S1 2011 Earnings Call

Company Participants

- Paul Norton, Group CFO
- Philipp Gmuer, CEO, Switzerland
- Ralph-Thomas Honegger, Chief Investment Officer
- Stefan Loacker, CEO

Other Participants

- Fabrizio Croce, Analyst
- Jochen Schmitt, Analyst
- Kent Choi, Analyst
- Michael Klien, Analyst
- Peter Eliot, Analyst
- Ralph Hebgen, Analyst
- Rene Locher, Analyst
- Stefan Schuermann, Analyst
- Tim Dawson, Analyst

Presentation

Operator

Welcome to the Helvetia half year results 2011 conference call and live webcast. (Operator Instructions)

At this time, I would like to turn the conference over to Mr. Stefan Loacker, CEO of Helvetia Group. Please go ahead, sir.

Stefan Loacker {BIO 15157193 <GO>}

Thank you, Myra[ph]. Ladies and gentlemen, it is a pleasure to welcome all of you to the presentation of Helvetia's interim results for 2011.

Of course, we all realize that, in these turbulent times, a review of the results for the first half-year will probably appear less interesting than the question of how things will proceed on the capital market tomorrow. Nevertheless, we believe that an analysis of our business performance will deliver some valuable insights into how our Group's business model will prove itself in the current environment.

I am joined today, as usual, by Paul Norton, Group CFO, who will kick off in the first section, with a review of the current results; our Chief Investment Officer, Ralph Honegger, who will discuss the investment situation; and Philipp Gmuer, our CEO, Switzerland, who will present the performance of our home market in Switzerland, which was particularly successful, once again. I will end the presentation with an update on our strategy. After which, as usual, the speakers will be happy to answer your questions.

We always refer to the slideshow, that you should have in front of you. And I'm starting now on slide 4, with the business overview.

Our interim report shows that Helvetia Group had a successful start in the business year 2011. In the current challenging environment, our interim profit increased by almost 9%, to CHF170 million; with both the Life and Non-life business posting increased gains. Our tried and tested investment policy protected the semester result against exchange rate losses and impairments. The annualized return on equity of 10.4% is in the target range.

We posted strong growth again in the first half. And further expanded our market position at home and abroad. Both the Life and Direct Non-life business reported encouraging double-digit growth in original currency.

The volume increase of 12.9% in the Life business was almost entirely organic. While the latest acquisitions boosted the Non-life business, around half of the growth of almost 14%, generated in this business, was contributed by the two Swiss companies, Alba and Phenix, which we acquired at the end of last year.

Once again, most of the technical result is pleasingly robust. In the Non-life business, our net combined ratio improved to 92.6%; and the value of the Life business is trending upwards, with an excellent technical result. And stable interest and profitability margins.

Now once again, the investment portfolio is under the spotlight, in view of the debt crisis in Europe. I would like to state in advance, quality of our investment portfolio remains high. And our solid balance sheet can cope very well with potential risks from exposure to bonds from Southern Europe. Paul Norton will report on this in detail, later on.

At 445 -- CHF444 million, the investment income for the first half-year was stable, with a direct yield annualized at 3%; performance, non-annualized, came in at 1%.

The strong solvency 1 margin of 214%. And the stable equity position of CHF3.4 billion, confirmed a sustainably strong capital base of our Group. Also, unrealized gains in equity have declined, in the wake of the market turbulence. And negative foreign currency translation differences have further increased. The good interim result almost fully compensated for these effects; as well as for the payment of the dividend in the first half year.

The consequence, we continue to have a comfortable capital base, also in terms of the new Swiss solvency test.

So to summarize briefly, ladies and gentlemen; Helvetia Group successfully increased its profit and its sales. We have, once again, acquired additional market share, reduced our costs and maintained the strength of our balance sheet.

Paul Norton will now discuss the core elements of our financial statement, with you.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. Ladies and gentlemen, I'm very pleased to talk to you about the solid performance achieved by Helvetia in the first half of 2011. As usual, I'd like to begin with a look at the business areas, on slide 6.

All our business areas produced a convincing performance in the first half of 2011, which reflects the healthy development of the insurance portfolios.

At CHF62 million, the Life business outperformed the previous year's interim results by approximately 7%; supported by robust investment returns. And a good technical result. At CHF89 million, the Non-life business also improved by 3.9% year on year; primarily as a result of sustained repayable claims experience. And further efficiency gains.

At CHF19 million, the Other activities segment result was also higher than the previous year's performance; due to more efficient foreign currency hedging. At this point, I'd like to mention that we have sharply reduced the effect of foreign currency volatility in this segment, following the introduction of hedge accounting for our internal investment funds, at the beginning of 2011.

We now recognize the gains and losses on the relevant hedging instruments; as well as the currency fluctuations of the investment funds, directly in equity. In this way, we've been able to considerably reduce the previous accounting mismatch between the income statement and the equity. You'll find further details on this in the appendix to the presentation.

We turn to results by geography, on slide seven now. We can see that all business units deposited a positive result in the first half of the year. And contributed to the good Group results.

With an over 13% improvement in its net income, to CHF123 million, our domestic market, Switzerland, once again, achieved an outstanding result. Philipp Gmuer will go into greater detail on this excellent country performance, a little later on.

The picture for the foreign markets is marked by various influences. All the markets have been affected by the weak euro, which reduced the annual profit reported in Swiss francs, in the first half. At CHF5 million, the German business unit's contribution to the net profit was less than the same period last year.

Further cost reductions had a positive effect on results. But a combined impact of an increase in Non-life claims and reduced investment income had a negative effect. The previous year's results were also positively impacted by a one-off tax result.

In original currency, the pretax result in the Italian[ph] market unit is better than the corresponding period last year. But reduced the impact of the weak euro. And an increase in the tax rate, the segment result, in Swiss francs, was CHF3 million below the previous year's result, after tax.

The Spanish segment result was extremely satisfactory, at CHF12 million; in view of the persistently difficult economic climate. Thanks to a 3.5% -- percentage point improvement in the claims ratio, the result was considerably better than the previous year.

In the Other insurance unit segment, the result for the Austrian unit business -- business unit was better than the corresponding period last year; mainly due to the improved performance of both the Life and Non-life business; the latter reporting a 0.9% percentage point reduction in the net combined ratio.

In France, the transport business, which has been stagnating, due to the weak economy, posted favorable results; point to first signs of recovery.

Results of our Reinsurance operations, reported in this segment, were also higher year on year. Thanks to our cautious underwriting policy, we were scarcely affected by the major nat cats in New Zealand, Australia, Japan and North America. And the result of the Corporate segment is stable compared to the prior year.

I'd like to continue with the business volume trends on slide 8. With a growth rate of 12.6%, Helvetia outperformed the market in its home markets as well as most of its foreign markets. However, the weakness of the euro meant that volume growth of the foreign units is somewhat restrained after translation into Group currency. Thus, volume growth for the Group in Swiss francs was in the region of 8%.

In original currency, both the Life and the Non-life business posted double-digit growth. In the Non-life business, around half of the premium growth generated of 13.8% can be attributed to the two new Swiss companies, Alba and Phenix.

The growth in the Life business of 12.9% is broadly supported by geographical region as well as by business areas. The home market of Switzerland acted as the main driver for growth, thanks to the familiar strong performance of the group Life business. Growth was pleasingly well spread across the Group. Philipp Gmuer will inform you later of the impressive premium growth reported in Switzerland of almost 20%.

We also posted strong volume growth of about 10% in Germany. The increase of 20% in Life business was supported both by traditional life products and unit-linked products. A good start to the cooperation with ARAG in Germany also meant it was possible to achieve premium growth of 7% in the Non-life business.

Despite the difficult economic environment, our Italian unit also posted good growth above the market average. At 19%, our Non-life business developed strongly across all business lines.

Despite the sharp decline in market demand for life insurance, we successfully improved our premium income for the traditional insurance business. However, the downward trend in demand for unit-linked products resulted in a drop in deposits from investment contracts of over 20%.

In Spain too, business operations was strongly influenced by the economic environment. In the Life business, we successfully continued the growth momentum of the previous year with growth of 5%. But in the Non-life business, the weak economy and fierce competition led to a small fall in premiums. Overall, we were able to maintain our Spanish business volume at a stable level.

At over 3% volume growth Austria, once again, outperformed the market forecasts and confirms the positive growth trend of the past two years. This improves the sustainability of the success achieved for the reorganization of the distribution structures.

Following a difficult time, the transport portfolio of our French companies once again posted a very satisfactory organic premium growth of over 8%. The assumed Reinsurance business, which invoices the majority of premiums in foreign currency, reported a premium decline of 6.7% exclusively due to foreign currency effects.

If we look at slide 9, we can see that the Non-life technical performance continues to be very satisfactory indeed. At 92.6%, the net combined ratio is 1.4percentage points down from the previous year and is below our strategic target range of 94% to 96%. This positive development is primarily due to efficiency gains associated with the expansion in business volume and to our cost discipline.

In the first half of 2011, we reported a cost ratio of 27.8% compared to 29.3% in the same period in 2010, a reduction of 1.5percentage points. We believe that around 0.6 to 0.8percentage points of this reduction is generally sustainable since part of the reduction is actually due to one-off effects.

Due to accrual effects during the year, it is also anticipated the cost ratio at the end of the year could be slightly higher than in the first half. Overall, we're extremely satisfied with the cost reduction that has been achieved.

The claims experience, which is once again favorable, resulted in a claims ratio that was more or less the same as in the previous year and continues to be at a very good level. According to our first estimates, the hailstorms and bad weather that affected Switzerland in July will increase the claims ratio by around 1 to 1.5percentage points at the end of the year.

In the home market, the net combined ratio of 81.3% continues to be at an outstanding level. It's also highly satisfactory to note that the net combined ratios for all foreign markets are under 100%. And that almost all ratios have improved year on year. It's only in France the combined ratio increased due to an unusually high number of large claims in the first half.

The development of the Life business is also very solid. Life again showed the development of the embedded value over the first half of 2011. At CHF2.2 billion, the embedded value has remained practically unchanged, despite the weak euro.

New business written and the consistently good risk experience, plus the fact that the cost trend was as planned, had a positive influence on the embedded value, whereas lower interest rates compared to original expectations, in particular in Switzerland, meant that the economic variances had a negative impact.

Due to the dividend from the Spanish Life business and exchange rate losses, the embedded value is down very slightly by 0.2%.

If you look at the new business values on slide 11, we can see that the value of new business written rose by just over 26% compared to the first half of 2010.

At the end of last year, the assumptions regarding the cost of solvency were increased in view of the regulatory developments related to SST and Solvency II. Assumptions regarding higher long-term return on investments contributed to offsetting the increased solvency costs as per June 30. And the increase in value of the new business written is, therefore, primarily due to the strong growth momentum.

The volume in new business written increased by a satisfying 23% year on year. Overall, a 1.3% expressed in present value new business premiums, the profitability and new business written remains on a par with the first half of 2010 and falls within our strategic target range.

As you can see from slide 12, gross margins for our insured and shareholders remains stable despite the continued difficult economic environment. This applies both to Switzerland and for the other EU countries.

Despite the climate of persistently low interest rates, we clearly remain in a position to comfortably meet our guarantees towards our customers. This brings us to Group solvency on slide 13.

Helvetia has successfully maintained its strong capital position in the turbulent financial market environment. The strong growth momentum generated additional need for capital, which could be easily satisfied with the Solvency I margin of 214%, whilst still allowing for future growth.

The sensitivity analysis shows that we could easily absorb any stress scenarios, such as an increase in the risk-free interest rate, or the spreads on corporate bonds, or even a downswing in the equity markets under Solvency I.

In the current environment, however, the impact of any possible default scenario is of much greater interest. Since June 30 the downgrading of the USA's credit rating has aggravated the debt crisis. We have, therefore, modeled various default scenarios which are now shown on slide 14.

If you look at our exposure to Italian and Spanish Government bonds, they amount to CHF870 million and CHF359 million respectively. And these serve almost exclusively as cover for insurance obligations in these countries.

Our insignificant exposure to Greek, Portuguese and Irish Government bonds was reduced further through sales during the first half and amounted to only CHF50 million at the end of June. Also, our exposure in the US Government bonds is minimal at CHF36 million. Our strong balance sheet could even easily absorb severe default scenarios on the part of PIIGS and US Government bonds.

In the event of an actual real default by these governments of 20% and the subsequent impairments booked in our accounts, our direct investment in PIIGS and US bonds would only impact a Solvency I ratio by 12percentage points, while the highly improbable scenario of a 50% default rate from these governments would have an impact of 31percentage points in total.

These model calculations do take into account a participation by insureds, as well as tax effects, to the extent that we can model them. Overall, our solid balance sheet is well able to absorb the direct risks from this exposure.

We now come to the Swiss Solvency test on slide 15. Helvetia can still comfortably meet the quantitative requirements of SST from today's perspective. We are, therefore, in a position to consistently and resolutely pursue our strategic ambitions.

Although FINMA's final comments on the SST submitted by Helvetia Group at the end of April is still outstanding, we have received first comments on the SSTs that were submitted by the major Group companies. These live up to our expectations and are in line with what we were hoping and, indirectly, confirm good capitalization of the Group.

However, it has to be borne in mind the SST is still in a development stage. Consequently, any further developments in the current provisional methods applied by FINMA can continue to have a material influence. The FINMA review of internal models that were provisionally approved for 2011 SST is well underway. But has not yet been concluded.

In the past weeks, interest rates, which are one of the SST main drivers, have dropped again, even the actual scenario now currently, our SST capital position, continues to be solid.

We are also currently preparing for Solvency II for our subsidiaries. This new benchmark for the whole of Europe is expected to enter into force in 2013. We take all these matters extremely seriously and thanks to our traditional and conservative structure of our balance sheet, as well as our risk management, we think we are extremely well positioned for these future challenges.

I'll now hand over to my colleague, Ralph Honegger, CIO, who'll give you further information at our investment results.

Ralph-Thomas Honegger {BIO 4932832 <GO>}

Thank you, Paul. Ladies and gentlemen, it probably goes without saying that business on financial markets is fast moving and that events, perceptions, new information and their interpretation often have an immediate and excessive effect on prices.

In comparison with the latest turbulence on the markets, events in the first half of 2011, which I'm going to talk to you about in the next few minutes, were extremely quiet if not downright boring. However, events on the investment markets were increasingly shaped by the worsening sovereign debt crisis in Europe from early on.

To begin with, it was Greece in the spotlight. The growing realization that the Greek Government is unlikely to be able to solve its debt problem by itself. And the hesitant and controversial behavior of the political authorities speeded up the loss of confidence by the financial markets. The danger of contagion to other EU countries could not be dismissed and was an ever-present threat for Portugal and Ireland, in particular.

In comparison to this, the situation in Italy and Spain did not yet give the markets much cause for concern. The spreads on the bonds for these two countries even contracted slightly in the first half of the year. Although equally volatile, by midyear, the euro was slightly lower than at the start of the year, whereas the US dollar had once again depreciated sharply.

In the first half of the year, the equity markets remained unimpressed by discussions of the debt crisis. And with a few exceptions only, which unfortunately also included the Swiss market, posted handsome gains supported by excellent company results. In this market environment, we remained true to our sustainable investment policy based on broad diversification and top quality individual investment.

New inflows amounting to more than CHF1 billion were mainly invested in fixed income securities. In addition, some of the funds were invested in our real estate and mortgage portfolio in accordance with our strategy. So that the exposure in the growing portfolio could be kept at a constant level.

Equity exposure was practically unchanged at 4% and equity exposure after hedging at 2.4%. Thus, the asset allocation has hardly changed, as you can see from slide 17. Only the fixed income has gained slightly by 1percentage point.

The split according to IFRS categories was also subject to marginal adjustments only. Thus, the investment induced fluctuation risk in the balance sheet and income statement remain constant.

Slide 18 shows the credit worthiness of our bond portfolio as per June 30. The quality of our bond portfolio remains high. In fact, it has even improved slightly year on year. 98% of the bonds have at least an A rating; 90% are classified AA; and 57% continue to have the best rating of AAA.

Slide 19 shows how the portfolio is divided between the sectors. The fixed income portfolio totals approximately CHF20 billion. Approximately half of this is invested in financials, a good 40% in government bonds. And the rest in corporate bonds.

The risk profile on the right-hand side of the slide underscores the high quality of the financial that we hold. Only half of 1% of the portfolio is rated under A, whilst almost 90% is classified with at least an AA rating. Moreover, at 1%, the share of subordinated bonds is negligible, whilst the majority of the financials have either a government guarantee, or additional collateral, mainly mortgage bonds.

However, in the current environment, our exposure in government bonds is considered to be more interesting than the financials. You can see the details on slide 20.

As far as the state and supranational portfolio of CHF8.2 billion is concerned, around 60% is invested in government bonds; 21% in regional authorities and cities; 11% in government controlled enterprises; and 8% in supranational banks.

The highest government exposure is held vis-a-vis Switzerland at more than CHF2 billion or 42% of the total income in government bonds. Overall, 70% of the bonds have the highest rating, AAA. The exposure of 1% vis-a-vis the USA is included in this illustration as per June 30. But its down grading scarcely alters the picture. Paul Norton has already informed you of the different default scenarios.

Our cautious investment policy was once again supported by a comprehensive hedging concept. More than 90% of the foreign currency positions were hedged to a high degree by futures, while the risk of the fluctuations faced by the equity holdings was effectively reduced with put options.

Slide 21 describes the currency and[ph] effect on investments. Currency losses from net foreign currency exposure amount to CHF113 million, of which CHF11 million was cushioned by corresponding liabilities in foreign currencies. Hedging transactions resulted in a profit of CHF74 million. So the income statement was charged only with CHF28 million. The foreign currency exposure of around CHF2.4 billion resulted in a loss of merely 1.2%. In conclusion, slide 21 provides you with information on our investment performance.

At CHF453 million, Group investment income is on par with the previous year. Current income totals CHF487 million, which represents an annualized direct return of 3%. Despite the overall lower rate of interest earned by the bond portfolio, this continues to enjoy a stable development.

Total realized and book losses for the Group amount to CHF34 million, whereby the above mentioned hedging measures had a positive effect, while the equity derivatives curbed performance. Overall performance was 1%, not annualized, curbed by the interest related performance of the bonds which reduced unrealized gains in capital by CHF117 million.

As the markets are expected to stay volatile until the end of the year, Helvetia will remain its safety focused investment policy. And tried and tested hedging concept.

With this I would like to pass over to Philipp Gmuer, CEO, Switzerland.

Philipp Gmuer {BIO 5605415 <GO>}

Thank you, everyone. Ladies and gentlemen, I am pleased to provide you with a couple of insights with regard to our domestic Swiss business. The half-year result of our business unit Switzerland is characterized by the following elements.

First, we have a strong growth rate of more than 19%. Second, we are enjoying robust technical results in both Life and Non-Life, whereas the latter is mirrored by a once again outstanding net combined ratio of 81.3%. And third, we see a profit increase of more than 13% due to progress in both segments, Life and Non-Life.

Let's now go into the details on slide 24. As you can see on this chart, the gross premium volume in Life comes to almost CHF2.4 billion, which means a growth rate of 17.7%. In Non-Life the growth rate accounts to as much as 28.1%. It is, of course, mainly triggered by the acquisition effect of Alba and Phoenix.

Due to a still and ongoing prudent underwriting and pricing strategy in Life and Non-Life, due to the lack of large claims in the first six months and due to a strict cost management, our net profit after tax increased by 13.3% to CHF123 million.

Turning to slide 25, you get an insight with regard to our Life Business. The numbers show encouraging growth rates in both individual and group Life.

In individual Life, the regular premiums grew by 4.7%. Thanks to the acquisition of Phenix and thanks to the successful sale of our tranche product, Helvetia Invest 100, we accumulated for the first time in a couple of years, a noticeable growth in the regular premium segment.

The single premium volume grew by more than 18%. As in group Life, we see a high demand of the traditional product. The unit-linked products, however, are still asked for, as long as they come with a minimum guarantee with regard to the savings part of the insurance policy.

The growth rate in group Life demonstrate our strong market position. We are especially proud of having achieved a growth of almost 9% regarding the regular premiums, thus we expect to have gained, once again in a row, market share.

Notwithstanding our big growth in premium volume, we have achieved. And still achieve, sustainably strong technical results. This performance underlines that the growth has not been realized at the cost of profitability or the lack of prudence in underwriting.

Slide 26 shows the Non-Life result. Of course, the acquisition of Alba and Phenix sharply boost our business volume to more than CHF550 million, representing a growth rate of 28.1%. We see, however, also an encouraging organic growth of roughly 3%. Happily, every segment contributes to the sustainably good performance and growth, be it property with almost 9%, or motor business with almost 50%.

The eye catcher, however, is an outstanding combined ratio, net, of 81.3%. Despite a slightly higher claims' ratio, the combined ratio remains at a very low level, at the lowest one probably in the whole market. Sure, the claims' experience during the first six months of this year remain favorable; yet, the combined ratio mirrors, at the same time, our high portfolio quality and an effective cost management, which did not suffer at all in the course of the acquisition and integration of Alba and Phenix.

Turning to slide 27, you can see that our integration process of Alba and Phenix is underway according to schedule. We successfully integrated the acquired sales force and expanded the distribution network. There are some 140 salesmen who joined Helvetia as of May 1. And we set up 13 new agencies, mainly in the western, French-speaking part of the country. And in the agglomeration areas of Zurich, Basel and Bern.

In the meantime, the back office and claims' management teams of Alba and Phenix are being integrated in the Helvetia organization as well. The legal merger of the three entities, Alba and Phenix Life and Non-Life with Helvetia Insurance and Helvetia Life, respectively, shall be effective as of November 1. Migration of the insurance portfolio will start before long.

Up to now, we have not observed any bad or unexpected material surprise in the acquired companies, either[ph] with regard to the insurance portfolios, profitability or any other issue. To the contrary, Alba and Phenix already contributed to an encouraging extent to our half-year net results.

And with this, I now hand over to Stefan Loacker.

Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, after this deep dive into our business performance of the first half year, I would now like to speak more about the implementation of our strategy.

The start of our new program, Helvetia 2015 plus, coincides with a period now of major global economic turbulence. This makes it even more important that our concept can prove itself in these stormy seas.

Our long-term ambition, which you can find on slide 29, remains unchanged; it is to excel in growth, profitability and customer loyalty. To underpin our objectives, the most important strategic programs, which you can also find on this slide, have been comprehensively initiated in the last couple of months. Today, we are well on track to expanding our market position even further, enhancing our profitability and improving customer benefits.

I would now like to show the highlights of the most important aspect, starting on slide 30 for growth. Despite difficult growth prospects in some of the major European insurance markets, Helvetia Group generated a double-digit growth momentum in the first half of the year. We ascribed this primarily to our long-term programs, to continuously expand our distribution reach in all country markets.

We have been able to achieve further progress in this regard during the interim period. The largest and most important growth project at present is the integration of Alba and Phenix. As Phillip Gmuer has already explained, we are well on course in terms of sales and earnings.

The cooperation with Raiffeisen also continues to develop positively. The extensive development work in the last few years is now leading to better and better results. In the interim period, the business with Raiffeisen continued to increase and now contributes more than 15% of the new individual Life insurance business in Switzerland.

In Germany, the cooperation with ARAG, which is one of the largest German legal expenses' insurers, has kicked off very successfully. Helvetia sales force sells ARAG legal expenses' policies and vice versa. Approximately 1,400 ARAG customer advisors sell Helvetia motor vehicle insurance policies. By now, this cooperation agreement generates about 10% of the new motor vehicle insurance business.

In Italy, the Helvetia agency network has been successfully enlarged over the course of the last couple of years, to now roughly 400 agencies. Now, our focus here is to only selectively develop our already significantly expanded network in terms -- but especially also in terms of profitability.

We see the net combined ratio of about 97% achieved in Italy as a good performance in the context of a simultaneous double-digit Non-life growth and also in light of the current market conditions.

Finally, the development of the Group-wide Life Center, which is an internal center of competence at headquarters level, has already achieved major success in the area of new products.

In mid July, a couple of weeks ago, our first multi-market product, which is called Helvetia Guarantee Plan, was launched in Switzerland. Individual guarantee management presents now an excellent solution to the pension provision needs of our private customers in the current low interest rate environment. And the take up of the market has, thus, been very good so far. With minor modifications, this Helvetia Guarantee Plan will soon be launched in the other European markets of our Group.

With this, I turn to slide 31, the pillar of profitability. We place great value on consistently managing the earnings components that we can directly influence, particularly, of course, in the currently uncertain capital market environment. Primarily, this translates into strict cost management, management of new business flow and cautious investment policy.

The net cost ratio has been reduced several times across the last couple of years, starting with a 33% level in 2007 to now significantly below 30%. The main contributing factors, again, are further savings in IT and admin costs, combined with healthy premium growth.

Initial cost synergies from the integration of Alba and Phoenix have also been in line with the targeted outcomes. Supported by this ongoing improvement in the cost base, our Group has once again achieved an excellent net combined ratio of below 93%.

The Non-life business has, thus, proven itself to be a very reliable profit center even in times of extremely volatile capital markets. New business margin for the life business came in stable at 1.3% in our target range. And also solvency, both in terms of Solvency I and Swiss Solvency Test, capitalization target could also be comfortably met.

I'm turning to slide 32, with the customer in the focus. It's really important for us to underline that especially in the light of the ongoing debate about the regulation and capital market, we really want to emphasize that our entire organization, that means 4,500 people, are primarily focused on serving our customers.

The people who choose us as their partner have clear expectations. Of course, they also expect us to have our balance sheet in order and to manage it prudently what we do. But in particular, however, they expect tailored advice good products; reliability and fairness when dealing with us. It, therefore, gives us special satisfaction that our market units in Switzerland and Europe have, once again, received top marks in various surveys.

For example, in one benchmark study of pension providers in the private customer segment, Helvetia in Switzerland was one of the three best providers and especially the clear winner in the insurance company category. This survey covered image, customer satisfaction and customer loyalty for Swiss banks and insurance companies.

Achieving top results like this, again, encourages us to expand the profile of our Bank in all countries where we operate. To do this, we will, for the first time in our Group, launch a Group-wide brand campaign next year.

We will also continue our commitment to winter sport and expand this for all our country markets in the Alpine region. Here I would like to mention, in particular, that just a couple of days ago we have been successful in our bid to become the new official premium sponsor of the FIS Cross-Country World Cup. The sponsorship deal covers World Cup competitions in four cross-country skiing disciplines that will take place in 11 European countries and enjoys growing public popularity.

Ladies and gentlemen, let me summarize on slide 33. In the first half of the year, we have been able to achieve all the financial objectives laid out for this strategic year. This is no small achievement, give the current environment. In particular, our strong home market has proven itself as a solid foundation. Using the measures contained in our mid-term strategy, we are consistently working towards sustainably improving our earnings also in the foreign markets.

We are, therefore, confident that our Company can hold firm in the current difficult market environment, while continuing to develop sustainably.

Thank you, now for your attention. The other speakers and I will now be happy to answer your questions. Please go ahead.

Questions And Answers

Operator

(Operator Instructions) Mr. Fabrizio Croce, Kepler Capital Markets.

Q - Fabrizio Croce {BIO 15005585 <GO>}

I have actually only two ones. The first one in the group Life business, your growth was very considerable. And here the question is what were the drivers? Are we still seeing autonomous pension funds shifting? Are we seeing a lot more employees joining Switzerland? Or are there are other drivers which we do not see that other companies do not have?

Second question is about the Swiss Solvency Test. Here, the question is if you could give us -- at least, I know that the models are not approved; there is still discussion ongoing. But if you could give us a range. Are we moving rather with the current one between 100% and 150%, between 150% and 200% or rather over 200%?

And the second one is about the story with the real estate duration. As we understood, there is a mitigation from FINMA side about the criteria to be adopted in terms of capital charge for real estate; so no longer duration zero but use of internal model. And so here, also from your side, are you seeing this development also for you?

And are you planning to expand further the real estate share of your investment?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, Philipp Gmuer will answer on the group Life business and Paul Norton on the SST issues.

A - Philipp Gmuer {BIO 5605415 <GO>}

Okay, I think the drivers for our growth rate in group Life are three different elements. First of all, you mentioned there are still a whole bunch of pension funds, of autonomous pension funds and their employees shifting from their solution to a life insurance solution, because they are asking for a guarantee.

Second, we see a high competition among the few competitors still remaining in this market, which means that there are a couple of accounts changing hands from one provider to the other.

And third, we think that the economic situation last year and in the first six months of this year still allowed improvements in salaries and their pension schemes of the different companies. So, summarizing, it's probably all those three elements contributing to this nice growth rate.

A - Stefan Loacker {BIO 15157193 <GO>}

And as I always underline our main management focus is on the periodic side of this business, which was very nicely developed, almost 9%/10%. But also, we have to book for the new reserves flowing into our balance sheet, as a reflection of the renewal fees which is always at the beginning of the year.

And once again, we have been very successful in this renewal. And that, of course, is a purely balance sheet event but, nevertheless, has to be shown as a shown as a premium income, which this time was, again, very high. So 30% came out of this. And we tend to focus on the periodic side of this business, which is mainly explained by Philipp's explanations.

We turn now to the SST, to Paul Norton.

A - Paul Norton {BIO 16145125 <GO>}

We obviously considered very strongly whether we should actually give you some -- explaining some more numbers, we would love to publish a range. We have really, internally, no problem with it.

But given the state of discussions of not just us, the rest of the industry with FINMA and the fact the models are not finally 100% approved, we decided absolutely deliberately against publishing a range at this moment. And I don't want to give it, not because I'm not comfortable with the numbers, I think we're very comfortable with the numbers. But I think it would just be misleading at this point in time, given the uncertainties.

We are, as we said, very comfortable. We don't have any kind of problem both with the methodology and in the level we're at. And the conversations between us and FINMA and, I think, with the rest of the industry have improved considerably over the last 18 months in terms of pragmatic approach, speed of response and so on. But given the past history we're still a little bit cautious on that.

In terms of the real estate duration, we have not assumed anything in this current model. What has happened is that FINMA have had a meeting with the Yatzee[ph] which is the provider of the index. And provided them with basics and criteria as to what would be acceptable in a model. And it's up to Yatzee to go back and discuss that. And work something out. But at the moment we have not included anything for real estate duration in the model.

A - Philipp Gmuer {BIO 5605415 <GO>}

Next question please.

Operator

Peter Eliot, Berenberg Bank.

Q - Peter Eliot {BIO 7556214 <GO>}

Two questions please, probably one soft one. And one slightly harder one. Firstly on the Non-life side, it seems you have been very successful at switching focus of more profitable areas as the underwriting in those improves. German motor is probably one obvious example.

I was just wondering if you can touch on how you think you're able to do that better than the competition? Or whether we should assume that you're perhaps increasing prices slightly less than competition in these areas as these improve. And whether we should expect that trend to continue? Whether we should expect to continue to see a trend at lower expense ratios at the expense of, perhaps, higher claims ratios?

And then, secondly, on the Life side, I think it's probably fair to say that your margin improvement has been, perhaps, slightly less than some peers have shown. And I'm wondering if you could perhaps touch on the outlook in light of recent falls in interest rates, etc.. And whether there's more you can do.

And, perhaps related to that, just looking at your target, it seems that the 94% to 96% combined ratio target is probably looking a bit easier to achieve than the Group RoE target. And whether there's any assumption on development of profitability in the different business divisions? Thanks.

A - Stefan Loacker {BIO 15157193 <GO>}

We would like to highlight on the Non-life portfolio development firstly. And then come back to the Life margin issues and RoE.

Maybe you'll allow me to introduce the question of the portfolio composition with a historic point, which comes from the corporate history of Helvetia, which, only in the 1980s, started to be a car insurer at all. Before that point in time we have not had any exposure to car insurance. But we had a partnership who provided for this.

This, of course, still explains up to now why our relative market shares in the car insurance are partly -- considerably lower, than our market shares in property and transport and other business lines still are. Therefore, we do not have an extremely deliberate strategy to grow tremendously in the car business and, therefore, provide that shift in the mix, as you have indicated, less cost ratio, higher claims ratio. It's not a deliberate strategy. But we think that we can afford a little bit more than others to move, I would say, cautiously into that direction.

Now one of the major impacts came from the acquisition of the Alba portfolio in Switzerland, which has substantially increased our market share for car insurance also in Switzerland. Especially in Switzerland, we can say this is a very good business. It's not something that you should be too much afraid of. Nevertheless, maybe the combined ratio as a figure might be a bit higher. But still the profit, of course, the earnings power that you are generating is obviously very pleasing.

For Italy the situation is a little bit different. There also we have a strong growth in the car insurance. But that comes predominantly along with the expansion of the agency network. Those agents, because of the higher frequency of turnover of contracts, tend to begin production in the car insurance sector. But our focus is also to come to integral portfolios, also covering the cross-selling idea into property and the other lines of business we write.

And especially in Germany we are also quite cautious to come to too many car insurance policies. Nevertheless, we think that, as a general trend in all of the European markets, especially Italy. And now also Germany, we can see hardening rates, especially in the car business.

And, therefore, the profit that we are expecting out of this new business should also be sustainable. And it's more a side effect that it might change a little bit, the composition between claims ratio and cost ratio. It's not a deliberate strategy. The major impact that we had on our cost ratio improvement is, simply, the overall top line growth by more or less stable cost structures that we have.

With this I turn now to Paul for our Life business margin development and overall RoE targets.

A - Paul Norton {BIO 16145125 <GO>}

I think you have to remember that a lot of our peers are now using market assistant embedded value for Life, which gives you a very different picture. And is much more volatile. So some of the comparisons between prior year and current year are very difficult to make when looking at system embedded value.

The question is can we also do more and the answer is yes. And we have actually an active program to look at the profitability of the Life business in general. And with specific market units concentrating on those to start with. In particular, looking at costs, cost allocations. And understanding, in better detail and the profitability of individual product lines. So we can allocate capital and allocate capacity to those product lines.

But I think, at the moment, we are within our target band of 1.2% points to 1.5% points on present value new business premiums. And we're obviously happy but, yes, we will try and improve that.

In terms of the RoE target, again we are just within our target band. I think one of the biggest determining factors, as well as the -- as you said, achieving the combined ratio target appears to be, within brackets, relatively easy.

And we're obviously within our target for the life profitability. And, if they[ph] want to improve it, then the biggest driving force is going to be the investment income. And that's something that we can't, at the moment, to a great extent, control. There's obviously a trade-off between risk and reward. And given the circumstances, at the moment. And things[ph] the last couple of years, I think our position, whereby we've had a very, very cautious investment policy. And given up on some of the yield, it has, in fact, proved itself. And so, yes, it will still be hard to achieve that, the RoE. But I think we can still get there and keep within that 10% to 12%.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, next question please.

Operator

Stefan Schuermann, Bank Vontobel.

Q - Stefan Schuermann {BIO 3235442 <GO>}

I have a few questions. The first one is one the FX impact. Maybe could you just remind me again in detail the total foreign exchange impact on the P&L, as well as the equity side. I'm not quite clear on that one. For example, on the P&L you show CHF28 million, I think that's a gross figure. And could you give us the net figure here?

Then, second question, is basically on the real estate investment. I see the result had a CHF5 million negative net realized gains losses. I assume that on the Swiss side it should have been a positive amount here. So where does the negative come from? Is that Spain?

And then the third one basically, considering the strong Swiss franc, are you basically increasing your screening for potential M&A targets in your core markets outside Switzerland?

A - Stefan Loacker {BIO 15157193 <GO>}

Okay, thank you for these questions, we'll take it up in the order that you have put them. I think Paul is best equipped to show the various effects of the FX development in our performance figures.

A - Paul Norton {BIO 16145125 <GO>}

Unfortunately, it's in different places. You've seen the CHF28 million, which is reported in Ralph Honegger's presentation. That's the net effect of the investment hedges. There's also a corresponding impact in equity if you turn to slide 37, which is due to the effect of the hedging there. So you see there you've got CHF28 million currency effect of own investment funds. And offsetting that -- and that's all going through equity.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Yes. But these figures are all before policyholder participation. Could you give us a net figure as well, or?

A - Paul Norton {BIO 16145125 <GO>}

I haven't got a net figure at the moment. I'll have to come back to you on that.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Okay, no problem.

A - Stefan Loacker {BIO 15157193 <GO>}

Ralph, on the property --

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

Well, according to this property income, the CHF5 million you mentioned, no they're a basic amount of Switzerland. It's just a question -- you know, we only add value -- our real estate portfolio once a year at the end of the year. So, therefore, the CHF5 million are basically investments that we took, which are not yet realized in the valuation. So it's Swiss, a thing looking at a stock of CHF3.5 billion. It's not at all Spanish.

Q - Stefan Schuermann {BIO 3235442 <GO>}

Okay, that makes sense.

A - Stefan Loacker {BIO 15157193 <GO>}

And with regard to your question about M&A, I can only repeat that M&A for us, yes, is part of our strategic ambition. But just as an additional impact is not the core, of course, of our strategy. It's a continuous task to look for the suitable bolt-on opportunities.

The FX situation is not a particular driver for us, because, unfortunately, you also purchase office streams in euro. So for the high Swiss franc that does not help in the end for the consolidated issue. Of course, now it seems that devaluation is not on a sustainable long-term balance. So it could be, more or less, an additional factor. But that does not at all drive our ambitions to be now, I would say, too generous on spending from M&A, because of the FX element[ph].

Q - Stefan Schuermann {BIO 3235442 <GO>}

Okay, thank you very much.

A - Stefan Loacker {BIO 15157193 <GO>}

The next question please.

Operator

Jochen Schmitt, Metzler Equities.

Q - Jochen Schmitt {BIO 4227302 <GO>}

I have two questions if I may. Firstly, the organic growth rate in your Non-life segment, which was around 7%, in the first half, if I'm correct. You mentioned several reasons for that, like cooperations, boost of your sales force and rate increases, in your six month report. And my question is to which extent do you think that you can maintain the growth rate organically, posted in the first half, short and mid term?

And secondly, very quickly, on slide 20, the exposure to regional authorities, 28% in the left hand chart, does a major part of this refer to authorities from Switzerland, Austria and Germany? That's it, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. For the growth development, both in Non-life and Life, we are not actually providing a guidance for the second half of the year.

Maybe as an indication, just as a flavor, we think that for the Life business, of course, as you have seen a major part has come from the single life business -- from the single payments in the collective pension business in Switzerland, which normally comes in, in the first half of the year. So it would be normal to see a certain flattening out against the end of the year.

For the Non-life business, there are no particular issues that have been in favor of the first half-year. So there are not major one-off situations that should alter the business trend, as we move ahead.

So here we do not see many reasons to say that the picture should change dramatically and, therefore, we are confident, all in all, that we can keep, I would say, a sound growth momentum. But maybe as a full year expectancy a double-digit number might be a little bit high.

Now we come to the questions of the split that you had of 20, where we have seen those regional authorities, which are not on country level. But below. And Ralph Honegger has the details on this.

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

So the 20.8% roughly, represent CHF1.7 billion. And taking that as 100%, it's 85% Swiss and German. And some Austrian. And to address the question, it's 2% in PIIGS and that's it -- it's even less than in the Government exposure.

Q - Jochen Schmitt {BIO 4227302 <GO>}

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

The next question please.

Operator

Tim Dawson, Helvea.

Q - Tim Dawson {BIO 3214668 <GO>}

Just one pretty simple question actually. On the slide concerning the margins on the Life business, particularly I'm referring to the investment income and the guarantees. You have a slight increase in the achieved yield, direct yield, in H1 2011 compared to 2010. I know it's not a huge move. But it's nevertheless, slightly surprising. I just wondered if you could explain what was behind that. Is it an asset mix shift, or what else?

A - Paul Norton {BIO 16145125 <GO>}

Unfortunately, it's a comparison issue. We actually compared the full year for 2010 with the first half 2011, because we get most of the dividends coming in the first half of the year, you get a slight boost in the year. So it'll flatten out slightly over the second half.

Q - Tim Dawson {BIO 3214668 <GO>}

Good, simple enough, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, next question please.

Operator

Ralph Hebgen, KBW.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Good morning, everybody; a number of things. First of all, I think there were some hailstorm events over Switzerland in Third Quarter. Would you be able to tell us whether you expect any claims in the second half, from that event?

And question number two relates to the new business profit margin, as disclosed on slide 11. Would you be able to give us some idea of how the movement breaks down into drivers, let's say?

Interest rates will have had a positive impact on new business value. That will have been offset by perhaps ForEx. So would you be able to comment on how much of the development from half year to half year was macro driven, or was driven by mix effects. And by ForEx and perhaps other factors?

Then my third question relates to information presented on slide 6, to other activities. I see a still very strong contribution from other activities, of CHF19 million, in half year '11, although derivatives accounting means that any gain from derivatives is now directly represented in shareholders' funds.

Would you be able to explain why other activities still is so strong? And also, what would the CHF13 million in 1H '10 have been, had you already used hedging -- hedge accounting in that interim? And I think that's all it is, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, Ralph, I will start on the hailstorms in July and August. We already included that message in the explanations of Paul. So that we are assuming that seeing this as a full year's impact might have a 1 to 1.5percentage point impact on our claims or combined ratio. So that was about the magnitude that we had seen.

With regard to the new business margin, slide 11, I turn to Paul.

A - Paul Norton {BIO 16145125 <GO>}

The main drivers are actually -- as you said, there's a positive development in expected yields, going forward. That has been offset to some extent, or to a large extent, by the higher assumptions on solvency capital requirements. We had -- we increased that last year.

And also we've -- going forward, we would expect more feedback from the dividend, that we get -- that we pay out to the Patria Genossenschaft, a mutual that owns 30% of us. You know they recycle their dividends back into us. And we've agreed with them a slightly higher increase in dividend pay back.

And there's also, as you say, a better mix. We have a little bit more on the index linked and on the unit linked this year. And they are obviously more profitable than the traditional business. So those are the drivers. Basically they tend to offset each other, which is why you've got the CHF1.3 million stable in both periods.

A - Stefan Loacker {BIO 15157193 <GO>}

Other activities?

A - Paul Norton {BIO 16145125 <GO>}

Other activities. Other activities obviously includes the active reinsurance business, which is positive. It also includes some centralized investment vehicles that we have. And they obviously make money as well; and investment income. And those are the two basic driving forces in that business.

A - Stefan Loacker {BIO 15157193 <GO>}

The restatement?

A - Paul Norton {BIO 16145125 <GO>}

And the restatement, we haven't done a restatement. But we can, as we pointed out I think, on slide 37, the amount that this year, that we had in hedging, I think CHF24 million. So it would have been -- the profits would have been CHF24 million higher this year. But we haven't restated from prior years.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, just as a quick follow up in that case. Would you be able to disclose what the reinsurance result was, in 1H '10 and 1H '11?

A - Paul Norton {BIO 16145125 <GO>}

We haven't so far disclosed the reinsurance results separately.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, thank you very much.

A - Paul Norton {BIO 16145125 <GO>}

It's basically -- it's getting on for half of the result almost.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Did you say about half?

A - Paul Norton {BIO 16145125 <GO>}

Getting on towards half of the disclosed amount.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, perfect, thank you very much.

A - Stefan Loacker {BIO 15157193 <GO>}

Next questions please.

Operator

Michael Klien, UBS.

Q - Michael Klien {BIO 4262408 <GO>}

It's actually Nomura. But my questions if I may. Firstly on the combined ratio, you mentioned that the administration cost ratio dropped from 9% to 7.8%. And there were some one-off effects included. Unfortunately, I didn't completely understand, or I misheard the number. If you could maybe just remind me what the one-off effects were. And the amount of impact.

And also talk about the underlying improvement in the admin cost ratio, how much of this -- I guess most of this was scale effect. But could you maybe give a split in terms of scale effect and maybe hard cost sales?

Second question would be on Swiss solvency -- or the Swiss solvency test. You gave some interesting sensitivity analysis, in terms of various scenarios. And the impact on your Solvency 1 ratio. How would this look on your SST ratio.

And thirdly, just following on from the previous questions, you said that there's going to be higher dividend recycling from Patria Genossenschaft, back into Helvetia. Would we, therefore, have to infer that it's likely that you're going to aim for a dividend payment on the higher side of your payout ratios. So closer to 50% rather than 30%?

A - Paul Norton {BIO 16145125 <GO>}

I'll take that in reverse order Michael. The dividend ratio, the dividend payback from the Patria Genossenschaft has nothing to do with our payout ratio to them. It's about how much they retain of existing dividends. And they will pay back to us more of their -- retain the dividend they get. It has nothing to do with what we will eventually pay.

Our payout ratio targets are still the same. Our dividend yield expectations are roughly the same. And we shouldn't change our dividend as a result. It's simply about where that money gets retained, whether it's in the Genossenschaft or whether it comes back to us.

In terms of the combined ratio and the underlying improvements -- sorry, in the claims ratio -- sorry, cost ratio -- thank you, cost ratio and how the admin ratio breaks down, we think that the sustainable amount is round about 0.6%/0.5%/0.8%, in that region, out of that 1.2% reduction.

The reason is that there's two groups of one-offs. One are some release of various cost provisions. One was an insurance tax in Austria, which is no longer payable. And the other are some provisions, which were no longer required in a couple of other countries.

Then we've also shifted some -- we've done a cost allocation exercise to review the appropriateness of costs and we've shifted those between certain categories and we haven't restated those. It's a very small amount. Basically, the bulk of it are some one-off special releases which are provisions that are no longer required.

And going forward, basically, it's going to be due to so far we've kept costs steady and it's due to efficiency gains due to the volume that we've seen coming up.

SST scenarios, we haven't published SST scenarios and given the uncertainties, as we said, on the SST, we don't wish to give those at the moment.

Q - Michael Klien {BIO 4262408 <GO>}

Okay. Thank you, very much.

A - Stefan Loacker {BIO 15157193 <GO>}

Next question please?

Operator

Kent Choi, Goldman Sachs.

Q - Kent Choi {BIO 16941884 <GO>}

So two questions, if I may. Firstly, could you please comment on the claims inflation trends in your Non-life business?

And also, the second question is could you also explain why the claims ratio in your Swiss Non-life business ticked up in the first half? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Will you start with the inflation question?

A - Paul Norton {BIO 16145125 <GO>}

It's mixed across the different countries. We don't see a claims inflation trend generally across the board at all. We don't see an increase in the -- particularly, in the average size of claims or in claims frequency.

We do see, generally, a pricing increase going across the board. But it varies from country to country; you can't make any easily generic assumptions. But, generally, we don't see much claims inflation but what we do see is definitely a pricing inflation or tariff inflation.

Q - Kent Choi {BIO 16941884 <GO>}

Thanks.

A - Philipp Gmuer {BIO 5605415 <GO>}

With regards to the claims ratio of Switzerland, our claims ratio has been on an extraordinary low level for years, especially also in the first six months of 2010. Now, in the first six months of 2011, we do not have large claims as we said before. But we do not have no claims. So there were a couple of claims. But we think that our high portfolio quality is still mirrored in an extraordinarily low claims ratio of some 53%.

A - Stefan Loacker {BIO 15157193 <GO>}

And there was the first-time consolidation of the book of Alba and Phenix, which both are very sound. But maybe not because of the portfolio composition as low as we are. So we have expected a little bit of a shift in this average.

But nevertheless, of course, the contribution to the net profits, as you can see, the overall net profit of the Swiss Non-life has been increasing. So, thus, there's no particular answer neither from frequency or elsewhere. But it's mainly this Alba effect that we have and the extraordinarily low situation that we had last year.

Q - Kent Choi {BIO 16941884 <GO>}

Okay, thank you. That's very helpful.

A - Stefan Loacker {BIO 15157193 <GO>}

Other questions?

Operator

(Operator Instructions) Rene Locher, MainFirst.

Q - Rene Locher {BIO 1921075 <GO>}

I've a couple of questions. First of all, I would like to talk a little bit about group Life business in Switzerland. So I'm really puzzled what happened in H1; strong growth with private insurance companies, some private insurers didn't grow that much in group Life business. So just I would like to have a little bit of your personal view how profitable is that business, especially in the drop in the risk-free rate.

And then a follow-up question; if I go to slide 12, what Tim Dawson mentioned before, just your personal view on the guaranteed interest rate, what's going to happen in September? What will the Federal Council decide because that could have quite a positive impact on the average guaranteed interest rate which is at 2.3% as for the half year?

And then just looking at the direct yield, that's a question for Mr. Honegger. If I go to slide 18, that's really -- your bond portfolio is of very, very high quality. Now I have discussed with some of your peers and they are moving or investing much more in BBB corporate bonds. But they are looking for utilities, food beverage with steady cash flow. They're saying that in BBB corporate bonds, you can achieve much higher returns. So just your view on that.

Then if I can go to slide 43 I guess, yes, 40 and 43, I think that's very interesting to see the Non-life portfolio composition and then the underlying combined ratio. So first of all, Italy, just year over year the cost ratio decreased by some 300 bps. Is that mainly due to volume growth in motor business in Italy?

And another question, I might be a little bit naive. But if I compare Switzerland and Germany at the portfolio composition, you can see now you have property, motor vehicle a little bit at the same range. So I was wondering, any chance to reduce the cost ratio in Germany? So what is the reason that the cost ratio in Germany is more than 400 bps higher? Is it acquisition costs? Is it administration costs? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

We are starting off with the second pillar business in Switzerland, growth and also the profitability situation reflected by Philipp Gmuer.

A - Philipp Gmuer {BIO 5605415 <GO>}

Thank you, Stefan. As I mentioned before, there are different drivers for our market share gaining and for this growth rate. I think one point to mention as well is these are[ph] almost no clients. That means we have a high retention rate in our client portfolio and this helps us with regard to the profitability as well, because we know our clients, we know pretty well our portfolio and thus, we could increase our technical results in group Life and in both segments, be it mortality or disability over the years and we are pretty prudent in our underwriting policy. That's one point.

The other one I would like to mention is that I would like to remind you that about 45% of our clients are in an off-balanced business, if you will, with our Swiss counter[ph] model. That means that we make the whole administration. We get the costs and risk premium. But we do not have a savings[ph] part on our balance sheet. And that as well helps us boost our profitability or keep it on a very good level in the group Life business.

A - Stefan Loacker {BIO 15157193 <GO>}

Interest guarantee rates next year?

A - Philipp Gmuer {BIO 5605415 <GO>}

And with regard to the interest guarantee rates, we hope that the Federal Government is lowering it. What we see is an interest rate of 1% for next year. Given the fact that we have government bonds with a 10 year yield of about 1% right now, we think that we see a reasonable number. Right now, we are at 2% and if the Federal Government lowers this interest rates, it helps us keep our margins at a reasonable level.

A - Stefan Loacker {BIO 15157193 <GO>}

With regard to the cost ratios, Italy it is predominately a volume effect. So it's more or less the ambition to keep our infrastructure at its given size and to digest the numerous more policies that we have to handle through better efficiency.

So it's if you're growing at that pace, you cannot really cut our costs simultaneously. But what we are trying to do is, in a reorganization project that we are in, is to gain enough additional capacity out of increased efficiency in order to handle the substantial bigger volume that we have, because it means more policy handling, more claims handling. Simply to digest this without a heavy increase is the main driver between this cost ratio development in Italy.

Your comparison between Germany and Switzerland is an interesting point. We always do compare our market units, of course, internally and we see tremendous differences between those country markets. For example, in Spain if you have much more than 20% cost ratio you're already at the expensive side. In Switzerland, if you have 30% that's doing roughly well.

In Germany and Austria, companies have even a bit higher ratios. And that is extremely early an effect of the acquisition costs, as you have indicated; and, of course, also of the distribution mix. We have a higher brokerage percentage in Germany; it's more or less half of our business. Whereas we have still a vast proportion of our Swiss Non-life business through our own direct network. And that catches up for the best part of the explanation.

Obviously, we are also on a track to lower our overall cost ratios in Germany. And it's not just that we are looking for healthy growth, which was quite successful in the last six months. But also, we are reshuffling our internal organization, which is still quite decentralized in Germany.

So we're also doing policy administration, claims administration, quite traditionally, in the various parts of the countries. And we have just now started a certain centralization of those processes. And we are convinced that we will have a bit more efficiency out of that exercise.

So all in all, we also have the ambition to lower, step-wise, our cost ratio. Of course, in Germany, it will never be, I would say, useful to look at this as a European average number; you have to go country by country.

Ralph has another point to make[ph].

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

Thank you. The question about direct yield, we're really not planning to lower our investment quality in the fixed income area. We stick with at least an A rating for new investments. Just keep in mind, especially in Life business, you're still heading for longer duration; therefore, we want to have really good quality.

And for the time being, taking into account the portfolio, also the investment property, which has quite a nice direct yield, we are happy, obviously, in this low interest rate environment, with the direct yield of our portfolio.

Q - Rene Locher {BIO 1921075 <GO>}

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. We have more questions in the queue. The next one, please.

Operator

Ralph Hebgen, KBW.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Just one point of detail. Would you be able to disclose the reserve releases in P&C, both in 1H '11. And 1H '10?

A - Paul Norton {BIO 16145125 <GO>}

We don't have any reserve releases.

Q - Ralph Hebgen {BIO 6297020 <GO>}

So they're zero?

A - Paul Norton {BIO 16145125 <GO>}

We have normal run-off costs[ph].

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Basically, I'm after the normal run-off results, or in other words, the prior year contribution, the development of the prior year book, how much that contributed.

A - Paul Norton {BIO 16145125 <GO>}

We don't disclose that explicitly. What I can say is, last year, the run-off results were very low, compared with the average that we've seen. And this year, they're moving up towards the average of the past two years.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay, cool. Perfect, thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

The next question, please.

Operator

Fabrizio Croce, Kepler Capital Markets.

Q - Fabrizio Croce {BIO 15005585 <GO>}

Yes, a very short one. As you said, potentially, 45% of the BBG[ph] solution are off balance sheet. Now linked to the new business, which you just acquired, would you say that it's moved in a similar pattern? Or do you have now really a trend towards more safety and, therefore, more people look for a full insurance coverage, rather than for the off balance sheet solution?

A - Philipp Gmuer {BIO 5605415 <GO>}

Of course, what we see right now is an increasing demand for a traditional solution. But you probably know that our off balance business in group Life is acquired by the Cantonal Bank. And there, we see still a huge volume of possible new clients. And thus, we do not think that there is a material shift between those clients and the numbers of the total of clients being off and on balance.

A - Stefan Loacker {BIO 15157193 <GO>}

Our midterm ambition is to keep this ratio more or less stable, or even slightly emphasize the part that is outside our balance sheet.

Q - Fabrizio Croce {BIO 15005585 <GO>}

Okay. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Next question?

Operator

There are no more questions at this time.

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. Gentlemen, then with this, we come to the end of our dialog. Thank you, very much for your continuing interest in our Company. I hope to see some of you soon in person, when we come on the road, in the next couple of days. Thank you, very much. And have a good afternoon. Bye, bye.

Operator

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