Q4 2017 Earnings Call

Company Participants

- Paul Norton, Chief Financial Officer
- Philipp Gmür, Chief Executive Officer

Other Participants

- Daniel Bischof, Analyst
- Guilhem Horvath, Analyst
- Jonny Urwin, Analyst
- Peter D. Eliot, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning. Welcome to Helvetia's Full-Year Results 2017 Conference Call and Live Webcast. I am Alice, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. After the presentation, there will be a Q&A session. The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Philipp Gmür, Group CEO. He will now be joined into the conference room.

[Technical Difficulty] (00:00:39-00:02:45)

Philipp Gmür

Ladies and gentlemen, welcome to our yearly analyst conference here in Zurich. I would also like to welcome all those participants who are joining us via the conference call or the webcast. I am very pleased indeed to present to you our 2017 full-year results. 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.

Following my introduction, our CFO, Paul Norton, will go through the financial figures. I will then provide you with an update of the implementation of the helvetia 20.20 strategy. Following the presentation, Paul and I, as well as our Chief Investment Officer, Ralph-Thomas Honegger, here sitting in the first row, we will be pleased to answer your questions as always.

Let us turn to slide 4. On slide 4, I would like to share with you a brief overview of the main performance indicators. Paul will then give you detailed information on the developments of these figures later on. We can look back at the successful financial year. We were able to deliver what we promised. This applies in particular to the underlying earnings, which for the first time were above CHF 500 million.

One of the reasons for this good result is that we further strengthened our earning power in the non-life and in life business. This is reflected in an excellent combined ratio of 91.8%, which was almost on the prior year's level, despite a higher burden from NatCats and continuing strong technical results in the life business.

We also saw a strong improvement in new business profitability in the life business. The new business margin in life was 1.8%, and therefore increased 0.8% points against the prior year. The reason for this is not only a significant shift in the new business mix, but also the fact that we successfully implemented measures in order to improve the profitability of existing products.

Business volume also continued to grow. In the non-life business, we achieved a currency-adjusted growth of 4.3%. In life insurance, we substantially increased sales of capital-light modern insurance solutions by 14.1%. The reduction of traditional life solution in line with strategy, together with a positive one-off effect in the Swiss group life business in the previous year led to an overall decline of 2.4% in original currency and according to our strategy.

We have successfully completed the integration of Nationale Suisse and Basler Austria, which we acquired back in 2014. Underlying earnings include synergies before taxes of CHF 137 million and we can be proud of having exceeded our original target of between CHF 100 million and CHF 130 million. Our shareholders should also benefit from this, so I'm very happy to announce that our board of directors will propose to the Shareholders' Meeting to increase the dividend from CHF 21 to CHF 23 per share.

We are not only pleased with the current annual results, we were also very well on track with the implementation of our helvetia 20.20 strategy, which strengthens Helvetia's core business, opens up new sources of income, and promotes targeted innovation. I will provide you with detailed information at the end of this presentation.

Let us now turn to slide 5. On that slide, I want to take a quick look at our investment highlights. Helvetia has indeed a strong profile. Today, we are a successful internationally active insurance group with a history of 160 years. We are the leading Swiss all-line insurer in Switzerland. In Europe, Helvetia has promising market position for above average growth. Through the Specialty Markets segment, we have multi-continental market access in selected niche market.

Since taking over Nationale Suisse in 2014, we have been able to benefit from extensive merger and synergy effects; for example, in expanding our product range, enhancing our access to customers, and improving our services. Our success is based on proven diversification between the life and non-life business, as well as between a strong home market and a profitable footprint in European countries. Our focus is on retail and on SME business. With our strategy helvetia 20.20, we are strengthening our core business, expanding and tapping into new sources of revenues, as well as promoting targeted innovations. We pursue a profitable growth strategy and have been able to continually increase our earnings, having now exceeded the CHF 500 million for the first time.

In non-life, our profitability is based on cautious underwriting, a good portfolio quality, and consequently on good, solid technical results. This is reflected in the average net combined ratio of 92.3% over the last four years.

In the life business, we also show strong operating results and proved our credentials in the low interest environment. Our interest margin increased by 18 basis points from 2014 to 2017. And although the development of the minimum interest rate in Swiss group life plays a decisive role in this context, it shows that we also have successfully improved our business mix and revised our products to reduce the exposure to interest rates in our individual life business.

Today, the proportion of new business accounted for by modern products lies at over 70%. However, I do not want to conceal the fact that, in addition to good technical results, developments on the capital markets had a significant positive influence on our business performance.

Finally, a well-balanced asset/liability concept, with a low duration gap, limits the volatility in our balance sheet. Our strong positioning, in combination with our profitable growth strategy, creates added value for our shareholders. As I have already mentioned, we will propose to this year's Shareholders' Meeting to increase the dividend to CFH 23, which gives an attractive dividend yield of 4.2%. Aside from Switzerland, the European entities as well as specialty markets also contribute to the group dividend.

Before I hand over to Paul, I would like to take a look at the synergies from the two acquisitions from 2014 on slide 6. As of the end of 2017, Helvetia had 474 full-time equivalents fewer than it had has as of 30 June, 2014, when we started synergy tracking. Of those employees, a net 439 left the company due to their two acquisitions and can, therefore, be counted as net staff synergies. Gross synergies would have been even higher, but we increased personnel to support our strategy and to expand functions that Nationale Swiss had outsourced, which acted as a counter-effect.

Finally, changes in the group structure, for instance, the sale of the Belgian entity of Nationale Suisse on the one side and the acquisition of MoneyPark and Defferrard & Lanz on the other side, resulted in a further net decline of 35 full-time equivalents. The staff reduction corresponds to around CHF 93 million in personnel cost savings. In addition, we achieved another CHF 44 million in non-personnel cost savings through a reduction in redundancies in the areas of IT, logistics, marketing, and corporate.

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

Paul Norton {BIO 16145125 <GO>}

Thank you, Philipp. Ladies and gentlemen, I'd also like to welcome you to this analyst meeting. During the next 25 minutes, I'll give you more detailed information on our financial performance in the 2017 financial year. I'd like to turn to slide 8 with the results by business area.

Our underlying earnings for the 2017 financial year amounted to CHF 502 million, and therefore increased 2.2% compared to the previous year. This increase was driven by both the non-life and the life business. One general point that I would like to mention is that all segments had a positive one-off tax effect last year mainly due to the integrations. This year, the tax rates are more or less in line with normal expectations, which means that all segments had a higher tax charge.

In the non-life business, underlying earnings amounted to CHF 363 million and was 6.7% higher compared to the 2016 financial year. In addition to a better technical result, the increase was mainly driven by a high investment result because of the good development of the capital markets in 2017. We will have a closer look on the non-life profit by sources in a few minutes on slide 11.

Underlying earnings of the life business were 11.3% higher at CHF 193 million. The increase was driven, amongst others, by higher savings result. I'll provide you more details on the profit by sources on slide 14.

Result from Other Activities, which includes the corporate center and the non-insurance activities of market unit Switzerland, i.e., MoneyPark and Defferrard & Lanz, amounted to minus CHF 54 million against minus CHF 22 million in the 2016 financial year. Our Group Reinsurance benefited from a better technical performance; however, due to higher costs related to the new hybrid bond issued in spring 2017, a lower investment result, the first time effect of the acquisition of MoneyPark and Defferrard & Lanz, the absence of positive one-off tax effects, which were included in the prior year, and higher cost due to budgeted projects, underlying earnings decreased in this segment compared to 2016.

Let's turn to segment result on slide 9. Four segments posted robust results in 2017. Switzerland once again shows that it is a stable foundation for the group by reporting a profit of CHF 410 million. The increase was driven by both business areas, non-life and life. In the Swiss non-life business, underlying earnings increased by 13.8% compared to 2016, thanks to our higher investment result.

The technical result also improved slightly because of the higher volume. The life business also showed 17.5% higher earnings on a year and year comparison. This was due to the increased operating result, essentially a higher savings result, a stable risk result, and a higher other result, as well as higher gains on investments. These increases were partially compensated by higher expenses for policyholder participation. Expenses for reserve strengthening remained at approximate the previous year's level.

The segment result for Europe, which comprises the market units for Germany, Italy, Spain and Austria, increased by 5.4% to CHF 120 million. Non-life underlying earnings in Europe increased by a very satisfying 13.4%. The improvement was mainly driven by a significantly better technical performance and very good progress in combined ratios.

Underlying earnings of the European life business fell short to the previous year's level. The reason for the decline were lower saving result and higher expenses for interest-related reserves strengthening. Higher gains and losses on investments were partly offset by higher expenses for policyholder participation.

The segment result for Specialty Markets decreased to CHF 17 million. The main reason for this decline were a higher NatCat burden in the active reinsurance, mainly Hurricanes Harvey, Irma, and Maria, and reserve increases due to the adjustment of the Ogden discount rates in Great Britain.

Specialty Lines, Switzerland/International also suffered from a higher NatCat load. Despite this large NatCat burden, Specialty Markets still achieved a combined ratio of 100.1%.

The Corporate segment includes the corporate functions and Group Reinsurance, in addition to the financing companies and the holding company. It's result of minus CHF 43 million decreased against the previous year's figure of minus CHF 24 million. Despite a significantly improved technical result in Group Reinsurance, decline was mainly due to costs related to the newliest (00:18:00) hybrid bond, the absence of the one-off positive tax effects contained in the previous year, and the planned higher costs for projects.

I'll continue with growth in business volume on slide 10. In 2017, Helvetia Group achieved a business volume of CHF 8.6 billion. This equates to a currency-adjusted increase of 0.7% over the previous year. In the non-life business, we achieved an increase in premium volume of 4.3% in original currency. The growth was driven by the Active Reinsurance and Specialty Lines, Switzerland/International, with the strong growth of Specialty Lines and International being mainly attributable to the one-off effect and the growth in Active Reinsurance being in line with our strategy.

In the life business, the effects of our strategic initiatives could be seen with an excellent growth of 14.1% in capital-light investment-linked products and a planned reduction in traditional individual life products. This last impact, together with a positive one-off effect in the Swiss group life business in the previous year, led to a decrease in the total life volume of 2.4% in 2017.

Looking at the individual segments, business volume in Switzerland declined by 2.5%. In non-life business, we increased premium volume by 1.4% to just over CHF 1.4 billion. Business volume in life business, by contrast, went down by 4.1% with the biggest effect coming from the group life business.

Here, single premium was decreased by 7.2% compared to the prior year period. In 2016, growth was impacted by a positive one-off effect due to a single transfer of policyholder bonuses into retirement assets booked as premiums, which obviously has not repeated this year. Regular premiums, however, which are important for assessing business performance, increased by 0.8%.

Finally, I'd like to highlight that demand for the modern capital-light products sold through Swisscanto also grew very well. In the new business, Swisscanto recorded a pleasing growth of policies of 15.9% and total policy growth was at 5.8%. Already 41% of existing and 45% in new customers have policies with Swisscanto. Here, Helvetia only acts as a reinsurer for death and disability risks; however, the interest rate risks are borne by the Swisscanto foundations themselves.

In individual life business, premium volume decreased by 5.7% in Switzerland. Modern capital-light investment-linked insurance solutions increased by 12.7%, following the successful sale of our tranche products, Helvetia Value Trend, and a good development of Helvetia Guarantee plan. In contrast, the business volume of traditional insurance solutions declined as planned.

In the Europe segment, business volume increased by 2.4% in the regional currency. All country markets recorded higher volumes compared to previous year. Spain and Germany posted the highest growth rates. In non-life, almost all European entities were back to growth. Italy only was still confronted with a market-wide decline in motor insurance. The European life business also grew by 3.9% with modern capital-light investment-linked products increasing by nearly 15%. We can look back on successful sale of those products in all country markets.

In the Specialty Markets segment, we also achieved a 15.9% increase in volume in original currency. Growth was mainly driven by Active Reinsurance, resulting from targeted diversification by region and business lines, as well as the selected expansion of existing business relationships. Specialty Lines, Swiss/International also recorded strong growth, which, as I mentioned above, was due to a one-off effect. Adjusted growth, taking this out, was low-single-digit.

Now I'd like to look at the profit by sources in the non-life business on slide 11. Helvetia again showed a very strong technical performance in the non-life business in the 2017 financial year. Thus, the net technical result was 3% above the prior year. Looking at the profit by sources, the gross technical result, meaning before reinsurance, increased by 2%. In addition to the higher volume, this increase was due to the improved technical performance of the European units, which compensated for the decline of Specialty Markets mainly caused by higher NatCats. The investment result increased by 34% compared to 2016 and was, therefore, a major driver for the increase in underlying earnings.

The capital markets, and in particular equity markets, performed well. And therefore, we achieved higher capital gains on investments. Higher taxes due to the lack of a positive tax effects is included in the previous year, had a negative effect this year.

I'd now like to move to the net combined ratio on slide 12. Despite a heartburn from NatCats in the reporting year, the net combined ratio remained almost unchanged to the previous year's level and amounts to a very good 91.8%. As already mentioned, this is attributable to the positive development in Europe. Here, the successful portfolio optimizations in recent years are now showing an effect and resulted in a net claims ratio that was 1.6 percentage points lower than in the previous year. Thanks to the lower claims ratio and a slightly better cost ratio, Europe was able to improve the net combined ratio to 95.4%. All European markets achieved combined ratios well below 100%.

Switzerland showed a net combined ratio of 83.1%, which is remaining at an excellent level. In the Specialty Markets segment the net combined ratio amounted to 100.1%. One major effect was the higher NatCat loading in Active Reinsurance, with the biggest impact coming from the hurricanes Harvey, Irma, and Maria, which resulted in net losses of roundabout CHF 9 million.

Finally, I'd also like to mention that we now disclosed the impact of the run-off result of the net claims ratio in the graph at the bottom right of this slide. In 2017, the run-off result had a 2.9% positive impact compared with 3.7% in 2016, both of which were in the usual range of our expectations. I would like to point out this ratio has fluctuated and will do so in the future. Even more important is the good underlying claims ratio, although we had a higher impact from NatCats compared to the prior years. This shows that our portfolio quality is at a high level.

I'll give you some details on the cost ratio on the following slide, which is slide 13. Compared to 2016, the cost ratio went up from 28.7% to 29.1%. The positive impact of a higher business volume was offset by higher costs, primarily related to growth initiatives and smaller one-off effects. Synergies of the integrations led to a 0.3% improvement in the cost ratio, which were predominantly used to finance budgeted projects.

If you go to slide 14 and look at the life business. The operating result of the life business increased by CHF 35 million, or 8% against its prior level. The better savings result, which benefited from the decrease of the minimum interest guarantee in the group life business in Switzerland, contributed to this increase. The risk result remained stable in a prior year comparison.

The other result improved due to regular fluctuations in the value of customers' options for index-linked insurance products, as well as positive one-off effects. Gains and losses from investments also increased, but in return resulted in higher expenses of policyholder participation. Expenses for interest-related reserve strengthening were slightly higher than in the previous year. Finally, the one-off low tax rate for past year was not repeated in 2017.

I'll now go to the new business margin and embedded value on slide 15. On this slide, first of all, I want to highlight that the new business margin using the traditional embedded value methodology improved by 0.6 points to 1.8%. This very pleasing development shows the impact of our measures to improve profitability in the life business. The value of the new business written increased from CHF 33 million for the 2016 year to CHF 49 million in 2017, driven mainly by the successful revision of traditional products and the focused sale of modern products.

The new business volume increased by 4% to CHF 2.6 billion. In Switzerland, the main driver for the improvement was the Swiss group life business, with Swisscanto showing the highest growth rates in new business. In individualized, modern products also grew pleasingly. New business volume with traditional products by contrast was declining in line with our strategy. The European entities also showed strong new business volumes with modern products. In all country markets, traditional savings products are now only offered selectively or in a modernized form, either with noticeably reduced guarantees or guarantees upon maturity.

Helvetia Group's embedded value was CHF 3.8 billion at the end of 2017. This equates to an increase of 16% compared to the same reporting period last year. The main drivers were model changes, a positive economic and operating profit, and the new business value, offsetting the impact of dividend payments.

I'll continue now on slide 16. This clearly shows that our new business mix is continuously improving. The share of the so-called capital-light business, which includes investment-linked products, revised traditional products; we call them modern traditional, as well as protection products, was up 73% for single premium and 78% for regular premiums at the end of 2017. This shows that our measures to revise our traditional life insurance products have been successful, and additionally, our investment-linked products are very well received by our customers.

I'd now like to move to the direct yield and guarantees in the life business on slide 17. The interest margins in our Swiss business remain very stable, with only a marginal decline despite low interest rates. Direct yield in Switzerland and the EU countries declined compared to last year as a result of lower interest rates. The development of the interest margin in Switzerland was closely linked to lower average technical interest rates from the liability side, which decreased from 1.24% to 1.17%. The biggest impact resulted from the adjustment of the guaranteed interest rates for BVG, Swiss second pillar retirement assets as of 1st of January 2017 from 1.25% to 1% for the mandatory part and a corresponding reduction from our side of non-mandatory rates to 0.25%.

The successful revision of our traditional product portfolio and the focused sales of modern capital-light products also influenced the average technical interest rate. Maturing insurance contracts with high guaranteed rates are being replaced from modern capital-light products. Finally, additional reserve strengthening also had a positive influence on the interest margin.

In Europe, the interest margin shows a slight decline from 0.53% in 2016 to 0.49% in the 2017 financial year. As a result of decreasing interest rates and some older large volume investments maturing, we see a stronger direct - indirect (00:30:53) yield compared to the average interest rate Helvetia has to generate in order to meet its obligations.

On the following slides, I want to provide you with some details on our investments. So if you look at slide 18, the current income in the 2017 financial year was CHF 1 billion, and thus more or less on the same level as last year. Our rental income from real estate increased, in particular income from financial assets declined slightly due to the persistent low interest rate level. Direct yield was at 2.1%, a slight decline against the prior year.

In addition to current income, realized as well as booked gains and losses amounted to CHF 347 million. This figure was driven by the good performance of equities, which generated an attractive overall return. In total, the investment result recognized in the income statement was CHF 1.3 billion, CHF 205 million up from the 2016 financial year. Investment performance increased to 2.8% against 2.5% in the prior year period. Unrealized gains and losses recognized in equity changed only marginally. Finally, we earned CHF 160 million on assets backing investment-linked insurance solutions for our customers.

On slide 19 you can see the investment was broken down by asset class. Two-thirds of the current income of CHF 1 billion came from bonds and mortgages, which contributed CHF 569 million and CHF 88 million, respectively, in absolute terms. Dividends accounted for CHF 68 million and investment property for CHF 242 million. Gains and losses on investments were CHF 347 million, mainly driven by gains on equities.

As I already mentioned, unrealized gains and losses only changed marginally. The lower half of the slide shows return on new and recurring investments. CHF 4.2 billion were reinvested or newly invested in 2017, nearly 72% of which were allocated to bonds, primarily in euro bonds and U.S. dollar bonds in the corporate sector, as well as long-term U.S. Treasuries. We had to contend with higher hedging costs to cover our foreign currency exposure, but on a net basis we earned the yield pickup, which allowed us to mitigate the negative and very low bond yields in Swiss francs to some extent. We also expanded the mortgage portfolio in line with our targets. Finally, 2.1% were allocated to investment property and 6.8% in equities. Direct yields in new and reinvestments totaled 1.5%, only marginally down compared to last year's 1.6%.

The excellent full year result, the good progress on synergy realization, and a sustained balance sheet strength, have enabled us to increase the proposed dividend to the Shareholders' Meeting to CHF 23 per share. This corresponds to a dividend payout ratio of 47% on an underlying basis, which lies within the target range. The dividend payout is 59% based on the IFRS result and the dividend yield, what we believe, is an attractive 4.2%.

I will finish my presentation with more details on our payout ratios and cash remittances on slide 21. Helvetia passes virtually all dividends it receives from its subsidiaries right through to its shareholders. Helvetia Holding does not retain any dividend for itself. We have the advantage that many of our foreign operations are branches of Helvetia Insurance Company, St. Gallen, which makes capital fungibility very easy. All operating companies are subsidiaries of Helvetia Insurance Company and dividends are passed over to it, mixed with the profit contribution of the branches and paid out to Helvetia Holding.

You can see that on IFRS basis, the individual market units, which may be made up of different companies and different branches, pay a substantial proportion of their profits to Helvetia Holding. We've not given details of the SST in this presentation, since for the first time Swiss companies will publish an equivalent to the EU SSCR (00:35:11), it's going to be called the (00:35:13) in April this year. With this, we intend to publish a small information pack giving you highlights of the report. What I can say is that we expect our SST for first of (00:35:27) 2018 to be extremely robust and, I would say, well within our usual range of 140% to 180%, if not at very, very top end.

On that note, I will now hand over to Phillip Gmür again.

Philipp Gmür

Thank you, Paul, for the details of our financial performance in the 2017 financial year. In the last part of the presentation, I would briefly like to share with you what we have already achieved last year with regard to strategy implementation. I start on slide 23.

With our strategy helvetia 20.20, we aim to create value for our key stakeholder groups, such as customers, employees, and shareholders. We are achieving this by strengthening our core business, expanding and tapping into new sources of revenues, as well as promoting targeted innovations.

Slide 24 provides you with an overview of selected examples of value creation for our customers and shareholders in 2017. We will start with customer value and make, for illustration purposes, a deep dive into the customer journey in particular, I would like to continue on slide 25.

Every day, we reconsider how we can make life easier for our customers. This goal is also reflected in our new brands promise, which we have been using to present ourselves on the market since November 2017. The new brands campaign is embedded in the corporate strategy helvetia 20.20 and translates its core elements into a new brand experience. Helvetia wants to be agile, innovative, and customer-centric. In other words, we want to offer simple and clear solutions or, as the saying goes, simple, clear Helvetia. This is why the desires and needs of our customers and partners are at the center of our thoughts and actions. Here, digitalization offers a range of new opportunities. It is the customer who decides how, when, and where he wants to get in touch with us.

As I've just mentioned, last year we reviewed the customer journey from an omni-channel perspective by introducing digital interaction capabilities in three distinct areas; contact initiation, such as information, comparison, advice, and the conclusion of an insurance policy; second, contract management; and third, notification of claims. In Switzerland, for example, we have expanded the wide range of existing distribution channels, such as tied agent sales force, brokers, banks, and partners.

For many years, smile.direct, the leading direct insurer in Switzerland, has been growing significantly above markets by serving customers with a high affinity for online and digital means. smile.direct has regularly earned top ranks in the customer satisfaction surveys in the recent years. In parallel, we also strengthened the digital access for our hybrid customers by means of new tariff calculators.

Finally, we have further expanded our network of specialists, retailers, through which customers can conclude tailor-made digital insurance solutions, what we call the B2B2C channel. Overall, we aspire to interact with customers from anywhere at any time. In our country markets outside Switzerland, of course, we also count on omni-channeling. Helvetia Germany's digital platform, for example, serves all customer segments, from agents and retailers, to manufacturers and end customers.

Helvetia has well-known corporation partners in Germany, such as Brillen.de, Fidor Bank, CHECK24, Finanzchef24, and since recently even Amazon. And in the 2017 financial year, Helvetia Germany has concluded more than 270,000 contracts, digital policies with end customers either directly or via the above mentioned partners.

With regards to the administration of contracts – that's the second point – we have particularly increased self-service capabilities. Our new online customer portal offers private customers and pension fund members in Switzerland not only access to all their insurance documents, but it also includes additional services, such as a simulation tool to calculate affordability to buying a real estate or top-up contributions to pension schemes for early retirement. We are also testing the renewal of certain contracts from private clients via chatbot.

Finally, Helvetia is also breaking new ground in notification of claims and is testing new ideas, which are only possible thanks to digitalization. Since the end of 2017, for example, our Swiss customers can report the theft of their bicycle via chatbot using the Facebook Messenger. Claims settlement, including payment of the insurance sum, only takes about 90 seconds. Helvetia is one of the first insurance companies in Europe to offer this form of customer interaction. In a nutshell, with the targeted development of simple customer interaction, we create value for our customers, and at the same time, of course, we strengthen our core business.

Let's continue with slide 26. Helvetia is currently setting up the home ecosystem. This is built around MoneyPark, which positioned itself as the independent adviser and service provider for all questions relating to housing and real estate. The advantages for Helvetia are that we expand our range of customers, secure customer loyalty by providing one-stop shopping regarding real estate matters, and diversify our earnings by increasing our fee income.

MoneyPark is already the largest independent mortgage brokerage specialist in Switzerland. Following the acquisition of Defferrard & Lanz last year, MoneyPark is not only active in the German-speaking part of Switzerland and the Ticino, but also in the French-speaking area. With a volume of almost CHF 1,000 billion, the Swiss mortgage market is one of the largest in the world, and mainly comprises private and residential real estate. Each year, an estimated 10% of that, that means CHF 100 billion of mortgages, is newly financed, i.e., newly issued, expanded, or refinanced, a huge potential. Through MoneyPark, customer placed over CHF 2 billion in mortgage volume in 2017. That corresponds to a market share of just 2%. MoneyPark is positioned number four for new mortgages following UBS, Credit Suisse, and Raiffeisen.

MoneyPark's business model has enormous potential, especially when considering that the share of mortgages brokered in Switzerland is very low, between 3% and 5%, compared to other international markets. For instance, in Germany, the share of mortgages brokered by brokers is between 50% and 60%, and in the UK the share is between 70% and 80%. In total, MoneyPark already manages a mortgage portfolio of over CHF 8 billion and has advised well over 70,000 customers on their way to their own home.

MoneyPark acquired Finovo mid-February 2018 in order to also serve institutional clients, such as pension funds, to get access to the fast-growing mortgage management business. In this combined setup, MoneyPark is the only company in Switzerland that serves both private and institutional clients along the entire mortgage servicing value chain.

As the largest independent mortgage brokerage specialist, MoneyPark is a strong anchor of our home ecosystem. In mortgage financing, MoneyPark offers complete transparency in the current conditions of around 100 banks, insurance companies, and pension funds. MoneyPark advises the customer during the selection process in order to find the right financing solution. In addition to real estate financing, the home ecosystem provides customers with supplementary useful services around their homes from one single source.

In this context, the clients' pension provision is often analyzed and optimized. Here we aim to offer Helvetia life insurance products, which provide for indirect amortization of the mortgage or for mortgage payments in the event of death or disability. We also offer the customer household or buildings cover.

Key to the home ecosystem is the integration of additional services of any partner company, both through MoneyPark and directly through Helvetia. These include an online real estate valuation service based on machine learning from the startup PriceHubble or maintenance and repair services. If customers wish to rent rather than buy, we have a cooperation with flatfox, an online property rental platform. As well as pool (00:46:56) cooperation agreements, we have also invested directly in some of the service partners through our venture fund.

The sale of additional insurance product is important, but is not the basis for the business model. We are building the business model around the provision of services for fees, either directly paid by the customer or by cooperation partners to MoneyPark or Helvetia. The home ecosystem is already a reality and is continuously expanding around MoneyPark's core capabilities, with the current emphasis on onboarding partners and the development of joint services.

In brief, by investing in the home ecosystem, we are systematically adding to our core business and diversifying our income stream away from traditional insurance business to new sources of revenue, particularly fee income.

Let's continue with slide 27. We have created significant value for our shareholders in 2017. As Paul has already mentioned, we were able to further increase our absolute profit and we further strengthened our technical profitability in non-life and life insurance. Our strategy of focusing on modern capital-light products is proving successful, as the change in the new business mix impressively demonstrated.

Finally, our initiative to strengthen our core business through diversification, through digitalization and automation, together with the expansion of new business models and with it the diversification of sources of income, has already started well and will further contribute to the value for our shareholders in the future.

Let's turn to slide 28 and with that, I would come to the end. Our success is based on proven diversification in many respects. We have, first, a well-balanced business mix between life and non-life business. Second, with a strong domestic market and a profitable footprint in European countries, we are also very well-diversified from a regional perspective. Third, our expertise in transport, engineering, and art insurance, and Active Reinsurance opens up promising opportunities beyond our core markets. On the customer side, our focus is on both private customers and SME.

And fourth, by the setup of the home ecosystem, we are diversifying our income stream away from traditional insurance business to new sources of revenue, particularly fee income. This profile demonstrates that we have a strong business mix in our portfolio and that Helvetia is fit for the future and possible threats, which could happen, of course.

All-in-all, we are happy with what we achieved in 2017 and we are confident to be well-prepared in order to remain fit for the future.

This brings us to the end of the presentation. Now my colleagues and I would be pleased to answer your question. I thank you for your attention and I would like to start with the question round now first probably in this room, and then go on to the questions on the phone.

Q&A

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah, good morning. Daniel Bischof, Baader Helvea. I have three questions, please. First one, Specialty Markets, that's the unit which grew quite substantially last year. So I was wondering how you positioned that business. It was especially due to the Active Reinsurance expansion? How you positioned the business following the Q3 ForEx loss events? What you saw in terms of rate changes? And, yeah, how you positioned the reinsurance?

The second one on the dividend, meaning the January update, you provided the number that CHF 1 was basically the dividend potential coming from the synergies and CHF 1 was regular dividend increase. How should we decompose this for the 2017 number? And then you came up with the Nationale Suisse acquisition, you mentioned synergy dividend potential of up to CHF 3.60. So, how should we look at this number? Is it really the 40% to 50% payout ratio that's more relevant or are you basically done with that pass-on effect from the synergies to the dividend?

And then the last one, just to really understand the cash remittance. So any capital offer would actually not move up to the holding, but you would keep at the Helvetia Schweizerische Versicherungsgesellschaft, and I assume you could have done a lot more, but that's where the capital is staying.

A - Philipp Gmür

Okay. Thanks, Daniel. I would propose that Paul is answering the questions regarding the dividend and the cash remittance, and I would start with answering your first questions with regard to Specialty Lines. Of course, within this business, our Specialty Markets segment include our covering some Specialty Lines such as art, engineering, and marine. And apart from that, we have an Active Reinsurance portfolio. And as you see on slide 38, our Active Reinsurance portfolio was very successful during the last few years.

Overall, we have a very nice development not only with regard to the volume, but also with regards to the profits. But, of course, last year, as many other reinsurance companies, we were hit especially by the hurricanes. And you see, we still have a combined ratio slightly above 100%, which is also, compared to the peers active in this business, I think, very good number. We are not specifically exposed to NatCats in the U.S., but of course, if you run reinsurance portfolio, you have one day or the other such catastrophe risk in your book.

As you see, we are on a level, with regard to the hurricanes, of CHF 9 million split into three times CHF 3 million for the different hurricanes, which demonstrates that we are well covered also in our portfolio. We still believe in Specialty Markets, in the Specialty Lines we have. We believe in the potential. We are number one in art in Switzerland. We are number one in engineering in Switzerland. We are number one in marine in Switzerland and number two in marine in France, and we think that's a good basis in order to expand this specialty-based business not only in Switzerland, but all over the world or all over those countries we want to be active in. And now I ask Paul to answer the dividend question and the cash remittance issue.

A - Paul Norton {BIO 16145125 <GO>}

Okay. Daniel, I did say that the dividend would be - is effectively divided in two components. I don't think I actually put a number to each of those components. I think you've calculated that yourself.

Q - Daniel Bischof {BIO 17407166 <GO>}

(00:56:07).

A - Paul Norton {BIO 16145125 <GO>}

(00:56:10), the average dividend increase before synergies that we had was roughly CHF 0.5 to CHF 1 a year. And if you look actually over the years, averaging out is more like CHF 0.5 a year. And you're right, we did say it was up to potential CHF 3.60 per share from the synergies. If you look, we've had an increase of overall from CHF 5 since the acquisition took place. And I don't specifically want to give any allocation between the ongoing dividend arising from the synergies. But when you take what I've just taken into account, you can probably see that almost certainly most of, if not all, the potential from the synergies has been paid out now as dividend.

But we, obviously, look at the dividend overall, with reflection to our capital base and to the payout ratio that we have, which is the 40% to 50%. On the cash remittances, we don't keep much of a buffer at Helvetia Swiss insurance company. So, obviously, (00:57:29) we did say was, there's nothing retained at Helvetia Holding. It's simply a pass-through vehicle. We retain buffers for solvency purposes in the local entities. We have to do that. And what we payout to the Helvetia Swiss insurance company is what companies can bear, given their local solvency and the buffers we need there, given their IFRS results, given their local statutory, which can be very complicated, attractive at that triangle to manage that triangle, and within the needs to provide a 40% to 50% payout rate at the top end in accordance with our overall strategy. So when you actually look at the payout ratios by the individual segments, they are actually quite substantial based on the IFRS. And we will continue to manage that triangle of IFRS statutory and local solvency buffer to optimize the dividend payout.

Q - Daniel Bischof {BIO 17407166 <GO>}

Do you have a mid-term ambition for the payout of potential IFRS earnings, referring to the 59% for 2017?

A - Paul Norton {BIO 16145125 <GO>}

At the moment we still have the 40% to 50% for the statutory period. We also have an overall target of greater than CHF 1 billion over the five years. At the moment, we will stick to that.

A - Philipp Gmür

Okay. More questions?

Q - Stefan Schürmann

This is Stefan Schürmann of Vontobel. I have three questions. First one on reserve additions, could you maybe be a bit more precise how much reserves you added on the life side in 2017? And maybe also split on how much that concerned the Swiss unit and (00:59:29) reserving in Germany?

Then the second one on basically the annual investments into, what you call, strategic projects, which was, I think, on the standard guidance of CHF 50 million to CHF 70 million per annum. How much did relate to that in 2017, and can you still confirm that guidance going forward? Maybe the last question just on – maybe an update on the standard model process for SST in Switzerland.

A - Philipp Gmür

Okay. I might start with the standard model, and then turn over to Paul for the reserve loading in the life insurance and for the strategic projects. We are, as you probably know, still in discussions with the supervisory authorities in Switzerland. There are many discussions going on. As you might have read in the newspapers last week, we have the topic of the Swiss solvency test compared to the Solvency II regime in the European countries, and there we might have come to a solution for the time being, which would help us a little bit. In Helvetia, we are calculating roughly with maybe an increase of 6 or so percentage points in our solvency ratio. The impact is not very large, because we are, to a large extent, exposed in the Swiss life business.

Second, we have discussions with regard to a new standard model regarding the second pillar business, and there no decision has been taken yet. We are, in the football slang or in the soccer slang, maybe in the second half of the play, but there is still no decision which has been taken so far.

Okay. Life reserving...

A - Paul Norton {BIO 16145125 <GO>}

I'd also add to Philipp's comment about when the second half, I have to say that the referee is not exactly independent in this match. Going back to the reserve additions, you can find that in annual report we have CHF 173 million to the Swiss life, which is very slightly higher than the last year, which I think was CHF 166 million. (01:02:21) reserve in Germany and in Austria was low double-digit – if I remember, very low double-digit increase.

A - Philipp Gmür

All in all, it's more or less at the same level...

A - Paul Norton {BIO 16145125 <GO>}

Yeah.

A - Philipp Gmür

...as it used to be in the previous year, 2016.

A - Paul Norton {BIO 16145125 <GO>}

Slight increase in Germany and Austria, because it's an automatic process which will take some time to run-off. Strategic projects, we still retain our CHF 50 million to CHF 70 million guidance before tax, and we are at the top end of that basically this year.

A - Philipp Gmür

More questions? There are no more questions in the room, so we might turn over to the questions we might have on the phone.

Operator

First question from the phone comes from Peter Eliot, Kepler Cheuvreux. Please go ahead.

Q - Peter D. Eliot {BIO 7556214 <GO>}

Thank you very much. Just sort of couple of questions on the other results actually. I was wondering if you could just breakdown or give us the sort of the major investments. Probably something you've already talked about, but just in case if there's anything else that you could add there.

And secondly, I was a little bit surprised you talking about sort of significant impact from Ogden. I was just wondering if you could split out how much that was and exactly what your exposure is to the UK. Thank you very much.

A - Philipp Gmür

Okay. I would directly ask Paul to answer those two questions.

A - Paul Norton {BIO 16145125 <GO>}

The Other result, there is a positive impact from the group reinsurance result. We don't give all the details, obviously, of everything that's within that segment. Turning to the share, which is – sort of a slide which is at the back there. Thank you.

Yeah. So you can see that the technical result of the group reinsurance, so it's page 44 in the slide pack, improved by about CHF 21 million. The investments and the FX results, we don't have investments in this segment – very little investment in this segment apart from some group managed funds. We shifted our own investments across to non-life due to a merger of a small company we had called Helvetia (01:05:00), which is why the investment result has gone down.

The costs in Other are basically the increase in the project costs, all the project costs that we mentioned, that's within the CHF 50 million to CHF 70 million, as said we're at the top end, and the financing costs are basically the costs of a new hybrid that we launched in April, I think, it was, and the tax I mentioned due to the fact we had very positive one-off tax effects last year.

Ogden was about CHF 10 million. We do have some exposure to the Active Reinsurance business. They do write a small portfolio of UK motor, have done for several years, and they reserve for those increases. We haven't adjusted it for latest developments in core cases, which I think brought the negative interest rate on the Ogden back up to, I think, zero or slightly above zero.

A - Philipp Gmür

They came down to minus 0.75%, and we reserved it at that level. Okay. More questions? Is there another question on the phone?

Operator

Yes. The next question from the phone comes from Guilhem Horvath, Exane. Please go ahead.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yes, good morning. Thanks for taking my questions. I've got two. The first one is on the new business mix, and you showed the split on the individual life. Can you give maybe a broader picture on your Swiss life business, including group and what you write as what you call traditional type of business there? And what should we think about the mix going forward? This would be helpful.

And the second is on the discussions with FINMA. Maybe I didn't catch it, but can you disclose a little bit what you are discussing on the individual life standard model? Because I think you've got another process starting on this part as well. Thank you.

A - Philipp Gmür

Okay. I start answering the questions, and ask then Paul to maybe add one or the other word. First, with regard to the new business mix in Switzerland, with regard to individual life, it's a question of value proposition we provide for our clients. And I think the interest rate level is pretty low and what we might give as a guarantee to our clients regarding the supervisory authority, the FINMA, which is interfering, of course, we have to make sure that our clients not only get fantasy, but still a guarantee, and the question is, who bears the guarantee? Is it the Helvetia book or are there third party providers covering this guarantee?

And what we successfully did during the last few years, we launched more and more products with third party providers covering a certain part of this guarantee, and of course, the client itself also he bears some part of the risks, but also the upside potential, of course. And we think that the business mix goes on turning to more and more modern capital-light and capital efficient products, of course, protecting our balance sheet at the time.

When we have a look at the profitability of our book, be it in individual life or in group life, it's not only the business mix, but it's also a bunch of measures we took during the last few years in order to increase the profitability of the back book. So we decreased some of the upside potential we were promising, and we came down with some other measures.

Okay. Then the second point, the FINMA discussions, the FINMA is discussing with us with regard to the second pillar business two different models. And we did not come to a conclusion yet, but I think we have to come to a conclusion within the next few, let's say, months or so, because we have to make sure that as of January 1, 2019, we have model we can go on with.

With regard to the individual life business, as I said before, the FINMA has been interfering for many years only. As of today, we are allowed to give as a guarantee in the traditional individual life business financed with single premium roughly 0%, and in the regular premium business it's 0.25%. So they have been interfering for a long time already. Maybe you have to add something?

Q - Guilhem Horvath {BIO 18460437 <GO>}

Yeah. My question was more on how do the SST model for Pillar 3 would evolve going forward? Because I think your competitors are discussing about the standardization of this model.

A - Philipp Gmür

The FINMA wants a standardization of the models, that's what they want to have and what we are discussing now with the FINMA is whether the standard is one solution or another one, we are roughly discussing two different solutions lying on the table. But it's clear that the FINMA wants to implement a standard model for the whole industry in the second pillar business.

A - Paul Norton {BIO 16145125 <GO>}

No, it's individual life. In individual life, it's very much at extremely early stage. It's clear still, except that the individual life, there is a demand from FINMA for standardization. But we're at a very early stage now in those discussions.

Q - Guilhem Horvath {BIO 18460437 <GO>}

Okay, thanks.

A - Philipp Gmür

More questions, another question on the phone?

Operator

We have another question from the phone coming from Mr. Jonny Urwin, UBS. Mr. Urwin, please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi, there. Thanks, everyone. Just two questions. So firstly, could you update us on what pricing is doing in Switzerland versus what claims inflation is doing? And then secondly, there was good improvement in the European non-life businesses. How much of that do you think is sustainable or is there any one-off in there? Thank you.

A - Philipp Gmür

Okay. Paul, would you please go on?

A - Paul Norton {BIO 16145125 <GO>}

Yeah. Pricing in Switzerland in the retail business is still very good. It's still a very disciplined market. We don't really see any claims inflation. Clearly, in the commercial businesses , there's definitely price pressure, the small and medium size enterprises. But otherwise, Switzerland is very much an ideal market for pricing. There are potential issues regarding the discount rates used for bodily injury claims, which are subject to court decisions, but generally we're not anywhere near the same as, say, Italy with the continuous price pressure, which goes in big cycles.

That leads me into the European markets. We believe that we do have now a sustainable level, which we're starting to develop in Europe. We had a lot of portfolio cleansing in the last few years, mainly as a result of the Nationale Suisse acquisition, but also due to a couple of self-inflicted problems. And we're really much more confident now that we've got through those and that we're at a pretty good sustainable underlying level, and there are other things we can do to improve that going forward.

Really what I would say going back to Italy is, particularly the motor business there, it's unpredictable and goes in big cycles. But otherwise, I think we're on pretty good level. Austria, for example, is a really good one, which was a country where we had problems for years and following the acquisition of Baloise Austria and the integration, we now have a really, really good portfolio and a very good distribution and very happy with how it's developed.

A - Philipp Gmür

I would like to underline that, in our European countries, we are, as Paul said, well below 100% in the combined ratio, which is, I think, a fairly good level. And the result of this combined ratio is not the result of one-off effects whatsoever. It's the result of hard work and also of a big discipline in underwriting business we do in all those countries.

Q - Jonny Urwin {BIO 17445508 <GO>}

Great. Thank you.

A - Philipp Gmür

More questions?

Operator

There are no more questions from the phone.

A - Philipp Gmür

There is another question from Stefan Schürmann here in Zurich.

Q - Stefan Schürmann

Yes, I have maybe two add-on questions. First one on the traditional embedded value, so maybe asking question on that for once. You said that model assumptions were basically positive. Can you maybe elaborate a bit more how much that basically contributed? And then there was a negative capital movement of CHF 70 million. Where did you basically adjust that level?

Then the second one still going back to Italy. In Italy, I think your legal merging (01:15:50) process is more or less coming to an end or at least advancing finally. And can you maybe update on that, including the restructuring on the motor portfolio in the Italian market/

A - Philipp Gmür

I go with the Italian question and Paul is then answering the traditional embedded value topic. Italy is a tough market with respect to the regulator as well. It's rather complicated to go on fast when you want to merge different companies, when you want to change the setup, when you want to release people, so it's much more complicated than in Switzerland, for instance. And we have restructuring project in Italy going on, but it takes time, it takes time.

The motor portfolio in Italy is, for us, of course, an important one. We are confident to go on with motors, but at the same time we are very cautious in doing any price war or whatsoever. Of course, we are also going on in changing the business mix to more and more property business. But still Italy is a motor market, and we are in the position to have a big motor portfolio, we have a cautious look at. And if you have a look at the combined ratios in Italy, in our Helvetia portfolio, they are pretty pleasing. And we are especially pleased also with regard to our sales channel bank, which brings us good portfolio, which might have been higher cost ratios, but usually lower claims ratios than the agents network.

Paul, traditional embedded value.

A - Paul Norton {BIO 16145125 <GO>}

I'm surprised, Stefan, you're still looking at traditional embedded value. The model assumptions were roughly about CHF 200 million improvement split over the various categories in the capital movement was purely dividend mainly.

A - Philipp Gmür

More questions? If not, I would like to conclude this analyst conference. I thank you very much for your interest in our company and thank you very much joining us this morning. I thank you if you stay in contact. If you have any questions, please do not hesitate to contact either Susanne or now, of course, on a bilateral basis the people of Helvetia here in this room Paul, Ralph, and myself, we are happy to answer your questions. And now I have the privilege to invite you to have a drink and a small – I think finger foods with our Helvetia people. Thanks and goodbye.

Operator

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