary, we can look back on a successful first half of the year and we are confident that we will remain on course for success. For the second six months, we expect continued satisfying growth in non-life. Premium performance in individual life will largely depend on whether the capital market environment permits us to launch a further tranche product.

Finally, I would just like to mention that the work to integrate Nationale Suisse continues to proceed as planned and we have made good progress.

And with that, I would like to pass back to Stefan Loacker.

Stefan Loacker {BIO 15157193 <GO>}

Thank you, dear colleagues. Ladies and gentlemen, with the current financial year, our strategy period 2010-2015 is now coming to an end. I would therefore like to finish our presentation by summarizing what we have achieved so far when implementing our ambition Helvetia 2015+. Please follow me on slide 30 through these different aspects.

We have already achieved our guiding principle which was to excel in growth, profitability and customer loyalty. As you know, Helvetia has grown by nearly 30% since August 2010. Alongside organic growth, our active M&A strategy has also contributed to this and has allowed us to improve our local market position in almost every country market.

We have also made excellent progress in terms of profitability. Underlying earnings were at CHF 422 million in 2014 and thus almost 24% above those of 2010. Non-life business clearly drove this profitability. The combined ratio was on average at 94%, meaning that we also achieved our target range of 94% to 96% in that period of time.

The results from the pension and life insurance areas also remained strong despite the difficult market environment. We are well positioned here as a result of our good asset and liability matching, and we can continue to meet the expectations both of customers and shareholders even in a low interest rate environment.

Finally, this strong profitability also had an impact on our dividend policy. Compared to 2010 when we paid out CHF 14.50 to our shareholders, we were able to pay a dividend of CHF 18 already last year, which equates to an increase of 24%.

We have also made a big leap forward in terms of customers. As of the end of 2014, Helvetia had more than 4.7 million customers whose satisfaction, which is already at high levels, is confirmed in regularly conducted surveys. Brand awareness, a positive image among all target groups and Helvetia's profile as Your Swiss Insurer were strengthened even further.

In summary, I can therefore say that we are successfully on the finishing line on track of our 2010-2015 ambition. In recent weeks we have therefore started to the develop the helvetia 20.20 strategy. We are all highly motivated to continue writing our company's success story and look forward to presenting the new strategy at the full year results analysts' conference in March 2016.

For the moment, we would like to thank you for listening and we will now be happy to answer any questions you may have.

Q&A

Operator

The first question comes from Stefan Schürmann, Bank Vontobel. Please go ahead.

Q - Stefan Schürmann

Yes. Good morning. I have two questions. The first one on life segment, you said that the reserve strengthening was less than last year. Can you give some more indication here how much you did reinforce the life reserves and if it only was in Switzerland?

The second question also in regarding to life, the new business margins were quite modest, 0.3%. Could you may be split that into Swiss units and the rest? And maybe also on the non-life side, just for the combined ratio prior year, did the prior year reserve basically contribute more or less than last year?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these questions, Stefan. On life, reserve strengthening, Paul, what is the availability of additional disclosed information?

A - Paul Norton {BIO 16145125 <GO>}

At the moment, Stefan, in the half year, we don't give details of the reserving. I can't tell you. But major contribution to the reduction in reserving came from Switzerland. However, there are some significant reserving (51:31) this half year and we had some more modest reserve increases in Germany and Austria (51:38). At the year-end, we produce a notice you're aware in the annual report which shows you the net impact of life reserve and also the half year.

In terms of the new business margin, I think the differences in Switzerland it was 0.3% and in EU was 0.4%. That's the split between the two units. Obviously, Switzerland is by far the biggest and contributes the most. And obviously, it depends with the traditional embedded value on the discount rate to be used. And in Switzerland, it's 6%, and in the EU, it varies roughly between 7% and 8% at the discount rate.

A - Stefan Loacker {BIO 15157193 <GO>}

It's probably also helpful to understand that with regard to the liabilities in Switzerland, we did not yet anticipate the decisions that every autumn after we've taken on the mandatory group pension business, we still have the 1.75%, which is to be applied today. Maybe some of you have seen the indication that the specialists commission already brought to the national government, which is to reduce this rate to 1.25%. And that effect is certainly one of the contributing factors to improve the ratios as we go along, but this is not yet anticipated in the numbers that we have shown here.

A - Paul Norton {BIO 16145125 <GO>}

Then on the non-life, you wanted to know about the reserve run-off results. The run-off results are broadly neutral compared with prior year, there's no particular impact to run off of.

Q - Stefan Schürmann

Okay. Thanks.

A - Stefan Loacker {BIO 15157193 <GO>}

Next question, please?

Operator

Next question comes from René Locher, MainFirst. Please go ahead.

Q - René Locher

Hi. Can you hear me?

A - Stefan Loacker {BIO 15157193 <GO>}

Yes.

Q - René Locher

Okay, fine. Just a follow-up question on reserves increase in the life business. What we have seen with your competitor is that they have financed, let's call it that way, financed reserves increases through gains and losses from investments. Now, as I can see in your P&L, you have CHF 19 million realized gains. So, I'm wondering a little bit, if this is good enough to increase reserves in the life business. So, that's my first question. Second question is on slide 18. So the synergies noted (54:41) integration costs you gave here as a total are pre-tax number. So, can you just tell us if it's now pre-tax or is it after-tax?

A - Paul Norton {BIO 16145125 <GO>}

That's all pre-tax.

Q - René Locher

Sorry?

A - Paul Norton {BIO 16145125 <GO>}

That's pre-tax, René.

Q - René Locher

Yes. But then when you look at your half year result, let's – for example, if you go from underlying profit after-tax from CHF 221 million, there you see integration costs of CHF 27 million negative. So, it looks like the CHF 27 million negative is on an after-tax basis.

A - Paul Norton {BIO 16145125 <GO>}

Yes, but if you look at the slide on page 10, you see integration costs of minus CHF 27 million and you see, below the line, core total acquisition effects, you see tax and other items which offsets that. (55:47)

Q - René Locher

Oh, I see. I see. Okay. That's helpful. Thank you very much. So, let me see, on the Swiss combined ratio, for Philipp Gmür then, this one from slide 28, I'm a little bit surprised to see that the expense ratio, how you reported (56:12) the cost ratio, increased. Well, I do understand the business mix, no doubt, we might see a little bit higher claims ratio because you bought a motor business, which generally has a higher loss ratio here in Switzerland.

But I would have thought that given that most of the cost-cut of (56:35) synergies will take place in Switzerland because you acquired a non-life business from Nationale Suisse that the cost ratio should remain in best case, let's say, at last year's level. So, perhaps, you can just explain a little bit if we should expect a higher combined – so claims ratio and higher cost ratio – because of the new business mix following the acquisition.

And then just a last question on Other activities, I already discussion with someone this (57:13) morning, this minus CHF 22 million. So, as I understand, it's driven by the group reinsurance business and I guess it's also to do with the corporate function at Nationale Suisse. So my question is should we expect this minus CHF 22 million going a little bit more direction zero, or is this kind of a sustainable run rate going forward? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. René. I would guess that Paul is picking up the basket topics around Other activities and reserve increases in life versus realized gains on the investment, while then Philipp will join in on the Swiss combined ratio cost – cost ratio. Please, Paul, could you start?

A - Paul Norton {BIO 16145125 <GO>}

On the reserve side, lastly, the CHF 19 million is partially – a fine step (58:09) clearly, you also have to remember that a certain amount of – well, all the life adjustments are offset to some degree by the policyholder participation (58:26). And also interim – at interim, during the middle of the year, it's difficult to actually come to a final landing (58:34) exactly where the reserves will come out. So, there are some shifts within the reserve movements during the year. So, you have to wait until the end of the year is what we're going to say (58:43).

Q - René Locher

Okay.

A - Paul Norton {BIO 16145125 <GO>}

In terms of development to synergies pre-tax (58:47), the other – another aspect in there – there's two things in there. First of all is group reinsurance, had some losses. To some extent, it's the counterpart of some of the better results in the non-life side, that's their job, is to smooth out fluctuations. You have to remember we bolt together two corporate centers and we're only at the very beginning of the whole synergy process, so you're bound to get an increased amount of costs in there, and of course, those costs will reduce over the next 18 months or so. So those synergies coming, both not only the personnel synergies, but other ones as well.

There's also in there some FX losses as well from the SNB decision we had. We still do have inter-company accounts with subsidiaries which we don't hedge. It's not worth it. And when you have a 15% devaluation, you will suffer something in there. And the other thing is, last year, although it doesn't occur truly in (59:48) the underlying, it's the dividend from Nationale Suisse of CHF 7 million which we got previously.

So, when you take those out, there will be some fluctuation from the GRI going forward, depending on the results and how the reinsurance programs are structured. And also, remember, we're at the very beginning of restructuring those reinsurance programs, have to bolt those two together. And of course, the corporate center costs will start to come down quite a lot.

Q - René Locher

Okay. Thanks.

A - Philipp Gmür

If I may add some thoughts with regard to the cost base in Switzerland. First, we have to take into account that the original cost bases of the Nationale Suisse companies in Switzerland were higher than in the Helvetia units, so that's the first point. The second point is with regards to the portfolio mix that not only the claims ratio is higher, but also the cost ratio is higher in the health/accident portfolio, a new portfolio which we acquired and which has its effect now in this half year result.

A third point is that you have to take into account that we see all those comps right now before the most synergies being realized. So we have still a lot of overlapping functions and we gave a salary guarantee for every – for all people working in Switzerland throughout the year, that means that until the end of 2015, we might see a rather higher cost basis than we were used to in the years before. So, we are still positive that we can't realize many other synergies and that the case is still on the way. And already by the end of the year, we will see some changes in the cost basis. And certainly, with regards to the slide Paul was mentioning by the end of 2016 and to 2017.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. Do we have more questions?

Operator

Next question comes from Jonny Urwin, UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning. Thanks for taking my questions. First one is on the group life business. I'm just wondering if it will be possible to get a rough indication of the ROEs you're making on those lines in the current environment. And, secondly, I'd be really interested to hear a few comments on specialty pricing at the moment perhaps by line and region, if possible, just to know if you've seen broad-based pressure or are things holding up, (01:02:42). Thanks very much.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. I unfortunately have to disappoint you with regard to disclosure of a segment ROE on group life, which is just something that we never produced. And therefore it's also not something that I can help you with a particular answer on that point of view. With regards to specialty pricing, there is – I think one part of the reality comes from the market and the second part is what we can do ourselves being at the beginning of an integration process, also in the specialty market.

On the market side, indeed, we have a quite heavy competition mainly in the engineering area, which is something that does not particularly change from one geographic area to another. So, there is a broad competition and is not easy to increase rates or even to sustain the rates across the board in the engineering line.

It's a bit better in the marine business, which is our second specialty line, particularly in the domestic cargo businesses that we do have in Switzerland, Germany, France with a quite large volume. There is a largely stable environment in these lines of businesses. It's also true for the art business, which is a very small part within the niche, where we also have very favorable combined ratios at the present setup.

In reinsurance, which is our third specialty line, in the active reinsurance we are writing, there is still broadly a soft market and is not yet a turning point (01:04:34). But the second point is that internally, we are at the beginning of this integration process and we do also have opportunities to increase our profitability from inside. One driver is certainly the cost ratio where we have just started to dig through those integration purposes. And the second is also the technical side. We did a certain cleanout or we are in this process of some parts of the portfolio, especially in the large engineering risks we have inherited, so to say, from Nationale Suisse growth strategy. We do not pursue a growth strategy on that particular segment anymore, but we will shift it to a profit strategy.

And thirdly, we have different capacity, a larger capacity with regard to our net retention. Part of the profit was just handed through to the reinsurance market lately in Nationale Suisse, stand-alone case. And there we do have also an additional leverage. So, all in all, we are not unhappy with the quality of the specialty lines' technical result. As you have seen, it's roughly in the 95%, 96% combined ratio area through the three lines of business that we have there, three market units that we have there, but there is still a big room to improve.

Q - Jonny Urwin {BIO 17445508 <GO>}

Just a quick follow-up on the group growth business. I appreciate you can't give us the specific number, but would it be possible to say whether you're covering your cost of capital? Is it broadly in line or slightly below?

A - Paul Norton {BIO 16145125 <GO>}

Well, you can see the Swiss result for the new business margin was 0.3%.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah.

A - Paul Norton {BIO 16145125 <GO>}

About two-thirds of our business is group life business. And so by covering – having a 0.3% positive margin under the Swiss and embedded value model, by definition, you're covering the cost of capital.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yeah. Okay. All right, thanks.

A - Stefan Loacker {BIO 15157193 <GO>}

Do we have additional questions?

Operator

Yes. We have the next question from Daniel Bischof from Helvea. Please go ahead.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yes. Good morning. Most of my questions have already been answered, so just two remaining, first on group life. So, we had the proposal to reduce the guaranteed rate to 1.25%, but the Swiss Insurance Association immediately published the release saying that it's still too high and should rather be around 0.75%. What's your view here? And then the second one is on the SST. I noted that the interest rate sensitivity increased quite a bit from 9 points to 14 points. Could you explain why this is?

A - Stefan Loacker {BIO 15157193 <GO>}

I suggest that, Philipp, you will take up the question of still too high or going to the right direction. Depending on the view, depending on the formula, but certainly for something that should be safe and guaranteed in any circumstance, 1.25% is on the higher range. And that was also the notion of Philipp that the experts commission brought. So, it's impossible, but on the large – on the higher range of the possible solutions proposed with the 1.25%, which, by the way, is not yet decided.

A - Philipp Gmür

Yeah. Stefan, you already answered the question, it's on the right direction, of course, from 1.75% to 1.25% that's proposed right now. Why do we say? Absolutely in accordance with our association, but 1.25% is still too high. We need a (01:08:23). That means, if you give guarantees and you are locked in at 1.25%, you have not so much mean to finally get higher returns. And that's our issue. So, we still hope that maybe the Federal Council will see that and go down to, let's say, 1%. But the direction is good for the time being, and as Paul mentioned, we earning our capital cost at least.

A - Stefan Loacker {BIO 15157193 <GO>}

As to interest sensitivity point...

A - Paul Norton {BIO 16145125 <GO>}

I guess, Daniel, you're referring to page 59 or slide 60.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah, exactly.

A - Paul Norton {BIO 16145125 <GO>}

So you're talking about the minus 14 percentage points as a result of the interest rate, 100 basis points. Is that it?

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah, which was at minus 9 points at year-end.

A - Paul Norton {BIO 16145125 <GO>}

I can't tell you off the top of my head why that is we can come back to. In my mind, it's within sort of relatively normal fluctuations. There's all sorts of impacts to the (01:09:41) way interest rates are capped and so on, but we'll come back to you on that one.

A - Stefan Loacker {BIO 15157193 <GO>}

There's no change in the duration profile, so it must be a technical assumption driven change that we have here.

A - Paul Norton {BIO 16145125 <GO>}

We can come back to that.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. Thanks for that.

Operator

Ladies and gentlemen, that was the last question.

A - Stefan Loacker {BIO 15157193 <GO>}

Are there any questions left?

Operator

No, there are no more questions.

A - Stefan Loacker {BIO 15157193 <GO>}

All right, then we suggest that we also have the opportunity to have one-on-ones or see you on the road show the next couple of days. For the moment, thank you, really, for your interest and have a good afternoon from our side. Bye-bye.

Operator

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