Y 2020 Earnings Call

Company Participants

- Carsten Stolz, Head of Finance, Chief Financial Officer
- Gert De Winter, President of the Corporate Executive Committee of the Baloise Group, Group Chief Executive Officer
- Markus Holtz, Head of Investor Relations
- Matthias Henny, Head of Corporate Division Asset Management

Other Participants

- Farooq Hanif
- Farquhar Murray
- Fulin Liang
- Michael Huttner
- Peter Eliot
- Rene Locher
- Thomas Fossard

Presentation

Operator

Ladies and gentlemen, welcome to the Baloise Group Annual Results 2020 Analysts 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. The presentation will be followed by a Q&A session. (Operator Instructions). The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Markus Holtz, Head of Investor Relations. Please go ahead.

Markus Holtz {BIO 20240672 <GO>}

Good morning, everyone, and welcome to Baloise Q&A call about our annual results 2020. In our call today, we have our CEO, Gert De Winter; our CFO, Carsten Stolz; and our CIO, Matthias Henny.

And now without further ado, I would like to hand over to Gert, who will give you a quick overview of our results before we open the Q&A.

Gert De Winter {BIO 19720616 <GO>}

Thank you, Markus, and good morning from my side to everybody. Indeed, before opening up for the questions, I would like to take a couple of minutes to summarize the key points of our results 2020.

Of course, needless to say that 2020 has shown what insurance is all about, it's about providing protection and security under very difficult circumstances. And we too, Baloise, has protected thousands of customers, families and companies against great financial damage. The health of our clients, our partners and our employees has always been our first priority throughout the year.

I'm very proud that we have safely navigated through the challenging environment of 2020, and that I and that we can present today very strong underlying results in all segments. This demonstrates the strength and the resilience of Baloise. In Non-Life, we have grown substantially, over 10% in local currency. And even when excluding the acquisitions we have done in Belgium, the growth rate is very strong, over 4% in local currency.

We hold a top 4 market position in Non-Life in Belgium. And as a group, we display an excellent net combined ratio of 91.2%, which is in the lower range of our target of 90% to 95%. Our combined ratio in 2020 fully includes the net COVID-19 claims, which amount to slightly over CHF70 million. It demonstrates again the very high quality of our Non-Life portfolio.

In Life, the EBIT improved to CHF282 million. Our new business enjoys a very healthy new business margin. And our interest rate margin is resilient, above 100 basis points.

In asset management, we achieved a net investment yield of 2.1%. And in acquiring third-party assets under management we acquired over CHF1.2 billion in 2020, which is an increase of almost 50% compared to 2019. Net earnings were at CHF434 million. In comparison with 2019 there are two major effects. One is the one-off tax effect in 2019 of CHF150 million. The second effect is COVID-19 with the net claims of over CHF70 million and a lower financial result. Our cash generation was again very robust with CHF424 million in our balance sheet remain strong with CHF7 billion and a very good SST ratio, which we expect to be over 180%.

I'm very satisfied that we are reporting today this very solid set of annual financial results, but also our shareholders will participate in the company's success. This is reflected in a stable and attractive dividend per share of CHF6.40. And I am particularly proud that we maintained or even have accelerated the high innovation space in 2020. This is reflected in many new initiatives, partnerships and investments. And one important example, of course, is our digital insurer, Friday, which doubled again year-on-year, premium volumes in 2020 and announced today that it will expand into France in 2021.

Turning to the strategic goals of Simply Safe, which the strategic period which ends by the end of this year, I would like to summarize the progress we made towards our strategic goals as follows. We are in the final stage to achieve our 2021 strategic targets for employee satisfaction, for customer growth and for cash generation. We improved to a top 8% employer in the financial industry and hence, have achieved our target of belonging to the 10% best employers.

We have won in a special, I would say, difficult year over 225,000 net new customers, which is an increase of almost 10% in comparison to 2019. After four years, we are almost at 750,000 new customers for the Baloise Group. And in relation to our cash goal, we have achieved again a very robust cash remittance of CHF424 million in a very well diversified generation. Over the last four years, we have actually generated cash in the order of magnitude of over CHF1.7 billion. So in a very special year, we have made substantial progress in all of our three strategic goals: employee satisfaction, customer growth and cash generation.

Let's now summarize 2020 and take a look forward into the future. Despite the challenges we faced in 2020, we look at one of the most profitable core insurance businesses in Europe with very strong underlying operations, which we will further enhance in the coming years through efficiency and client growth. Moreover, we have a leading position at the forefront of digital innovation with new promising business models starting to arise from our ecosystems Home and Mobility.

And I am and we are convinced that we will fully achieve our strategic targets by the end of this year. And we will start with full force and power and confidence into the new strategic phase Simply Safe Season 2. And there, as presented during our Investors' Day last October, we have set three new strategic targets: to become a top 5% employer in Europe; to win 1.5 million additional net new customers; and to increase our cash remittance by 25% to CHF2 billion over the period

'22 to '25. In short, we have a very strong core business. We are leading in innovation. We are fully ready to start our new strategic phase.

And with this, I would like to open for the QA.

Questions And Answers

Operator

(Question And Answer)

We will now begin the question-and-answer session. (Operator Instructions) First question comes from the line of Michael Huttner with Berenberg. Please go ahead, sir.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much. Well done for these results because I think, if I remember, you did a voluntary action to help your policyholders, so combined ratio's everything's very good. Just briefly, realizing that Germany profits before tax, I think, CHF20 million, Belgium, more like 240 million, and I remember a few years ago, you said they were roughly the same-sized business. Obviously, Belgium has grown a bit. Is the difference between 20 and CHF240 million mainly FRIDAY? That'd be my first question.

And the second question would be what is the maybe, Gert , you announced a month ago, I think there switch to a lower conversion rate and I just wondered if you could maybe explain a little bit what you did there and the benefit? And the final one is in terms of the benefit, the investment in innovation, I think for 2025 tax target of 10% to 30% of I think earning but might have been cash flow and I just wondered where we are now? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Many thanks for the questions. As they were so many, it might be that we actually ask you to rephrase the question again because I have not been able to written down everything to be honest. Firstly remark, the COVID-19 claims, it is true that where our clients have been covered by epidemic risks, although it was never thought to be a pandemic risk, we have actually compensated swiftly and without a lot of bureaucracy. So we stood there for our clients and we have taken up our role in society to actually provide air and liquidity. That is certainly true.

I'm jumping to one of your last questions, I think, the 10% to 30% earnings for innovation. This is actually going towards Simply Safe : Season 2, which will start as of 2022. What we've invested up to now in innovation is around since the start of Simply Safe in 2017, is around CHF200 million, of which we have seen a revenue of approximately CHF40 million to CHF50 million in 2020. What we have said is indeed that we will generate cash, so increased cash over the four-year periods by 25%, so CHF2 billion in four years. And of that, we will actually invest in innovation in the core of our business and in the ecosystems, Home and Mobility, in a range of 10% to 30%. I'm actually looking at the Swiss conversion rate, which was also a question that maybe, Carsten, you can pick that one up?

A - Carsten Stolz {BIO 6055047 <GO>}

Yes, I'll happily do so. What we have done is we have addressed the topic that within the second pillar system in Switzerland, given the conversion rates that are actually currently applied, we have an implicit how do you say, -- you implicitly allocate from the young and active to the old. And therefore, that's not foreseen in the construction of the second pillar system as such. And by readjusting the rate, we are lowering this implicit reallocation between generations. That was what we technically addressed.

So it's largely addressing this implicit, not foreseen reallocation between generations. And while I'm talking, if I got, Michael, your question right on FRIDAY and Germany with regard to the allocation where it sits in terms of segment reporting, it's allocated to the non-life segment obviously, from a business perspective. And from a geographical perspective, it's not within the German segment, it's within the group segment, group business segment. So the results you see for Germany is for the incumbent German operations and not including FRIDAY. I hope I --

Q - Michael Huttner {BIO 21454754 <GO>}

Yes, yes, that's really cool. May I just ask why is Germany so low, given it's so big?

A - Gert De Winter {BIO 19720616 <GO>}

Well, I think a couple of years ago in 2016 at the Investors Day, we announced the strategy for Germany, which was actually to rebalance the non-life portfolio. We were way too much exposed in industrial risks. Given the size of our operations in Germany that was not the smartest thing to do. So we rebalanced completely the portfolio over the last year, have grown in the profitable retail business with 20% and have actually re-underwritten or exited 60% of the industrial business, which makes the German business, since two years or so, again stable and generating profit. Of course, we are also investing a lot in digitalization in building, the new core platform for non-life in Germany. This requires investments and they are substantial. So that's another reason. I always compare Germany to Belgium, the Belgian operations, about I would say 10-15 years ago. The first phase was a clean-up phase. We have to clean up and that's what we've done.

The second phase was organic growth. And we are growing in the segments we want to grow. In life, in the capital life solutions, and in non-life, private and SME as segments, we are growing substantially. The third phase could be an inorganic phase if we stabilize all the operations. So we have indeed good hopes that going forward, Germany will deliver more in terms of earnings and in terms of cash generation. However, it is difficult to compare the markets. If we compare our four markets, Switzerland and Luxembourg are very consolidated, which makes those markets technically more interesting and profitable. Germany is still a heterogeneous market with a lot of players, a lot of mutual also, which have less pressure on bottom line and top line. So there is a fierce competition there and Belgium is somewhere in the middle, trending towards a very consolidated market. But it's difficult to compare markets like Germany with Switzerland or Belgium. And of course, Switzerland and Belgium in non-life are much bigger than our German operations are.

Q - Michael Huttner {BIO 21454754 <GO>}

Of course. Thank you so much. Thank you very much indeed.

Operator

The next question comes from the line of Fulin Liang with Morgan Stanley. Please go ahead.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. I have two questions. So the first one is, if I look at the numbers you've disclosed on the life business, it seems like the traditional -- on the traditional life business part in Swiss, you were actually the reserve is reducing despite that you kind of increase the valuation reserves. Does that the signal that your traditional business is, including group actually, is running off in Swiss? Does that mean that you could release some of the capital tied up with the life insurance? So that's the first one.

And the second one is on the COVID losses. You booked CHF72 million on the non-life. Have you reserved for the extended like lockdown at the beginning of this year? So are we -- I guess my question is will we see further numbers, COVID losses in 2021 or that's already been all booked in 2020? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you. Let me take maybe question number two on COVID and looking forward. And maybe, Carsten, you can then elaborate on the question concerning the life business. We have actually -- gross, we have actually booked almost CHF180 million. After reinsurance, we're at CHF72 million. This has been fully booked in 2020. And we don't expect anything to pop up again. We have also adjusted the contracts and specified that pandemics are excluded. So going forward, we expect no impact of COVID in 2021. Carsten, maybe on the --

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you. Sorry. So can I have a follow-up? So if you booked, does that mean actually there is actually a possibility of some positive impact from if the 2021 turn out to be actually better than what you booked?

A - Gert De Winter {BIO 19720616 <GO>}

Well, we booked and we paid out the majority of the claims and actually rely on the reinsurance to actually refund, of course, what we have been paid out. There is still, of course, a number of claims that need to be settled, that need to be looked into it. That proportion is, however, pretty low. So we don't expect any negative surprises. But we don't see necessarily a lot of upside on the other side.

Q - Fulin Liang {BIO 21126177 <GO>}

Okay. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

And to your second question or the first question with regard to the development of life business in Switzerland. You know that in Switzerland, we have basically two building blocks on life business; one is individual life and one is the group life. And just to remind last year was in terms of the group life business in 2019 I must say, not 2020, was a particular year because of the one-off effect stemming from the second pillar business that we have underwritten following the exit of s competitor in the market. So -- and with regard to individual life, we are very selectively underwriting new business there. And of course, we do have a back book that is running off, which explains this dynamic. But building blocks, group life as well as individual life are not in runoff. We are managing them very actively, which translates then into the healthy interest rate margin that we have. And obviously, we are doing to underwrite new business that complies with our selective underwriting criteria and the context we are acting in. So it's not runoff business.

Q - Fulin Liang {BIO 21126177 <GO>}

Thank you.

Operator

The next question comes from the line of Peter Elliot with Kepler Cheuvreux. Please go ahead.

Q - Peter Eliot {BIO 7556214 <GO>}

Thank you very much. I have three questions, please. The first one is on the life result, I guess there were a couple of one-off items there. There was the biometric assumption and there was the Belgian reserve release. So, I'm just wondering if you're able to quantify those or if not individually, then the sort of the net impact just to help us understand the underlying result. And I guess, looking forward to '21, all else being equal, given the rise in rates, are we able to sort of hope for a slightly better savings result?

Second question was on asset management and banking. You said there was a one-time investment there. But if I look at the expenses of the segment, they basically sort of seem to be the same as last year. So I'm just wondering are you able to sort of say how much that investment was and maybe give -- help us to how we should think about the EBIT going forward there?

And then finally, I was just wondering if you could share your thoughts on the dividend and the level that you set. Because I mean, if I look at your cash radar on Slide 11 that kind of points to the fact that you could have paid a bit more, even though this was a weaker year than normal. I'm thinking we should probably assume that cash and earnings should probably improve from this level. So, yes, just wondering if you could be a little bit more generous on what your thoughts were.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Peter. Let me try to start and I would ask Carsten and the Matthias to jump in on the one or the other question. If you look at the life result, it is true that interest rates have come down also in 2020. So that has an impact on the saving result. But on the other hand they have come -- they have not been lowering that much as in 2019. So, there was less need to actually reserve. So that balances out. You mentioned the biometric adjustment for the risk result, which has nothing to do with the pandemic, by the way. And you also mentioned the release, given the diversification effect of integrating Fidea and Baloise in Belgium, so I think those are indeed underlying effects. Again, our guidance is very clear. The minimum result in life we want going forward is CHF200 million. That's the minimum. And you mentioned the rising interest rates indeed. Rising interest rates are beneficial for us in terms of reinvestment, of course, in higher yields, but also in terms of reserving.

Asset management banking, I'll leave that to Matthias and Carsten. It's actually -- very briefly, it's we are turning the bank from a regional bank into a national bank in Switzerland. And that has been there, we have been -- we have to actually invest, I would say, low single number million digit. That's the point. On the dividend, I would like to spend a bit more time because I think it's -- our attractive long-term dividend policy is key to us is of the utmost importance. We've proven that in the past with over 20% increase of dividend over the last couple of years and finalizing the buyback in 2020. Of course, 2020 is a special year. And that's why we decided to keep the dividend stable this year. However, if you look forward and that's also what we announced at the Investor Day in October last year, we are planning to increase the cash remittance with 25%, so actually CHF2 billion over a four-year period and to pay out of that cash generated 60% to 80% to our shareholders. So looking forward, I think you can actually make the calculation yourself, no words to be added anymore there. But please, Carsten and Matthias, jump in on the one or the other point that I might have omitted.

A - Carsten Stolz {BIO 6055047 <GO>}

Yes, so EBIT of asset management and banking, in 2020, there have been some one-offs that moved the EBIT. On the one hand, we had lower average assets under management, averaged over the year, which is the relevant basis for the fee income. And on the other hand, in 2019, we had some one-off fee income given the capital increase in the property fund, but also some performance-related fee income in the bank that didn't occur in 2020 and the related restructuring charges somewhere in the single-digit million Swiss franc area to enable as Gert has mentioned to become a Swiss bank, not so much a regional bank. So these trigger the EBIT or these explain the somewhat lower EBIT in asset management and banking. And it's basically the preparation for the further growth in the total assets, which will then relate also to higher fee income in the future.

Q - Peter Eliot {BIO 7556214 <GO>}

Great. Thank you very much.

Operator

The next question comes from the line of Farooq Hanif with Credit Suisse. Please go ahead.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, everybody. Thank you very much for the opportunity. My first question is in the non-life business, so just understanding the breakdown of the margin. So when I look at Slide 20, you have a very-very good underlying loss ratio and a relatively poor versus guidance prior year development. So can you remind us where the two points of COVID impact sit? And then going forward, in the underlying loss ratio, what benefits have there been from frequency? And how should we think about that ratio going forward? And maybe also same question for the reserve release. So that's question one.

Question two is, in the non-life business you have this other line which went up, I know that there were some one-off positives last year in that line. But could you just talk about what is in that number and how we should think about that number going forward as well? And the last question is you've made several investments this year in your ecosystems, for example, quitt. and the other ones that you mentioned. Can you remind us about what you're doing to create an ecosystem by knitting these together? So of course, you can buy different assets and different capabilities. But just how as a user somebody that's renting out properties, for example, how is this presented to the client? And what steps are you taking to sort of integrate these offerings into one ecosystem? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Farooq. Let me also start to answer some of your questions. I think you refer to Slide 20 with the non-life results. It is absolutely true that the underlying loss ratio is very strong. It is clearly affected by COVID-19 claims in the area of 2% of the combined ratio. You also see sort of relief effect in some other lines of business like motor and liability, where the frequency has calm down. It's difficult to actually calculate those positive effects correctly. Actually, saying, you could say maybe half of them, half of the COVID losses have been compensated by positive effects. An example is, in Belgium, the frequency in the car business has come down by 18%, for example. But it's very difficult to quantify them precisely. Again, underlying very strong results.

The prior year loss development is actually based on a case-by-case evaluation of the reserves. So it fluctuates a bit. Last year, it was -- there was a higher prior-year loss development also because of the one-off effect. But we stick to the guidance of 2% to 3% of prior-year loss development which is actually the normal what we would expect. It has been lower in 2020. On the -- I leave the second question on the other non-life lines to Carsten.

On the ecosystems, it is true that we have been investing and accelerating the investments in our ecosystem, Home and Mobility, in 2020 with a number of investments, and of course, as you say rightfully so, the challenge is of course not to have them in parallel, but to actually bring them together. And that's where we have been working on over the last 1.5 years is to really link those services, those additional services to provide easier solutions to our customers. So we're in the progress of building that coherence and the synergies across the investments. But not only that, we're also, of course, linking these innovations, ecosystem initiatives with our core business. Because there's growth in up-selling possible from both ways, from the innovation to the core business and the other side around from the core business to additional innovative simple services in the ecosystems.

Q - Farooq Hanif {BIO 4780978 <GO>}

May I just actually before we talk about other non-life, just come back on the combined ratio. So it seems to me that the 58% underlying still has some negative in it and the PYD also has some sort of net negative with this guidance. So am I missing something in that your outlook here could be quite strong? Or am I missing some effects?

A - Carsten Stolz {BIO 6055047 <GO>}

Well, if you -- Farooq hey, Carsten speaking. You asked the question, where do the COVID losses sit in the breakdown of the combined ratio? And obviously, they are part of the reported losses.

Part of them due to the size sits in the large claims developed in large claims number and the rest, which is below the large claims then sits in the frequency claims. But obviously, it's current year claims. And therefore, nothing of the COVID is in the prior year loss development part. That's for one. For two, we have always said and we stick to this guidance that we estimate 2 to 3 percentage points of positive prior year loss development in whatever you would call a "normal year." And that remains intact.

And third and last, to link the COVID claims of CHF 72 million to the combined ratio logic it translates, if you look at it from the underlying loss ratio perspective into two percentage points of combined underlying loss ratio impact stemming from the CHF72 million, given more or less CHF3.5 billion non-life book. And the your question relating to Slide 19 with regard to the other, that is a mixed bag. There is different elements coming into it, which are not related to the technical or financial result. And examples that I can give you there is in last year we had the integration of Fidea, so meaning 2019, in the financial year 2019, we had the integration of Fidea, which resulted in a bad will. That's one of the positions that come into play there. Project costs can go into there. And that makes it difficult to have a run-rate there with regard to future development. So it is everything else that cannot be attributed directly to the technical or financial results.

Q - Farooq Hanif {BIO 4780978 <GO>}

No, I mean, I guess in other non-life, there's no particular one-off in there that you want to highlight. So maybe just more normal?

A - Carsten Stolz {BIO 6055047 <GO>}

Yes, nothing particular to mention there, yes, I think what's important if you look at the overall way that we are traveling on and that relates back then to the Investor Day, we are currently aiming for a 90% to 95% combined ratio bracket and we're working towards a 90% area in the next strategic phase, which involves cost efficiency and underwriting and all everything all levers that you can play in non-life. Maybe that is putting 2020 into a longer-term perspective.

Q - Farooq Hanif {BIO 4780978 <GO>}

Okay. Thank you very much. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Welcome.

Operator

The next question comes from the line of Thomas Fossard with HSBC. Please go ahead.

Q - Thomas Fossard {BIO 1941215 <GO>}

Oh, yes. Good morning, everyone. I've got two or three questions. The first one would be related to your SST ratio, which, if I'm right, was at just 180% at H1 and which is now above 180%, which seems to be a bit, I would say, small in terms of semester-on-semester movement given trend in the market we've seen in H2 and also capital generation. So maybe you can give us a bit of indication on what have been the moving parts and also potentially what the higher interest rates that we have currently may have as an impact.

The second question will be related to the life business, to the life EBIT and Slide 26. Really, if you could help us to better understand how the policy participation has changed in 2020 compared to '19, and also if you expect to have the ability to keep that policyholders' participation, I would say, rather on the low side going forward? And the third and last question would be related to FRIDAY coming to France. When do you expect to launch operations? And what the targets you're signing to your new venture here in France and maybe what the business plan? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you so much. Thomas. Let me also start and answer some of the questions. But of course, Carsten and Matthias can jump in. If you look at the SST ratio, the market volatility in the first, I would say, three months of 2020 brought indeed to the 180% level, more or less, 170%, 180%. What we have seen afterwards is actually a number of balancing effects. On one side, it is, of course, the market has recovered, to some extent. On the other hand, we have also benefited from the widening credit spreads to actually increase investments in corporate bonds, which, of course, also is on the long term for the earnings very positive but has an impact on SST. And the Athora acquisition in Belgium for example, we financed with our own capital. So there are some actually balancing effects for the second part of the year.

On policy participation, given the market volatility, the policy participation was in 2020, indeed, lower than it was in 2019. But maybe one of the colleagues can add to that. And driving into France and maybe a bit of background there, so I will elaborate a bit more on it. We are very well on track in Germany. So we have doubled year-over-year. The premiums over the last four years, we are over 30 million premiums and also the quality of the book is improving as we speak, so we have better and better cohorts in the quality of the non-life portfolio. Early 2020, we have established our Tech Hub of FRIDAY in Poland. And actually, there, we have been preparing the platform, FRIDAY platform, to be multi-country, multi-product, multi-channel. So that was an investment in 2020. And this has allowed us to go into France in 2021. Expected launch date is middle of the mid of the year, so just before Summer.

Why France? Because it's, after the UK and Germany the biggest market -- insurance market in Europe. It's a market in which direct and digital is not yet so present. But of course, with corona, it will accelerate. It is also a market in which there is no predominant price portal like we have in Germany. So its diversified and direct insurers can play a good role. And French government over the last couple of years has also made it easier for policyholders to switch easily from one insurance to another. So there is much more willingness to change. The target for France is the same as it is for Germany, to become the most loved digital insurer in France. That's the target. Matthias, Carsten, anything to add on questions one or two?

A - Carsten Stolz {BIO 6055047 <GO>}

Yes. If I may, on the policyholder participation question that you asked, the policyholder participation has an attachment point in local results. In 2020, local results have been netting lower. And therefore, there was less to share. And that's the main reason why the policyholder participation has come down. It naturally fluctuates with savings results and depends on the legal environment you are acting in, meaning is there a legal code requirement, yes or no. And that influences the policyholder participation. But the main reason for the lower participation was lower local gap results.

And with regards to the SST, if I may, you had also a question that was referring to SST sensitivity. And on Slide 13, you see how the SST behaves in terms of market risk development on key elements, mainly in also interest rates and equity market shocks. And it shows that even in a combined and fully positive correlated shock that we are still remaining in what we define as our blue zone, which leads us to the conclusion that we are soundly capitalized, maybe this as an adding to your question on sensitivities.

Q - Thomas Fossard {BIO 1941215 <GO>}

Thank you.

Operator

The next question comes from the line of Farquhar Murray with Autonomous. Please go ahead.

Q - Farquhar Murray {BIO 15345435 <GO>}

Morning, all. Just three questions from me. Firstly, just on pricing, I just wondered whether you're seeing any kind of pass through of kind of frequency benefits into customers in terms of pricing, pressure at all in the current markets you've got. And obviously that might differ by geography to a degree. And then secondly with regards to FRIDAY, I mean, how much is the likely outlay you expect over the next couple of years, in terms of building out France? Or has a lot of that already been borne in terms of the platform build that's happened in Poland? And then finally, just coming back to the dividend, you've obviously given us CHF 2 billion in terms of cash remittance plus the kind of 60% to 80% number. And that obviously kicks out a figure that was kind of suggesting a fairly reasonable trajectory of increase. Should we, therefore, regard this year, as you say, kind of special and some degree of catch up on the dividend in terms of getting back to the trajectory you were perhaps on before. Thanks.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you. Let me also again start with answering the questions. Overall, on the pricing environment, what you see is, of course, it is a competitive environment. And you see the car business, given the margins that are still there, you see the new entrants there. So that's certainly a bit under pressure. On the other hand, you have then other branches where the market is hardening, so if you look at more a bigger company risk, if you look at health branches and so forth. So it's always a balancing act. We don't see strong pricing differences as we have from the year before.

Of course, there are some discussions going on, on lower frequency and how should that result in passing some of the benefits back to the policyholders. By the way in Germany, this is a standard procedure. So if actually, there are less kilometers driven and so forth, parts of the premium are already given back. So these discussions are going on, but we don't see a big impact going forward. I just wanted to understand the question on FRIDAY. What is -- what do you mean exactly by outlay or the likely outlay for France?

Q - Farquhar Murray {BIO 15345435 <GO>}

Well, just in terms of when setting up a business, usually there's some degree of kind of initial outlay in terms of investment costs upfront before you actually obviously get the business coming through. So I just wondered whether there's a kind of an asset as part of buildout business plan, whether there's a degree of outlay to be done or whether actually a lot of that is done through the platform that's happened in Poland already?

A - Gert De Winter {BIO 19720616 <GO>}

Yes. I think maybe two or three elements to that. I think that one when we launched the tech hub in Poland, of course, the intention has always been to go internationally. And that's why we have built a platform, which already today is multi-country, multi-product and multi-channel.

So those investments have already been done. Secondly, we, of course, will benefit from the synergies and the experience and the know-how we have built over the last couple of years in Germany. So those synergies are actually transferred, I would say, into France. And of course, you need to adapt to the local market. And that's where we have actually recruited a strong local team of experts, be it in insurance and insurtech, that actually will actually adapt FRIDAY to the local market. And again, entering into a market requires, of course, building up a brand. So those are upfront investments that we will take. To give you an indication, it's actually the start-up cost overall for the first 18 months would be around CHF10 million.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Perfect.

A - Gert De Winter {BIO 19720616 <GO>}

But we benefit a lot from what has already been built, of course. And on the dividend part, indeed, we increased in Simply Safe: Season 2 with 25% our cash remittance of which we will pay out 60% to 80% to our shareholders. Let's say that you might want to consider 2020 as indeed a special year.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. One just brief follow on, the pricing side of things, how does that compare to kind of claims inflation and in particular has there been any kind of disruption in terms of build costs or rebuild costs from COVID that you've seen?

A - Gert De Winter {BIO 19720616 <GO>}

No. We've seen -- actually, overall, we've seen, of course, fluctuations and cycles over the years, given the intensity of lockdown or the intensity of opening up again. So frequency has clearly come down in the April, May period, then has come up to normal again, has been then slightly reduced again towards the end of the year. So it's a bit cyclical, depending on the intensity of the economy, I would say. Overall, if you look at claims inflation, regardless of COVID-19, we see a very stable environment. On one side, in car, for example, with the security features in there you see a lower frequency on the other and which actually impacts the fact that there are less severe casualties, physical human casualties, which is a good point. However, cars becomes also so sophisticated that when something happens the claim cost is usually higher. So it's a balancing out act, but we don't see anything happening on the claims inflation part, very stable there.

Q - Farquhar Murray {BIO 15345435 <GO>}

Okay. Perfect. Thanks a lot.

Operator

The next question comes from the line of Rene Locher with KBW. Please go ahead.

Q - Rene Locher {BIO 1921075 <GO>}

Yes. Good morning, all. So I'm going to just start on Slide 11 on the cash remittance. You have in the spread -- and I'm really looking into cash flow results for many, many years and trying to get a little bit of a trend in cash remittance. And I do hope that I got my numbers right. But when I see like the non-life business has an upstream like 110% of your IFRS net profit, and in life, I was expecting a little bit more. So my question here is, yes, on the trends, and have been any restraints in the local accounts to upstream cash to the holding company? So that was -- that is my first question. And the second one is on, I think, slide 26. Yes, on the life profit by sources. I see that the risk result is at CHF185 million. You highlighted that, that was not the biometric assumption 2020. So my question is, is the guidance of CHF200 million to CHF250 million still valid for the risk result?

And then another question that's more struggling a little bit is this interest rate effect. If I got my numbers right, in Page 120, it was a negative CHF69 million. Now we are at a negative CHF25 million. So that means in H2, you have seen a positive interest rate effect of CHF44 million. And perhaps you could just elaborate a little bit how we should look at this number going into '21, '22. And then just a general question on Germany in the back. So what I'm trying to find out is, I do believe you make investments in Guidewire in Germany. So my simple math is I'm taking the gross number premiums, CHF776 million, the combined ratio, 94.9%. So this gives me an underwriting result of close to CHF40 million. And the reported EBIT non-life Germany is CHF60.5 million. So I'm wondering, is the delta I guess, we've discussed this before with Mike but just a little bit of feel with Guidewhere, where do we stand and how much should we expect in '21, '22? Thank you.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you, Rene. Let me first pick up the question on Germany. If you compare combined ratio 2020 to 2019, then 2019 was a very benign claims year in Germany. That's point one. Secondly, Germany has also been impacted by COVID-19 and closure of some of the businesses for which we have also compensated our clients. So that's certainly part of the explanation on the somewhat higher, but still very solid rock combined ratio in Germany. And indeed, we are investing in Guidewire as the new digital core non-life platform. And that accounts for, if I'm not mistaken, about 1% of the combined ratio. So we're investing there over a three to four year period in a clearly double-digit -- higher double-digit amount in investments, of which some of it is reflected directly in the combined ratio. Going forward, we expect Germany to increase its earnings and also we expect Germany to increase its cash remittance. So that's the point on Germany on life and cash remittance, Carsten, maybe you can elaborate on those two questions.

A - Carsten Stolz {BIO 6055047 <GO>}

Yes, I'll happily do so. So let's start with the cash remittance, a reference been made to Slide 11. And reference also has been made, what you said, Rene, to the segment and segment profits. The remittance has smaller than the IFRS, has much more to do with local accounts because it's basically cash is remitted from the local and statutory accounts more than from IFRS profits. And there's the prudence principles in statutory accounts and the best estimate principle in IFRS. With regards to restraints that was a part of your question, we have not had restraints in the local statutory accounts with regard to cash remittance in 2020.

Now with regards to the composition and trends, what we have put a strong emphasis on since the beginning of Simply Safe: Season 1 is that we do have cash remittance from all major business segments, meaning life, non-life and the asset management and banking area which we have achieved. There is a little bit of movement year-on-year. But what's important is that we are on the trajectory to reach the first CHF2 billion. And what's even more important is that we are getting ready to also achieve the next CHF2 billion in one year less, which is a markup of 25%. And I would expect all business segments continue to contribute to volume development, earnings development and from this perspective then translating it also into cash.

Q - Rene Locher {BIO 1921075 <GO>}

And can I say -- I mean, the reason why I'm asking is, in the normalized business, you mentioned that you have impairments on equities. So, I felt this would also have an impact on the local non-life result. And that's why I'm surprised to see that the upstream was 110%, sorry.

A - Carsten Stolz {BIO 6055047 <GO>}

Okay. It's correct. It's correct that we did have the financial result of the non-life segment has been impacted by the capital market situation. And there have been impairments. But that's an IFRS view. And there is no link to be made between the two, the statutory accounts and the impairment IFRS impairment situation on equities. So, the trend is that we are rising the cash remittance ambition by 25%. I think that's the important trend.

A - Gert De Winter {BIO 19720616 <GO>}

And then if I may go to Slide 26, that was your second question, if I will move. And the first one was related to the development of the risk results and the question was if the guidance of CHF200 million to CHF250 million in risk result is still valid. Yes, it is still valid. As been said, there have been adjustments for biometric assumptions, I would like to stress here that, that has nothing to do with the pandemic and we keep the guidance as set before.

The second leg of your question was relating to the interest rate effect. We did have in this year less reserve strengthening in Switzerland and in Germany. But still, there have been reserve strengthenings, and we've talked about this before on prior occasions because of averaging down mechanisms, for example, that there will be further reserve strengthenings is also in the future if interest rates go sideways or would even start moving up. We had one effect in there that was partially compensating the reserve strengthening, which was in the context of putting Fidea into the Belgium operations, that we could release some reserves that have been redundant due to the merger operations in Belgium. But we will still have interest rate effects moving forward in the life business. And hopefully so because it also means that we are continuously managing the interest rate margin in order to bring the guarantee levels further down and to retain the 100 bps corridor on the interest rate margin in the life segment, maybe to add at this one your question.

Q - Rene Locher {BIO 1921075 <GO>}

Wonderful. Thank you very much.

Operator

We have a follow-up question from Mr.Michael Huttner with Berenberg. Please go ahead

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you very much for the opportunity. Two questions please. CHF200 million target minimum in life, will you update this at any stage, given that in 2020, which seems quite a stressed, challenged year, you were 40% above. And the other question is I wonder if you published or you give guidance on the holding company cash situation. I had a feeling that it's quite strong. But I don't know if I've missed something here.

And then my last question is can you give a little bit of an update in 2016, as you said, I think you transferred the German back book into the center. And so there was no reserve runoff in Germany for that. What are the reserves looking like at the moment? Is it positive runoffs or negative on that book? Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

Okay. Thanks, Michael. To your first two question the CHF200 million EBIT target in life, as been said, it's the absolute lower minimum threshold. And I say this with a twinkle in my eye that I also like to get CHF282 million, I also like to get CHF300 million. So the CHF200 million was really a very low bottom threshold. And we are continuously working on the earnings power of the life segment also moving forward.

So with regard to holdco cash, by definition, because the holding company doesn't have operations in itself, we usually don't have excess cash in the holdco company. We stream up and pay out. But apart from this, the holdco is pretty much by definition not cash holding excess cash. We keep this money working in the operating entities. And therefore, the holdco is not cash rich. And to your third question with regards to medical malpractice book from Germany, which has been for management transferred to the group, you are right. But that is since then developing as expected. And we don't have effects stemming from that book, which is good news.

Q - Michael Huttner {BIO 21454754 <GO>}

Thank you. Thank you very much.

Operator

Last question for today comes from the line of Peter Elliot and is a follow-up. Please go ahead, sir.

Q - Peter Eliot {BIO 7556214 <GO>}

I think you actually either opportunity. Sorry, just to follow up again actually on the PYDs. But I mean, if I look at H2 in isolation, then it looks like there was a small reserve increase. I mean it was only very small. But I was just wondering, are there any parts of the business and the insight to Germany just now is very helpful. But are there any parts of the business that are seeing an increase? Or we just talking small numbers and there wasn't really anything to talk about an H2? That was first one.

And the second one, you're doing very well against most of your key targets, I guess, the only one where you're sort of slightly behind the current run rate is the CHF5 billion in asset management. I'm just wondering, how confident you are on that given the sort of the pipeline and current momentum that you see.

And then the third one, I guess, it's relevant given you mentioned, you've increased your exposure to corporate bonds. Could you just remind us how the capital requirement is likely to develop from those. Because my understanding, different people will see the sort of volatility spike that we saw last year run off more or less quickly depending on the averaging sort of method to be used for. Just to understand, yes, how quickly we might see, yes, the capital requirement fall off there. Thanks a lot.

A - Carsten Stolz {BIO 6055047 <GO>}

I will -- let's first go to the prior year loss development. And your first question there, there's nothing particularly there that deserves mentioning. Actuarial processes tend to be processes that mainly happen at the end of the year, when you do the full-year review of the books. But there is nothing that I am aware of that would deserve mentioning there, so no special effect. And just to remind you with regard to the level that in the prior year, meaning 2019 again, we had a positive one off effect of 2.4 percentage points in the prior year loss development stemming from the sale of a UK, runoff business. And I already alluded to the guidance of two to three percentage points in a quote-unquote "normal year." And with regard to the asset management net new assets, I hand over to Matthias.

A - Matthias Henny {BIO 17600048 <GO>}

So we have set relatively ambitious goal a couple of years ago with additional CHF5 billion of net new assets. And after four years, we have now achieved CHF3.3 billion. Initially, we have, at the margin, underestimated the effort that it takes to start asset management as a third-party business. In the initial phase, that always takes more time to ramp up net new assets compared to an established business. But nevertheless, over the years, we have always increased net new assets. And especially last year, we have accelerated by 50%. So our expectation is that by year end, we will be somewhere between CHF4 billion and CHF5 billion on this net new asset target.

And regarding this corporate bond investment, your third question, I think to make the link to SST, it has had a rather low impact on SST. It was primarily an opportunity to catch the additional spread, the additional credit spread to lock in additional current income. But nevertheless, we don't consider this as a runoff of a portfolio. So it's more the ramp up of corporate bonds that we've been doing for a couple of years, which has accelerated during that high credit spread phase. And it's just part of our strategy to move into asset classes with higher and stable current income.

Q - Peter Eliot {BIO 7556214 <GO>}

Okay. Thank you very much.

Operator

There are no more questions at this time.

A - Gert De Winter {BIO 19720616 <GO>}

Thank you very much to everybody. I would say just let me allow me one minute to recap the three key messages. One, we have a very, very strong core business. Secondly, we are leading in innovation. And thirdly, we are fully prepared to launch with full power the new strategic phase, Simply Safe: Season 2. Many thanks and have a nice day. Hope to see you or at least hear you soon.

Operator

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