Q4 2014 Earnings Call

Company Participants

- German Egloff
- Martin Strobel
- Martin Wenk

Other Participants

- Archeeta Pujari
- Michael I. Huttner
- Peter D. Eliot
- Ralph Hebgen
- René Locher
- Stefan Schürmann

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon depending where you're attending from. Welcome to the Bâloise Group Annual Results 2014 Analysts Conference Call. I'm Celina, 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. Martin Strobel, Group CEO. Please go ahead, sir.

Martin Strobel {BIO 5296838 <GO>}

Thank you very much. Ladies and gentlemen, welcome to the analyst call of Bâloise annual results 2014. We have changed the format of this presentation to better suit your needs. This morning, we put on the Internet the video presentation of the 2014 results. In this session now, I'd like to summarize the highlights of the annual results 2014 and, afterwards, German Egloff, our CFO, Martin Wenk, our Chief Investment Officer, and I will be ready to answer your questions.

Let's start with the key results for the year as shown on slide number five of our presentation. Ladies and gentlemen, I'm delighted to report that Bâloise has posted an excellent set of results for 2014. We earned the best profit in our history apart from the record year of 2007. Our profit went up by around 57% to reach CHF 711 million. This increase is attributable to significant operational improvements. Our strategy is paying off. But the encouraging rise in profit is also the result of extraordinary items. For example, we sold our company in Austria and disposed of the shareholdings in Nationale Suisse and Helvetia as part of our consolidation strategy.

The impact of the operational improvements is particularly obvious in the life insurance business whose profit contribution rose substantially. We optimized the product mix and increased efficiency. What's more, we can bid on the strong level of gains on investments. However, it must be noted that the gains on disposals were primarily reflected in our life insurance segment.

The non-life sector once again proved to be a pillar of Bâloise's success. Thanks to our strategy of continually improving our portfolio, we achieved an outstanding combined ratio of 93.6%. This high margin in our non-life business ensures reliable substantial cash flows. In challenging financial markets, we've achieved an investment yield of 4.1%. We took advantage of our strong balance sheet to further increase our exposure to equities.

Our growth in the target segments was stronger than before. The volume of business rose by 5.3%. These key figures are a sign of Bâloise's sustained operational strength. And so that our shareholders can benefit from this pleasing performance, the Board of Directors will be asking the next Annual General Meeting to increase the dividend to CHF 5.

As part of our effort to actively manage our capital, we are starting a share buyback program, under which we will purchase up to 2% of the share capital, in other words, up to 1 million shares. To further enhance Bâloise's operational strength, we are focusing on generating growth in attractive business segments.

Our strategy of target capital management, coupled with our safety Safety World (04:03) and further efficiency gains will enable us to boost our long-term profitability even more. This will enable us to shrug off the headwinds that our sector and Bâloise, as a company, currently face as a result of the strong Swiss franc and record low interest rates. We are confident about our future level of income and will therefore be able to continue to pursue a consistent and attractive dividend policy going forward.

That was a brief overview. Thank you for listening. And now is the chance for you to ask questions.

Q&A

Operator

We will now begin the question-and-answer session. The first question comes from Mr. Peter Eliot from Berenberg. Please go ahead.

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

Thank you very much and good morning. I had three questions, please. The first one was on the buyback, which is very welcome. I think you put the – I guess the number was slightly less than the disposal gains that you got. It may be that it's in line with the net shareholder proceeds. I'm not too sure, but I was wondering perhaps if you could comment on that and also on why you decided to spread it over two years? And perhaps just to help clarify the timing there; I was wondering if you could talk about how much you expect to do in each calendar year.

Second question was on life earnings. And I was wondering if you could give us an update on the underlying earnings power of the division as you see it. And perhaps how that depends on interest rate moves. I guess things have been complicated by the swaptions in the past that you have in place. And I think before you said that you had good protection down to sort of end 2012 level from the interest rate front, but obviously we're a long way below that now. So, I guess an update would be very helpful.

And then perhaps just a third quick one, Belgium non-life, your combined ratio seems to have been more 100% in both halves of the year. I know Ela was the reason in H1 and some seasonality (06:23). I was wondering if you could perhaps give us a little bit more detail on the H2, what happened there? Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Eliot for the question. I will hand you over for the first question to German about the buyback. German?

A - German Egloff {BIO 4782831 <GO>}

Yes. The buyback, well, actually to the terms and conditions, so the amount on the one side and the period on the other side is just to give us as much flexibility as possible to use market movements. It might, so there is no actual plan at the moment how much to buy back in each year, but it might well be that we are done faster or it really depends on the kind of margin movement.

That was a bit influenced as well by the movements we have seen as a consequence of the decision of the Swiss national – central bank. And so, there you've seen a lot of volatility in the market. And so, I think we should take our time to use market opportunities there. That's mainly the reason.

A - Martin Strobel {BIO 5296838 <GO>}

Now, the life earnings, Mr. Eliot, you asked about what could you expect as the EBIT run rate as – this is how I understood your question.

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

Yes. That's right.

A - Martin Strobel {BIO 5296838 <GO>}

We gave the guidance, it's 200 plus, 200,000 plus, let's say between 200 and 250 (08:02). I think we can stick to this as the run rate, because on the one hand, as you might also see from our improved disclosure here and this is thanks to Marc Kaiser. You see there's a very sound risk result and we are working on improving this further. We have a very stable savings result with a constant margin between recurring income and guarantees of 70 basis points, and we expect this margin to remain constant also in the future. And then you got the cost result, that's now, let's say, has just broken even more just close to zero (08:40), so very positive efficiency improvement sales in the life business.

So we continue now to further improve our life business, so we switch further to modern life products and walk away from the traditional life products. We will continue with cost efficiency measures, we will continue to improve our asset liability management, all these measures, so these are the important factors.

On the other side, we see - let's say lower interest rate environment, so putting this all together, the run rate should remain let's say in the arena of CHF 200 million to CHF 250 million. And this does not mean that - I mean, we disclosed this morning that for this year due to a low interest environment, we expect some headwind here. We gave it in numbers that it's okay to say to be a two-digit million net effect, and this might especially affect, let's say, the life business, so we have to strengthen the reserves. So we have to distinguish, let's say, between a run rate here and some reserve strengthening effects and translation effects. And maybe, German, you can give some more - shed some more light on this. German?

A - German Egloff {BIO 4782831 <GO>}

Just about Belgium, I mean.

A - Martin Strobel {BIO 5296838 <GO>}

Oh, sorry. Yes. Belgium, yeah, German.

A - German Egloff {BIO 4782831 <GO>}

Well, it is really the hailstorm in both halves. In fact, we had a situation that the hailstorm was just shortly before the half-year closing and there was a first estimate in the half year, which was big already. And in the second half, we had e a lot of additional claims reportings. And so, in fact, it impacted both years - both half years. That's in fact true.

On a gross basis, what we had in the first - or in a gross/net basis, what we had in the first half was gross equals net more or less. And in the second half, because it still increased on a net basis, it came down, but on a gross basis it increased. And the other thing is, of course, that the reinstatement premiums for reinsurance was in the second half. So, that was the reason that we had an impact in both half years.

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

Okay. That's great. Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

You're welcome.

Operator

The next question is from Mr. Michael Huttner from JPMorgan.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Fantastic. Thank you so much. From a – you gave the guidance or you reminded us the guidance of life EBIT, and I just wondered whether you could also remind me of the guidance of the non-life EBIT. And then on non-life, also, given that you didn't seem to have much reserve releases net-net in 2014 and you still got to 93.6%, is below 93% achievable or are you sticking to the 93%, 96% target range?

And then another two, one is, I had the impression may be wrong but you were a little bit conservative in the way you calculated your extra reserves in life for low interest rates and other stuff, and I just wondered whether you can talk a bit about your conservatism, how we can think about it. And then the final bit, the duration mismatch, can you say how you calculated what you assumed for group life, whether you assumed the one-year contract or seven-year duration or 20 years or – just to give us an idea so we can compare with your peers. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Mr. Huttner, for the questions. The third and the fourth questions, so this is the how conservative are the life reserves and the duration mismatch, I will hand you over to German Egloff, and the first two, I will answer.

We don't give, I think, an explicit guidance for the non-life EBIT. What we do is, give you some parameters that might help you to come up with the EBIT in your models. One is the target of the combined ratio is, as you well know, 93% to 96%. And, yes, actually there's quite a likelihood that this combined ratio that we will demonstrate in the future might not even be below the 93% to 96%.

So if we get there, then we will talk with you particularly (13:26) about updating the target. For the time being, we stick to 93% to 96%, but there's lot of stuff in the pipeline to further improve the combined ratio.

As you well know, there has been Ela in Belgium, so Belgium will come down again. We had quite many large losses in Germany, but 70% out of those large losses have been from contracts that have already been canceled before the losses appeared, so this is IBNR. So this will fade off in the future. So these are two substantial factors that will help to further improve the combined ratio. Also, if I look at the pricing environment in our market, there's no reason to see why the combined ratios would be harmed.

And one element that we also give guidance is the prior year loss development. Yes, it was a bit lower in the last year, but this was a negative effect from – especially Germany large claims that have negatively affected the prior loss development. I would more see this as a non-recurring event. And so I think there's no reason to not to stick to our guidance that the prior loss development should be about 2% or even a bit higher going forward. So no changes in the quality of the non-life book, actually we have a very high quality book.

I hope that it helps you to get a...

Q - Michael I. Huttner {BIO 21417183 <GO>}

Very much so. Yes.

A - Martin Strobel {BIO 5296838 <GO>}

...feeling on the EBIT for non-life and the reserve releases of the prior year loss development. Now, I would like to hand you over to German to talk about the life reserves.

A - German Egloff {BIO 4782831 <GO>}

Well, I guess, Michael, you're referring to the interest rate effect on slight levels, where you see the CHF 136 million interest rate effects.

Q - Michael I. Huttner {BIO 21417183 <GO>}

That's right. Yeah.

A - German Egloff {BIO 4782831 <GO>}

And in fact – well, two answers I would say, the first one is in the current interest rate environment, the current interest rate trends, you can hardly be too conservative in doing the reserving. That's the first one and the second one, which is probably more important, is that of course there are countermeasures to that as well, which is not only derivatives but as well capital gains. And those are in the savings process.

So if I look at it on a net basis, the effect will probably be lower, because, of course, we are realizing as well fixed interest securities, which are gaining – which have increased gains to a certain extent. So it's not only interest rate derivatives that are helping to counterbalance that. So this is probably the important answer here. And then we had – what's the other one? Duration?

Q - Michael I. Huttner {BIO 21417183 <GO>}

Duration gap.

A - German Egloff {BIO 4782831 <GO>}

So the group-wise duration calculation, that is a hell of a complicated thing. It's certainly not one year, because you could claim that you can cancel the contract, so it takes just one year, and that makes it shorter. But this is certainly not adequate because in reality, that wouldn't work. Apart from that, you have an annuity portfolio, which is running and which can't be canceled. So I couldn't give you just a number, but I know it's quite a complicated calculation, which is as well moving from year to year because that has to do with the contract structure that we have in place currently. The duration gap as such is between 1.5 and two years, I would say.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Between 1.5 and two years?

A - German Egloff {BIO 4782831 <GO>}

Yeah.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Yeah. Okay. Okay. And then...

A - German Egloff {BIO 4782831 <GO>}

It could be that our duration assumption for the liabilities is a bit longer than from other companies.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Yeah. And the 1.5 to two years - sorry, I was into something. Is it just for the life or that's for group?

A - German Egloff {BIO 4782831 <GO>}

That's for the life.

Q - Michael I. Huttner {BIO 21417183 <GO>}

That's for the life. Okay. So overall for the group, it would translate between one and 1.5 years?

A - German Egloff {BIO 4782831 <GO>}

In non-life, you normally have a sort of camelback-shaped pattern, because you have the short-term business which is property mainly, and then you have the extremely long-term business. So in between, let's say, between three and seven, eight years there is almost nothing. But on the other hand, on the liability - on the asset side, we have, of course, our equity exposure is mainly in non-life. And if you're assuming that no duration, the gap is certainly smaller, I would say. Annuities in non-life is, I think, fully matched. It's probably - in non-life, it's probably nil or even a bit negative.

Q - Michael I. Huttner {BIO 21417183 <GO>}

Okay. That's very clear. That's very helpful. Thank you. Thanks very much.

A - German Egloff {BIO 4782831 <GO>}

Thank you.

Operator

The next question comes from Mr. Stefan Schürmann from Bank Vontobel. Please go ahead.

Q - Stefan Schürmann

Yes. Hello. I have two questions. A follow-up question on the life insurance reserve increase, if you could just give maybe a bit more color basically on how much of the reserve increases were based on interest rates, if you had any biometric-based reserve adjustments? And maybe how much of that (19:40) was in Germany and how much also relates to Belgium and Switzerland?

Then second question on the Swiss Solvency Test. I think not much of the insight, could you give us a little bit more color where we stand now compared to a year ago? And then maybe the last question on FX sensitivity, I've seen in the Annual Report that the 1 basis point change would have an impact of CHF 5 million now against like CHF 4 million a year ago. Is this something – has anything changed here in terms of hedging or exposure or why is it a bit higher now?

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, Stefan Schürmann. I hand you over for the life reserving and the SST to German and then for the FX sensitivity to Martin Wenk.

A - German Egloff {BIO 4782831 <GO>}

For the life reserves, there is – they are mainly interest rates driven. On the biometrics side, it has even movements in the other direction, if I'm right. And I would say, from the whole of the reserves, about two-thirds is from Switzerland and about one-third is from Belgium. So, no Germany impact here.

And for the SST, it's actually not comparable to last year because certain parameters and perhaps changed as well in between. But in principle, it's quite clear, if Solvency I goes up in this situation, then interest rates are going down, SST is going down as well. So just from the economic environment it suffered.

Q - Stefan Schürmann

Yeah, that's clear. But you couldn't basically give a hint how much it's going down?

A - German Egloff {BIO 4782831 <GO>}

No.

Q - Stefan Schürmann

Okay.

A - Martin Strobel {BIO 5296838 <GO>}

And now, Martin, on the FX effects.

A - Martin Wenk {BIO 4193573 <GO>}

Yes. Well, it certainly had nothing to do with a change in hedging strategy. We have maintained that in 2014. We have even increased a little bit beginning of this year. So we are now completely hedged in euro and, to a large extent, in the U.S. dollar. So, if you see there a different figure, it's purely (22:03).

Q - Stefan Schürmann

Okay. Thank you.

Operator

The next question comes from Mrs. Archeeta Pujari from Goldman Sachs. Please go ahead.

Q - Archeeta Pujari {BIO 18878126 <GO>}

Hi there. Hello, everyone. Three questions from my side. First of all, a follow-up question on the life underlying EBIT question, which was asked previously. The guidance of CHF 200 million to CHF 250 million, can I just clarify, is that including the sort of macro and FX and interest rate effects going forward or is that sort of underlying mesh of these things?

Secondly, on the property and casualty claims ratio, excluding sort of prior-year movements and large losses, the underlying claims ratio is very, very favorable. Is that going to be sustainable going forward or should we expect some deterioration in underlying claims ratio?

And the third question is can you give an update on German restructuring, how much restructuring costs were inside 2014 results? Will there be any more restructuring costs going forward and when can we expect cost savings to play through? Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much. I will answer the three questions. Your first question was on the EBIT guidance of CHF 200 million to CHF 250 million, and what I'd like to distinguish is on the one side, let's say, the run rate of the EBIT - of the life EBIT if we have, let's say, a stable interest rate environment as it is today. And then we see on one side improvements, on the other side, we see low interest rates. Putting all this together, I would expect the EBIT to be in the arena of CHF 200 million to CHF 250 million.

And as you well know, our balance sheet is a very conservative one. And regarding life reserves, we have a very mark-to-market reserving policy. So this means if as it happens in January this year, interest rates fall, we take all the bad news that comes from this fall into account immediately to strengthen reserves accordingly for the future of Bâloise to be, let's say, well-reserved under this new circumstances. And this leads to, let's say, a quite substantial one-time effect as you already see in this process of profit analysis in our disclosure in the presentation.

So, we will see – given – assuming for just a minute that things would stay for the entire year to 2015 as they are today. I mean nobody knows if this is true, but let's say, assume this for a second, we will have a negative impact in the size and sales of midsize CHF 2 million figure. And this will – especially, let's say, expected in life business, but let's say, that the run rate then should come back to something in the bracket of CHF 200 million to CHF 250 million because we have other measures that we put into place to improve the life business further and so on and so on.

Q - Archeeta Pujari {BIO 18878126 <GO>}

Can I just follow up on that one quickly?

A - Martin Strobel {BIO 5296838 <GO>}

Yeah.

Q - Archeeta Pujari {BIO 18878126 <GO>}

This negative double-digit million figure, is that supposed to be a one-off impact rather than an ongoing impact for however long low interest rate persists?

A - Martin Strobel {BIO 5296838 <GO>}

It is a mixture. It is a mixture; mixture meaning that we have many effects right now. We see low interest rate level and it's not only the levels also, let's say, the structure of the interest rate curve, the changes on an hourly basis, so to say, is really how to say what the impact is. But then also we have translation effects. And translation effects, they are, let's say, constant. The earnings from Germany, the earnings from Belgium, the earnings from Luxembourg are lower right now due to the FX effect.

So this means the reserve strengthening part, this is one of the elements of the CHF 50 million. This is more a one-time character. The translation is more, I would say, a two to three-year thing that we have to work against this measure so they (26:21) improve measures and so on and so on. So what we give you as a guidance is the net effect, taking all this into account how will the result of Bâloise effected into 2015 assuming that everything stays as it is today.

Q - Archeeta Pujari {BIO 18878126 <GO>}

Okay. Got it.

A - Martin Strobel {BIO 5296838 <GO>}

Then prior-year loss developments, yes, I share the same view. The claims ratio development is positive and I'm very happy about this actually because we did a lot to get there. Our target customer management that we now pursue for more than a decade, I think we can call ourselves (27:02) really the owners of one of the best insurance portfolios in non-life in Europe. We are quite proud about this. And we're working hard to further improve the quality of our non-life book. So, yeah, let's look forward to what the future brings, but we're quite positive about the developments of the claims ratio going forward.

And now, your third question was Germany. We had – there have been quite a substantial block of restructuring cost into 2014. It was net after policyholder, after tax in, let's say, about CHF 14 million, CHF 15 million, so substantial. Actually, it was a bit higher than we planned because we have been faster in implementing our restructuring measures.

I'll just give you figure why one can see that we are faster, we said in – when we started this optimization program in Germany that we would reduce the FTE figure by 400 FTE till end of 2017. And out of these 400, the 1st of January this year, already 280 have been gone. So they're not longer on the payroll of Bâloise Germany. So we are quite ahead of schedule. It goes much faster than we expected, let's say, half a year ago or something.

So this means, on the one hand, we have quite a high cost load last year because this piece – people that left the company, there is quite an impact on social plan cost. We're talking about Germany. So this means going forward we will see a lower portion. And if you ask me what was the net cost effect of the optimization program this year, so this is either a high-single digit or very low two-digit figure.

So the costs are going down. We now have more, let's say, the IT cost portion of the restructuring. The FTE cost, let's say, are more or less gone now. It's more that we have to invest in IT systems to further improve the processes at Bâloise Germany. And this has a minor effect, let's say, on the cost basis of Germany. So, yes, we should see, going forward, an improvement in the German result.

Q - Archeeta Pujari {BIO 18878126 <GO>}

Okay. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Yeah.

Operator

The next question comes from Mr. René Locher from MainFirst. Please go ahead. Mr. Locher, your line is open.

Q - René Locher

Can you hear me? Can you hear me?

A - Martin Strobel {BIO 5296838 <GO>}

Yeah.

A - German Egloff {BIO 4782831 <GO>}

Yeah. We hear you.

Q - René Locher

Okay. Yeah. Good morning, everyone. Just to follow up on Germany, please, because I can still see there's a huge gap between EBIT Germany of CHF 63 million and EBIT Belgium of CHF 142 million. And I remember that you always mention that Germany should achieve more or less the same EBIT as Belgium. Now, if I got it right, you mentioned quite a block of reserves of 40 million to 50 million (30:44), right? And I was wondering how much of the cost savings or, how can I say, of the positive synergies of this €40 million per annum is reflected in 2014 already. So that's the first question.

And the second one, just for clarification, you're buying back the shares and I expect – or I guess you're canceling the shares afterwards. And then last, on the investment income, if I'm right, the current investment income is down by 4% year-over-year. So, well I understand that reflects little bit the low interest rate environment, but perhaps Martin Wenk could give us a little bit of guidance going forward? Yeah. Go ahead, go ahead. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you, René for the questions, I will answer the first about Germany and the cancellation of the first and then I'll hand you over to Martin to talk about the investment. So Germany, we're talking about the EBIT and there's quite a gap. You're absolutely right, but the targets remain unchanged. Let's say, Germany, it should move up to the magnitude, let's say, of Belgium. If that (32:19) – please take into account one thing that you might underestimate looking at these figures.

Belgium had a very large claim, Ela, and a high payback through the – from the reinsurance part. And this is a positive for EBIT in Belgium. And Germany had the many, many smaller claims, and here the reinsurance company did not back that much, so the structure of the large claims is a huge explanation factor for this difference.

And the other element, of course, we ask, okay, do we stick to the €40 million cost cutting base? Till end of 2015, we stick to this, so we're very – have to be fully on track to reach this. But given that we have still investments in the restructuring program, I would say that that's hard. I'd say more or less half of this can be seen in the result 2014 and the big chunk and together, let's say, a more decent structure of the large claims hopefully should lead to a much smaller gap, let's say, between Belgium and Germany. Then cancelation of shares. Yes, the purpose of the share buyback is to cancel the shares.

Q - René Locher

Okay. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

And now, Martin, on the investment income.

A - Martin Wenk {BIO 4193573 <GO>}

Okay. You're right about the recurring investment income that it came back. As you see it on slide 15, by the way, you also have the direct yield on page 42. I would assume that – for that year, we would have a further drop between 5 basis points and 10 basis points. So don't forget that the drop in interest rate last year was much more pronounced than this year, even though in Switzerland, we are under the impression of this central bank interventions and so on. But overall, in the world, the coming back of the interest rates were much, much more visible last year than this year so far.

Q - René Locher

Okay. Can I get really two follow-ups? First all for Martin Wenk, I'm always surprised to see this direct yield for investment properties, it's 4.4%. I'm wondering is this gross or net yield. Yeah, perhaps you can quickly comment a little bit on the Swiss real estate market because, well, most of the insurance companies are generating quite healthy returns in this asset class.

And then for Martin Strobel, I have heard a lot of negative comments or cautious comments from management of these insurers mainly for the globalized business, Switzerland, right? And I fully understand with the quite high guarantee. And just wondering perhaps you can explain a little bit what has to change or what do you expect, I mean, just a big picture from politicians from regulation and that you, again, would, yeah, be more than happy to write a little bit more through that business segment. Thank you.

A - Martin Wenk {BIO 4193573 <GO>}

Yeah. Okay. I'll start with the easy question. Okay. So the 4.4% is net. Don't forget the net yield of real estate portfolio basically is driven by the valuation. So if you have a high net yield that means that you are conservative in valuation compared maybe to some competitors.

What you have to look at is the yields on the new investments and there, of course, you see a certain drop in achievable yields where, if I commented on the market as such, I have to say it's more on the smaller objects that you see that because up to, let's say, CHF 10 million to CHF 15 million, you have a lot of competition also from private investors now that see those yields very favorable against the zero yield you have in Switzerland.

If you go through larger projects and you develop them yourself, there is still, let's say, a healthy market, and you can achieve something between 3.5% and 4% net for new investments while the 4.4%, as I said, is the bulk.

Q - René Locher

Okay. Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Now, coming back to the group life business, actually there are, let's say, at least two angles to the business. One angle is, for me, and this is actually the most important part from my point of view is what can we do to further improve the business. And we pull all the levers to improve the – let's say the earnings power of the group life business and you might find details in the sources of profit. And then this is, let's say, disclosed so that you'll see a very high quality risk result actually hitting at benchmarks. I have the impression that we have – let's say, I have among the highest margin here in the group life in Switzerland. This is due to the fact that we focus more on, let's say, younger customer structures for the companies we have designed for underwriting.

Costs are going down, so we're improving in the cost process. That is very helpful in this environment and the savings process is quite stable. This is not least to what Martin does with real estate and all this, so we're very – this high quality recurring income that it's good.

Now, what we do further is we came up with a two, let's say, two new product offerings. One is that we focus much more on the risk part of the group life business, so where we are risk reinsurer. And here, I have very good news actually. The premium of this business grew by 7% last year in the Swiss business whereas the market has been flat. So the market was zero and we grew by 7%. Meaning that we are getting now substantial market share in this highly, highly, highly profitable, let's say more non-life character group life business. So the mix further improves via now entering this market we did not really touch before.

The other element that is now up and running is we have now a semi-autonomous foundation. We call this Perspectiva. And here again the asset risk is not on the balance sheet of Bâloise, but it's a semi-autonomous foundation. So only the cost process and the risk process are on the balance sheet of Bâloise. And again, here, we had a very good start; more than 100 companies already in this foundation. And going forward, we expect to see in this good business now a mixture not only full coverage group life business, but also pure risk business and this Perspectiva foundation business. So follow the same strategy as we have done in the individual life. Walk away, let's say, from the traditional business towards the more modern products that have a less – that have a lower capital consumption.

Then you asked about the political environment. My impression is that especially the low interest rate put a big, big pressure on the two-thirds of the market in Switzerland that is dominated by the autonomous or semi-autonomous foundation. And you can open up any newspaper you like and there you will find a person – people from the (40:33) being the union – not union, but pension association of this subpart of the market. We then say, okay, we have to adopt the minimum guarantee. We have to adopt the conversion rates. And so, I feel, also talking to politicians in Bern, I feel a big, big pressure to really adopt the political parameters. This is now further strengthened by the first pillar in Switzerland where today there was a news on the front paper – front page of (41:07) the first pillar has turned to the rest, so they're making structure losses now and here again calling for structural changes.

So I think it's a very good environment right now that the politicians in Bern will act accordingly. And, let's say, from the one hand, further accelerate the so-called (41:30) 2020 program, so maybe accelerate this, meaning lowering the conversion rate. And I am really – I hope for and I'm convinced that the (41:43) of the Swiss government will have – will take a decent decision on the minimum interest rate guaranteed.

Their decision is due in autumn this year. And given all the public pressure, I'm sure they'll lower it. I don't know to what level but, as you know, the insurance industry asks for 1% or 0.75%. You see in other international markets, for instance, in Belgium and Luxembourg right now that the group life guarantees come down exactly in this arena.

So given the pressure, given the European development, I'm quite confident that now the parameters are either changed more quickly than expected or in the case of the interest rate guarantee, that will be a wise decision, let's say, in autumn this year. But you never know what happens in politics, so this is just my personal impression.

So putting all this together, we are quite happy to (42:36). We see strong growth with technology innovations in the risk process business. We have the innovation with Perspectiva. Both have quite a very good, actually very good market traction, so we move to the modern part of the business, at the same time, quite a pressure to change the parameters in the right direction. So, actually I think it's not so bad (43:02).

Q - René Locher

Okay. Thank you.

Operator

The last question comes from Mr. Ralph Hebgen from KBW.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Yes. Hello. Good morning. Ralph Hebgen from KBW. Just two things. I'd like to understand the dynamics of your life EBIT result a bit better in 2014. To some extent, you've already basically answered the question on a longer-term basis by clarifying what the long-term guidance is. If I look at the EBIT and I'm looking at slide 12 here, the savings result is very importantly up at CHF 581 million.

Now, obviously, that will have been supported by some of the one-offs. But without taking you through the details of my calculation, I'm getting to something like CHF 400 million even if I exclude the most obvious one-offs. And that would still leave an increase of 44% – 40% year-on-year. So, my question is what – could you comment on what drove these very strong dynamics also in the context of the policy holder share, which I believe is down quite materially. And clearly, also in the context of realized capital gains, which are shown to be equally strong on slide 15? Thank you very much.

A - Martin Strobel {BIO 5296838 <GO>}

Thank you very much, Ralph. I'll hand you over to German.

A - German Egloff {BIO 4782831 <GO>}

Yes. It is indeed that realized capital gains went up CHF 270 million more or less versus previous year. And as we heard some - on the life side, some, I don't know, CHF 150 million or something is from this special effect. So there is still a substantial increase of capital gains on the life book. And that's where I answered some questions before to the - that the impact on interest rate is not only hedged by derivatives on - so, interest rate derivatives, but also by capital gains to a certain extent and that's exactly what happened this year. The other thing is, of course, that in the savings result, you have the increase of the valuation in real estate is included there as well and this is, of course, not recurring.

Q - Ralph Hebgen {BIO 6297020 <GO>}

And Can I just follow-up? The increase in valuation of property you said?

A - German Egloff {BIO 4782831 <GO>}

Yeah.

A - Martin Strobel {BIO 5296838 <GO>}

Martin Wenk, yeah?

A - Martin Wenk {BIO 4193573 <GO>}

Yes. That's right.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Sounds like an unrealized capital gain. Sorry, I'm just confused.

A - Martin Wenk {BIO 4193573 <GO>}

No. Under IFRS, it is actually - it goes directly into P&L. So it's the same as a realized capital gain. And we consider it kind of a natural hedge to the interest rate situation, because it goes both ways, of course, but it's always - it has a negative correlation to the interest rate effect on the liabilities. So in this regard, it really has a positive effect because it is a natural hedge.

And as I explained before, we do that in a very conscious way. We are not really overdoing that. And you see that basically in the yield of - the net yield of 4.4%, if you would have increased the valuation too much you would see a drop in net yield, of course. So in there you have some correlation and some hint how that works.

Q - Ralph Hebgen {BIO 6297020 <GO>}

And that element presumably is part of the other category shown on slide 15?

A - Martin Wenk {BIO 4193573 <GO>}

That's correct.

A - Martin Strobel {BIO 5296838 <GO>}

Yeah.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Would you be able to identify how much that was?

A - Martin Strobel {BIO 5296838 <GO>}

CHF 100 million gross.

A - Martin Wenk {BIO 4193573 <GO>}

Yeah, that was CHF 100 million, that's correct.

A - Martin Strobel {BIO 5296838 <GO>}

Gross on that.

A - Martin Wenk {BIO 4193573 <GO>}

Gross.

Q - Ralph Hebgen {BIO 6297020 <GO>}

CHF 100 million?

A - Martin Strobel {BIO 5296838 <GO>}

Yeah.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Forgive me to have on this (47:26), but that still leaves CHF 260 million just in the other segments the swing of CHF 360 million year-on-year.

A - Martin Strobel {BIO 5296838 <GO>}

Well, all of...

A - Martin Wenk {BIO 4193573 <GO>}

Yeah, derivatives are in the other...

Q - Ralph Hebgen {BIO 6297020 <GO>}

Right. Okay. And the share element of CHF 217 million, that includes CHF 150 million I think you said from the sale of assets.

A - Martin Wenk {BIO 4193573 <GO>}

In total, it was CHF 160 million, but part of it went to non-life. Of our share – part of all share went to non-life. CHF 130 million.

A - Martin Strobel {BIO 5296838 <GO>}

CHF 130 million. Yeah.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Fair enough. So, in other words if we normalize for these items, then we get back to the run rate which you identified previously of CHF 200 million to CHF 250 million.

A - Martin Strobel {BIO 5296838 <GO>}

That should be the case. Yeah, that's legit.

Q - Ralph Hebgen {BIO 6297020 <GO>}

Okay. Thank you very much.

A - Martin Wenk {BIO 4193573 <GO>}

Thank you.

A - Martin Strobel {BIO 5296838 <GO>}

Gentlemen – sorry, ladies and gentlemen, any more questions from your side?

Operator

There are no more questions from the phone.

A - Martin Strobel {BIO 5296838 <GO>}

So then thank you very much for your interest in Bâloise. Thank you for attending the – this conference and I wish you a good day. Thank you very much. Bye.

A - German Egloff {BIO 4782831 <GO>}

Bye.

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.