Helvetia Holding AG Capital Markets Day 2017

Company Participants

- Achim Baumstark, CTO
- Adrian Kollegger, Head of Nonlife Insurance Business
- David Ribeaud, CEO of Specialty Markets
- Donald Desax, Head of Group Life Switzerland
- Markus Gemperle, CEO of Europe
- Martin Tschopp, Unknown
- Otmar Bodner, CEO of Austria
- Paul Norton, CFO and Head of Finance
- Philipp GmÃ¼r, CEO
- Ralph A. Jeitziner, Head of Distribution Switzerland
- Reto Keller, Unknown
- Susanne Tengler, Head of IR
- Unidentified Speaker, Unknown

Other Participants

- Daniel Bischof, Helvea Equity Research
- Jonathan Peter Phillip Urwin, Director and Equity Research Insurance Analyst
- Peter Eliot, Head of Insurance Sector Research
- Rene Locher, Senior Analyst
- Unidentified Participant, Analyst

Presentation

Susanne Tengler {BIO 18673192 <GO>}

Ladies and gentlemen, welcome to Helvetia's First Capital Markets Day. My name is Susanne Tengler, I'm Head of Investor Relations and I have the pleasure to guide you through the day. We are very pleased to have you here in Zani, ZÃ¼rich. I would also like to welcome those who are joining our live webcast or who have dialed in to our conference call. A very warm welcome also to all the members of the Helvetia management board and to all the other colleagues that help to make a special day for you today. I am convinced, we have created a very interesting day for you. Looking at the agenda, we will not only give you a deep insight into our operations, we will also give you some concrete examples of strategy implementation in our breakout sessions after lunch. The presentations we have prepared for you provide you with detailed information and to therefore, answer all the questions you may have. Nevertheless, if there will be remaining ones, we will have additional Q&A sessions in the morning and in the afternoon. So to make the day as efficient as possible for you, as I just mentioned we have placed one Q&A session in the morning and one in the afternoon. There will also be a live stream covering the presentations in the morning and in the afternoon. The breakout sessions in between will not be streamed. If you have any additional organizational questions, my colleague Alessandra, who is placed (inaudible) just that people got to know you. Thank you, Alessandra. We'll be more than happy to assist you for the time being that sits from my side, I'll give you more information regarding the afternoon program and the breakout sessions later on.

Ladies and gentlemen, let's get started now and let us welcome, our Group CEO, Philipp GmÃ¼r for his opening presentation.

Philipp GmÃ¼r

Ladies and gentlemen, dear colleagues and friends of Helvetia on behalf of our management committee and of all our other members of our management teams in the different country units present in this room, I'm happy to welcome you to our Capital Markets Day. I thank you deeply for your interests in our company and for the time you sacrificed for Helvetia.

The purpose of today is to give you a deeper insight in what we are planning to do around our Strategy Helvetia 2020. It is to provide you with additional informations and it is, of course, to familiarize you not only with a couple of our strategic initiatives but at the same time, with our management team and our specialists, who are by the end of the day executing conditions we have. The aim of our company for Helvetia 2020 remains of course unchanged. We want to deliver what we promised back in spring 2016, that means profitable growth in all our lines of business, in all our market units, i.e., a combined ratio non-life of below 93% and new business margin in our life business of more than 1%. And cumulative dividends of more than CHF 1 billion by the end of 2020. This day is not as a purpose here to give you additional numbers and to bomb you with additional guidance. It's more about telling you about concrete initiatives we are undertaking and in order to accomplish all our initiatives. We want to make Helvetia more agile, more innovative and more customer oriented. And we want to use the tremendous opportunities of the digitalization for all our strategic ambitions.

Helvetia is well positioned today. We are well diversified in terms of lines of business of geographies and of customer segments. With regard to the lines of business, we stand on two pillars, life and non-life and within our life business, we have the traditional business and the capital-efficient, modern, new life business portfolio. With regard to the non-life business, we have a huge range of different lines of business in our portfolio covering all our customer needs. With regard to our geographies, we have, of course, our strong home market, Switzerland. But at the same time, we have the ambition to be and to remain diversified with regard to our foreign countries and to our foreign markets, especially in Europe and to a certain extent also to other countries around the globe, especially with regards to our active reinsurance portfolio. Third, we are diversified with regards to our client and customer segments. Not only retail business but at the same time focusing on SME business. A non-life business in Switzerland is and has for long time been the backbone of our whole group. We have a longstanding track record of profitable growth of successfully integrating a couple of different portfolios and companies in this whole market. What we want to focus on today is how do we have a position in order to expand this strong position in Switzerland, which has still a huge potential, be it with regard to our SME business in Switzerland, be it with expending our retail business into new and other sales channels. What we want to focus on today is especially on the life business in Switzerland and abroad. Second, on our European business and third, on our Specialty Markets. In the afternoon, of course, we are extending the focus on new business models and other initiatives around all those core markets we are working in. We have different trends we have to cope with. Be it a more individual customer needs, be it the digitalization as a strong driver and enabler of our business, be it huge changes in the financial markets and in the financial and insurance industry specifically. And what we want to share with you today is our recipes to cope with all those challenges and trends. We are, of course, in our group first of all and above anything focusing on strengthening our core business. That's where we are making money with and we do not want to by the end of the day invest in businesses which do not help us finally met our financial targets. So what we want to do is strengthening our core traditional business. By different means, of course. We want to reposition our life business, you will hear about that later on. We want to go on with our mortgage offenses, especially in Switzerland. And we want to set up an SME off these offenses in Switzerland and in our other country markets. At the same time, we are developing new business models. And we are relying on different pillars. One pillar is the so-called, scale-based M&A strategy. We have had the opportunity to acquire a stake of 70% of MoneyPark last December. And thus, we set a very strong and important anchor within our Eco system home. A second pillar is our corporate venturing strategy. As we communicated earlier this year, we are funding a fund with roughly CHF 50 million -- CHF 55 million over the next few years in order to invest in different start-up companies. And we communicated last week, our first investment which is an investment in a Munich-based, start-up company called baimos. A third pillar is we want to make use of corporation partners, helping us finding new ways and means, for instance, to communicate with our clients. That's why we are, for instance, out rolling software called (Flex Perto), which helps our agents communicating by video chat with their clients. And the fourth pillar and from a cultural perspective, the most important one is that we set up a corporate incubation team in our home market and we want to expand that throughout our group. Those little small teams are working on small little projects and are helping us, helping the management to develop our core business model into a new, into another world. Apart from strengthening our core business, apart from developing new business models within our core business, we want to at the same time experience new business models, i.e., we would like to be part of the everyday life of our clients. And one good example is the Good Driver app we were launching last year in Spain. And we are expanding this Good Driver app experience around a gamification of the drivers' behavior throughout our group. Another good example is our Chatbot software we were just launching a couple of weeks ago in our home market and we are now trying to expand it throughout our group.

In a nutshell, we want to strengthen our core business but be open for both, expanding the core business within our now strong business and market units and at the same time, have a look at new business models around our core business. With that, I would again like to thank you very much for your interest in our company, sacrificing this day for our initiatives and I would like to give now back to our moderator, Susan. Thank you.

Susanne Tengler {BIO 18673192 <GO>}

Philipp, thank you for that very interesting overview. You have just mentioned it, we will continue now with the first focus presentation that is life in a low-interest environment and that will be held by Reto Keller. Reto Keller is our Head of Individual Life Business in Switzerland. He is a member of the Executive Board and he joined the company in 2011 following the acquisition of Phoenix Life Business in Switzerland. Welcome, Reto.

Reto Keller {BIO 16191606 <GO>}

Thank you very much, Susan, for this introduction. Ladies and gentlemen, dear friends of Helvetia, during the next 30 minutes I would like to give you an insight into the Individual Life Business at Helvetia in Switzerland and also in Europe. And also an insight in the way how we cope with the low-interest-rate environment. So the first question which can come up is what is the position of Individual Life? What is the potential of Individual Life in general? And according to our analysis and observations, we can see in Switzerland, for instance, that's the coverage given by pillar 1 and pillar 2 will be diminishing over time, will decrease. The government pension schemes and the company pension schemes will give less coverage for individuals in the future. Leaving a gap and leaving a lot of space for individual solutions, Individual Life solutions or individual or private pension schemes. This is due to low interest rates, financing model questions, increasing life expectancy for pillar 1 and 2. So the gap to fill up with Individual Life products is getting bigger over time. And now the coverage is not only diminishing for individuals as persons but also for the society or the population as a whole. With the demographic evolution, the gap of coverage will even increase, leaving a huge potential for Individual Life solutions and private pension schemes. So as a conclusion, for the market observation is there is a lot of space for Individual Life, there is a lot of space for private pension schemes. The second question which can come up is how is that possible? How is it possible to cope with market conditions which are adverse in general? So what we observe is decreasing interest rates over years. This graph only starts with the year 2000 but we could start with the year 1990. And in the example of the 10-year Swiss government bond, yields were up at 6% in 1990, going down to 4% in the year 2000, going down to 2% in 2008 and after the financial crisis, going down to 0% or even negative yields. So this is an adverse market condition for Individual Life. Another one is the increasing regulation, the pace of regulation, which is increasing, especially since the last financial crisis making the market conditions not easy at all. So we can say that since almost now a quarter of a century, Individual Life is under pressure and Individual Life companies had to transform the business model to more capital-light products, to more coverage of risk protection and also to sophisticate the asset and liability management. So this is the reality we are living, we are working in market conditions which are not really easy, or even adverse. Now the third question which can come up is what is the answer of Helvetia to all of this? The high potential of growth but adverse market conditions. So during the last years, we were very occupied to give the best solution to our customer. What does that mean? Is to give solutions to the customer which still have a certain degree of guarantee in the product. Because the unique selling proposal -- proposition or the unique selling point is still to give a security to the customer, a certain level and quality of guarantee to the customer. On the other sides, the aim was to create products and to offer products which have less cost and less cost of the guarantee for the insurance company. So this was not really easy, we had to find new guarantee models, which are shown on this chart. The main thing is to keep a good level and quality of guarantee to the customer. But to have the cost of this guarantee going down for the insurance company. So at the bottom of this chart, you can see the product portfolio of Helvetia. On the left-hand side, more of the traditional ones, which we were derisking over the last years. And on the right-hand side, the more modern, innovative, capital-light products like Helvetia Guarantee plan, which we will have a look at later on and on the left-hand side, the Helvetia Value Trend, which is also a flagship product of Helvetia. So we still have innovative products on the left-hand side with high level of guarantee. And as you can see in this chart, if you give a high level of guarantee, there is a low potential of upside possibilities. And on the right-hand side, you can see that if we give less guarantee, we have more premium left for upside potential. And on the far right, there is the Helvetia Performance plan, which is a unit-linked product -- is a unit-linked product which invests into investment firms and there, of course, there is the possibility of no floor, where there is the possibility of no guarantee for the customer but also a higher potential, higher upside potential. So we will have a look into 2 of these products at Helvetia. The first one is the Helvetia Guarantee plan or the Helvetia Payment plan. It's -- the construction is the same but Helvetia Guarantee plan is an accumulate -- accumulation product and the Helvetia Payment plan is a deaccumulation product. Helvetia Guarantee plan is a substitution to the classical endowment product. And the Helvetia Payment plan is the substitution -- a modern substitution of the annuity, the classical annuity product. So we have in our product palate, we have still some traditional derisked product but also we created the modern capital-light products. And this one is the flagship product from Helvetia is very innovative and the main achievement with Helvetia Guarantee plan is to externalize the guarantee. This means that Helvetia does not give the guarantee by itself anymore but the guarantee is given by external financial partners or external financial construction. So it's the first flavor of the guarantee plan, invests into participation certificates of Leonteq. And Leonteq is the company which has a big know-how in investment products. So the first flavor of the product is to invest into these certificates and these certificates are to 100% collateralized at SIX SIS. So there is no credit risk left over for the customer and there is no credit risk left over to Helvetia because all the certificates are collateralized at SIX SIS. So this is a new guarantee model. A modern, innovative guarantee model, which gives the good quality and the good level of guarantee to the customer. And for Helvetia, it is extremely capital-light because the guarantee is not given by the insurance company but by the financial instruments. We offer that with Leonteq but also we introduced another flavor of the guarantee plan, which invests into third-party, term deposits. So there is the possibility to have different guarantee models according to the need the company has and to the level of guarantee we want to offer to the customer. Since launch of this product line, we already wrote CHF 250 million in single premium and CHF 90 million in the regular premium. And this regular premiums, of course, they are written now year-by-year over time. It may last 20 years, 30 years, 40 years because it's an accumulation product for saving purposes. And on the lower part of the chart, you can see how it builds up, a part of the premium goes into the guarantee and other parts goes into participation certificates. And as soon as the upside level has been reached, it is locked in into the guarantee, making sure that the guarantee level increases over time in favor of the customer.

Now the question can come up how stable, how good or how does the collaboration with Leonteq, Raiffeisen, SIX SIS functions? And we can say that we built up a real, modern, complete platform. It is a product platform but also it is a technological platform. Because on this platform, the contracts are administered. So at the moment, we already have more than 30,000 policies, which are administered through our system, the Leonteq system, the collateral at SIX SIS. So we can say that we were very successful in building up this platform and we are now very successful also in running this platform. Everything is fully automated. We have a technological advantage. We built up a platform where we can add new products, we can add new guarantee models. So it's a real investment for the future and it's also a proof of a good collaboration between insurance know-how from Helvetia and investment -- financial investment know-how from Leonteq. And in this partnership, there is not only the know-how -- the business know-how for Individual Life, for the business know-how of financial instruments but there is also this technological platform, which runs everything in an automated way. So as a conclusion, the collaboration is very fruitful. And we have potential for adding other flavors of products to this platform. So this was an example of an accumulation product with periodical premiums.

Now have a look into a product which functions with single premiums. This product, Helvetia Value Trend, is more an investment-like product for 10 years over a span -- a time life of approximately 10 years. And what is very special with Helvetia Value Trend is that the product is perfectly matched before it comes to the market. So it means that assets and liabilities are perfectly matched and there is no risk left. So it is again, a very capital-light product. But in there, we give the Helvetia guarantee. At the moment, it's about 90%. And we can say that this product is also very successful because every year, we sell about CHF 150 million premium to our customers in 2 tranches. Normally, one in spring and the other one in autumn. And it is sold all through all the channels, through tied agents, through banks, through brokers and other institutions. And it gives the confirmation that it is an attractive product because it is sold so well and because it is also distributed over old channels. What is very special in this product is the guarantee level, which does not cost a lot because assets and liabilities are already matched. But there is also the selection of an index by specialized index providers, which give this upside potential. So we have very attractive product, giving an answer to customer who want a level of guarantee but also the potential of real gain over time. So these are 2 focus on Helvetia Guarantee plan, construction with Leonteq and the Raiffeisen. And the Helvetia Value Trend with sophisticated engineering of asset liabilities and the index. And on the other hand, we also continue to derisk our traditional product portfolio. We decided to keep in the product portfolio endowment products, which have a classical flavor. But we decided to take out of the product all options and guarantees which cost a lot to the insurance company. So we left into the product only options and guarantees which are of real value to the customer and which we can provide in an efficient way. So we offer the Helvetia Pension plan product, that's the name of the product, with still some guarantee in it but very low. But this is interesting for the customer because there is still a level of guarantee. And there is an upside potential which is lower than in the modern products but there is still a surplus potential, which we share with the customer and what is very important for the customer looking to his retirement, or to his pension accumulation, is that we give an interest, a guaranteed amount at maturity. So we are much more flexible because we give the guarantee only at maturity. So in between, we don't give a yearly writing interest rates to a surplus because we decided to give the guarantee at the end of the lifetime of the product. So it is derisked, it is more capital-efficient and it still contains options and guarantees which are interesting for the customer. So we derisked all traditional saving products, except the annuity product, which we will transform and derisk next year.

What is also important to know with these more classical product lines is that we always combined them with risk covers, with protection covers. This means that the new business margin is even better because of these risk products which are added to the main product, to the base product. So the package is interesting for the customer but also capital-efficient for us and contains a good, new business margin. So the question can come up, okay, you derisked the product portfolio but what do you do with the sales force? Do you also transform the sales force? And yes, we do. It is very important that the sales force can cope with these modern products. So we are educating, we are continue to educate the sales force in the direction of financial instruments of modern products and of good understanding of the customer needs and the customer risk profile. Because we don't want to sell the wrong product to the wrong customer risk profile. So as you saw on our product portfolio, we still have good levels of guarantee. But nevertheless, it is good to understand what is the risk profile of the customer. And we use other tools to steer and to conduct sales in the good direction is by setting targets to the sales channels and to the sales force. And which is very important by selecting the right sales channels and sales partners. So we select brokers, for instance, which are interested in unit-linked, modern, capital-light products and we don't select partners which still want to sell the old guarantees and the old products with high guarantees, which are very costly for the company.

So this is the summary of the situation in Switzerland. The transformation of the product platform as explained before. We have 2 new, innovative product lines, which are Helvetia Guarantee plan and Helvetia Payment plan. We transformed the more classical ones, endowments, annuities, to become Helvetia Private Pension plan and we will soon transform also the annuity product into the Helvetia Annuity plan. And of course, we continue to focus on risk protection, risk coverage. We continue to sophisticate and improve tranche products, the Helvetia Value Trend. And we continue to improve and to offer the Helvetia Performance plan, which is the unit-linked product with investment funds.

Now have a look to the other countries in the Helvetia Group, which offer Individual Life solutions. The first example is Germany and Austria, where the transformation was made by product named Helvetia CleVesto. This is a hybrid product. It is a very successful product tool. It was sold in 2016, CHF 125 million in Germany and CHF 150 million in Austria. And in 2017, currently about 75% of the new business is sold with this Helvetia CleVesto product line. It is very interesting for the customer because it can adapt to his guarantee needs. As we can see on the lower part of the chart, the premium paid by the customer is split into 2 parts. One part of the premium goes into the classical guarantee on the right-hand side of the slide. And the other part is invested into investment funds and the customer can monthly choose, do I want to invest into investment funds or shall I leave the money in a secured deposit? So it is very flexibly he can say, which amount of guarantee from 0% to 70% and he can select the investment funds he wants to use on the left-hand side. And he can always decide how much do I want to invest and how much do I want to leave in a secured deposit. As mentioned, the guarantee at maturity is optional. It is possible that the customer does not want any guarantee. So the bucket on the right-hand side of the chart would stay void. So it is the most relevant product family in Germany and Austria. And it's working very well and accepted very well by channels and clients.

Another example is Spain. In Spain, there is less need or less development in the saving process of the product. And there -- the flagship product in Spain is the Helvetia Family Assistance

Plan, which is a product which is common in Spain. It is a product which covers burial expenses and it's not only a product which gives money but it's also a product which gives services because Helvetia provides the funeral service in corporation with the partners. It's a whole life risk insurance and individuals don't have to care about the change of the expenses for a funeral because it is adapted to evolution of the price. So this is the product for individuals or for families with coverage of the burial expenses and with the service of a funeral service in case of death. And overtime, this product has been enhanced and improved by adding new benefits. So it is a really interesting product also for coverage in case of an accident, in case of hospitalization and in case of other assistance needs. And the product is very profitable. It has a new business margin which is higher than the group target. And the business volume is also very interesting, there is about CHF 46 million every year. And it's not saving premium, it is risk premium. So it is very capital-light, very capital-efficient and very profitable with the high, new business margin. Another example, the other country where we are active in is Italy. And the transformation has been done very similarly to Germany. There is a product line, a hybrid product line, which has been launched. And on this slide, you can see -- you see one example is the Helvetia MultiDirection. But there are other flavors of this product. This is an example where you can see, similar to Germany, one part of the premium goes into a segregated fund with a fixed guarantee level. And the other part goes -- 60% goes into investments in unit-linked mutual funds. And the product lines are very flexible to -- for the customer and the channels because it can adapt to the risk profile of the customer. In this case, there are 3 risk profiles, low, medium and high. And the selection of the fund is still possible within the chosen risk profile. And here too, it is very successful in 2017, currently 80% of the new business is done with this product. And last year, the increase was over the market because increase of this product line was 47% when the market in this product line's only grew by 18%.

So this is the story of product portfolio, product transformation in Switzerland, Germany, Austria, Spain and Italy. Now the question can be what is the result of it in the new business? And we can see on this chart that more than half of the new business is already happening in capital-light products. So we have at the group level 55% in Switzerland, 54% in Europe, 56% of capital-light new business. And it is improving. It is increasing over the years in 2017. It will even be higher than the figures mentioned here. In Switzerland, we also report the capital-efficient products, a new category which is not yet reported in the other countries of Europe. But we can state that not only 55% is capital-light. But there is even more if we consider the capital-efficient products in the Helvetia Group. What you can see on the chart also is that between 2014 and '15, there was a decrease of the volume of new business in the group because of the decrease in the European countries because some products which were too capital-intensive were discontinued, for instance, in Germany or in Italy. So it's a sound base of new business with capital-light and capital-efficient products.

Now coming to another aspect of life business. The question can be what is happening with the back book and how profitable is the back book at Helvetia? For the whole life portfolio. And here too we can report excellent results. We can see on the left-hand chart -- left-hand side of the chart, Switzerland and Europe, where the interest rate margin could be increased to 101% in Switzerland and it could be increased to 0.70% in Europe. This means that there is a real transformation, which is visible also in the back book with higher interest margins between asset returns and liability guarantees. On the right-hand side, you can see the different buckets, interest rate buckets we have in Switzerland, you can recognize on the chart that 2/3 of the interest rate guarantees in the portfolio are lower than 1.5%. And in Europe, about 2/3 of the portfolio reports for interest rates or interest guarantees lower than 2.1%. And you see that the trend is going into the right direction, that interest rates in the portfolio -- in the back book are decreasing and the interest margin is increasing. So that was the interest rate margin in the back book, in the balance sheet. And now this is the -- are the figures of the new business margin in the new production and here too we can report for last year excellent results for Switzerland, where we have an interest rate -- a new business margin of 2.4% and at the group level, we have interest -- we have a new business margin of 1.3% and in Europe, we have stable 1.2%. So this gives a picture of the profitability of the new business, which is really, really well, really good. An example of how we do that or what are the results of the transformation in the product portfolio for a new business is this chart where you can see that we could increase the new business margin from 1.31% in 2015 to an excellent 2.36% in 2016, this is the case of Switzerland. And all the measures we have taken like derisking the products, like lowering the guarantee rates, like lowering other surplus rates, these measures have increased the new business margin of about 2% points at -- and unfortunately, on the other hand, the movement -- the downward movement of the market rates -- interest rates in the market have eaten up about 1% point. So there was a big effort for increasing the new business margin, which was a little bit eaten up by the market conditions, by the interest rates still decreasing in Switzerland between 2015 and 2016.

So we come to the conclusion of Individual Life Business at Helvetia with four main statements: we believe that we have an attractive, modern, capital-light product portfolio for a new business with high-user acceptance or high-customer acceptance; we were successfully derisking the traditional products, there are still a few which have to be derisked but globally we derisked the product portfolio in a very efficient and successful manner; we have improved the new business mix to capital-light and derisked products and we can report at least more than 50% of the new business in these product lines; and as you can see, we improved the profitability not only in the new business with new -- increasing new business margin but also in the back book with an increased interest margin. So we believe that Helvetia is fit for the future and even if conditions are adverse, we believe that we can cope with the persistent low-interest-rate levels as well in Switzerland as also in Europe. Thank you very much for your attention.

Susanne Tengler {BIO 18673192 <GO>}

Thank you very much, Reto, for that interesting insight into the Swiss business but also into the European life business.

Ladies and gentlemen, in order to provide you with a holistic or comprehensive view on the life business, I think we also need to touch on the Group Life side. Donald Desax is our Head of Group Life Business in Switzerland. He's also a member of the Executive

Management Board and he joined the company in 2001. Within the next 10 to 15 minutes, I would have the pleasure to discuss with you Donald, the situation in the Group Life Business in Switzerland with a special focus on strategy and challenges. Welcome.

Donald Desax {BIO 20113985 <GO>}

Thank you, Susan.

Questions And Answers

A - Susanne Tengler {BIO 18673192 <GO>}

Donald, I have prepared some questions for you and my first would be, Reto just mentioned it, in the Individual Life Business, Helvetia is very much focusing on the modern capital-light products. So my question is what is the strategy of Helvetia in the Group Life Business?

A - Donald Desax {BIO 20113985 <GO>}

That's a logical question. Thank you. So first of all, I have to mention that Helvetia has in its Group Life Business a unique position, a really unique position in Switzerland. If you look at the part of full insurance and the part of modern-light product, let's call it like that. All in all, we are #3 and we have a market share of about 11.5%. We are well established as a good and reliable full insurer, giving the full insurance. But on the other hand, we are very strong and I want to show you that we are very strong on the modern, capital-light product segment. And why that? This comes out of our cooperation, we're very proud of it. It's a cooperation with the Swiss capital banks since 1973. A very old cooperation we have there. And in this cooperation, we have a product so-called Swisscanto Collective Foundation. And this is a big part of our modern capital-light product segment. And if you look at the figures in 2016, we compare it always with the insured people, the policyholders, not with the complex as such. But the policyholders. So we have on the whole portfolio 40%. I think it's really unique in the Swiss market. We have 40% of the existing business in modern capital-light products. And if you look at the new business in 2016, it was 45% in this segment. Now, you asked me about the strategy and the strategy all over is we want to sustain our non-life reliable partner for Group Life Business in Switzerland in all segments. And that's not an easy task today in this low-interest environment. For full insurance, we want to stay at -- as a full insurer. We have to have selective on the right thing to safeguarding the financial returns. The financial returns for our clients but as well for our shareholders. So that means I had to push down to lower -- to slow the growth in the full insurance. I will come to this point after, after again. And we strongly promote, that's the same thing with Reto Keller, in the -- into the life segment, we strongly promote the modern capital products and if you hear modern capital products demand to positions there is as I mentioned, Swisscanto Collective Foundation. And on the other hand, poor risk insurance for pension funds.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay, perhaps you can explain the audience a little bit more how you define a modern product and what are the special product's features?

A - Donald Desax {BIO 20113985 <GO>}

Yes. The first remark I want to say is that's a little bit different from the Individual Life. It's not too easy to declare that because product is maybe not the right expression in the Group Life business. If you make a, for example, Swisscanto product, this is not only a product. But you have to establish a foundation for that. So you have always, let's say, a supplementary condition. I would say it's a combination of solution and services. But of course, I will give you an answer, Susanne. My answer would be the -- more than capital-light products, they have one point -- one thing in common. And that's that there is no saving component. And therefore, I want to define now the products components we have, pure risk insurance for pension funds. That's by definition that there is no saving component in it. So that's capital light. Then semiautonomous collective foundation, as I said, Swisscanto, for example. There, the saving and the assets are in the foundation itself. So from our point of view, Helvetia, that means these savings and assets are externally, or you can say, they are out of our balance sheet. So for us, Helvetia, those products are capital light as well. And there are -- a third segment, there are modern solutions, pension services. In our group, we have a little (inaudible). So-called consult the pension experts. But I don't want to go any further there. It's -- to give you an example, I will take this best -- best example is Swisscanto. Swisscanto, this foundation, we do have Swisscanto banks. In a nutshell, this is a semiautonomous foundation, about 5,500 SMEs therein clients and about more than 50,000 injured people. So this means it's quite a big, big size for us, quite a big part of our business.

The risk insurance and the management of this foundation is by Helvetia. So that's our partner, capital light. The second part in the assets, they are in this foundation itself. And they do that -- the assets with Swisscanto Investment Foundation from (inaudible). And the sales task, not to forget that, the sales tasks are driven by the Swisscanto banks itself and the brokers in Switzerland.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you very much. That sounds very interesting. At the beginning, you still mentioned that there is demand for so-called full insurance solutions. What I ask myself. And I think the others as well, given the current challenging market environment and the regulatory framework, is it still possible to run those businesses in a profitable manner?

A - Donald Desax {BIO 20113985 <GO>}

That's a good question, I would say. Yes. We can. We can run this business in a profitable manner. But it's quite a challenge. And I will give you some numbers to this challenge. And the second thing in your question was, the small and medium-size companies. Yes. Again, they are requesting the full insurance. And it's very interesting. To be honest, if you compared conditions of a full insurance solution with a semiautonomous solution, it's funny, that we have so much requesting there on it because the conditions are worst in the full insurance. So if you look at the conversation rate (sic) (conversion rate), it's lower. If you look at the interest rate for the savings, it's lower. And even the prime -- premium is higher. So why the hell are small and medium companies doing that? That's a good question. I don't ask you, I will give you the answer. The answer is they are looking for guarantees. And this is the price for the guarantee. That's a price for the guarantee. But this is not automatic going, as I said, it's painful work to be profitable in this business and surely in the full insurance solution. So we have to adjust our parameters every year, every year. And I will give you some hints, therefore, every year adjusting for (inaudible). The first thing I already mentioned that's selective underwriting to be concrete, we will not sign clients that have unfavorable age structure. Because if there are a lot of people coming to retirement, this means we have a lot of losses coming next. And we don't want to have those losses in our books. The technical interest rate for calculation, the risk premium calculation is at the moment, that means 2018, 0.75, very low, very low technical interest rate. Then the technical interest rate for reserves is, already in 2016, 1.35%. And if you look at that, what we do with our clients, the interest paid on the savings is in 2017, 1% in the mandatory part. That's clear, that's by government, we are not fee. And in the non-mandatory part, it's 1.25%. And the conversation rate (sic) conversion rate is near, I would say -- I would say near 5%; in concretes, 2018 is 5.12% for men. And of course, we will perhaps come to this question, the pension reform 2020 will give us very warm welcome help if there will be a no. Because in this pension reform 2020, we will have a lowering of the conversation rate (sic) conversion rate in the LOB or mandatory part from 6.8% to 6%, that's very helpful. We will have a raising of the retirement age for women, I don't know if you like it. But it's very helpful.

A - Susanne Tengler {BIO 18673192 <GO>}

I like my job.

A - Donald Desax {BIO 20113985 <GO>}

Okay. That's good, that's good. From 64 to 65, that would help. And the third point is there will be a new premium possible to finance the remaining actuarial losses from the retirement pension.

A - Susanne Tengler {BIO 18673192 <GO>}

Now you have already asked part of my next question.

A - Donald Desax {BIO 20113985 <GO>}

Sorry.

A - Susanne Tengler {BIO 18673192 <GO>}

That would have been, in September, the Swiss people would have to vote on the pension reform. And the relating question would be how does Helvetia assess that reform?

A - Donald Desax {BIO 20113985 <GO>}

Okay, then my answer will be somehow a little bit political. First of all, the necessary of this reform is clear. And it's very important. And it's very urgent. And if you discuss with politicians, if you discuss with insured people, if you discuss with anybody, I think this is not a point of disagreement. Everybody will agree this thing. Without a reform and a reform quickly, I think the 2 pillars of the social insurance will, I will say, now find a grounding. They will go run a ground because their financement both of them is not in a sustainable way. And that's not a thing about life insurance, my expression was the whole social insurance.

Then to add, this reform has 2, let's say, bitter pills -- I will not say poison pills. But bitter pills for life insurers. First of all, we will have a limitation of the risk premium of 200% after expected claims. Whatever expected claims we will see be, we will have to define that. Second, the parameters of the allocation of the surpluses we give to our clients, nowadays, this is made by mathematic actuarial methods in a very good way. But tomorrow, it will be bank law. And I don't think this is a good idea, to give mathematical elements to the law. Those 2 bitter pills are really not helpful for us. And they have nothing to do with the goal of this reform. But we can't change it, it's -- now it's like this. So even regarding to these 2 bitter pills and, as I said, it's really important and urgent, nevertheless, Helvetia supports this reform 100%. Let's say, perhaps, we are not totally enthusiastic there but we support it. This reform is already a compromise. It's not the best reform I could write down if I was able to. But just now we have only this reform on the table. And if we have a no on the 24th of September, then we will have the voting of this year. This would mean for -- surely, for the LOB, for the Group Life business another 5, 10, 20 years of fighting for a reform. And as I said, it's urgent; we don't have the time to wait so long. So I would say the -- if there is a no, no reform is the worst alternative. And as I said, the financement of those pillars -- the 2 pillars is not in a sustainable way. That will say, if we have a no, the next reform will most -- be most expensive -- will be expensive then.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. So basically, what are then your steps if that will be a yes or a no?

A - Donald Desax {BIO 20113985 <GO>}

I take only the yes, if I can. So a yes would be very appreciated, of course, then this task is, I would say, easier -- much more easier. If -- with a yes, we can switch to our actions to a more sustainable approach in Group Life. I told you, we earn money in the Group Life business. But we have to lower the conditions always every year. First of all, we will surely make the reduction of the conversation rate (sic) (conversion rate) in the mandatory part, of course. We will higher the retirement age for women to 65. And we will calculate this premium for the remaining losses.

After these adjustments. And they will take place, I would say, from the 1st January of 2019, that's the date the law gives us, we can change our underwriting condition to be less restrictive, I hope so. A no, that's more difficult to answer. I would say, if we have a no, we have to rethink our Group Life product in the future. This will be not easy. The decision we will take then will depend on the reactions from the political field. I don't know how the politicians will react. Perhaps, there is a next reform in -- coming suddenly on the table. I don't think so. And the FINMA, the regulation. And surely the financial markets. But what I can say today is, if there is a no, I'm sure that we will be forced to introduce even a more restrictive policy for the full insurance. The second will be, we surely will intensify our position as providers for modern capital products so -- in the semiautonomous foundations. And surely the -- being a problem solver for the second pillar.

Let me make a final remark, if it's okay. A no is not only a thing for the life insurer. Maybe this is a political statement I will do. A no will destabilize the second pillar as a whole. Apart from full insurance solutions, you see nowadays autonomous solutions, pension funds, they have -- they are already under big, big, big financial pressure. Conversation rates (sic) (conversion rates), you see not only in the non-mandatory part. But in the whole part below 5%; you'll see technical rates below 2%. The only autonomous solutions are the Semiautonomous Collective Foundation. Because of competition, they already, or still have, conversation rates (sic) conversion rates of 6% and higher. And with a no, they will have to rebuild their business construction. I'm sure about that. To be honest, it's a pity that our politicians couldn't find a better solution, a solution without those 2 bitter pills. But now it's settled, it's only this concrete reform. It's this reform. Either this reform or no reform. And I'm really -- I hope by heart that the Swiss voters will take the right decision. And to be honest, I personally am convinced they will do it.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you very much. I'll hope with you, although I am not Swiss.

A - Donald Desax {BIO 20113985 <GO>}

Thank you.

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you.

A - Donald Desax {BIO 20113985 <GO>}

Thank you very much.

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you for that interesting insight.

+++presentation

Ladies and gentlemen, the next presentation will bring us to Helvetia's second strong foothold, which is the European business. Markus Gemperle is our CEO Europe. He will give us some more interesting insights into the European business within his next presentation. Markus is also a member of the executive management board. He joined the company already in 1990, has been working in different operational functions and is CEO Europe since 2015. Markus, we're looking forward to your presentation.

A - Markus Gemperle {BIO 16433084 <GO>}

Thanks a lot, Susanne. Good morning, also from my side. I really appreciate to have the opportunity to share a couple of information and ideas about European business at Helvetia. I'm doing this not alone, by the way. I have with me Otmar Bodner, our CEO at Austria, who will have the task, at the end of my presentation, to prove that what I am talking to you, what I am telling to you is not just strategic blah-blah. And high-level white smoke. But also reality today.

Let me start -- which direction -- with an overview on Europe. Europe means CHF 2.6 billion on top line, a strong bias in Non-life. More than 60% with this even on high-level (inaudible) market; in Non-life, a bit bigger; in Life, on high level. And built on a rock solid Non-life portfolio, as you'll see it, with a gross combined ratio of 94.7%. Gross means this is really the quality of the portfolio in the countries. With this, we deliver an underlying profit after tax of CHF 113 million, which is close to 1/4 of the group.

It is already mentioned, Europe is the strong second foothold to diversify the Swiss home market development. But it is not just a couple of business units. It is important to understand that we do run a common business idea, a common business approach; you also could say a common target operating model in a broader sense. So we address same customer segments. Private persons, including high net worth individuals and SME. We do have a same strong and broad distribution approach, a multichannel approach in all the business units. Coming back on that. Having a consistent very similar product portfolio. And driving that out of an efficient and state-of-the-art back-office organization, backed on a strong brand, of course. And very focused on strong pricing and strong product management. A couple of figures more. So Europe is already today financially not just meaningful. But successful. I already mentioned the development of the profits, with those 106 and -- CHF 113 million, we are not just 1/4 of the group. But we are meanwhile on the level, even above the level the Nationale Suisse the whole group ever had. The combined ratio is reflecting the sound portfolio that we have, the retail portfolio that we have in Non-life. What you could see is in '15, of course, the impact of the integration of the Nationale portfolio and the cleansing that we had to do on that portfolio. Now back on track with 94.7%, a really sound and good ratio.

What you also could see here is the impact of group reinsurance, balancing on the net base in 2015 the impact of that integration. And now on the other hand side, paying back out of a sound portfolio to group reinsurance the premium. About Non-life business -- about Life new business margin, I do not have to talk too much. You already have been informed by Reto Keller. I think it is the result of a consistent orientation on new products above all and with all the power that we have in our broad distribution channels in those markets. With these elements, European entities do meet the capital requirements. We do meet capital costs with a underlying ROE of 7.6%. And those profits after tax, they are not just locked in, in the countries. With a payout ratio of more than 30%, Europe contributes importantly to the dividend capacity of the group.

Now let's have a look on the market. These are our market rankings that we have in the different markets. And it is clear, most of them are midsized. And we would like to improve them, especially in Non-life. But I think it's important to understand that it is not just about a ranking number. As we do not address, for example, volume-heavy industry business, it is much more important to be relevant in partial markets that we address. So private person and small and medium enterprises, the niches around high net worth individuals. And also regional -- specific regional markets. To make an example, we do not offer Non-life business in Southern Italy. You should not do that. We are really focused in the Northern part. So it makes not a lot of sense to discuss the average ranking in Italy. It is important to be relevant with the right brokers, with the right distribution channels, with the right partners, with the right ecosystems in the partial markets where we are in. And here, our positioning is already today clearly better than just the pure number that you see right here.

Now the markets itself, we are convinced that our markets: Germany, Austria, Italy, Spain do offer the market itself growth potential. There is a clear client need in Life and Non-life which offers potential because insurance penetration, insurance density is clearly low for those markets. And we, as Helvetia, are very well positioned in those markets to take benefit of those opportunities. Market consolidation, driven by regulatory requirements but also by the digitalization, will offer opportunities for organic and inorganic growth in markets that we know very well, where we are since ages, where we do work profitable since very long time. And our broad distribution approach that we all have already today is offering best starting position, together with our Swiss franc, best starting position to the tendency for a more and more hybrid customer.

Now let's come back on our idea, how we run that business. I already mentioned that we do have a common approach to do that business. You could say -- or I always say it's kind of a target operating model. Of course, we are not everywhere already there. But it is a common idea how to run that business. Different elements. First, here you see our product offering that we have. A full range in Non-life, retail for private persons for small and medium enterprises, including niche products, high net worth individuals; including specialty lines products as marine, art or engineering. And on the other hand side, Individual Life products. Reto explained them, also a consistent view, just less oriented. Here, we are not going for volumes, it is less.

This common idea about our product offering, the common process model behind is the basis to exchange and to leverage solutions, to exchange know-how. We do work like that already since couple of years. And there is a lot already in place. All what you see here is in place. Of course, there is still a lot to do, to dig out according to our priorities. But already a lot in place. A lot in place regarding innovation. We do have our common B2B, B2C platforms. We do have CRM in place for all the business units, a common idea. We do have common innovation methods to develop products. We have a common idea of how to automize business in the back office. How to steer the portfolios, how to manage them. Common pricing elements. Common data sources. Common data analysis. And of course, the more classical ones on the right-hand side of that slide, reinsurance, of course, common concept, common coverage, together with the group and same investment. So a common concept, a common idea, common processes, common solutions, at the end of the day, are the basis then also for common IT solutions. It makes not a lot of sense to share IT with different business approaches. You just produce complexity. So the first thing is to align business ideas, to align products, to align processes and then to build on IT.

So already today, we do have 1 consistent IT architecture within the whole Helvetia Group. And with that also within Europe. Of course, with local elements but built-in in 1 IT architecture. And regarding the business solution I mentioned right before, we already today share infrastructure, very important infrastructure, for all our B2B, B2C, B2E portals for the front-end solutions for our distribution channels. We share all the capabilities, all the resources, even infrastructure, regarding data. So same data models, same data warehouse, things like that, same analytics tools, of course. And last but not least, also security, meanwhile a heavy topic, we do share the security operation also on a common basis. And in IT, it is not that much just about cost synergies, it is also, of course, you would say, right, it is of course also very much about time-to-market. Roll out existing solutions on a common basis is much faster, much easier and to build it up, of course, for your own. Second point. And third point, it is a lot about risk management in those projects. So a very important element in our overall idea how to run that business in Europe.

Last but not least, a very important asset. We do have a broad, today, mainly multichannel approach in all our business units. Hundreds of agents exclusive, nonexclusive, independent, employed; hundreds of brokers; important partners in the different business units, banks, specialists in insurance business, big employers, financial advisers and so on. So very market specific. And of course, increasingly direct sales and new media. So in each and every market, a really solid and broad basis.

This is what we are planning to do with that. It is a starting position. We are stepwise moving into a omnichannel world. What do I mean with that? From a very specific channel view into a client-oriented view, combining and integrating all what we know about our client, about our partners, all our touch points, all our call centers, all the inputs that we have for clients to meet his expectations, the hybrid client, there in the middle. So it is a potential, of course, to meet client's expectations. But most of all. And here we are really just at the very beginning, just touching the surface most of all, as there is a lot of other potential for us. Just imagine the information that you have, what you know about client need -- future client need, about behavior, about pricing, about fraud. So a very important -- in our view, a very important development of a very successful, say, overall sales organization, cross-channel organization into a new world.

So this is our overall model. This has been a couple of figures. Of course, each and every country market is -- has its own strengths, is an important pillar in a specific market. I do not want to go into too much details. And I don't talk about Austria. This is then part of Otmar Bodner. But probably 2, 3 elements for the other business units just to give you a flavor. Germany, I would say, well known meanwhile, especially, during the last two years, three years probably, thanks to Torsten also. You will see a bit more, then, in the breakout session about that. Well known in the market as a very agile and flexible insurer, able to deliver solutions, services or interfaces to partners, corporation partners; also online partners but also distribution partners, brokers, broker association, things like that. Already a very good initiative we have right there. And we do see a lot of chances there to do business, especially new business, especially digital business because most of our competitors are bound in their old back-end systems. And do need too much time to market.

Products, already mentioned, award-winning in Life. Also award-winning regarding quality of service to the brokers in Germany. So a very good image. And last but not least, our internal start-up that we have in Germany. So it is an integrated digital company that we run in Germany. And which is already equipped with a full range of completely digitalized B2B and B2C solutions for all our Non-life products. Germany, Italy, probably with the broadest approach and the broadest network that we have regarding the multichannel access to the market, large agent network and especially banks. We do see a lot of potential especially, meanwhile, in the Non-life business, very profitable Non-life business with the banks in Italy. Products with that distribution power, we are ahead in pushing into the market the new products and we do also integrate, meanwhile, the specialty lines -- sorry, the specialty lines solution into a new product for SMEs, which is addressing the campaign that Philipp mentioned in those segments. And last but not least, an important point, portfolio, I already mentioned that. Just in the Northern part of Italy for Non-life. And the lower share of motor business, which helps already or especially in those days. Last but not least, Austria -- no, Spain, since many years, a solid contributor of good profits, probably at the very beginning or very ahead in moving the cross channel, the multichannel approach into the omnichannel one. So probably because of the crisis, this market is quite ahead in digitization, also the clients accept and, therefore, we tried to move our broad agent network into that new concept, combining all the contacts that we have, combining all the data, all the elements that we know about the client and bringing back all this information into the organization for sales, for renewal, for pricing.

That's it about the market. So we are a bit under time pressure I have realized and, therefore, I'm coming to a first conclusion. So it is important to understand Europe has a consistent business approach. Europe is already today financially successful, of course, with potential to improve the margins, that's very clear. But also with a built-in option -- a free built-in option to grow in those markets we're already in. And organically. And with that, a important second pillar of that group to balance the dependency on Swiss markets development.

With this, I would like to hand over to Otmar Bodner. Some of you might remember that we have been a bit small in Austria, probably too small. We have been patient. We have identified the target. We have been able to take over and to integrate, proving again that we are able to integrate. And Otmar is now showing you our Austrian story, a little bit the idea how we would like and are going to develop different markets in Europe. Otmar Bodner is with us since this integration because he was the former CEO at Basler, which we took over at Austria and, therefore, very familiar with both sides of that coin.

So please, Otmar, give us a flavor about Austria.

A - Otmar Bodner

Thank you, Markus. Good morning, ladies and gentlemen. It's a great pleasure to give you a short overview of the Austrian business. And what we've done in the past couple of years. In order to do that, I'd like you -- would like us all to go back to the year 2014 when, like Markus just said, Helvetia bought Baloise Austria. And if we all look at the strategic rationale behind this acquisition, you see it in most -- in insignificant parts were a significant increase in scale, a better diversification of the Non-life portfolio with the expansion of the advisory sales network.

And now 2.5 after -- years after the closing of this process, let's look at what we have achieved in these couple of years. And I hope you will find that it went very well for Helvetia. As you can see, the premium volume in Austria increased significantly from CHF 320 million to CHF 530 almost million in 2016. And we also expanded our product portfolio. What we have achieved with the acquisition is a better diversification of the Non-life portfolio. Helvetia Austria used to be very much focused on the north of the Alps region. And with the acquisition, we were able to combine it with the portfolios that were in the south and in the east of the market, which have a different weather pattern. And so provide a great diversification for the Non-life portfolio. And also have a low claims ratio in the past. A very important strategic reason for this purchase was, especially going forward, the expansion of the sales network. And as you can see, the old sales force increased from 250 representatives to about 630 in 2016. And also, the purchase offered access to other relevant market players, especially brokers and pyramid sales force.

Looking at the numbers, you can see on the left side that business volume increased, as I just mentioned. It is probably important to understand that this is not only mostly particularly due to the integration. But also it's a fact that we, despite the merger situation, outgrew the market. And could add substantial organic growth to our business.

Now on the right side, you can see that this acquisition and the organic growth led to a significantly strengthened market position in Austria. Roughly, we were, before the integration, #12 and #13 in the market. We now moved up to top 8, top 7. In Life, we are top 7. In Non-life we are top 8. If you look only at the retail business, which is basically the core of our business in Austria, we are #7. And again, which I'm very happy about, we have the sixth biggest sales force in Austria. As you see in the middle, we did not only grow the business, we also focused on improving the profitability in the operational business and we're able to reduce the combined ratio from 99.7% to 92.9%, which is now lower than the big market leaders in Austria. And so we are not only claims -- market wise but also profitability wise very well positioned in Austria. Also, as Reto already mentioned, we have managed to improve and increase our unit-linked business in Austria. And now about 73% of our premium volume, not in new business only. But also the premium volume of the existing portfolio, is in unit-kinked and capital-light products.

I'm showing you now a quick overview and a short time line about the integration process. And as you can see, the closing happened in end of August 2014. And the formal end of this merger process was about a year or almost exactly a year later, end of August 2016 -- '15. You can see in the meantime, we were doing everything that was supposed to be done, 1 organization, 1 product offering 1 brand. And if you ask what are the crucial -- what were the crucial success factors? Why we were doing so well in the past couple of years. I think it's the wise decision to have a joint management board in this unit, which was a clear sign to all the employees and all the sales representative that we are striving for best of the both worlds' strategy. The key -- I think the primary key to this success was that we were very, very quick at deciding upon an organizational structure. Within 25 days from closing, everybody in the organization knew whether they had a role and what their role was. So after 25 days, after the closing, the tension that had been in the company was gone and everybody could focus on what they were supposed to do to get the job done. And that was -- there was really a push for our integration process. And also, what our model was, we were aware of the fact that the biggest asset that Baloise brought into the game was the sales force. And one of the focus of our project was to keep the sales force motivated and happy. And as you can see, we did not have any unwanted attrition in the sales force. And also, we managed to outgrow the market both in Life and in Non-life, which you don't see often in a post-merger situation.

The second key to our success in the market was the close cooperation with the group and the benefits that we enjoy for being a member of Helvetia Group. And there are many, many benefits, Markus has already mentioned them. And I mapped -- we mapped out only a part of these benefits that we are enjoying from being in the group. And they range from more lose cooperations like process engineering, joint know-how transfer to very intense cooperations, like we share the IT operation with Switzerland. They operate our server park. And we did, as Reto already mentioned, developed our unit-linked products together with Germany. And also took the pet insurance product that Germany had developed and introduced them into the Austrian markets, which not only put us into the position of being a market innovator. But also reduced greatly our time to market for those products.

So overall, I think that is my last slide. I hope I've managed to show you that the decision to invest in Austria was a very good one. I hope that I managed to show you that the process of integration of the 2 companies ran quite smoothly, that the Helvetia Austria is now very well positioned in the Austrian market and that for the past couple of years, we've been performing quite well. Thank you very much.

A - Susanne Tengler {BIO 18673192 <GO>}

So thank you, Markus and Otmar, for that interesting insight. I think especially the Austrian story shows that Helvetia is very good at acquiring companies. And even better in successfully integrating them.

The last presentation of the morning will cover the Specialty Markets segment. Specialty Markets increased its importance following another acquisition. And that was the acquisition of Nationale Suisse in 2014. David Ribeaud is our CEO of the Specialty Markets business, he's also a member of the executive management board and he joined us in 2014.

And David will now give us some more insight into the Specialty Markets business.

A - David Ribeaud {BIO 17625648 <GO>}

Good morning, ladies and gentlemen. I'm very happy to present to you Specialty Markets, a market unit which has a very strong positioning in selected niche markets. The business unit consists in 3 units. We have Specialty Lines Switzerland & International, then we have France and then we have Active Reinsurance. Now what do these units have in common? They focus on very specific business requiring dedicated skills. They have an international dimension that mean we need IT solutions that have the ability to lead -- to deal with multiple currencies. And very important, because we write business on a global level, we need an excellent nat cat management. We have a premium volume of roughly CHF 770 million. We have a very good gross combined ratio with roughly 92%. As you can see, the net combined ratio is significantly higher, with roughly 7 -- 97%. And the reason for that difference is that we have a very good reinsurance protection. As you may be aware, Specialty Market business tends to be more volatile than retail business. We want to reduce that volatility for the group by having, as I said, a very good reinsurance protection. Obviously, this doesn't come free. And this is why you see this difference between the gross and the net combined ratio. And the net result after tax in 2016 was CHF 36 million, which we consider a good contribution from our market area.

Now if you look at the past few years, we can see if we start with the volume on the left-hand side of the slide, it had evolved in a very positive fashion, especially thanks to the development of our Active Reinsurance business. We've gone from roughly CHF 550 million in '14 to CHF 770 million in '16. Obviously, the already mentioned acquisition of Nationale Suisse helped as well.

If you look at the net combined ratio, yes, we can see a certain volatility. But overall, it's -- can be considered fairly stable and the performance, as I mentioned is solid.

And the underlying earnings also, although, they may vary from one year to other because sometimes you can have an excellent, outstanding year in this kind of business and sometimes only a good year, well, the underlying earnings have been consistently good as well. The payout ratio to the group in terms of the dividends was 9.4%.

Now what are our values and vision as a market area? Well we aim at being a very customer-oriented niche player. And that, I would say, everybody says. Now where we make a difference is we human size, at Helvetia Specialty Markets, our customers, our brokers, our distributors. They have direct access to the CEO of the relevant market units. They have contact with the exec management. And that's something they appreciate very much. It allows us to make a difference. We're fast, we're personal and they have access to the decision makers. Obviously, we need a bespoke expertise in our Specialty Lines. We employ a lot of professionals, engineers, I'll come back to that later. And we want also sustainable insurance as well as reinsurance solution. When I say sustainable, it means that we're not in and out depending on the market conditions. We want to develop viable, long-standing relationships with our customers. And obviously, we want to deliver a profit to the group, that means we only write profitable business. And we live our key values, the common key values of Helvetia, which are trust, enthusiasm and drive by focusing very much on professionalism that is required by our customers; consistency; transparency, obviously, we always explain why we do certain things and why we don't do others. We innovate, there's a very high focus on that. We, obviously, need to be efficient. And you can always be more efficient. So we're constantly investing a lot in that area. And compliance. Last but not least, compliance. It was already mentioned by Reto, regulation is becoming a very great challenge also in Non-life. If we think about the different sanction regimes on a worldwide basis, we have been investing a lot in that area and we really adhere strictly to all these regimes.

Now let's look at Active Reinsurance. We have a very long-standing history of writing Active Reinsurance at Helvetia. Something that is unknown to many. But we've been doing this for over 150 years. We have a centralized business model. So the business is written out of St. Gallen. We have 40 employees. We have roughly 250 customers. And what we're after are broad customer relationships. And that's why we're different compared maybe to some competitors. We don't go and look at the different treaties and try to get a great share of the better ones. No. That's not how we do it. We go to the customers, we meet with management, we look at their underwriting strategy and if we're convinced that they're a good company, that they write sustainable business overall, then we're going to have participation across the program. And we have been very successful with that approach, especially for the midsize customers we're targeting. Our portfolio consists of property business and casualty business and also selected specialties.

While it's very important to note, I did it already, I'll say it here as well is that we focus on containing the net exposure, for instance, in the U.S. And we write proportional as well as nonproportional non-life treaty business. There has been, in the past years, an increased demand for proportional treaties, quota share treaties, given the solvency to our requirements. And that this is also what explains the significant growth we've seen in the Active Reinsurance unit. And our strength, we have very good analytical capabilities, pricing capabilities. Those allow us to be very smart and effective follower. Some companies have a huge head office, they have fixed costs that they need to cover by writing business. We don't. We're very lean. But we're investing in the areas we think are very critical, like pricing analytical skills. But very lean. That allows us with our structure to only write the business that we think is sustainable. We're not under pressure to produce -- to not see our expense ratio explode. And that's also -- that puts us in a very good condition.

Now let's look at the mix, the business mix. You see here, we have a line of business mix as well as business mix by region. We're still very present in Europe, with 45%. Historically, that's where Active Reinsurance was focusing their efforts in the past. We see -- we also have exposure in America, 38%. But our -- as I said, we really managed our NatCat exposure very carefully. Than we have Asia with 10%. Here, we certainly have a potential still. But the market conditions are very challenging. And because as I said earlier, we're not under pressure to produce the volume, because we don't have for instance a huge organization in Asia, we do everything out of St. Gallen. We're fairly restrictive in terms of the business write because the conditions are challenging. Then others 1%. And Middle East 6%. Also in the Middle East, we think that the conditions now are very difficult and therefore, write a business in a conservative way.

Lines of business mix property, very important historically. Lability 23%. And then we have engineering 11%. Important line of business for us, also if you look at the specialty market as a whole, then we have specialty agriculture, we have a dedicated underwriter who's been in that business for decades, he knows the global market. Then we have Motor, with a limited exposure. Again, because of profitability considerations, we could write much more, obviously. Than we have another specialty, Aviation, 7% and then Energy 4%, Marine 2%. And others. Now you could ask, why do we only have 2% in Marine when we write Marine business? Well from Marine insurance perspective in Marine, the conditions nowadays are very challenging. And this is why we haven't been writing a lot of those treaties lately. That may obviously change because we can adapt very quickly to the market conditions.

Now what is our vision, is to be a reliable, proficient property, casualty and specialty reinsurer for midsized customers. So we're not going to be reinsuring Zurich, Allianz or Globals, no. We're going to look for similar companies to Helvetia, get to know them and reinsure them across the board. As I said, an approach that is very appreciated by many midsize customers.

Now what lies ahead of us is to improve the business mix still, on a global scale. Then exploit the synergies that are within specialty market in terms of cross marketing. Also introduce additional services, without adding too many fixed cost. But we're now offering reinsurance courses to our customers, expand the product range. And obviously, an ongoing improvement of our analytical scales, because in the future with the data that we have I think we will be able to make a difference there. And obviously, reserving pricing is something we're very keen on developing. We're already state-of-the-art I would argue. But reserving is key in that kind of business. And here, we have very conservative approach, which is I think right for this type of business.

Now let's look at France. Also here, we've been around for a long time. France focuses on Marine business in France. They've been doing that since 1921. And we have roughly 300 specialized employees. We're #2 in the French market behind AXA. We have roughly 23,000 customers, private individuals as well as professionals, SME and a few industrial clients. The number of those have -- has been diminishing, because the conditions. As far as very large customers are concerned have been deteriorating. And we've been pulling out to a certain extent of that customer segment. This is also why the volume in France diminished in the past few years. And this is also why in France, in '16, we had a lower profit than expected. And this is why we introduced a profit and prudent program, which implies also canceling some relationships with very large clients, unfortunately.

We have a very highly effective sales network, with 11 regional and local commercial offices. And that's very important. In France, you can't write all the business out of Paris. And so, some companies tend to do that, we don't think that's the right solution. In France, there are many, many local brokers, many local customers they want to deal with people in their regions. And they want these people to be empowered to be able to make quick decisions. And that's where we make a difference. We do empower our regional offices, we have excellent skills there and we've been developing that network consistently. And we have a wide range of standardized as well as tailor-made solutions that helps. And as I said a very strong technical focus. And the customers to broke state appreciate it a lot for that. And obviously, we're highly competent and experienced in all the Marine segments. And we'll look at those in a few seconds. And we have a product range that we've complemented shortly with art and engineering, because that's the business we know very well in Switzerland. And so why not introduce it in France and leveraging their infrastructure, meaning distribution network, technical capabilities, IT infrastructure. So that's something we've started. And it's working rather well. And also here, we have a net retention of EUR 5 million. So limited volatility for the group.

Now if we look at the business mix, obviously, only Marine, we see that we have a strong portfolio of Hauliers business, in German, Spediteur. Then we have Hull, (Kasko), 28% that's a challenging market. That's where we've been losing volume in the past few years, because we're focusing on ensuring a good combine ratio. We have Cargo, that's rather profitable. And here the challenge lies in protecting that business for -- because obviously many, many are after cargo business. Then we have a Motor Hull business, which is very sound.

So overall, a very good position in Marine. And what is our vision? Our vision is by leveraging that very good position in Marine, the infrastructure that we have to become a dedicated SME insurer. I think that's almost a logical development, if we consider also the group, Specialty Markets and the capabilities that we have in Engineering, in Property, in Liability. So what we'll do is further develop obviously art and engineering, which we've already introduced. Strengthen our position as #2 in the French market. Modernizing our product offering. For instance, we have an online product for yachts, in 2 clicks the brokers or the customers can buy a policy from us. Which you know is working rather well. Then the gradual expansion of our product range to be in a position to be the preferred SME insurer in France. And that's something we'll do gradually over the next 3 to four years. Obviously, Automation that was mentioned also by Marcus, is very important as well. We need to be effective and efficient.

And last but not least, M&A. Should there be a good opportunity in France, we'd be happy to seize it. Obviously, it needs to be consistent with our strategy. So no-life business, no personal lines business but SME business, that's something we'd be happy to acquire.

Now I come to the last market unit within the market area, Specialty Markets, Specialty Line, Switzerland and International. Also here, we have a long-standing expertise in that area. Helvetia was born as a Marine insurer in St. Gallen. And also in art and engineering long-standing history. we Employ roughly 180 specialists of different nationalities, mostly in Switzerland, 150. But also in our offices that we have in Istanbul, Miami and Asia. We have roughly 43,000 customers. We have a leading position in Switzerland in engineering, art and marine. That's something people are not aware yet. But we're working on positioning ourselves as such. And that very strong position in Switzerland allows us to support the global expansion. Why global expansions? Well it started with, we in Switzerland ensuring ABB for instance. ABB went global. And we went global with them. So over time, we naturally acquired an international dimension. And thanks to the know-how we have in Switzerland, we can actually support that expansion. And ensure risks that today are placed globally. A very large tunnel, a dam, a highway, risks like that require such a great capacity. We're talking, I don't know 50 -- up to 50 -- 20 billions they're placed globally. And that's where we can bring in our expertise and our capacity on the selective fashion.

While our portfolio consist in small to large engineering business. So we have the small engineering business in Switzerland as well as the large one in Switzerland. We are insured the Gotthard tunnel together with a competitor, we're insuring the Ceneri tunnel. I mean, we're talking about really significant risks. And we also have Marine and Art business. And we also have here a very strong technical focus and dedicated accumulation management, that is very important. And also, a global clearing system for all the relevant exposures.

What do I mean by that? Today, you have let's say one big risk in Latin America. The risk will be placed through London, the local market, Miami, Singapore, Hong Kong, different, different places. We might be addressed as Helvetia or we might be asked to look at that risk in different areas of the world. What we need is to make sure that we don't write 5% of certain conditions here, then 10% here and then end up with the 40% of the risk, which we -- weigh too much. So we have a global clearing system. So the first one under the risk we'll capture that in a system, everyone working on that risk will see where we are. And we'll write an appropriate share of that risk at the best conditions. That may be in Singapore, they're may be in London, or they're may be in Miami. Very important. And we're very proud of the system that we have in place in that regard. And our strength, our clear commitment to digitalization, we're just introducing a new system, which is state-of-the-art. We want to maximize convenience for our customers. And that's -- thanks to our human size, something we can do. And also here, we have a modest retention of 5 million, it's -- it can be volatile, I mean if you think of the Gotthard tunnel, nothing happened, thank god. But something could have happened. That volatility -- that gross volatility, we don't want on a net basis, this is why we have very extensive reinsurance program.

Now in terms of the business mix, you can see we have roughly of those -- a bit more than 200 million. We have roughly 53% of Engineering and Large Risks business. I'll show you a slide in a couple of minutes to show you where that business is. Than we have the normal, I would say engineering business in Switzerland, 90% -- 19%, then we have the normal Marine business in Switzerland, 18%, then we have the Marine International business, 5%. And then art 5%. So a good business mix in our targeted niches. And if we look at the geographical mix in terms of production. So where is the business produced? We see that today almost 90% is produced out of Switzerland. And 11% in our regional offices. And obviously, as we grow, as we develop our presence in those local markets, that proportion will change over time. That's our goal. But even within the next five years, Switzerland will still have a predominant position in terms of the production of the business.

Now let's look at the Engineering Large & Special Risks, where that business is. You can see a great portion is in Europe. And also Switzerland, as I mentioned, for instance a Ceneri tunnel. This is the business we're trying to develop on a global business. This is why we have business in America, a fairly respectable proportion. Then we have Asia, where we have 2 entities, we've developed the business, we're still in startup mode. Then we have Latin America, a smaller portion. Why? Because the conditions in Latin America are currently very difficult. Many states are under pressure, because of the crude oil prices. They can't invest. And so, no investments mean less project to ensure for us. This is why you see a fairly modest portion of the business in the Latin America currently. That may obviously change over time.

Then we have Africa, there the conditions are challenging. This is why which we have less business there, because we're very selective. Then Asia, which we are developing. And you can see we have operational business as well as erection and construction business. We started first by only offering construction and erection. But then, once you ensure the risks during its entire construction, you know it in and out. Then why not insure in -- insure it during its operational phase. That's a national step, we took it and this is why also we've been developing the business in the way.

Now what is our aim in that unit. Well clearly, to reinforce our position, to further establish our position in Switzerland, as the #1 engineering, Marine and Art insurer. And selectively, that means we're not under pressure to grow it's only where it makes sense, selectively expand our global reach in Asia, America and Europe. That's very important. Also here, if there were any M&A opportunities, we'd be very happy to look at them. Obviously, we will be looking to develop if it makes sense additional specialty lines. And business segments. There are others specialty lines we could look like, like Credit and Surety, Aviation, DNO, Agriculture, this is something we'll look at. Obviously, we want to introduce also online products in Switzerland. We have for instance in Switzerland, for exhibitions, we have very simple product which is offered online. And we're making first experiences in that area. And obviously, explore what could be new business challenge. And we believe a lot in the potential B2B. Obviously, we'll be looking to optimize our efficiency. The newly introduced IT system will hit greatly in that area.

Now in conclusion, regarding Specialty Markets as a whole. We offer very strong and promising potential for profit and growth for the group. Obviously, as I said, it will be selective growth. We are not under pressure. And that means, depending on the marketing conditions, it will be more or less fast. But we've proven that we're in a position to grow globally. And to diversify the book-of-business for Helvetia. We have established local market positions for Asia and Latin America through our Miami office. That's very difficult to do at the beginning. We're still in Asia in a startup mode. But we will be gaining speed very quickly. And I think that's a very strong position to be in. And obviously, we can count on our very extensive expertise in the specialty lines, we've been doing -- we've been writing that business for more than 100 years. We know it. And we employ dedicated engineers and marine specialists and art specialists. And obviously, we have synergies within Specialty Markets. So we work closely with France to share the know-how that we have. We work closely with Active Reinsurance, they have relationships. And we have relationships where we can share and develop the business together. So I hope that gave you a good and encouraging overview of Specialty Markets. And we'll be happy to further contribute to the expansion of the group. And we'll be further focusing on delivering good solid results.

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you, David, for the very interesting presentation on Specialty Markets. Ladies and gentlemen, we will now have our first Q&A session. As I have already said, it's also possible to ask questions via the telephone. Nevertheless, we will start here in the room. Philip and Paul will be happy to answer your questions. And they will be supported by the whole management team. We have a microphone here in the room. And now the question is who can we -- who is going to ask the first question.

+++qanda

Q - Peter Eliot {BIO 7556214 <GO>}

Peter Eliot from Kepler Cheuvreux. And -- No, (I'll try that) (inaudible) you mentioned some payout ratios that 31% for the European businesses and 9% of the specialty. Just wondering if you could say how much is being used for growth? And what the upside potential is? Perhaps to both of those payout ratios. And the second area I wanted to ask about, on the Individual, we heard about guarantees with no value to customers were being reviewed and withdrawn. And we have the example of annual guarantees moving to full term. I'm just wondering if you could give us a couple of other, perhaps less obvious, examples of the guarantees that customers might have had that you don't think that was particularly adding value? And I'll leave you with that for now.

A - Philipp GmÃ¼r

Okay, I think it's Paul's turn.

A - Paul Norton {BIO 16145125 <GO>}

On the, payout ratios, I mean this is first time we've given you payout ratios for the market units. And I think you should understand that most of our dividends do come from Switzerland. And we have the fortunate situation that we operate a branched structure. So that most of our business in Europe in the non-life area comes through branches. So dividends and capital (fundability) if much easier. I think it's pretty clear that those market units are in a growth phase. And that they are developing, they're looking to invest in IT systems as Markus Gemperle said, for example, (inaudible) said. So most of those -- most of the profits have been retained are there for the moment to act as a buffer if you like for future development. In Europe also, we have the uncertainties of Solvency II, which is brand new. We just don't know at the moment like most people. And when you -- probably have seen all the SFCRs have been published. But it's a little uncertain as to whether Solvency II ratios is will turn out to what individual regulators want and that's the important point. It's not a European standard, unfortunately it's a local standard as one would have expected. So we're getting different answers from different people. Over time, as we develop those 2 areas, we expect those payout ratios to increase. I also would like to mention what I've mentioned before at the various press conferences, that you're looking at IFRS basis here. And don't forget the dividends are all paid out of statutory earnings. And statutory earnings are considerably lower in most countries. On the guarantees, well we changed the guarantee structure, you mentioned the end guarantees, I would have to pass it over to -- maybe to Reto, maybe to give an answer on more detail of other types of guarantees that we've changed.

A - Reto Keller {BIO 16191606 <GO>}

The guarantee which we took out is the level of the guarantee. So we could have all 25%. But we don't give all 25%, we give 0% or even a negative interest rate in the guarantees, we can be minus 0%, 25%. Then, of course, the guarantee of the surrender value is lower during lifetime of the product. So the surrender value guarantee is also lower and another guarantee which we took out is the surplus interest rate. So there's no guarantee interest rate on the surplus. So these are...

A - Paul Norton {BIO 16145125 <GO>}

(inaudible). Of the bonus (inaudible)

A - Reto Keller {BIO 16191606 <GO>}

The bonus -- the interest rate on the bonus is not guaranteed anymore. So there is some small parts which are taken out, which are quite expensive to maintain. And which are not of real value, because there is this upside potential, which is different when you give less guarantees. Did I answer your question?

A - Susanne Tengler {BIO 18673192 <GO>}

Next question?

Q - Rene Locher {BIO 1921075 <GO>}

Rene Locher, MainFirst. So it's just a channel question on the European divisions. You showed us on Slide 30 that the European division generated an ROE of 6 -- 7.6%. Now my question is where do you see room for improvement? I'm looking at the 2015, '16 combined ratio, like for example what this (inaudible) achieved in auto that's amazing. That's a combined ratio of 92% to 93%. Where as in Italy, you're running at 98%, 99% -- 99%. We have (inaudible), 83%, 84%. (inaudible) at 90%. So my question is, whether you believe there is room for improvement, which then also would help to finance the dividend? So this is my first question, just on the European division. Then the second one is on group life business. I'm really chasing that for years and years. And when I'm looking on the Slide 22. There you have the guaranteed buckets Switzerland. So first question is, the swiss (come) to business, is this included with a 0 guarantee in that short? And my next question would then be compared to your peers in Switzerland, you should achieve a much higher return on equity, because you have such a capital-light group life product.

A - Philipp GmÃ¼r

Okay. Thank you Rene. I would say first ask Paul, to answer the questions with regard to the ROE. And then in the group life business. Then, quickly turn to your questions regarding Europe. First answering myself 2 or 3 points and then asking maybe adding up Markus if needed. Okay, Paul.

A - Paul Norton {BIO 16145125 <GO>}

Yes, I think that we have a 0% guarantee in the guarantee buckets for the Switzerland life business written through -- Swiss group life business written through Swiss Kantor. We don't disclose the return on equities, specifically for Swiss group life business, I don't think our peers do as well. So it's difficult to compare. I would certainly expect that our return on equity is better from theirs. I can't say it by how much.

A - Philipp GmÃ¼r

Okay, with regard to Europe. I mean, where's the potential we see. First of all, we have to see that the combined ratio as we have it today in Austria, has its history over time. And partly, it is due to -- and thanks, we realize thanks to much higher volume and more underwriting capacity. And by the end of the day, also more know-how in doing the business. And that helped, the leveraging of the know-how of the 2 companies, Helvetia and Balosie, combined with a higher volume, helped us to significantly get lower the combined ratio. When we have a look at the different markets, each market be it, Italy, Spain or Germany, apart from Austria, has its own strength of course. And what we see as a big potential is, we see rather big growth potential in Germany. It's a market we've been in for more than 150 years. And our relative position in this market is I would say modest or moderate. Where at the same time, we see growth potential -- much more growth potential, for instance, organically then we see for the time being in Spain. In Italy, we have to wisely steer our growth in the motor business, because the motor business is in a rather difficult cycle right now. So what we see as a growth and profit contribution potential in those markets is that may be due to more volume. And to leverage all those means we have in our home market. And in the different country markets in order to expand it to other ones. For instance, when we are talking about this Good Driver App from Spain, we want to leverage it to other country markets. When we're talking about

Helvetia.de in Germany, this is online business, we want to leverage it to other country markets. And within this echo system Europe, if you will, we see big growth potential. Markus?

A - Markus Gemperle {BIO 16433084 <GO>}

Yes. If I may, I have my own manner (regarding) that -- so it's always complicated after (zeros). (We'll take) additional points, probably. Regarding Germany and Italy, what you mentioned, in Italy, you are right. We are quite high in our combined ratio, different reason, completely than the story that we have in Germany. In Italy, you might remember we are coming out of a -- quite a couple of integration projects over the last years, now overwhelmed by the national Swiss integration on top of that and being in a renewal process. So we had a famous project. So internally famous project, the interconnected company there, renewal of a lot of systems and processes and things like that. And all of that's created quite the bulk of investments that we have to manage. So we are at the end of those integration projects. We assume that they are -- next in '18 that we will be able to close them. So the burden that we have on the costs side is really a heavy one in Italy. While the claims ratio, we would say not risk. Allianz probably. But the other one, we are quite on high levels. So it's not that much a claims topic but a cost topic in Italy. And this is what you are working on, of course, even if it is complicated in Italy. Germany is a completely different story. Here we are in a reorganization mode right now, much more focusing on distribution on the one hand side, in the distributed organization and efficient back office organization, which will have its impact on the claims ration, first. And on the cost ratio. So it's a different story in those 2 markets we would expect better profits basically.

A - Philipp GmÃ¼r

Mr. Bischoff?

Q - Daniel Bischof {BIO 17407166 <GO>}

This is Daniel Bischof, Baader-Helvea. First question for Philipp. You had already political comments. So I'll ask you also to -- maybe a statement on the group life side. I mean, you were quite outspoken in the press in end of March on the pension reform, criticizing that there was last-minute change about the subsidizing effect from the individual processes, claims processes, risk process and cost process. I mean, how does Helvetia look at that. And what are the issues there? The second one. And also on the life side, in-force management. Wasn't sure whether Peter's question was on the back book or the new business. I mean, all the companies do buyouts. And maybe tackle that a bit more actively, what do you do there. And that's it for now.

A - Philipp GmÃ¼r

Okay, I would first answer -- like to answer myself the first question and then turn over for the Individual Life to Paul. I mean, Donald made the point. There is a proposal on the table for September 24 this year regarding our reform. And after weighting the pros and the cons, we came to the conclusion we are in favor of this proposal now for the referendum. Of course, there are some pain balls or bitter pills or whatever you call them. But if we have a look at the alternative, that's even worse. I mean, we are losing like 5 or 10 years until we get a new solution. And of course, that's our political sentiment. We -- there's no proof that the politicians would not come up with a much better version of this proposal by January 1 -- to -- of '19 or whatsoever. But I think that's rather -- it would be unusual. So we are coping with those 2 -- maybe let's call them as they are poison pills or bitter pills, pain balls. And we are coping with them, much better coping than we would cope with a rather high conversion rate and the other points Donald mentioned before. It does not threaten our balance sheet, those 2 pain balls, pain points. Paul?

A - Paul Norton {BIO 16145125 <GO>}

In-force management, yes, we have an in-force management project. We've done the first evaluations and we've parceled out the market units. You're right, there are many competitors who are doing conversion of policies into new type of policies. We've been very conservative. We think there's a significant risk of mis-selling if you're taking little old ladies and trying to convert them to risky products. We've seen -- Reto Keller's mentioned, where you've got 90% base guarantee, lots of upside. What we are doing is working on -- particularly on asset liability management and -- on the cost basis. Those are the 2 things we can really influence without any political, legal or compliance issues.

A - Susanne Tengler {BIO 18673192 <GO>}

Another question from the room? Okay, then, we take a question from the -- oh sorry. Then we take a question from the telephone.

Operator

The question from the phone is from Jon Urwin from UBS.

Q - Jonathan Peter Phillip Urwin {BIO 6126952 <GO>}

Just a quick follow-up on the sort of European businesses. So I heard a comment earlier that you guys perceived Austria to be sort of subscale before the acquisition and that it needed that critical mass. And obviously, the benefits of that are clear to see. But when I look at the market positioning of Spain and Germany, those market positions are even more niche than Austria was before the deal. So are you essentially saying that these are subscale operations and they need M&A to get them to where you'd like them to be? That's the first question. Then secondly, the EU -- on the headline metrics for Europe, you presented the gross combined ratio, which is obviously lower than net. I mean, is there a reason why you're presenting the gross? I mean, are you going to change the reinsurance arrangements or something to reduce the delta? Or is there another reason?

A - Philipp GmÃ¼r

Okay. Thank you. I would first turn, for the second question to Paul. And then answer the first question.

A - Paul Norton {BIO 16145125 <GO>}

We do disclose certainly the gross and the net. And the reason why we do that is the net is clearly the figure that produces the net underwriting income and, therefore, the income in the units. But I think what the gross shows you here is how the basic underwriting and claims management works within those individual units. And there, you can see the strengths. When you look at what they're doing, what they're producing, it's actually very good, indeed, in some cases. The net shows the difference between the -- what their units are doing and the reinsurance. And we see reinsurance because it's all almost entirely all through the group reinsurance operation as a kind of dampening mechanism, a kind of volatility absorber. And you can see that where they've got swings and roundabouts, we can absorb that. So in years, for example, during the cleaning up of the new portfolio from National Suisse, you will see quite high gross ratios. But we absorbed that and then it's a kind of a payback period. So although we don't break it out and show you in detail, you can effectively take the results from group reinsurance, which were shown in other segment. And add them together. So it's important to see whether -- in life. So it's important to see both sides of the coin, both aspects, the fundamentals of the underwriting operations and claims management operations in the individual units and how we use reinsurance to dampen out the volatility over a period of time. At the end of the day, most of that risk remains within Helvetia. We don't see cede out that much.

A - Philipp GmÃ¼r

Okay, now turning to the first question. I mean, the questions about scale or subscale are as old as the insurance industry is. And of course, we are regularly assessing our different market positions in those market units you mentioned. For us, it is a question of the relevant markets we are in. And the second question of the opportunity costs we have and whether the markets are profitable. And talking about Spain, Spain is -- or had to undergo a very challenging economic environment. However, we have very attractive combined ratios in this country and, by the end of the day, attractive -- an attractive earning power given the volume we have and the risk exposure. So for us, as of today, it's -- there is no question about the Spanish market. With regard to Germany, of course, in Germany, we are in a relatively modest position. But given the relevant market with our private clients and SME clients and our relevant brokers and general agents we have. And we used to hire regularly, we are in a position to grow this business. I mean, Germany is the most powerful economy in Europe. And with Helvetia having an ambition to expand its business, not only in Switzerland in its home market. But throughout this continent, there is no option to abandon the most powerful economy. That's where we see a lot of potential as long as the numbers, of course, allow that and as long as we earn not only the capital cost but slightly more, of course. Do you want to add something Markus?

A - Markus Gemperle {BIO 16433084 <GO>}

Maybe another point.

A - Philipp GmÃ¼r

Yes.

A - Markus Gemperle {BIO 16433084 <GO>}

Thank you. Maybe another point. While Philipp says you don't have to -- I think he said it's a common mistake to believe that you have to be #1 or 2 in the market simply to make money and to make enough money. And we looked at -- we talked about Germany. And

Germany is a highly fragmented market. I think Allianz, which is the leader, has something like 11% of the overall total. And we've said already, we don't take part in the industrial business. We have quite a small chunk of the market. It doesn't mean that automatically disqualifies you from being in the market. I mean, if you look at some of our competitors, I mean, classic is ZÃ¼rich, which is considerably bigger than we are in Germany. But I think they would love to have our combined ratios. Yes, Spain is small in the market. Spain is also a very fragmented market. And at the moment, yes, its combined ratios need improvement. They could be better. And we've had combined ratios in the past which were very comparable with the market. And I don't think it's a question of scale, necessarily. It's certainly harder work. But it's not necessarily a question of scale. So I wouldn't automatically see where you have to be top 5 or top 10 to be successful. Anything out of that is not profitable or a business which is bringing returns.

A - Philipp GmÃ¼r

Coming back to the questions we usually have to answer regarding of our M&A strategy, usually, you get the answer that since those 2 markets are pretty fragmented, we are specifically looking at targets in those 2 markets, Spain and Germany.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay, if there are no further questions either from the room or from the telephone, then I would like to thank you for the first session.

And I think we will now have our well-deserved lunch break. Lunch will be served in lounge 1 to 4.

That is the area where you already had your welcome drink. We will meet again at 1:15 for the breakout sessions. Here, we want to give you some insight on current digitalization projects we are working on and that we are implementing as part of the helvetia 20.20 strategy. Breakout sessions will take place in Studio 1. And there are either floor signs that guide you the way. Otherwise, my colleagues will also be happy to help you to find your way. Basically, we have chosen 7 digitalization projects we want to present and to share with you. And as you might have noticed, you have numbers on your nametags. And the number indicates the number of the presentation at the showcases you will start with. Basically, the idea is to build up small groups. And then to rotate from presentation to presentation.

Ladies and gentlemen, I hope you enjoyed the morning. I wish you now have a nice lunch. And we'll meet again at 1:15. For those who are joining our webcast, as I already said in the morning, the breakout sessions will not be streamed. So we will meet again at around 3:00 with the afternoon program.

(Break)

+++presentation

So ladies and gentlemen, welcome back. I hope you enjoyed the breakout sessions and got some insight -- interesting insight. With the next presentation, the upcoming presentation, Martin Tschopp, will now give us some more flavor on Helvetia's innovation and digitalization framework. Martin is our Head of Corporate Development. That was a function that was newly created when introducing the new corporate structure as of January 2017. And therefore, he only joined us in April. And he will also contextualize the 7 digitalization projects you have just seen into that framework and into the strategy.

A - Martin Tschopp {BIO 20150079 <GO>}

Thank you.

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you. Over there.

A - Martin Tschopp {BIO 20150079 <GO>}

So I'll take the water. My voice is a little strange. But still, welcome back after a nice lunch and after, hopefully, insightful presentations you saw and certain examples we were able to show you. It's a pleasure that I'm able talking to you this afternoon. And I would like to talk to you a little bit about what is our innovation and digitalization approach.

First, let me start where it all began. Digitalization is a fancy word. And there is much that can be interpreted into it. However, at the end of the day, we believe it's the outcome of 3 underlying developments: One is processing power; second one is connectivity; the third one is digital data. Let me explain why these 3 forces drive digitalization.

Processing power. If we go back 50 years, mankind achieved one of its biggest-ever achievement when they sent a man to the moon. However, nowadays, every person in this room is carrying an iPhone around. And this iPhone has more processing power, 100 million -- 20 million times more processing power than the most powerful process they used to accomplish the mission back end of the 1960s.

Second, connectivity. You know we are connected in several ways. And many of us remember when the 2 -- second-generation mobile phones were introduced and we used it mainly for SMS. And nowadays, if I want to download with today's technology, which is 700,000x more powerful or faster than back in the '90s, we can download a movie of high quality in just a few seconds.

And third. And I think that's the most staggering element of digitalization, which is data. Data is available in digital form. And you know, we talk about exabyte. Exabyte is huge. One exabyte is roughly 1 in the power of 18, i.e. a 1 with 18 zeros. And 5 exabytes would represent roughly all words spoken by mankind in its -- since we exist would represent roughly 5 exabytes. 15 years ago, it took a year to produce roughly 4x as much data. And nowadays, it takes just a few days. So these are the reasons why we go digital. That's -- these are the forces which are behind digitalization.

Second, speed. Speed is enormous. And I have just plotted here adoption rates for adopting a technology. 100 years ago, when the phone was introduced, it took more than 100 years to adopt 1 billion users. Smartphones and Facebook, we reached 1 billion users within less than 10 years. So the fact is that things are happening faster. Now how do we as an industry, how do we as a company cope with those developments? We gave us quite a simple and pragmatic approach, which is the big tier here around is 2 by 2 matrix. One dimension. The horizontal one is around scope and focus of business, i.e current revenue, current business model, adjacent revenues in closely related businesses to our core model. That's one element. The vertical is around what do we want to achieve, what is our strategic intent, i.e. fix the basics; get the basics done; and the other one is to wow, to impress the customer, to drive innovation. And along these 4 stereotypes, we do push innovation and digitalization in the company. Clear priority #1 is to enhance the existing -- the core of our business because that's where we earn money, that's where we have existing customers, that's where we can make a difference. Then, of course, extending this one into adjacent fields to broaden our base of revenue, i.e. to broaden -- to have more scope, more breadth of revenue that will earn our salaries and ultimately, also give the earnings to our investors, our shareholders. Then, of course, that alone will not make a difference. We also have a laboratory, research and development, where we would like to try make a difference, i.e. you saw some of the examples just in the breakout sessions after lunch break. And I think a combination of all these 4 stereotypes, I think that's where you are convinced we'll make a difference. And that's how we look at digitalization and how we emerge, embrace these challenges imposed by the driving forces I explained initially.

Now having said all this, I would like to explain to you how we initiate a transformation. And if we do take the analogy of figure skating, building the foundation at the bottom is like a technical program. That's what you have to do anyhow, which will build the basis on which we can build the future. Then, of course, the free skating part, what we call in German (foreign language), comes on top. That's where we have quite a high number of selective initiatives. As I said, you saw some of those over lunch. And there, we have to decide which one of those will be decisive for the future. So at the bottom, we pursue a different approach than at the top. At the bottom, we have a relatively small number of transformational initiatives with clear scope; with clear and disciplined execution; with clear milestones; deliverables; associated costs; associated resources; and of course also, committed benefits, which is the most important.

Then the upper part is more around research and development, where we have a portfolio of initiatives. Of course, the number is much bigger. But the allocated funds to each of the initiatives is smaller. And we do it more in an iterative approach, i.e. to find out which will work. We talked about telematics. We talked about chatbots and other technologies we try out. But we don't know yet which one of those will be successful in the future and how we can integrate those into our day-to-day lives. So by and large, the bottom is about making our core business more effective, more efficient, preparing for the future, broaden our revenue base. The top is to wow the customer, to differentiate ourselves through services, through other elements from competition. So a very pragmatic and a very focused approach through which we try to renovate our core and specifically have distinguishing experiences for the customer in our operating model.

Now our achievement of the strategy 20.20 is built on those pillars, on those 4 elements. Our projects are managed in that way. Our funds are being allocated in that simple logic. And of course, at the end of the day, it's important to make a change at the customer front; to have this 360-degree view on the customer; to have better customer insights to enable our distribution force to deliver a distinguished service to the customers; to have a broadened product offering, which, of course, delivers the value that the customers wanted; and also to surprise the customer sometimes. Not always. If you have the impression always talking about the future, which will happen in 3, four years from now, it would leave our existing core business on the side. So we have to find the happy medium between the 2. And by and large, we do, of course, invest roughly 80-plus % in the bottom part to renovate the foundation and the remainder in the top, in R&D, as any other company would do it, be it a telecoms company, be it a pharmaceutical company, be it a retailer. I think that's not a big difference.

So to put the initiatives you saw over lunch or after lunch being presented, it was just a handful. It's 7. Of course, we have many more of those. However, we took the ones where we think we make a difference. And the teams presented to you are coming fresh from the laboratory and told you quite openly and frankly where we stand and what we have achieved. And so some of those initiatives are more advanced than others. Some could be rolled out probably tomorrow. Others, it will take more time because we don't know yet. However, with this approach, we are convinced that we can decide relatively fast with limited amounts of money what will work and what not. If it works, then, of course, it will be rolled out fast. If it doesn't, then we try to design it for success. If it's not possible, then we (abandon). So it's a very simple way of how to look at the things.

And to refer to some of the examples shown over lunch. Of course, you saw the CRM, the PRM, which, of course, is a very important element. In the past, this was done by (paper) data electronic. This combined then, for instance, with customer analytics at the very top, where we try to contextualize information we have around on the customers, where we try to manage actively churn of customers, where we try to cross and upsell. I think those are the elements, if you combine the 2, which make a difference and which enables us to generate more revenues, better revenues and also, ultimately, earnings that our employees, our customers but also our stakeholders and investors wait for us.

Then on the bottom right, those are elements -- you know -- we saw elements of smile.direct, the biggest direct insurance in the country. Of course, there, we have already a basis. This basis can be extended and you saw the smile.family concept. MoneyPark, an important anchor investment of Helvetia. MoneyPark can enable us, as it was outlined by Stefan during that presentation, to be not only more effective as an offering to our customers. But also to leverage the technology, to adopt it in our processes to make ourselves much more effective. And ultimately, a mortgage being an anchor product for -- in a customer relationship, where you get to know much more than simply around the risk coverage that one would expect or a pension discussion, which then, of course, over time, would also increase loyalty and stickiness of a customer.

Then at the top, it was discussed in the morning, the corporate incubation, the Helvetia Innovation Lab we have with the University of St. Gallen, the chatbot. I had high expectation for the chatbot, not only on the sales side but also on the claims side. This is a technology where we can make a difference. We have made first inroads. And of course, over time, we have to learn more how we can adopt it. Customer analytics are a very important element and good driver.

So you see what we try to do is not one fits it all approach. But we have quite a balanced approach in terms of topics being covered, in terms of -- but also of fronts invested. And it's like in our day-to-day lives. There is not one strategy that will fit for all. But it has to be fit for the purpose. And we have to find out where the beef is in the future.

So in this regard, this is a short summary of how we look at innovation and digitalization. It is quite pragmatic. Also, it fits, I think, to our DNA. And with that, I would like to close here. And I think next, we are up for Q&A.

A - Susanne Tengler {BIO 18673192 <GO>}

No, not -- you can already take a seat if you want. Or you can stay here.

A - Martin Tschopp {BIO 20150079 <GO>}

No. I'll leave you.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay, perfect. Ladies -- Martin, thank you for the interesting insights and the wrap-up. I think with his presentation and the digitalization projects we saw, we have already a very good idea of Helvetia's priorities. Nevertheless, I think there are still some interesting questions left like, for example, impact on IT systems, how the distribution landscape is going to change. And I would like to use the next 10 to 15 minutes to discuss those aspects with my colleagues, Achim Baumstark, Adrian Kollegger, Ralph Jeitziner and Martin.

Okay, to start with a short introduction. Achim Baumstark is our new Head of Corporate IT. This is also a function that was newly created on corporate level with the new corporate structure. He joined us, therefore, in April 2017, exactly. Adrian Kollegger is the head of our new -- head of our non-life business. Both of them are members of the executive management board. Then we have Ralph Jeitziner, who is the head of distribution. He joined the company already in 2014, also a member of the executive management board. Then we have Martin, who you already know.

So I think we learned a lot during the day about digitalization and innovation, I think a prerequisite for a successful strategy of state-of-the-art IT systems. So my first question would be for you, Achim. Does Helvetia have state-of-the-art IT systems? Or is there a need for adaptation?

A - Achim Baumstark {BIO 20013671 <GO>}

Well Susanne, thank you for this very broad question. I think there are a lot of good things to say about the IT landscape at Helvetia. And I believe we got some hints in the presentations this morning. After my first couple of weeks with Helvetia, I have to say, I'm also quite impressed with the migration effort, bringing the portfolio of the National Suisse company onto the Helvetia landscape. This is a very complex undertaking. I had the pleasure to accompany such undertakings in other companies. And I'm impressed that Helvetia was able to complete -- almost complete this by now within what I consider a very short time frame. And the Helvetia landscape runs quite heavily and stable with the combined loads. So that's a very good basis for all the considerations that we have in terms of IT landscape. I think if we look into the group, we can see that Helvetia already is operating modern platforms shared across multiple country operations, modern platforms that provide the support, for example, for our finance function that provide some CRM functionality in some of our countries. And that's also very promising. In addition, as we could learn in the breakout sessions, there are very advanced solutions coming up, both from the Swiss operation as well as the European operations, in all different areas, be it digital front ends, be it new customer interaction models, be it analytics. And I think all these solutions are also an indication that we have a very good starting point in IT. Nevertheless, there are areas that need attention and adoption. And I think the first area that springs to mind is the IT landscape for our non-life business. I think there, we definitely will have to invest and modernize. And we have started the discussion to how to achieve that. And I believe we will embark on a modernization effort for that particular part of the business.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you. And what do you think when you renew IT systems? What are the key requirements that IT systems need to fulfill in the future?

A - Achim Baumstark {BIO 20013671 <GO>}

Well that's also a very interesting question. I'd like to refer to Martin's points about digitalization. We live in an age of digitalization. And in this age, customer behavior changes and customer expectations change. And therefore, requirements for convenient and personalized ways to interact with the customer change as well. On the other hand, technology changes. And it changes in a lot of areas. We heard about mobilization, mobile efforts. We now talk about analytics. We talk about machine learning. We talk about cloud. We talk about sensors. All these technologies are here. And they will bring opportunities also for our business. Both of these areas, customer behavior as well as technology, change fast. And therefore, the requirements for an IT landscape are also changing. I believe that an IT landscape for a company like Helvetia needs to be flexible. And the customer-facing areas, flexible to be able to adjust to changing customer behavior. It needs to achieve a high automation level in our standard processes to be able to respond to the expectations in terms of response times for our customers. It also needs to be open to incorporate new technologies, be it analytics, be it machine learning or whatever. And reap the benefits from those new technologies. And above all, I think an IT landscape needs to be able to integrate well across all these areas. It needs to integrate within the company. The fast moving parts, with the stable parts, it needs to be integrated within the group. And shared solutions or those local solutions, it needs to be able to integrate with our ecosystem partners. So beyond even the boundaries of the enterprise. So we have quite a handful, I guess, in terms of requirements for IT landscape.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you. In the breakout sessions, we have seen the progress we have been making on developing new online models and digital customer access. That means convenience for customers. But I would also like to have a look on the other side. What about process efficiency at Helvetia. And there I want to have a closer look at the non-life business. And my question for Adrian now is, where is Helvetia standing in terms of automation? And what is the share of automatically running processes today?

A - Adrian Kollegger {BIO 20981454 <GO>}

Yes. So I would say we have a very good starting point when I look at personal lines business, more than 90% of our business. New business and renewal business is fully automated. There's a clear process in place. Then also in SME business, we have high standardized product -- end product. It's really important also to have full automation and standardization in this regard. So in SME business, this is not usual nowadays. But I think we are well prepared here. Or also, when I look at our Asian channel, more than 80% of our application forms are fully automated. Now this is just the starting point of that. Probably, I can give just two recent examples of what we do, because within the factory, there are so many processes and there is still a certain type of manual processes. So last autumn, we couldn't fully digitize the process with the Swiss Road Traffic License Department. So we start to prepare some in terms of policy suspensions. So far, we have around 5,000, 7,000 manually worked out processes in this regard. And this is now fully automated. This is a small step but it's an important step. In May this year, we just started the corporation agreement with the only independent car repair shop network. What helps us -- this is -- that we can steer in case of a claims that the card to this network, this is not new in Swiss market. But it helps us to really also take a closer look to our cost base. But important here is, this is really new in the Swiss market. The process between Helvetia and the service provider is fully digitized. So there is no manual work in it. So everything is fully processed. And very soon, we will also have the whole financial transactions with all the controls you need fully automated.

A - Susanne Tengler {BIO 18673192 <GO>}

Sounds very good. Looking into the future, where do you see potential for further automization? And do you have a certain top level?

A - Adrian Kollegger {BIO 20981454 <GO>}

Yes, I do have. We have still potential throughout the whole value chain. This goes into underwriting, into claims mainly. But also in the interaction with all the distribution partners and also with our customers. So there's still sufficient potential to have a higher degree of automation. Now what is the target level? 100%. That does not mean that every process is fully automatic. But where it make sense, where we get leaner, achieve better quality, have better customer orientation and be more efficient, we need to sign for it now. An important step is when we build on our non-life IT platform, this will boost, certainly, the capabilities to strive for it. Nevertheless, we will follow on now with the smaller steps. And one of next smaller steps that we are achieving now this year is the use of credit ratings into the underwriting process, many lines of business. We will start with the smaller lines of business to get certain experience in it. But we will make smaller steps just to get to this 100% level.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. My analysts, they always look at the costs. And they will argue, automation will boost efficiency and should lead to cost advantages. In Switzerland, we have already a very, very good combined ratio. Now the question is, do we see room for further improvement?

A - Adrian Kollegger {BIO 20981454 <GO>}

I would say our combined ratio in Switzerland is at a reasonable low level. Now this is not just given for the next few years. So we need to work on it. And we need to work on our cost bases. And all the examples that I have explained before will help us to manage proactively this cost base, bring it down. And on the other hand, we need to work much more, also, in the claims side to better control, bring down our claims costs at the end of the day. And there, what we are doing, as I said before, with using analytical data, bringing in into the risk selection process. But then also in the claims process, is of utmost important. So it's all about, nowadays, operational excellence and efficiency. And we need to strive for growth in it.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you. Looking at the distribution side, Ralph, I would like to know the online channel. Is that already, today, a meaningful channel? And can you give us, perhaps, an indication on how much Helvetia is selling already online today?

A - Ralph A. Jeitziner {BIO 15145073 <GO>}

I will. The pure online market channels in Switzerland continue to be less than 10%. The purchasing beyond the rough costs in this shows that 15% to 20% of customers favor only the traditional channel. This means that around 80% of customers display hybrid and direct-only purchasing behavior. So I will go with to serve the various customer requirements professionally on the relevant channels. Accordingly, our customers can find product information, additional services and the broad range of premium calculate this online. And we mainly sell car insurance, household contents and personal liability insurance, used insurance and pet insurance. And we also sell savings insurance and death benefit insurance online.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. And looking into the future, what do you think, in five years from now on, will online be the most relevant distribution channel in the future?

A - Ralph A. Jeitziner {BIO 15145073 <GO>}

It will be very important. But in our view, our arrangements will also play a very important role in the future. The number of hybrid customer will increase in the future. Though customers use the Internet, primary, as a research platform. But still conclude contracts offline. The future distribution landscape will be characterized by a so-called only-channeling approach, where the customer is at the center of all sales resource. Because he will decide himself how to interact with Helvetia. At Around 80% of customer displaying hybrid purchasing behavior, we are investing in the development of digital services to support a self-service approach. These include an end customer portal, more online premium calculators, chat and video consultations and personalized online marketing activities. It is also important for us to open up new customer access points. One example is our cooperation with MoneyPark for online mortgage brokerage. The change in customer behavior is resulting in a clear increase in the importance of online activities. And following the approach is our vast evident at Helvetia in Switzerland. Centralizing of first line of request in our Swiss service center with the goal processing customer request directly in full. Strengthening the skills of our own sales force with regard to products and services that require a high level of consultation like SMI or pension planning and providing high qualitative services in the respective customer access points.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you. And I think we already saw some examples also in the...

A - Ralph A. Jeitziner {BIO 15145073 <GO>}

Before in the marketplace.

A - Susanne Tengler {BIO 18673192 <GO>}

In -- exactly, in the marketplaces. So basically, I have two questions left for Martin. We heard a lot about digitalization innovation. You gave us some deeper insights in the framework. When we compare Helvetia to the competitors, how do you think we differentiate from competitors?

A - Martin Tschopp {BIO 20150079 <GO>}

I think when I started a few weeks ago, I was deeply impressed by the breadth of initiatives going on and also, the completeness of topics being covered. However, at the end of the day, what is important that we pursue this approach. And I think that's where we differentiate that we have clearly targeted change programs that modernize the foundation and build the foundation for the future, on the one hand. Build on richer base on which then the future can be built. And that we have the size as a company, where the company is compared to other big ones relative to small. So we have a very short communication cycle. We have very fast decisions. And if you know something proves to be successful, we have -- among our colleagues in the executive board, we have fast decisions and implement it. So I think, first, instant approach. So that we have, clearly, an integrated approach fixing the bases and trying to build the future. And secondly, as a company with our medium size, I think we have fast decision cycles and can implement success stories very fast. And they don't die in beauty somewhere in a department. But you can bring them to life immediately. And I do see, honestly, with all of those elements we saw today, I don't want to single out now one. However, if we can operationalize some of those, be it around on the sales side, be it insurance management, be it in cross-selling, or even be it in claims management, as Adrian outlined, to automate some of these processes with new technology, I think we truly can make a difference to the advantage of the customer, on the one hand, in terms of customer experience. But on the other hand, also to the advantage of the company, because we have less repetitive, less error-prone work, which then has to be correct in hindsight.

A - Susanne Tengler {BIO 18673192 <GO>}

And how do you measure the success of your digitalization for the team?

A - Martin Tschopp {BIO 20150079 <GO>}

It's like in sports, you are measured by results and not by announcements. So I think if these large transformational programs deliver what they promised to deliver at the outset when the initiatives was being launched, of course, we have to go and see how many of our documents -- we have millions of documents that we take in, on the one hand. And we spit out on the other side of the factory. The share of documents, which are being digitalized -- and digitalized means not we have a digital copy. But we can process it as it's being rightfully categorized, it's being indexed. We then can focus more on steering the process rather than typing things into not-connected systems. Or in particular, on the customer inside side, I mean, as the CRM project and customer analytics project proved, we have so much information at hand. And we are able to leverage that information to the benefit of the customer, on the one hand. But also to the benefit of us as a company. That has a tremendous value. So it's mostly around, on the one hand, I would measure it disciplined execution to deliver the results according to plan. And second, to give us also the freedom to try things out. And that we develop the culture, which where failure might be an experience that makes you better rather than you have not delivered. And I think if we are able to deliver these two, of course, conversion rates is the idea. It's important that we can bring that into operations. But these are the two elements how I would measure success.

A - Susanne Tengler {BIO 18673192 <GO>}

Okay. Thank you very much, gentlemen, for the interesting discussion. So basically, we are approaching towards the end of the day, very interesting day in my point of view. And the only thing that is now missing is some financial considerations. And therefore, Paul Norton, our group CFO, will now spend the next few minutes in order to give you some insights on the current developments. And also the financial considerations for 2017.

A - Paul Norton {BIO 16145125 <GO>}

Well ladies and gentlemen, as you know we do not give detailed guidance. We do not make any forecasts or (inaudible) that's why I'm lingering on the disclaimer, maybe. But there are a couple of things that I'd like you to be aware of. First of all, we've often asked about the strategic targets that we announced back in September last year. We, obviously, are not changing those. This is an updated how we're implementing the strategy, what operationally we're doing. The targets still stand. One of those targets has been subject to a lot of discussion that is the CHF 10 billion volume. I'd like to reiterate and repeat again, that is a vision. It's an ambition. It's not necessarily a hard target. We are not going to go and do stupid M&A deals just to reach CHF 10 billion. And if we should repeat it again, I will. But I keep on getting asked about this. And I would like to emphasize our profit targets, our return targets, our dividend targets are vastly more important to us than that. The background for the CHF 10 billion was we felt we needed a kind of ambition to say where the company is going. And investors, analysts have been talking about the combined Helvetia and National Suisse group as a CHF 10 billion company. And we didn't understand those deals as we set that target. We know it's going to be tough. And it's the one target that will fold by the right side if we feel that we can't get that. Our aim is to go towards that. But again, I repeat again, it's meeting those profitability targets, the combined ratio, the new business margin, the return on equity and above all, the dividend payback. So that's a bit of update on that or a repeat of the message we've been trying to give.

If we look at the various issues or matters in relation to 2017 and how that compares to 2016, bearing mind, I'll repeat again, we do not give detailed guidance or set any targets. We have had a very good technical start in 2017. For those of you in Switzerland. And I'm sure the same as true of the U.K. who are listening on the phone, it has been a year of winter, which has been very mild. It's very few natural catastrophes. And the sole exception, I think, was there was severe rainfall and storms in Spain, which have affected the whole market. But otherwise, it's a pretty benign claims environment. You also will follow the capital markets. And we've had extremely positive development in the capital markets. Obviously, we cannot predict how they're going to turn out. And it needs some political or geopolitical event to turn that upside down. So you can't take one quarter and times it 4 and we're certainly not what we're doing.

We told you back in September, on road shows, that we expect to get above the CHF 130 million synergies that we expected out of the combined Basler and National Suisse deals. We reported CHF 118 million in 2016 back in March. And our expectation for 2017, which we then said, was we'll get to at least CHF 130 million and above that. And we do expect to get to above that. For the first time, I'll be reasonably concrete, we expect to get after-tax effect of roundabout CHF 10 million to CHF 20 million incremental synergies on top of what we reported last year. There will also be, probably, a few coming out in 2018. But we have to see how that goes. But certainly, for this year, we would expect to see a further CHF 10 million to CHF 20 million net (P&L) impact.

One thing that I've heard concertedly the analyst have picked up is that we have exceptionally low tax rate in 2016. Our results had a very positive benefit there. And that was due to several things that I mentioned. The counselor vote anticipated the Corporate Tax Reform III, which unfortunately didn't get passed. And they reduced their taxes there. That's the big impact on the deferred taxation, a positive one. And we had various one-offs connected with the integration of the National Suisse entities with the mergers that took place in those countries. Obviously, we don't expect to have a 14% to 15% tax rate going forward. And we did mention that in March. We have a tax rate, which is normally a roundabout the 20% to 22%. We budget with the 22%. That will clearly have a negative impact on the 2017 underlying earnings when you compare that with 2016. You can do the math yourself. You don't need me to do that.

We mentioned the strategic initiatives. We said that we'll be having mid; to double-digit millions spend each year. We have talked about CHF 50 million to CHF 70 million. It takes time to ramp up. The impact that we expect to see here is roughly CHF 25 million net after-tax coming through into P&L. We obviously have to look at not just the cash spend. But also resources. Martin talked about the project portfolio, how we prioritize that. It may be a little slower than what was expected to start with. And we may push it out further. It also depends on how much we can capitalize and amortize every period of time. But our expectation is roughly CHF 45 million, maximum, this year. And we were mainly in the non-life in other segments, other being in the corporate center, where other projects are centered.

So in conclusion, operationally, it's been a very good start. Financially, from a capital market side, we have a very good start. Tax rate normalization and the investment for strategic projects will impact results. We may be able to mitigate those depending on how the business works. There are clearly other certainties going forward in the next half year regarding the developments in the capital markets, particularly equity markets. Interest rates seem to be bottoming out. And there's going to be much more deterioration, maybe slight uptick in Swiss Francs on the long end of the scale. And obviously, the claims development. We're entering the summer season where a lot of hail claims. So we have to wait and see.

So that's basically a little bit of a qualitative answer, to some extent, quantitative guidance for the 2017 results.

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you, Paul. With that, we will have now our second Q&A session. And as with the past -- with the first one, we're starting here in the room. And we'll then hand over to the telephone. And after that, Philipp will do his closing remarks. And then that's the end of the day.

I have one additional organizational remark. We have prepared feedback sheets. And we will distribute them when you leave the room. And as we aim to improve our services, further we would be very happy if you could give us feedback for this event. Thank you. So who is going to ask the first question. Daniel?

Q - Daniel Bischof {BIO 17407166 <GO>}

Yes. The first question is on the cost side, obviously. So the 25% or 50% (inaudible). I mean, generally, on the 18 projects and initiatives you mentioned, what are the key kind of walkaway criteria, walkaway points? I mean, when -- at what point do we say, okay, the project fails? Or I mean, I think, there might be a risk that some of these projects go on for a couple of years. And the cost burden is there. But you eventually look at the benefit that we initially expected. So how do you want it for these projects?

A - Paul Norton {BIO 16145125 <GO>}

It's a very good question. And as Martin said, there has to be a certain amount of reason to fail. I mean, I don't like sort of the whole concept of a failed culture, which some people find very trendy. But there has to be some kind of a little bit of adventure, otherwise, you don't get anything done. There are no hard and fast criteria because each project is different. But clearly, when a project gets to a stage where it really doesn't look like it's going to be successful, then you have to make a decision to pull the plug. And that will take into consideration the operational issues. It will take into consideration the financial costs, how serious (inaudible) but you can't fit it into an exact thick box.

A - Unidentified Speaker

But of course, to a certain extent, we have some -- for the incubator workshops, for instance, we have some play money. But we are not talking about millions. And there are certain thresholds. So if it comes to a certain kind of an investment, we, of course, have to have a business case, which lies behind this project. And if there is no business case at all, we've got to stop. But there's no change compared to our culture we had before. What we changed during the last few months, or maybe during the last year, was that we have our internal incubators. And we are forcing and helping them, working on certain new ideas. There are on our payroll, of course. And they have, to a certain extent, of course, to come up with their business cases. But there is some thousand francs or a couple of dozens of thousand francs. But we're not talking about millions. But of course, finally, we want to have a business case for our bigger projects. But you saw, for instance, this afternoon, there were some projects we invested like CHF 4,000 or CHF 5,000. So that's more the brain and the cultural investment, if you will. Who has to pay off by the end of the day as well, of course.

Q - Unidentified Participant

Then, the second one, I mean, in mid-2014 when you announced the Nationale Suisse acquisition, there was one number you mentioned, the CHF 500 million combined profit target. How do you look at this number these days? No longer part of the official target setting. But maybe a comment would be.

A - Paul Norton {BIO 16145125 <GO>}

It was never part of the official target setting. The CHF 500 million profit was kind of a general scene setting of where or how that should be. We said basically that we had roughly CHF 400 million. They had CHF 100 million, together would be CHF 500 million. And we talked about then, CHF 100 million synergies was the target, it's now CHF 130 million. The problem is not the underlying profit. It's basically the capital markets. I mean, don't forget the situation with yields is fundamentally different now than it was three years ago. So it's very difficult to compare that. I mean, we produced CHF 492 million last year. But there were pluses and minuses in there. The fundamentals of the 2 businesses when valued together have clearly improved. They have clearly product synergies. We have seen in Austria specifically our improvements in the combined ratio. I think, if you look at all the metrics of the 2 companies pre and post, certainly, on the operating side, it's definitely better. But it's very difficult to compare the 2 because the circumstances outside of how that sits, particularly capital markets regulation. In Germany and Austria, you have (inaudible), for example, you had additional reserving. In the Swiss business, to cover the low interest rates. It's very difficult to make a comparison.

A - Susanne Tengler {BIO 18673192 <GO>}

Next question. Do we have a question from the phone? No. So that's perfect if all question are covered. If any.

Q - Rene Locher {BIO 1921075 <GO>}

So it's Rene Locher, MainFirst. Just a very quickly, I mean, we have seen a lot of interesting stuff during the breakout session. Is it fair to assume all the things we have seen is included in the CHF 25 million you just mentioned before?

A - Paul Norton {BIO 16145125 <GO>}

I mean, some of those things have been already paid for. The CHF 25 million covers a whole bunch of things, for example, the start of the non-life that (inaudible) we're talking about the whole bunch of products that's still ongoing. But -- and also the (smile) stock is also included in there. It's -- some of it -- a lot of it would have cost we have developed already. As Philipp said, a lot of the things. And I don't know how much the good drive rep costs, we're not talking about big money here. That's not related cost.

Q - Rene Locher {BIO 1921075 <GO>}

So -- and then, next question. I always have the feeling that the entire insurance industry is moving more and more in the direction of risk selection, right? Like you have the good driver rep. Then, yes, I guess, we have discussed that over several times. But I'm just wondering, that you're only going for the good risk. And the bad risk will then just remain somewhere out there, just (inaudible). Then, this cost during the breakout session, if I would be a Helvetia salesperson, I would be a little bit worried about all the initiatives you are launching. So I mean, you are moving more and more to digitalization and -- well, I'm really wondering, what -- what the kind of the old-fashioned sales guy, what will be his role within Helvetia?

A - Philipp GmÃ¼r

Okay. The first question Rene, I think, our main aim and main ambition around all those new means and projects we are representing is out of convenience than risk selection. But of course, at the same time, we are talking about targeting those risks we are wanting to have underwritten in our book. And talking about the risk selection, we have a whole bunch of regulatory affairs going on, be it in Europe, be it in Switzerland. And that's another topic we could discuss a whole afternoon. To a certain extent, we are not allowed to make this kind of risk selection we would like to make, especially in some European -- or in the European community countries. Whereas in Switzerland, we are, to a certain extent, rather free to underwrite to those risks we are looking for. But it's more the convenience approach. And of course, in the second row, it has to do with our target groups and declines we are looking for. But by the end of the day, insurance industry has to rely on big numbers of risks in order to be -- or to have a reason to be. And the more selective we are, the more we are threatening this solidarity system. But that's another topic. The other point, I mean, as we pointed out this morning, most of our clients. And according to our numbers we have, it's roughly 2/3 of our client base throughout Europe is so-called hybrid. That means they might inform themselves online and make their purchases off-line and vice versa, whereas roughly 15% to 20% are only online and another 15% to 20% of our client base is only off-line as of today. We have to work on different opportunities and on different ways on how to serve our clients. And it's funny, if we are talking even in this room about client's behavior in 5 or 10 years from now, I mean, nobody knows, at least I admit I do not. Who would have thought in this room 10 years ago that our lives is mainly driven by an iPhone. So we have to quickly adopt to the customer needs. We have to adopt to new technology. And we have, of course, at the same time, to make sure that our client base is served in a good or in the best possible manner. That means that we are also investing in our salespeople. There are some lines of businesses and maybe some customer segments, which might be substituted by new techniques like Robert advisers or whatsoever. That's why we are investing in our sales force in order to be prepared for counseling SMEs, in order to be prepared for counseling all those customer segments who might, even in 10 or 20 years from now, look for a personal advice, maybe even at your house, in your personal environment, in your apartment. So we have to make sure, notwithstanding maybe the wishes of our sales force, to be prepared for the future. And that means that we have to work on different ways.

A - Susanne Tengler {BIO 18673192 <GO>}

Any other questions? Okay. Philipp then.

A - Philipp GmÃ¼r

Okay. So let's come to a very quick wrap-up. This morning, I told you that our purpose of today is to give you a deeper insight in our strategy Helvetia 2020. It is the purpose to familiarize you with our ambition, with some of our strategies, with our management team. And it is to make sure and to give you confidence that our ambition is not only a certain number out there in the world. But that our ambition is underlined and will be strengthened by concrete initiatives.

It is important for you to know that we have stuck to our ambitious goals with regard to Helvetia 2020. We want to remain a well-diversified company. Diversified in terms of lines of business, diversified in terms of geographies. And diversified in terms of customer segments in order to be prepared for growth opportunities and for downside risk at the same time.

And wrapping up this afternoon's break sessions, breakout sessions, I would like to add that we want to be diversified as well in terms of living the traditional business, living our core business. And thinking about the future. But I really would like to make the point, as Paul pointed out before as well. And as we said this morning, we are, above all, enhancing our core business, that's where we make the money. But at the same time, it's our obligation to think about the future. And before investing millions or dozens of millions in new businesses or in M&A projects, we want to have a business case. And that's the old Helvetia tradition. We want to stick to our goals. And it's our ambition to deliver what we promised.

Now we promised you, after this afternoon, an (inaudible) and we promised you a beer or a glass of wine or maybe mineral water if you want to be a safe driver and get some points on our good driver app. So I'm glad to invite you to our (inaudible), not without saying thank you to all of you for your interest in our company, for sacrificing this day for Helvetia. And thanking very much all my colleagues for their contributions, all my colleagues to thank them for helping Helvetia be. And remain, a good and a very successful company. Thank you. And goodbye.