Y 2020 Earnings Call

Company Participants

- Annelis Luscher Hammerli, Chief Financial Officer
- Philipp Gmur, Chief Executive Officer
- Susanne Tengler, Head of Investor Relations

Other Participants

- Peter Eliot, Analyst
- Rene Locher, Analyst

Presentation

Susanne Tengler {BIO 18673192 <GO>}

Ladies and gentlemen, welcome to Helvetia's Virtual Investor Conference. Topics of today's event include the presentation of the full year results 2020, a summary of the conclusion of the helvetia 20.20 strategy and an overview on the use strategy, helvetia 20.25. I would also like to welcome our host, Philipp Gmur, Group CEO of Helvetia; and Annelis Luscher Hammerli, Group CFO of Helvetia.

During the following presentation, all participant lines are muted. After the presentation, you will have the possibility to ask questions. (Operator Instructions) For your information, I want to mention that this event will be recorded. I would now like to hand over to Philipp Gmur. Philipp, please.

Philipp Gmur

Thank you, Susanne. Within the next 45 minutes, we would like to give you detailed information on our business development and the key financials of the reporting period. Please let me start on Slide number 2. As Susanne just mentioned before, we go through this agenda as follows, and I would like to go further to Slide number 3. Let me start with some highlights of the 2020 financial year. In doing so, I would like to start with three key messages. First, Caser is a pearl and is paying off. Second, we profitably grew our business. And third, we successfully completed our strategy period helvetia 20.20.

Caser, I am very pleased to be able to tell you today, we delivered what we promised a year ago when we announced the acquisition of Caser by the end of January 2020. A look at Caser business development and its figures shows that the acquisition is paying off. Annelis Luscher will give you more information on this in a moment, but this much upfront. Together with Caser, we improved our market position in Spain, and we are now ranking number eight in non-life. Despite the challenging market environment, which was strongly influenced by the COVID-19 crisis, Caser was able to grow its non-life and life risk premiums well above markets. In the non-life business, Caser made a positive contribution to the net combined ratio of our Group. This results from a good quality of the non-life portfolio with almost no exposure to COVID-19.

Finally, thanks to the good technical performance, Caser made a substantial and very pleasing pro rata contribution of CHF54 million to Group IFRS profit. And also to the Group dividend by strengthening operating cash production. Overall, we are very pleased that our confidence in Caser is -- has come true. Caser has, of course, driven our growth in 2020, but nevertheless, in spite of a difficult environment in 2020, we were able to also organically increase our non-life business by more than 8% and as well in Switzerland, in Europe and in specialty markets.

Finally, the IFRS profit after tax of CHF282 million shows that after some one-off effects in the first half of 2020, the second half of the year was running according to plan. Our core business is and remains in good shape and is very robust.

With the year 2020, our helvetia 20.20 strategy has also come to an end. We can look back at the past strategy period with pride. We achieved our goals. In financial terms, we succeeded in growing profitably, while maintaining our solid capitalization and distributing a sustainable dividend.

For 2020, the Board of Directors will, therefore, propose to the Annual General Meeting to distribute an unchanged dividend of CHF5 per share to our shareholders. This corresponds to an attractive dividend yield of 5.4%. Before I hand over to Annelis for a detailed view on the financial performance, I would like to say some words on COVID-19.

The pandemic was and remains not only a concern for us, but also for our clients. It was therefore important to support them whenever possible. We, therefore, pragmatically implemented various measures. To give you some examples, last spring, we were waiving payment reminders and dunning letters in Switzerland and reducing the rent for small businesses and self-employed persons. In order to ensure the provision of customer support at all times, we quickly adapted our structures to the new situation and switched to remote work for most employees throughout the whole group.

Finally, to counteract the emerging shortage of apprenticeships in Switzerland, Helvetia also created additional apprenticeships this summer. On the business side, the COVID-19 pandemic led to regular claims, mostly travel and assistance insurance. To those customers in the gastronomy industry, we had concluded an epidemic insurance with pandemic exclusion. We quickly offer the settlement solution, which was accepted by more than 95% of the affected customers in Switzerland and by more than 55% in Germany.

We have thus created security for all parties involved. In total, the impact of COVID-19 claims and the net combined ratio was moderate as we also benefited from positive lockdown effects. Annelis will provide you with more details later on. Despite the pressure on new business volume in some lines of business due to the pandemic, we were able to demonstrate the strong growth in non-life in most countries, as mentioned before.

Finally, the COVID-19 crisis also changed customer behavior and gave a massive boost to digitalization in particular. We are seeing this very clearly with our digital insurer Smile in our home market. Smile is the leading online insurer in Switzerland and recorded very pleasing growth in the past financial year. The premium volume now amounts to approximately CHF100 million, and I will come back to Smile later on in the second part of my presentation.

With that, I would like to hand over to our Chief Financial Officer, Annelis Luscher, who is, for the first time, participating in this kind of analyst conference. She will provide you with the most important information about the financial figures. Annelis, please go ahead.

Annelis Luscher Hammerli {BIO 21606790 <GO>}

Thank you, Philipp. A warm welcome also from my side. Within the next 25 minutes, I will give you more information on our financial performance in the 2020 financial year. Let's start on Slide 6. Helvetia Group can look back on a good business development in the second half of the 2020 financial year. The first six months of 2020 were strongly characterized by the corona pandemic. Overall, Helvetia has been able to continue to grow profitably in a difficult environment. The capitalization, including Caser, remains strong and Helvetia is distributing an attractive dividend to its shareholders, unchanged since last year, despite the corona crisis.

A quick look on the key performance indicators shows that Helvetia's core business is in a good shape. I will give you a detailed information on the numbers later on. The business volume increased by 4.5% to CHF9.7 billion. In line with its strategy Helvetia has expanded the non-life business in all the country markets and in the area of specialty markets. In the life business, investment-linked solutions increased significantly in Europe. A big growth driver in general was, of course, Caser. But regardless of Caser, Helvetia was able to achieve significant organic growth in non-life compared to the previous year. Sorry.

Thanks to the good business development in the second half of the year with solid technical results in the non-life and life business, Helvetia generated an IFRS net profit after tax of CHF282 million. Caser also made a substantial profit contribution here. The Group net combined ratio of 94%, underpins the resilience and the high-quality of the portfolio and was also additionally supported by Caser.

Worth mentioning is also the solid capitalization. As of January 1, 2021, Helvetia estimates the SST to be around 190%. The definite SST ratio will be published on April 30, 2021, together with Bericht uber die Finanzlage, the Swiss SFCR. Finally, the Board of Directors will propose to the Annual General Meeting to distribute a dividend of CHF5 to the shareholders. I will go into details later on.

On the next slide, I would like to provide you with additional information on the business development of Caser. At the end of June 2020, Helvetia completed the acquisition of the Spanish insurance company, Caser and its financing. Helvetia has reached a strategic milestone. And as Philipp mentioned, advanced to market position eight in the Spanish non-life business. In the past business year, Caser contributed CHF715 million pro rata. That means for the six months, Caser has been consolidated in our P&L to the Group business volume in life and non-life as well as CHF93 million fee and commission income.

Although Spain was severely affected by the pandemic, Caser developed very successfully in the past financial year and achieved growth in the non-life business and in risk premiums in the life business. That was significantly above the market. Please note that this growth statement is based on local GAAP and relates to the full year 2020. With 91%, the net combined ratio was also at a very good level. In the non-life business, Caser recorded no material impact from COVID-19, which was heavily overcompensated by positive lockdown effects in motor and health.

Let's turn to Caser's profit contribution on Slide 8. Thanks to a solid technical development, Caser made a substantial profit contribution of CHF54 million to the Group's IFRS result on a half year pro rata basis. However, as you can see on this slide, Caser's profit contribution was affected by non-sustainable effects.

On the one hand, positive lockdown effects occurred in individual business lines, such as motor business. On the other hand, there were negative effects in the non-insurance business due to the COVID-19 related lower occupancy rates in hospitals. Therefore, a normalized profit contribution from Caser would have been approximately CHF35 million for the second half year. Resulting in a normalized profit contribution on an annual basis of approximately CHF70 million. In a nutshell, we are confident that Caser will make a substantial profit contribution to the Group's financial statement in the future.

Slide 9 gives you an overview of the IFRS result after tax on the individual business units. The IFRS result after tax in 2020 was CHF282 million versus CHF538 million a year ago. The pandemic caused major distortions on the capital markets in the first half of the year, which weakened the investment result in the life and non-life business.

In the second half year, Helvetia, was able to participate in the upswing, partially compensating the weak investment result of the first half year. The underwriting results in non-life was influenced by COVID-19 claims and higher costs due to projects. However, thanks to the good quality and diversification of the portfolio, the result also benefited from a favorable claims environment in general and lower claims frequencies due to lockdown measures in individual lines of business. In addition, Caser made a notable contribution to the non-life business areas result.

In life insurance, the decline in the investment result was largely compensated by lower expenses for interest-related reserve strengthening and policyholder participation. In addition, net income in life insurance was impacted by a one-time positive tax effect, resulting from the Swiss tax reform in the previous year that did not apply this year. Overall, the technical results of the non-life and life business divisions remained at a solid level in the 2020 financial year.

Finally, I want to mention that the new business in life also proved to be robust. The new business margin stood at 2.6% and thus remains well above the helvetia 20.20 strategic target. The interest margin in the life business was at 0.85% compared to 0.9% a year ago. The main driver for the slight decline was Switzerland, where the direct yield showed a stronger decline compared to the decline of the average technical rate. In Europe, by contrast, the interest margin was above the previous year due to a positive effect from the acquisition of the Spanish insurance company, Caser.

The resilience of Helvetia's underlying business shows that the Group is very well positioned for the future, also in a difficult environment. The result in other activities decreased compared to the previous year, mainly due to the impact of COVID-19 claims, together with weather-related events in Italy on the Group reinsurance result. In addition, financing and the integration costs related to the acquisition of Caser also had an impact.

With regard to reporting segments, Helvetia recorded a lower result in Switzerland compared to the previous year in both the non-life and life business. This is mainly due to lower investment results in both business areas and COVID-19 claims as well as project costs in the non-life business. In addition, a one-time positive tax effect resulting from the Swiss tax reform in the previous year did not apply this year. Regardless of these developments, the Swiss home market made a reliable and substantial contribution to the Group's result.

The result of the Europe segment increased primarily due to the pleasing profit contribution from the acquisition of Caser. The non-life technical result, in particular, developed positively in Europe. Helvetia benefited from the good portfolio quality with low exposure to COVID-19 claims in the country markets of Spain and Italy and positive lockdown effects in certain lines of business. The volatile capital markets had a noticeable impact on the life business. On the other hand, this was reflected in lower expenses for policyholder participation.

The Specialty Markets segment also reported lower investment income due to the stock market collapse in the first half of the year. The technical result fell slightly short of the previous year, mainly due to COVID-19 claims and individual large claims in active reinsurance with positive developments in specialty lines and France.

The result of the corporate segment decreased compared to the previous year, primarily due to the impact of COVID-19 claims and an accumulation of weather-related events in Italy, on Group reinsurance as well as transaction, financing and integration costs in connection with the acquisition of Caser.

I will continue with our growth in business volume on Slide 11. In 2020, Helvetia Group generated a group business volume of CHF9.7 billion. On a currency-adjusted basis, this represents an increase of 4.5%. Caser made a significant contribution to this growth. In addition, Helvetia's non-life business was a pleasingly strong growth driver with an increase of 18.6% in local currency. In addition to the positive impact of the acquisitions of Caser, Helvetia was able to grow significantly, particularly in the specialty market segment, which is due to positive price and volume effects.

The non-life business in Switzerland and in Europe also showed impressive growth rates despite the crisis mainly in the property insurance business. In life, the business volume with investment-linked products in individual life in Europe developed very well. The Caser acquisition on the one hand and significant growth in periodic premiums on the other hand, contributed to this increase.

Helvetia made a strategic decision to introduce a new tariff in the Swiss group life business, as of January 1, 2020 to strengthen the future profitability of Swiss group life. This led to an expected significant premium decline in this line of business in Switzerland in the 2020 financial year and as a result, life insurance in total recorded a currency-adjusted volume decline of 9.4% in 2020.

Let's move on to Slide 12. On Slide 12, you see that Helvetia now also reports the income from fee and commission business. This amounts to CHF226 million, whereof a significant amount stems from Caser's non-insurance business.

I would now like to move to the net combined ratio on Slide 13. In the 2020 financial year, the net combined ratio was at 94% and thus increased compared to the previous year. Thanks to the good quality of the portfolio and the positive impact from the acquisition of Caser, the ratio was very robust despite losses from COVID-19. The net claims burden from COVID-19 due to regular claims from policyholders and from settlement solutions offered by Helvetia, particularly in Swiss epidemic insurance affected the combined ratio by 2.3 percentage points. The relatively low impact is proving the resilience of the portfolio.

Helvetia additionally benefited from a lower burden of major losses from natural catastrophes and lower loss frequency in individual lines of business as a result of the lockdown to combat the pandemic. The cost ratio increased to 31.4%. The reasons were a higher administrative cost ratio, mainly driven by higher project costs as well as a slightly higher acquisition cost ratio due to shifts in the business mix.

At 31.4%, Helvetia cost ratio is too high. Helvetia needs to become more efficient in order to secure its competitive position. Helvetia is achieving this by simplifying processes and eliminating duplications. In this way, we can also reduce costs. For this reason, as part of our new strategy, we are also addressing a cost efficiency program to leverage CHF100 million of cost efficiencies, while at the same time, continue to grow. Philipp will come back to this as part of the strategy helvetia 20.25 later on.

On a segment level, in Switzerland, the net combined ratio was higher than in the previous year. The reasons were a higher loss ratio due to COVID-19 related losses and lower run off gains from reserves for claims from previous years. The latter are mainly attributable to interest related reserve strengthening in the accident/health business and to reserves running off from claims from whiplash injuries and for the portfolios of Alba and Phenix acquired in 2010.

The positive development of the current year loss ratio, excluding COVID-19 claims and the partially compensating effect. The positive development was due to the good portfolio quality in a favorable claims environment and low burden from major losses from natural events. In the Europe segment, the net combined ratio improved in the 2020 financial year to 92.7%. The development is due to a positive influence of the acquisition of Caser, a lower exposure to the country market, Spain and Italy to COVID-19 claims and lower claim frequencies in individual lines during the lockdown periods. All European market units achieved combined ratios below 100%. In the Specialty Markets segment, the net combined ratio increased slightly to 97.5%. The claims ratio increased predominantly due to COVID-19 losses and individual large claims in active reinsurance. The cost ratio improved primarily due to growth related economies of scale.

Slide 14 shows the development of our investment result. At CHF889 million current income from financial investments and investment properties was below last year's level mainly due to lower yields on reinvestments in the persistently low interest rate environment. Current income continued to prove a stable backbone of the overall result. The direct yield declined slightly compared to the previous year from 1.9% to 1.7%.

Realized and book gains and losses amounted to minus CHF48 million and were below the previous year, which was characterized by a strong performance on the equity markets. In 2020, by contrast, COVID-19 caused a collapse in the equity markets, resulting in losses on equities and derivatives in the first half of the year. However, pricing equity markets in second half of the year supported the sizable recovery of the investment result. The investment performance, which, in addition to the current income and the changes in value of the portfolio recognized in the income statement also includes the change in unrealized gains and losses in equity closed clearly in positive territory at 2.7%.

The main driver for the investment performance were higher valuations for fixed income securities due to lower interest rates. As a result of the positive development of the capital markets in the second half of 2020, income on investments with market risk for the policyholder was at CHF186 million. I would like to finish my presentation with a slide regarding the dividend proposal to the Annual General Meeting.

Helvetia pursues a dividend strategy that aims to pay sustainable dividends to its shareholders. Sustainable in this context means that Helvetia wants to increase the dividend from year-to-year, if possible, but at least keep it stable and not to reduce it. In light of the challenging financial year 2020, the Board of Directors will, therefore, propose to the Annual General Meeting to keep the dividend stable. This allows us to yet, again, confirm our sustainable dividend strategy even in a difficult year. The dividend yield stands at 5.4%. Finally, I want to point out that Caser made a substantial contribution to the Group's dividend.

On that note, I will hand over back to Philipp.

Philipp Gmur

Thank you, Annelis for all those details regarding the financial year 2020. Let me just add with regard to our dividends proposal. It shows that we believe in our business, and we believe in a huge potential going forward. And I think that's well reflected in this dividend proposal by the Board of Directors for the Annual General Meeting. Now in the last part of the presentation, I would like to give an overview on the successful completion of the strategy 20.20 and then present the highlights of the new strategy, helvetia 20.25.

Let's start on Slide 17. I would like to begin with our starting position. Today, we are Switzerland's leading insurer. In the segment Europe, comprising Germany, Italy, Austria and Spain, Helvetia has firmly rooted market positions for generating above average growth. Europe is the Group's second strong pillar. Helvetia stands for successful mergers and acquisitions in our home market, Switzerland as well as in Europe.

Via the Specialty Markets segment, we have global market access in selected niches. In this segment, Helvetia offers tailor made specialty insurance and reinsurance cover [ph]. The market unit France acts as a focused transport insurance specialists -- specialist and holds a strong market position as the number two in this sector.

Let's go to Slide 18. Following the successful conclusion of the past strategy period, we are well positioned for the future. We can look back at helvetia 20.20 with pride. With our Swiss reliability, we achieved all the goals we had been setting. I would like to mention a few highlights. Firstly, we successfully strengthened our core business. Milestones include the integration of Nationale Suisse and Baloise Austria as well as, of course, the acquisition of Caser in Spain. We further developed our customer access and offering in line with our customers' needs. For example, we expanded the bank distribution in Europe and grew our B2B2C business and put our brand promise simple, clear Helvetia into practice. We organically and profitably grew our business.

Secondly, we developed new business models in the mobile sector with Smile, the leading Swiss online insurer. I will come back to this later. With the home ecosystem built around MoneyPark, we provide our Swiss customers with a continuous and complete customer journey related to housing. The launch of the Helvetia Swiss property funds by Helvetia Asset Management is also paying off for our strategy. All these initiatives are strengthening our fee business, which makes us less dependent on the interest rate environment.

And thirdly, we use targeted innovations on the one hand in the form of in-house developments, such as the chatbot services. And on the other hand, via the investments of our Helvetia Venture Fund. The venture fund has invested in numerous fintech and proptech companies. Furthermore, in Europe, for example, we provided innovative solutions for best technical integration of distribution partners as well as dedicated solutions for digital banking.

On Slide 19, I would like to say a few words about Smile. The insure tech [ph] Smile can look back on a record year in 2020. Smile now has over 150,000 customers and the premium volume of around CHF100 million, all with a good profit. One of Smile success factors is certainly its online strategy that it adopted early on, which was additionally strengthened with the focus on mobile-first and on a rigorous customer centricity last year.

Smile customers can thus conveniently manage their insurance policy online and via app without an adviser and benefit from a 24/7 digital service. An additional catalyst of the Smile success story is, of course, COVID-19 a crisis, which is permanently changing consumer behavior and also accelerates the digitalization of the insurance industry.

On the next slide, I would like to summarize the most important highlights of the acquisition of Caser once again. I am really very pleased, together with the whole management that we are able to dispel all doubts around the acquisition of Caser, and that's by now, our confidence comes true.

As we earlier heard from Annelis, the acquisition is definitely paying off and everything goes according to plan. Helvetia will benefit from Caser's know-how in bank distribution across the Group. We expect Caser to continue to make a significant contribution to profit and sustainability. And -- excuse me, please, we'll make Caser is -- we expect -- sorry, we expect Caser to continue to make a significant contribution to profit and to the dividend paid out to our shareholders.

With Caser we also achieved our goal of significantly improving our position in Spain, in the Spanish market. And there, positioning Helvetia as a European financial services provider. Together, Helvetia and Caser are now ranking number eight in the non-life. And overall, we are now in the top 10 of the Spanish market.

Let me move on to Slide number 21. In the helvetia 20.20 strategy period, we were able to develop our segment Europe into the Group's strong second pillar. A significant milestone was, of course, the aforementioned acquisition of Caser. But even without Caser, the European segment has been showing significant growth since 2020 -- since 2015, with growth rates above market in all our European units. One growth driver was, for example, the good progress we made in our digitalization efforts. In Italy, for instance, our sales activities are characterized by a fast partner integration capability and a high level of user-friendliness.

According to Gartner, this makes Helvetia a reference case for successful bank distribution. In Spain, we also rely on successful sales partnerships, such as with the Pont Group in the area of motorbikes. In Austria, our online insurer, Smart, is enjoying increasing popularity. At the same time, we enhanced our technical excellence via the unified pricing methodology and product controlling approach, leading to an improved portfolio management. Our efforts are reflected in a significantly improved combined ratio.

Let's now take a look on the achievement of our financial targets on Slide 22. In addition to our strategic priorities, we also achieved our goal of generating profitable growth, while at the same time, maintaining our solid capitalization and distributing a sustainable dividend. Even though the year 2020 was marked by the COVID-19 crisis, we successfully fulfilled all financial targets over the entire strategy period. We are thus building on a healthy foundation and are well equipped for the future.

To summarize, thanks to the successful implementation of helvetia 20.20, we hold a top position in Switzerland as an online insurer with Smile as the leading online insurance company. Europe is our second strong pillar. And in Specialty Markets, we are successfully playing in niches worldwide. With our broad distribution network, we enable our customers to get access to our products through various distribution channels, and we were, therefore, able to generate strong growth in all market units. The growing fee business makes us less dependent on the interest rate environment and thus supports our strong earnings quality characterized by a four-fold diversification.

We want to continue on this successful path also in the future. Developing Helvetia from a Swiss insurance company with a couple of operations abroad to a Swiss-based European insurance player.

Let's move on to Slide 24. With a history spanning more than 160 years, Helvetia has come a long way, but our purpose remains the same and will continue to do so in the future. Life is full of risks and opportunities, and we are there when it matters. In order to continue to fulfill our purpose in the future, we want to be the best partner for financial security. Setting standards in convenience and in customer accessibility. As the best partner for our customers, we closely listen to what they want and what they need. We put the customer at the center.

And in our helvetia 20.25 strategy, we are, therefore, setting four strategic priorities. The first one, we want to be present wherever insurance and pension needs arise and provide our services in the simplest way possible for our customers. Hence, we are relying, for instance, on personalized customer targeting by using analytical tools and customer segmentation. Furthermore, we are simplifying our processes, reducing complexity and increasing efficiency. This contributes to a high level of customer satisfaction and customer loyalty. As well as to the successful implementation of the brand promise, simple. clear. helvetia. We are sure that we have a long way in front of us, but we want to go this way.

The second strategic priority. We offer comprehensive products and services in the area of insurance as well as integral pension and investment solutions. This way, we are optimizing risk-adjusted investment returns and generating additional fee income in asset management. In addition, we enable successful cross-selling and give our customers the opportunity to get their insurance and pension needs from a single source.

The third priority, in Switzerland, we aim to expand our existing customer relationships. We will, therefore, continue our omnichannel approach and further expand and strengthen new distribution channels such as B2B or B2B2C. We further developed the European business as a strong second pillar of the Group by strengthening customer access and service via our best partner approach and enhancing our offering for small and medium-sized enterprises. This will again result in above-market growth. In the international specialty business, we generate targeted growth through further development of our existing business and the underwriting of new risks in attractive niches.

And finally, the fourth strategic period, we make use of new opportunities. We built new business models and ecosystems in and around our core business as well as in the area of asset management. Examples are our home ecosystem in Switzerland or the health and care ecosystem in Spain. In the asset management division, we are expanding the third-party business. We also want to continue on the successful path of Smile. The aim of all those initiatives is to offer our customers innovative products and services. At the same time, increasing the fee business shall make you -- shall make us less dependent on the interest rate environment.

On Slide 26, you can see what we would like to achieve with those strategic priorities. We are contributing to profitable growth, sustainable profitability and improved operational efficiency. Furthermore, we ensure the ability to pay dividends also in the future. We are, therefore, going to Slide 27, we are, therefore, setting forth the following financial targets until 2025. With regard to the quality of earnings and growth, we aim for a net combined ratio of between 92% and 94% in the non-life business. In the life business, the target for the new business margin is between 2% and 3%. Our aim is to generate a volume of more than CHF350 million of fees, including our new business models and ecosystems, and the share of fee business of our IFRS profit should make up more than 5% by the end of 2025.

An important component of our strategic priority, increasing customer convenience is to simplify our processes, reduce complexity and to improve our operational efficiency. In this way, we secure for future -- for our future competitive position. We want to use the wide-ranging competencies of our Company even more effectively. Therefore, we strive for a balanced relationship between cost consciousness and quality demands. In order to achieve this, we will realize cost efficiencies of CHF100 million by 2025.

Our solid capitalization should be reflected in a stable S&P A rating. And we want to continue our sustainable dividend strategy. Our aim is to distribute more than CHF1.5 billion to our shareholders within the next five years. Finally, we strive for a return on equity of between 8% to 11%. Adjustments are made to equity by excluding unrealized gains and losses from equity.

On Slide 28, I would like to briefly explain which prerequisites must be set in order to successfully implement our strategy. It's all about people, partner and performance. What does this mean in detail? Regarding people, we focus on talent management and leadership. This means that we further develop our employees in a targeted manner and gear our talent and succession management as well as our entrepreneurial understanding of leadership towards the achievement of our strategic goals.

Second, with regard to our partners, we especially make use of the opportunities presented by digitization. We modernize our technology and use data analytics in a targeted manner to best connect with our customers and partners. And finally, performance means that we want to always perform at the top level. We, therefore, consequently measure ourselves by our results and demand technical excellence in the areas of underwriting and the pricing of our product.

What does all that mean regarding our three segments? In Switzerland, we consolidate our position as Switzerland's leading all lines insurer. We further develop Europe as a second strong pillar in order to become a European financial services provider. And in specialty markets, we aim to achieve further profitable growth in the international specialty business. For example, in the aviation and space business, and the area of active reinsurance.

At our Capital Markets Day on June 22, 2021 that means like in three months from now, we will provide you with more detailed information regarding our strategy helvetia 20.25 including a deep type of Caser and specific initiatives around new business opportunities. This brings us to the end of my presentation. Annelis Luscher and I would now be pleased to answer your questions. Thank you for your attention.

Questions And Answers

A - Susanne Tengler {BIO 18673192 <GO>}

Thank you, Philipp and Annelis for your presentation. We will now start the Q&A session. (Operator Instructions) The first question comes from Peter Eliot. Peter, please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

You can hear me now?

A - Susanne Tengler {BIO 18673192 <GO>}

Yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Yes. Sorry, for the hiccup. Thank you very much. I have three questions, please. So the first one was on the 3.9% of adverse runoff development. I mean a lot of that is usually active reinsurance effect or the growth of that. I just want -- can you say how much of that is due to the reinsurance effect? And how much further we might expect that to go in the future?

The second question was on Caser. Just to check on my math, really. The CHF70 million is before minorities and financing costs, I think, so CHF40 million after those, which, I guess, is sort of 7% of the 2019 earnings for a 7% increase in shares, which kind of looks EPS neutral to me before integration costs. I'm sure I've missed something there and something else, but I'm just wondering if you could sort of comment on my math there.

And the third one is on COVID-19 losses. So at the half year, I think you said CHF89 million in the non-life segment. Now I think you're saying CHF97 million for the whole Group for the full year. So I was wondering if you could just sort of clarify where the losses sit. It sounds like only CHF8 million from active reinsurance, which just leaves me struggling a little bit to understand that the active reinsurance results in light of that. And it would maybe -- it would be great to understand the remaining risk, given that 45% of German claims haven't settled yet and where you are on reinsurance recoveries. Thank you.

A - Philipp Gmur

Thank you, Peter, for those three questions. I would suggest that I start with the answering of question number three and hand then over to Annelis for number one and two. Regarding COVID-19 losses, it is as follows. The number we communicated with the half year results of almost CHF90 million on a net basis, slightly increased by those CHF8 million, CHF9 million you just mentioned before. That means that in the second half of the year, we did not have new claims. And this is a number on a net basis, which is true for the whole Group, so to say, but we have in our books. And now I would like to hand over to Annelis for the questions number one and two.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yeah. Thank you. So the lower runoff gains from reserves, this is mainly due to interest rate related reserve strengthening in the accident and health business. And to reserves running off for claims from whiplash injuries and for the portfolio of Alba and Phenix acquired in 2010. So that was to the first question.

The second question on EPS accretive the acquisition of Caser. So yes, the acquisition of Caser is EPS accretive. And I would suggest that for the details, to this calculation, you approach our Investors Relations team later on.

Q - Peter Eliot {BIO 7556214 <GO>}

That's great. Thank you very much. Could I maybe just quickly follow-up on the sort of second part to the -- for the last question. Sorry, stepping in for that. But the German claims, I mean you said you had 55% settlement. What's the sort of position with the other 45%, can you able to shed any light on that process at all or what we expect there?

A - Philipp Gmur

Okay. Thank you for this question. In Switzerland, we have a ratio of more than 95% of our clients who accepted our proposal. Whereas in Germany, it's only 55%. Now what happens with the 55%, they accepted our proposal getting a certain sum and at the same time, excluding the pandemic risk for the future. Whereas the remaining 45% did not accept our proposal. They go either to court and/or want to have a contract, which is in force for a longer period.

Now what does that mean? We have up to now a couple of leading proceedings going on. There were -- if I recall it the right way, we -- there were four or five legal proceedings, which have been dealt with before a court up to now. We were winning three out of four. There were a couple of legal proceedings, which ended up with an agreement between the parties.

And those legal proceedings, which were either in favor of Helvetia or one of them was against Helvetia, their -- they will go to a second court in Germany. But that's only a couple of legal proceedings up to now. And there might come more. However, that means that the contracts are still in force. But you have a coverage period of like one month, two months, three months. So we exactly know what our risk exposure is. And we made provisions in our 2020 results. So there is no bad surprise coming out of there.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. Very helpful.

Operator

The second question is coming from Rene Locher. I'll unmute your line and then you can go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Can you hear me?

A - Susanne Tengler {BIO 18673192 <GO>}

Yes, yes.

Q - Rene Locher {BIO 1921075 <GO>}

Okay, wonderful. Good morning, all. So I would like to start with this cumulative dividend distribution. In the last five years, you achieved CHF1.19 billion, and now you are targeting an at least 26% higher cumulative dividend distribution to above CHF1.5 billion. My question is which business units or which countries do contribute to the 26% increase? That's the first question.

And then a quick one on combined ratio, analysts are also a little bit ambitious. When I take that 94% reported combined ratio and I deduct 2.3 percentage point, call it 19, then I end up at 91.7% for 2020. You target for the next strategy period stands at 92% to 94%. So when I compare the adjusted 2020 combined ratio with the new target, it doesn't look so ambitious to me.

Then a third question, if I may. Just on the Swiss business, I mean, Swiss business was always very, very strong. And now when I take a look at the Swiss combined ratio, cost ratio is up by 300 basis points year-over-year and over the claims ratio, so perhaps we're on 60 basis points. And you explained to us, there are a lot of one-offs in there like project cost. But I'm just wondering, if you can elaborate a little bit on the Swiss non-life business. Then when I'm looking at the Swiss life business, here the gross margin also decreased by I guess, a few bps and Annelis explained that, that's due to the lower reinvestment yields, but here, again, just the (inaudible) the Swiss, where the domestic life business is going? And yeah, perhaps quickly on the cost was the efficiency, very interesting to see that Annelis highlighted the CHF100 million when she was talking about the non-life business. So I'm wondering a bit taking of this CHF100 million more or less in the non-life business? Thank you.

A - Philipp Gmur

Okay. Rene, if I count it the right way, you have like five different questions.

Q - Rene Locher {BIO 1921075 <GO>}

Sorry.

A - Philipp Gmur

The first is about the dividends. The second about the combined ratio ambition. The third one about our Swiss combined ratio, specifically, the fourth about the gross margin in life, and the fifth question deals with our efficiency program. We go ahead as follows. I am answering question number two, and I then hand over to Annelis for the answering of the other questions and might maybe add some more -- one or more comments.

Let's go to question number two, is it ambitious enough to set forth a combined ratio target of between 92% and 94%. As you well know, we are sticking to our targets and sticking to our promise. And we want to set forth targets we can achieve, of course. And if we are looking at our business mix in the different country markets, if we are looking at our business mix in the different business lines, if we are looking at what's going on around us with regard to pricing, et cetera, we think that it is ambitious enough to set forth this target range.

Of course, we happily take 91%, and we are working on an even better combined ratio. But historically, we think that this target range is still ambitious enough. And if we could underwrite it today for the next five years, we would like to take it. Now I hand over to Annelis for the answering of the other questions.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yeah, thank you, Philipp. I can maybe add, Rene, to your calculation of the CHF94 million, minus the 2.3%. What is -- why should we maybe enhance this calculation? So the 2.3% was the net claims ratio out of COVID-19 claims. However, importantly, we also had positive lockdown effects, especially in -- also in Southern Europe. So they are on the positive side of this net combined ratio of 94%, and they are also a special case for this COVID year. So -- yeah. so the calculation has to be enhanced a little bit.

On your first question on the cumulative dividend distribution, which we plan to increase from currently CHF1.19 billion for the last five years to CHF1.5 billion for the next five years. This stems from growth in all our markets. So what do I mean by this is that my focus especially is to have a very close eye on profitability of the business and on growth. So on profitable growth and by taking advantage also like we already reported in the Specialty Markets business offer scale effects. We are able to pay out more dividend in the next five years due to the planned growth profitable growth.

I would now go to the third point on the Swiss business and the cost ratio. There the cost ratio was influenced by various effects, but also by a large part also by project costs, which make a big part there of the increase in costs. And on the cost efficiency.

So this was your fifth point, if I recall it correctly, this is not only a topic of non-life. This is a topic of -- for general for Helvetia. So it will impact of course the cost ratio in non-life, but it will also increase the cost efficiency in the life business.

The fourth question, I'm afraid I did not write it down correctly, and I don't remember. Could you please repeat that?

A - Philipp Gmur

It's about the gross -- the development of the gross margin in life, isn't it Rene?

A - Susanne Tengler {BIO 18673192 <GO>}

But I don't see Rene any longer. I think we have a technical problem. Okay.

A - Philipp Gmur

I can maybe add until Rene comes back with regard to the dividend policy. If you have a look at Caser only, it contributed to the cash production of Helvetia within the first five -- within the first six months, roughly CHF25 million, CHF26 million. So there is a lot more dividend coming out from Spain already. And of course, as Annelis mentioned from the other segments as well.

Now Rene Locher, coming back to your question regarding the gross margin in life. Can you hear me?

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

(Foreign Language)

A - Philipp Gmur

(Foreign Language)

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

(Foreign Language)

A - Philipp Gmur

(Foreign Language)

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

(Foreign Language)

A - Susanne Tengler {BIO 18673192 <GO>}

(Technical Difficulty) So ladies and gentlemen, I'm happy we have solved the problem and we'll continue with our live conference.

A - Philipp Gmur

Susanne. So we can go back to question number four, which Rene Locher, I think, was asking. It's about our gross margin in life. And Annelis, please go ahead.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes. So we show that our gross margin in life was influenced also by the lower reinvestment yield, especially due to lower rates. Regarding the life, the Swiss life business, we have introduced a new tariff as of January 1, 2020, which will majorly improve the profitability of this business.

A - Philipp Gmur

Rene Locher? Okay.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Okay. Fine. Thank you. I guess I missed -- can you please repeat the combined ratio in Switzerland because, I guess, I missed that one. Thank you.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes, sure. So yes, the question was about the cost ratio in the Swiss business, right?

Q - Rene Locher {BIO 1921075 <GO>}

Yes.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

On the non-life part, of course, and there, this is influenced besides other effects by project costs this year.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. And on this CHF100 million cost efficiencies, is this mainly in non-life?

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yeah. Okay. No, sure, I can comment on that as well. No, this is not only non-life. This affects the whole as a Group, so also life, but will, of course, have an impact on the cost ratio as well through the non-life part of the savings program.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Thank you.

A - Philipp Gmur

As you see, Rene, we have some one-off effects in the cost ratio in Switzerland, which, of course, will not be seen in the financial year of 2021. But apart from that, we also want to reduce our running cost basis, also in our Swiss business, of course, which brings us back to an even more competitive number.

Q - Rene Locher {BIO 1921075 <GO>}

Yeah. That's fine.

A - Philipp Gmur

Okay. More questions?

Q - Rene Locher {BIO 1921075 <GO>}

No more questions. Yes.

A - Philipp Gmur

More questions?

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes, there is another question from Peter Eliot. I'll unmute your line. Peter, you should now be able to speak.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you. Yes. You can hear me now?

A - Susanne Tengler {BIO 18673192 <GO>}

Yes.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes.

Q - Peter Eliot {BIO 7556214 <GO>}

Perfect now. Thanks for letting me to come back. I guess three questions again, if I may. The first one on the dividend. Your target of -- your forward-looking target on the 2020 implies a little bit more than just sort of the normal sort of step-up of 0.2 each year, I guess. So my reading of that is that maybe 2020 is lower a little bit, but you're trying not to sort of change the overall trajectory. I don't know if I'm reading too much into that, but if you can comment on that.

The second question was on the other segment. I guess it's always quite a confusing one for us to forecast, and there's lots of moving parts. I was wondering if you could just run us through what you think is a sort of normal run rate by source sort of going forward. Yeah. Yeah. Sorry, that would be helpful.

And then finally, maybe just coming back on those efficiency targets. Could you just clarify whether that is going to be -- are you actually looking to reduce the expenses? Or will some of that be sort of offsetting natural inflation and growth of the business. And presume -- I'm now presuming you can't do an awful lot in the acquisition expenses line. So when you're looking at non-life, am I right in thinking this has got to sort of come from the administration, but a little bit more color or detail on how that will work will be very helpful. Thank you.

A - Philipp Gmur

Thank you, Peter. I suggest that I am answering question number three, and will then hand over to Annelis for question number one and two. Talking about our efficiency targets. Apart from inflation effect, of course, which might help us and the whole growth of the Group, which might help us to have a better cost ratio. We want to effectively reduce our cost basis by CHF100 million. It's not inflationary or whatsoever. And that means that we are carefully looking at our staff and at our other costs, of course, and by the end of 2025, we want to stick to this target, CHF100 million. Now Annelis questions number one and two?

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes. So on the dividend and the trajectory. So we will continue to pursue a dividend strategy that aims to pay a sustainable dividend to shareholders. And with that, we will -- we want to stick to our promise as this year to either slightly increase the dividend year-on-year or to at least in a not so positive year to at least keep it stable. And this philosophy, let's call it, is -- we continue with that. We still have it in our plan, and it's the backbone for the dividend part of the 2025 strategy.

Some comments on your question number two, on the other segment. Yes, there are a lot of moving parts in there. On one hand, the group reinsurance is in there and then the results out of this part. And then this year, of course, also the financing and the integration costs of Caser and also some aspects of the funds -- of the Helvetia funds are in there. What we do not provide is, let's say, an assumption of a normalized year in this other segment.

A - Philipp Gmur

Coming back maybe and adding to Annelis' comments on dividends. The dividend is, of course, also driven by our net economic dividend capacity, we were talking about with you a couple of times, I think. And as you may recall, the -- this economic dividend capacity was roughly CHF700 million by the end of 2019, and we are publishing the new number by the end of April. When we will come up with the so-called (inaudible) the reporting about the financial situation of Helvetia Group.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

A - Philipp Gmur

More questions?

A - Susanne Tengler {BIO 18673192 <GO>}

Are there any further questions? (Operator Instructions) Yes. There is a follow-up question from Rene Locher. Rene, please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes, thank you very much. So quickly, on the Swiss domestic life business again, which is I'm wondering a little bit what happened to the return on equity. I mean, on one side, you have this collaboration with Swisscanto. Now you have reduced the exposure to the Group life business. I mean, just to get a bit of feeling, have you had a release in required capital for the Swiss, the domestic life business? So this is the first question.

The second one, I mean, it's -- again, it's this number crunching stuff, but that's what the analysts like to do. If I take your targets in 2025, when I'm right, you're now running a shareholders' equity of CHF6.4 billion. And I'm right in that there are roughly CHF1.4 billion of unrealized gains, losses. So that means the starting base is like a CHF5 billion. Now if I take your CHF0.8 to CHF0.11 ROE target, then this would be a calculated profit of CHF400 million to CHF500 million --

A - Philipp Gmur

We can hardly understand your Rene.

Q - Rene Locher {BIO 1921075 <GO>}

Okay.

A - Philipp Gmur

Please stick to the microphone.

Q - Rene Locher {BIO 1921075 <GO>}

Yes, yes. It's better now?

A - Philipp Gmur

Yes.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes.

Q - Rene Locher {BIO 1921075 <GO>}

Okay. Sorry. So again, my starting point for the ROE calculation is CHF5 billion, if I'm right. Now if, I think, the midpoint, 9.5% of your target, I would end about CHF475 million net profit. And CHF70 million, so that's the total contribution of Caser. You can consolidate 70%. So you get roughly CHF50 million from Caser, but then -- I'm a little -- I'm not disappointed, but I do believe that the entire Helvetia business ex-Caser has a higher net profit capacity than just CHF425 million. Perhaps you can also elaborate a bit on big picture-wise. Thank you very much.

A - Philipp Gmur

Let's start with question number one, maybe, and I then hand over to Annelis. Talking about Group life business. Of course, as we reported, we had quite some clients leaving the so-called full coverage BVG model. And either leaving the Helvetia universe, or to a great extent, joining the Swisscanto or the BVG Helvetia Invest solution.

And by reducing our balance sheet and by reducing our exposure to the Group life business in the course of adjusting our tariff structures, there was also a reserve free fall, so to say. So that -- of course, there were some effects in the books. So -- and all in all, we, of course, strengthened the -- by doing so, strengthened the profitability of the Group life business and reduced the exposure to the interest rate and demographic risks going with this second pillar business. Now talking about the target and the target range. And as you put it, playing with all those numbers and their calculations, I hand over to the CFO.

A - Annelis Luscher Hammerli {BIO 21606790 <GO>}

Yes. Thank you, Philipp. Yes. I would here like to take the time to look at the numbers with Susanne. I wrote down some numbers that you mentioned, but I think it makes sense that we give you a more precise answer on this. The calculation is, of course, not as simple as that. But I propose that we take it up with the Investor Relations team later on.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. That's fine. Thank you.

A - Susanne Tengler {BIO 18673192 <GO>}

Any further questions?

A - Philipp Gmur

If there are no more questions for the time being, as you well know, we are ready and happy to answer your questions whenever they might arise, please do not hesitate to our investor -- to contact our Investor Relations team, and we are glad to see or hear you be it in a virtual or maybe in a physical manner as soon as possible. And thank you for your attention, and goodbye.