Q2 2018 Earnings Call

Company Participants

- Carsten Stolz, Chief Financial Officer
- Gert De Winter, Group Chief Executive Officer
- Marc Kaiser, Head-Corporate Communications & Investor Relations

Other Participants

- Daniel Bischof, Analyst
- Frank Kopfinger, Analyst
- Jonny Urwin, Analyst
- Michael Huttner, Analyst
- Peter D. Eliot, Analyst
- René Locher, Analyst
- Stefan Schürmann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning. Welcome to the Half Year Results 2018 Analyst Conference Call. I'm Iruna, the Chorus Call operator. I'd 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 Marc Kaiser, Head of Corporate Communications and Investor Relations. Please go ahead sir.

Marc Kaiser {BIO 15056036 <GO>}

Good morning, everybody, and a warm welcome from Basel from our end. We are really happy to present to you today the half-year results 2018. With us here in the room is Gert De Winter, CEO; Carsten Stolz, CFO; and Matthias Henny, CIO, who will also later would like to answer your questions.

Now, I would like to hand over to Gert De Winter.

Gert De Winter {BIO 19720616 <GO>}

Thank you, Marc. Good morning, everybody, also from my side or from our side. For about two years at the Investor Day in October 2016, we launched our Simply Safe strategy. Simply stands for making things much easier for our customers and our partners in terms of products, processes and communication, and Safe stands for going beyond insurance, working at – in alternative business models in order to make our customers more safe.

The business philosophy of Simply Safe is that highly motivated employees generate very satisfied clients and that this brings success and growth. These are also the three goals we set forward to reach by 2021, cash CHF 2 billion, 1 million new customers and one of the most successful employers.

Our Simply Safe strategy is on its way. We're very confident we are getting there and that's also – we can also actually observe that in this half-year results. We confirm our strengths, and we progress very well in terms of the strategic intents and objectives. A personal note, it has never been so exciting to work together with all the colleagues in Bâloise in this time of change and innovation.

So we are very satisfied with the 2018 half-year results. Very solid P&L from CHF 270 million. We're growing in the strategic important non-life segment, and we keep our combined ratio at a very solid level. Our capital strength is huge, also confirmed by Standard & Poor's with a rating upgrade to A+ with stable outlook.

Germany for the first time is in the band of the combined ratio that we want, which is 96% to 98%. And as I already said, the innovation, energy and dynamics are huge at Bâloise every month. We release a new innovative insurance solution or we make a partnership or we invest in things. And I think to be honest and to be quite clear, Simply Safe is really – we're actually addressing, anticipating the challenges of the future with our Simply Safe strategy.

Having said that, I would like to hand over to questions, and we would be very glad to answer them.

Q&A

Operator

The first question from the phone comes from the line of Peter Eliot with Kepler Cheuvreux. Please go ahead, sir.

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

Thanks very much. The first question, I guess, was on earnings. And you've acknowledged, I think, before the guidance that you've given before in the life earnings that's listed out of date. I'm just wondering if you're in any better position to update us on that after another half year of very good results but that's for the life division.

And I guess, the non-life, the prior year development was 5.5% when you strip out the reserve strengthening you did in the medical malpractice. So I'm just wondering whether that's a sustainable level because it wasn't far off what you had last year.

And the second question, Gert, you commented in an interview recently that it's really all about cash flows rather earnings now. So I'm just wondering if is there any an update you can give us on the cash flows in 2018 or what we should expect.

And finally, I guess, when we look at the capital and solvency – a number of other insurance companies have given us guidance on target ranges and on what they consider to be an appropriate capital structure. I'm just wondering whether you can give us any comments there on what you think Bâloise should look like and at what point, if you can't comment specifically so at what point we might get that addressed in the future. Thank you very much.

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

Thank you, Peter. I'll try to answer the first two questions and Carsten will take the third question on capital and solvency position. If you look at our life earnings, well, the interest environment has, of course, become more stable in 2018. And that's why, we did not have to reserve as much as in the previous years and even some releases were possible because there were substantial reserving in the past.

Underlying, I think, the CHF 200 million guidance we gave at the Investors Day in 2016 were always meant to be a sort of a bottom – not – hitting the bottom actually. So given the difficult interesting environment that was actually the CHF 200 million we put forward. If you look at today, I think and if you look at last year, we achieved in 2017 an EBIT of around CHF 300 million in life, that would be I would say the expectation also going forward.

If you look at the non-life in the reserve release, of course, a lot of that was also triggered by the reserving in Germans or the medical practice. So I think we don't observe any particularity. So we think it's a very stable portfolio and also moving forward. If you look at the cash update, we don't give indeed updates on our three targets half year. We always take into account the seasonality. So we do that on a yearly basis. But we are very confident that we will actually reach the CHF 2 billion cash by 2021, and that we will be again at a run rate in 2018 of slightly over CHF 400 million.

For the third question, I'll hand over to Carsten.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. Thank you, Peter, for your question regarding capital. We have given the last SST quota and a context of the full-year results 2017 where we've been at 262%. I think largely we're still in the blue zone with regard to that yet. We need to know that we are on the way to the standard model especially in the Swiss SST model in context both for the individual entities, as well as for the group, and therefore, we haven't the model as well as the calibration yet. We don't know exactly where these numbers will turn up, which is something that holds true for the entire industry.

So we still have model volatility. But given where we are and given how we are steering the firm, SST currently is not a limiting factor with regard to distribution considerations. And Gert already alluded to the CHF 2 billion which can go into investments into the future into dividends and share buybacks. So, on that end, SST is not a limiting factor.

And we'll continue with our considerations both on the dividend side as well as the execution on the share buyback. More to come, I think, in the context of next year's SST reporting when we will then by definition report under whatever FINMA considers to be the appropriate framework by then.

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

Okay. Thank you very much. Are you able to comment on your capital structure at all or in terms of your use of debt type, et cetera?

A - Carsten Stolz {BIO 6055047 <GO>}

No, the capital structure at the moment is as it is. And I think we're going to have a senior debt bond becoming due in spring next year. But, basically, on the capital side, we have pretty much all options available and full flexibility.

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

Okay. Thank you very much.

Operator

The next question from the phone comes from the line of Michael Huttner with JPMorgan. Please go ahead, sir

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. And I had lots of questions, but one remark which you gave in your comments, there's now huge capital strength. That doesn't – it seems to be different from what's – the way you answer the questions just before for Peter Eliot, which was very cautious and guarded in saying we're just on track really. Don't worry, but things are fine. And then suddenly, you say huge capital strength, and I'm kind of thinking are these two different companies? So, I just wondered if you could comment on that and say this huge capital strength, how will it benefit shareholders because it's not obvious to me at the moment. So this is my first question.

And the others are more detailed. In terms of the German reserving, so we've had negative surprises in this year and, I think, last year as well and maybe the year before, which costs I think somewhere between CHF 80 million and CHF 100 million. I just wondered how much more there is to come. Clearly, it's harder to close off these one-off portfolios than I thought.

The second is on digital. So, clearly, you're investing a lot and that's a good thing and you're growing a portfolio. Just wondered if you could share your views on the payback of these investments, how quickly these investments will actually lead to profit for shareholders? On the life side, there's reserve release of, I don't know, CHF 28 million or CHF 29 million, and I just wondered if you could say where it was and where the flexibility is going forward and how much these various buckets you have could release more?

And finally and this is more personal obsession of mine. Maybe you could touch on the trends in motor insurance. I think that's what Peter Eliot was asking in terms of the big underlying reserve release exceed the German addition and how you see the motor trends developing and the reserve releases and bodily injury claims or whatever. I'm sorry for such a big catalog of questions. It's just that it's such a good opportunity. Thank you.

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

We'll try to pick all of these questions up, Michael.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

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

I'll hand over – the first one was again about the capital strength and you're being a bit confused with the message we were sending out. So I'll hand over to Carsten again to give a more precise answer.

A - Carsten Stolz {BIO 6055047 <GO>}

No, Michael, thank you. I didn't want to confuse by no means. Maybe I had to warm up a little bit in speaking. No, but beyond – I say this with a twinkle in my eyes, the capital strength we have is unquestioned. We have on the back of the capital strength also received the raise in Standard & Poor's rating to A+ with stable outlook. And when I was referring to capital strength, then I link this to basically two angles.

One is the internal view with regard to our ability to upstream cash from the operations, cash being capital and stemming from the earnings power we have, and therefore, delivering on what Gert said in the beginning on the CHF 2 billion cash target. So that's one angle that I link our capital strength to.

And the second is if I look at the capital position we have in many frameworks, the S&P framework, the SST framework and so on, nowhere capital is a binding restriction for thought. That's why I allowed myself to talk about huge capital strength. But maybe I shouldn't have used the adjective huge.

I just wanted to make one word of caution because of the ongoing substantial modeling efforts going on in in big building blocks of our balance sheet and business portfolio. And that's why, I was cautious on that side because until we haven't received the binding instructions from FINMA on how to go about it, we don't know what the outcome will be and the field test conversations to us and calibration considerations from the regulator are still going on. And obviously, this is ultimately in their full duty and they will decide about it. Yes, I have no doubt that whatever comes out, everything I have said before will more or less be remained unchanged. So I hope that puts into perspective the tone of my voice and maybe the adjective I have used.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay. Thank you.

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

Maybe I'll jump on to Germany and the question about Germany and reserving levels. Last year, we were indeed hitting the medical liability by a number of huge large claims. We have analyzed the reserving level in Germany not only for that portfolio, but for the whole portfolio intensively, internally and externally. And at this point in time, we assure that we are reserved appropriately.

Of course, if you zoom in on the on the medical liability, this is a long-term portfolio and you can never exclude that there are still levels there will be some volatility in this portfolio, but we have put it actually in the run-off unit on the group level where we have the necessary expertise so that the management in Germany can concentrate on executing the strategy as we explained in October 2016 at the Investors Day.

And digital initiatives, what's your third question, Michael? Indeed, you see every month a new innovative solution, a partnership, or an investment coming up. So we're in a very high dynamic of innovation in digital initiatives. Of course, all these different initiatives have to come to maturity. So it's still a bit early to say, hey, what have they really brought from a financial point of view especially also because a lot of cross-selling with the core of the business happens with this new initiative.

What we can say is that we're winning new customers with these initiatives everywhere. We have Friday, the mobile insurer in Berlin, 2017, over 15,000 customers. We have our younGo suite in Switzerland which is a particular insurance suite for younger people which has generated over more than 10,000 new customers over the last 12 months. We have our single-unit insurance also in Switzerland, with more than 15,000 customers won over the last six months and the growth rate per week is actually increasing. So in terms of winning new customers and developing them into our A and B customers, the strategy is working with the digital initiatives. Reserve release in life was I think also a question.

Q - Michael Huttner {BIO 1556863 <GO>}

Yes, please.

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

Yeah. The interest environment, as I said, has stabilized in the first half year of 2018. In the past years, we have reserved quite a lot, so we have substantially strengthened our life reserves. And with a stable interest environment or even a slowly rising interest environment, we can actually release some of the reserves we've built in the past. So increasing interest rates are positive for us from a reserve release in life from a P&L, from an investment point of view. So actually, Belgium has been the country where we have released quite some reserves. But, on the other hand, we have strengthened reserves in Switzerland. So it's always give and take. Net, it has influenced the EBIT in life by CHF 38 million positive.

And then, your last question was on motor insurance and trends. Stable, I would say, for what you see is that frequency is stable. If you look at the larger claims with all the safety devices in the cars and so forth actually go down a bit. And our releasing reserves has been over the last years at the rate of 2%, 3% per year, and we believe that this is sustainable and going forward.

Q - Michael Huttner {BIO 1556863 <GO>}

And just on the last point on motors, so large bodily injury claims coming down and implicitly because it sounds like the smaller parking claims are going up. Is that net positive?

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

Yeah. The net is more or less stable, I would say, because you're right. In terms of physical injury, actually, with all the safety devices, they go down. So that's positive from a general point of view. But as cars become more and more sophisticated, even the small damages actually cost a bit more. So they equal out a bit. So the good news is that the bodily injuries go down.

Q - Michael Huttner {BIO 1556863 <GO>}

And what proportion of your portfolio is bodily injuries and what proportion is damage? I can see the data from various countries completely different. I was looking into Italy. Italy is 80% MTPL. It looks like Scandinavia is 80% own damage. And I just wondered what it is for your portfolio, which is Switzerland, Belgium, and Germany.

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

Let me hand that question over to Marc Kaiser, Michael.

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you.

A - Marc Kaiser {BIO 15056036 <GO>}

We will get back to you on that.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay, cool. Lovely. Thank you. Okay. Thanks a lot.

Operator

The next question from the phone comes from Daniel Bischof with Baader Helvea. Please go ahead, sir.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah. Thank you and good morning. Three questions from my side. And the first here is on the Swiss non-life business. Last year, Bâloise is still restructuring some of accident and health businesses. I felt this process will come to an end in 2017. Could you explain what happened with Swiss non-life business in the first half? I think there were some changes on the distribution side, but growth was still, let's say, bit on the lower end. So what's going on there?

And secondly, sorry again, on the capital strength, maybe a bit from a different perspective, I'd be interested to know where you see enough capital deployment opportunities organically or inorganically in the current environment or at which level you would consider additional payouts to shareholders?

And then, lastly, on the life side, just slide 19 here, if you could talk a bit about the moving parts, some you have explained already. The decline on the savings result, is that simply because of low realized gains or were there any other effects and the risk result on the other hand improved a bit more than your soft (00:20:58) guidance? And then also lastly, the cost result was a bit weaker. Any comments here would be helpful.

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

Let me pick the first question, Daniel, and I think Carsten will actually pick up the question two and three on the on capital strength and the sources of profit in life. In the Swiss non-life business, so we have actually also moderate growth in the separated market, which is I think a very good news. Your question about accident and the health business, It's true that it's still a market we look at and we watch because it's – we did some cleaning up of the portfolio and re-underwriting of the portfolio in the past years. However, this market has become a bit more technical and the fact that we have a slight growth in this business is actually due to the fact that we increased premiums given the underwriting. So that's actually what happened there.

On the distribution model, what we piloted over the last two years, we have actually rolled out beginning of January of this year, which is what we call the omni-channel strategy, which means that the customers are no longer owned by a channel, but the customer chooses how to interact with us and all the channels work together, meaning, agents, be it direct, be it the call center and so forth. So they all work actually together. And that's quite big change in the Swiss market. And we are the frontrunners there in terms of really deploying this omni-channel strategy. Overall, stable, profitable, non-life Swiss market.

A - Carsten Stolz {BIO 6055047 <GO>}

Yeah. Regarding your second question on capital deployment, I go back to the CHF 2 billion target that we are pursuing. We had CHF 415 million cash remittance in 2017. At the moment, everything points to the direction that we will be able to confirm this level of cash remittance for 2018.

Given the dividend and the share buyback that we've executed so far in the first half of this year, with the dividends around CHF 260 million flowing back to the shareholder and around CHF 120 million from the share buyback, we have returned nearly CHF 400 million to the shareholders in the first half of this year. And obviously, the second layer is investing into the strategy and into new bets.

So I think given the cash remittance that we have and given all angles with regard to investment, dividends and buybacks, there is plenty of deployment opportunities with regard to use of the CHF 2 billion cash remittance until 2021.

Then your question was on the profit by sources analysis from the life segment, what has happened there. You see a savings result that was lower in comparison to the first half of 2017. One of the major reasons here was that we had to realize less capital gains, not the least to put additional reserves especially in the German business according to the (24:35) dynamics.

The second part of the equation which is the reserving is not visible under an IFRS profit by sources analysis, so therefore you only see the one side of the coin. And this explains a large part of the lower savings result in the first half of this year.

On the risk results, we are sticking to our expectation that the risk result for the full year will be around CHF 200 million to CHF 250 million. And on the cost side, we don't see any substantial effect or trend. So, if we pull all this together, it's been said before, the CHF 200 million bottom guidance that we've given in the context of the Investor Day is too cautious in current environment. So we think that a target area of CHF 300 million for the life EBIT for 2018 is a better ballpark figure.

Q - Daniel Bischof {BIO 17407166 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Jonny Urwin with UBS. Please go ahead, sir.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi. Good morning, all. Thanks for taking my question. Just a couple, please. I just wanted to dig into the German medical malpractice book a little bit. Apologies if I missed – if these questions are repeating. I missed the very start of the call. So, firstly, can you give us the size of the reserves now for that German med mal book? And could you also give us the duration of the book? And I guess where do you believe your reserve on the best estimate range now for that specific book? I wouldn't normally ask you to disclose this level of detail on a specific book, but given the consistent deterioration we've seen, I think it would be helpful.

And then secondly, the carve-out of that book into run-off unit, is it just the help that the German management focus on the new business in the front book rather than have to manage legacy? Is it to do with presentation so we can see the progress of that book more clearly? Or is there another reason that you're thinking about a divestment or a reinsurance arrangement? Thank you.

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

Well, if you look at the medical liability in Germany, what we've done is an intensive review internally and externally of all reserves, not only the medical liability book. And we are sure that we are reserved adequately. So that's for the whole book. What we've also done in the first half year if you've seen that is actually reserve strengthening for this medical liability of about over CHF 45 million gross, so we originally reserved this book. How long will it take? How long – there will be some volatility in this run-off book that is clear at probably around 7 to 10 years. So it's long-term business, so it will still linger on to some extent.

What we have done in separating this business and completely exiting this business and in actually addressing it as a run-off unit on the group level is because we already have for a long time a run-off group practice, which is specialized with the necessary expertise. So actually it is, on one side, enabling the German management to focus on the strategy execution away from industry into private customers and SME business and actually to have the specialized experts here in headquarters actually managing and executing this run-off in a good way. That's actually the decision we took.

Q - Jonny Urwin {BIO 17445508 <GO>}

I guess, just to follow up on that – on the reserving adequacy, we've heard that comment before that you're comfortable with the current reserving of the book and you think it's adequate and then this further deterioration. I wonder if you can just give us some more comfort via either anecdotal evidence or some hard numbers around the best estimate range.

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

Well, actually, so the amount we put in in terms of the additional reserve strengthening in the medical liability is best estimate.

Q - Jonny Urwin {BIO 17445508 <GO>}

That is best estimate.

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

Yeah.

Q - Jonny Urwin {BIO 17445508 <GO>}

So you're not reserving with a specific buffer over best estimate for that book?

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

No. It's a best estimate reserve strengthening.

Q - Jonny Urwin {BIO 17445508 <GO>}

Okay. All right. And can you give us the overall size of the reserves now? Just for the med mal book?

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

We don't disclose normally the reserves by branch, so that's difficult to answer.

Q - Jonny Urwin {BIO 17445508 <GO>}

All right. Thanks.

Operator

The next question from the phone comes from the line of Stefan Schürmann with Vontobel. Sir, your line is now open. Please go ahead.

Q - Stefan Schürmann

Yes. Just two questions. One is to follow up on the reserve adjustments in life. You mentioned that there was the reserve strengthening in Switzerland. If I take an old estimate, I think it was around CHF 100 million. Maybe could you give some more insight here of how much was relating to the individual on the group life?

And second question, just a very small one. I didn't find the net new money on the asset management side, maybe some elaboration on that side as well please?

A - Carsten Stolz {BIO 6055047 <GO>}

Well, the net new asset is CHF 354 million. That compares with CHF 405 million for the total of 2017. You can actually find that number in the presentation on page – just a second – page 26 on the left hand side. You can find the net new asset number.

Q - Stefan Schürmann

Okay. And were the assets responsible for the inflows? Can you maybe...

A - Carsten Stolz {BIO 6055047 <GO>}

That's the net new assets – that's the inflows.

Q - Stefan Schürmann

Yeah. But what kind of basically assets did produce that inflow? Is it fixed income or?

A - Carsten Stolz {BIO 6055047 <GO>}

It's mostly multi-assets products primarily our product Perspectiva, which has been sold quite successfully in the recent past.

Q - Stefan Schürmann

Okay. Yeah. Thank you.

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

So, Stefan, with regard to reserves in Switzerland and the reserves strengthening in Switzerland, we have done reserve strengthening for the entire book in Switzerland in order to bring the interest requirement further down. That was one of the major reasons why if you look at the interest rate margins that we disclosed on slide 20 contributing to reducing on an overall level of 7 basis points, the book I think with regard to further detail, I'll transfer you Marc and his team and they'll get back to you.

Q - Stefan Schürmann

Okay. Okay. That's helpful. Yeah. Thank you.

Operator

The next question from the phone comes from Frank Kopfinger with Deutsche Bank. Please go ahead, sir.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Yes. Good morning, everybody. I have two questions. My first question is a follow-up on Jonny Urwin's question regarding the German run-off unit. For me, it was unclear whether your preferred strategy now is an internal rundown and you keep it over also the sale of the run-off unit could be or portfolio could be an option?

And then, secondly, on the life business, if interest rates were stable now from here on, should we expect a further positive interest rate development or would you still further strengthen reserves, for example, in Switzerland, which would lead to a negative effect?

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

I think in the German run-off decision that we took, again, it was to enable the German management to focus on executing the strategy away from industry into private customers and SME.

And as we have this run-off unit already on the group level is to use their expertise to actually have a solid run-off business. So that's the idea behind. I think towards the future, I think different options are possible including a potential sale of this book of business, but it's too early to say now. I think we first have to go into managing the run-off in an appropriate way.

In terms of life and the interest environment, if interest would remain stable or increase slightly, it would clearly have a positive effect for us, one on potential reserves release which we have strengthened massively in the past; in terms of also recurring income, of course, on new investment, in terms of P&L.

So, indeed, it's – I think we have seen in the first half year that depending on the situation, depending also on the local situation, you can have some reserve release or you can have some reserve strengthening, which is required. Overall, a stable or a slightly increasing interest environment would be very beneficial for Bâloise.

Q - Frank Kopfinger {BIO 16342277 <GO>}

Okay. Thank you.

Operator

The next question is a follow-up question from Mr. Huttner from JPMorgan. Please go ahead.

Q - Michael Huttner {BIO 1556863 <GO>}

Fantastic. Thank you so much. And I have three questions. The first one is you pointed out for 7 bps on page 20, and if I multiply that by your life reserves in Switzerland, which is CHF 26 million, I get an answer of CHF 18 million, 1-8, of reserve strengthening, so I wondered if that's roughly the calculation I should be doing?

The second is on the total cost of total investment in these investments projects, I just wondered if you could give a total figure and maybe how it breaks down between an investment in like a start-up and in an ongoing business, and how much is in the combined ratio so far?

And then, on the medical malpractice, I'm not sure it's very fair, but I remember in Zurich in 2012 or 2013 had a very significant addition through medical malpractice or hospital claims and they pulled out of that business. Now, just wondered, your portfolio, is this effectively the Zurich book, which you took over back then? It's just out of curiosity to see the moving parts. Thank you.

A - Carsten Stolz {BIO 6055047 <GO>}

I take the first question on slide 20. The 7 basis points reduction that you see here is, first of all, for the entire life book. So it's not only Switzerland, it's the entire life book. And obviously, it's also the year the run-off of the book policies come into maturity. So there's a mixture of elements in it. The thing that I wanted to say is that part of the reserve strengthening in Switzerland in order to get the interest rate requirement down is also reflected on this. But that's page 20 is group perspective. And therefore, you cannot directly calculate back from the Swiss reserves to these 7 basis points.

Q - Michael Huttner {BIO 1556863 <GO>}

Okay.

A - Carsten Stolz {BIO 6055047 <GO>}

But, again, as I said also before, the IR team can come back to you as we said.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely. Thank you.

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

Maybe on the investments in digital initiatives, I think what is important to say is that we actually consider those initiatives on a case-by-case basis. That means if an idea, if an initiative, if an investment makes sense, then we do that. So we don't have an overall budget where we say, well, we're going to invest that much in digital initiatives. It's on a case-by-case basis that the business case has to make sense. I think also digital is certainly not only about technology, I think it's really a change of mind, a change of behavior in the customer, and it's a change of mind in our culture to actually deal with digital.

Digital is by far not a technology thing only. If you would name a number, I think if you look back at our digital initiative and it also depends on how you define digital, of course. Investing in our core business and our core IT systems to make them more agile and to be – to make them more easy for the customers are also digital investments. I would say run rate of investment is CHF 150 million more or less per year, but again evaluated on a case-by-case basis.

And the third question, the medical malpractice. If you look at the portfolio we have, it's a pretty – one, it's a pretty small portfolio that we still have. We started writing medical liability in the mid-2000s, so 2005, 2006. There was indeed a big shock in 2012 with Zurich. We did not take over that portfolio at all. Our portfolio is much, much smaller. And actually over the last years, we stopped writing new business.

And in 2016, 2017, and 2018, we exited from everything. So that's actually what happened over the last year. So, since the early 2010s, we actually re-underwrite a lot and we exited the whole medical liability. But we still have to deal now with the run-off of that portfolio.

Q - Michael Huttner {BIO 1556863 <GO>}

Lovely. Brilliant. Thank you so much. Thank you.

Operator

The next question comes from René Locher with MainFirst. Please go ahead.

Q - René Locher

Yes. Good morning, all. Just a quick one on Germany, I remember that you were guiding for a German combined ratio of 96%, 98% in the medium term now in H1, 96.4%. So my question is how sustainable is this?

And perhaps you can also comment on your business mix in Germany. As far as I know, one-third was commercial business, two-third was retail business. You have shown a little bit of growth in the German book. That would be my first question. Just the second one, we have discussed this already, but realized capital gains are more than CHF 100 million lower year-over-year. And, yeah, I was wondering, of course, it's hard to quantify, but perhaps you can give just kind of a – for guidance what we should expect for H2. Thank you.

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

Thank you, René. I think if you look at Germany, the combined ratio target we set was 96% to 98%, and indeed, we achieved that in the first half year. If you look at the business, it's solid. So if we don't have big catastrophes or events in the second half year, we are very confident that we'll remain at this level, 96%, 98%.

The underlying quality of the portfolio is good, so the private business that we are writing more and more has a claims ratio just below 60%. So that's solid, that's quality, and that's sustainable. And if you look at the execution of the strategy, so away from high-risk industry business in which we only took portions of bigger contracts into private customers and SME business, I think we are seeing clearly growth in the business in private customers so we increased it by 5% in the first half year.

So we are generating a lot of new customers in private business based on two elements, working together in a very simple solution with brokers, which generates standard commoditized, high-volume business. That's one. And secondly, our medallion strategy, which is if we actually release a new product bid in non-life or the life, we always want to be in the top three of the comparable site. And this brings, of course, a lot of new customers. So we're clearly decreasing our exposure to industry, and we're clearly increasing our success and business mix in private customers and SME. So the strategy is working.

Q - René Locher

Okay. Thanks.

A - Carsten Stolz {BIO 6055047 <GO>}

On the realized capital gains, I can add that there has been a decrease compared to first half year of 2017 although basically in 2017, the number has been rather high since we had to undertake a very strong resource strengthening on the life side that was partly triggered by legal requirements, especially in Germany with the (42:26). And so capital gains have always to be seen in the context of these reserve strengthenings especially in the life business. So given outlook, that really depends on the interest rate environment. In P&C, it also, of course, depends on the market environment. So it's difficult to give a clear outlook for the rest of the year.

Q - René Locher

Okay. Thank you.

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

If there are no further questions, then I would actually close it here. Many thanks for your attendance and the questions. I think with the half-year results, we have again proven to build further on our strengths. And with Simply Safe strategy, we're actually building the future of Bâloise. Thank you very much.

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.