Q4 2015 Earnings Call

Company Participants

- Paul Norton, Chief Financial Officer
- Ralph-Thomas Honegger, Chief Investment Officer
- Stefan Loacker, Chief Executive Officer

Other Participants

- Daniel Bischof, Analyst
- Jonny Urwin, Analyst
- Peter Casanova, Analyst
- René Locher, Analyst
- William H. Elderkin, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, good morning or good afternoon. Welcome to Full-Year Results 2015 Conference Call and Live Webcast. I'm Sarah, 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. Stefan Loacker, Group's CEO. He will now be joined into the conference room. Thank you.

Stefan Loacker {BIO 15157193 <GO>}

Ladies and gentlemen, it's now 11 o'clock, at least in Switzerland, and we would like to start on time with our annual media and analyst conference, this time looking into 2015, a year which was very intense for everyone in Helvetia because of the integration efforts that we had around Nationale Suisse and Basler in Austria. I'm very happy now to give you an update, both on the financials, then on the integration process, and last but not least also, a certain perspective for our future which we call the new strategy helvetia 20.20. I will be helped in doing so from Paul Norton, side our CFO, who will go through all the financials of the full year's numbers 2015, which then will be wrapped up by a strategy outlook from my side, after which my colleagues, including Philipp Gmür, our CEO Switzerland and Ralph Honegger, our Chief Investment Officer, will be also available for the Q&A session. But for timing reasons, this time, are not presenting actively their parts.

Let me start by looking into slide number four, which gives you a first snapshot on the operational business development in the reporting year 2015.

As you have already seen, we have reported a pleasing increase in our underlying earnings of 4% to CHF 439 million. This improvement was primarily driven by the non-life segment which grew by 22% to now CHF 332 million. This is certainly no surprise as it was largely driven by the consolidation and the large non-life volume that we have received both from Basler in Austria and from Nationale Suisse in Switzerland and three other countries. But also, it was significantly good net technical performance that helped us to achieve these results.

In addition, you have probably also seen it already. We have first notable synergies, which helped us on the cost ratio side which again was contributed to the underlying earnings. Also, on the life insurance side, we have reported an increase profit of CHF 176 million. It has been increased by 16%. Only the results of what we call other activities has decreased significantly from the previous years. We will go through that in more detail later on. But it was mainly driven by higher expenses in our internal group reinsurance which covered losses mainly from our foreign entities which were not ceded to the third-party market. And it was also driven by currency losses which we had suffered around the 15 of January last year.

The integration on the other side of the two acquisition is progressing very well. Overall, we have already generated synergies in the amount of CHF 45 million which is, as you probably know, which is certainly more even – much more than we had originally planned for the first year after the acquisitions took place.

Also on the volume side, the story is mainly driven by the acquisition. Generally speaking, we have reported a double-digit growth rate in original currency of 11%. Paul Norton will go through the details in a minute.

All in all, this solid and good business development allows us to continue our attractive dividend policy in the next step, which means that the board of directors will propose their shareholders meeting to increase our dividend from CHF 18 to CHF 19 per share.

From the numbers to the integration, setting on slide five. As you have seen already in our interim report last September, we have been progressing really fast in the integration, both of – for Nationale Suisse entities and Basler in Austria. We have more or less completed all the transaction elements including the legal mergers in most of the countries now in the year 2016, which was also followed by an operational integration on the product side, on the IT side, on the org chart side, and on the process side as well.

So, generally speaking, I think that 2015 already saw a large decrease of implementation progress, in Switzerland, probably, we just have the last third ahead of us. And in the other foreign markets, we are also progressing very far. So generally speaking, with the end of 2016, we are largely done with this integration. Probably a couple of remaining IT migrations will lead us into 2017 although on the customer side, on the process side, this will be more or less the final year.

As you have seen this fast progress and that leads me to slide six, has also allowed us to be faster in terms of synergy realization. Synergies are driven from staff reductions as well as non-personnel cost savings. As you can see on the staff side, we have lowered our head count roughly by 400 FTEs as compared to the situation where the two or three companies including Basler in Austria were separate. Some of these roughly 140 employees are attributed to our exit from the Belgian market, so certainly we do not count these FTEs anymore. But the larger part is structural redundancy that we have already achieved both in Switzerland and also in the foreign markets.

We have a certain movement against staff (8:58) because we are also investing in our future, so we have a couple of new jobs that were created, need for future topics like digitalization, IT, SAP or be through in-sourcing of functions that were previously given to external parties, mainly within Nationale Suisse. We have also generated non-personnel cost savings of CHF 18 million already fully phased in the results in 2015 which were in particular achieved in the areas of IT, logistics, marketing and the corporate functions.

So, overall, these CHF 45 million are clearly ahead of our plans that we had for the first year, and they also make us certainly confident that finally, we will reach or at least at 100% or even a bit more, our full targets which come up to CHF 130 million in the next two years or three years.

With that, I would like now to give over the presentation, give over the floor to Paul Norton, who will lead you through the financial figures.

Paul Norton {BIO 16145125 <GO>}

Thank you, Stefan. Ladies and gentlemen, also from my side, welcome to this analyst conference for the financial year 2015. I'd like to give you some more information about the year's results. As you know, we've moved to what we call the underlying basis which neutralizes the special effects from the acquisitions and gives a better view of the underlying performance over a period of time for the next two years. There will be – we'll present that basis into the end of 2017.

We completed the acquisitions of Nationale Suisse and Basler on the 20 of October and the 28 of August 2014, respectively. And the numbers for 2014 have been included from those dates onwards. I mean that you do have differences and comparability between 2014 and 2015.

If you look at slide eight, results by the business area. We have what we considered to be rather convincing underlying earnings of CHF 439 million, it's an increase of 4% on the previous year. This was due to a large extent of the acquisitions both the Nationale Suisse and Basler Austria in 2014. Against us were lower interest income and exchange rate effects of the Swiss National Bank's regime (11:38) to lift the minimum exchange rate against the euro in January last year. These affected growth were measured in Swiss francs. We increased the result in the non-life business to CHF 332 million. That was 22% up on 2014. And the major improvement came from the volume contributions of the two acquisitions, plus an improved technical result. All the non-life units achieved the combined ratio of below 100%.

The life business came in at CHF 176 million, 16% higher than the previous year. This growth in profit has driven by a good risk result and lower expenses in Switzerland and Spain for additional reserving rate (12:22) to interest rate movements compared to the previous year. The contributions from other activities at minus CHF 69 million was considered to be lower than the minus CHF 2 million in 2014, and I'll come back to that later.

We now move to the segment result on slide nine. As we announced when we published the half-year results, we have changed our segment reporting structure as of 1 of January 2015. Our Group operating segments now consist of Switzerland, Europe, Specialty Markets and Corporate. This chart reflects the Group's new positioning, and we've amended the previous year's figures accordingly. By the way, as additional information, the Europe segment is detailed in the Annual Report into the underlying market units, so you have enough information to fill your models.

Currency effects triggered by the collapse of the euro against the Swiss franc affected the contributions in Europe, Specialty Markets, and Corporate to the Group result. The Switzerland segment, which is basically the Swiss country market, again, proved its credentials as a stable foundation for the Group by processing (13:32) a profit contribution of CHF 365 million and a growth rate of 28% in 2015.

Europe comprised with the market units of Germany, Italy, Spain and Austria. The segment result for Europe was down 3% to CHF 98 million, but this was solely due to currency effects. The result actually increased by 10% when measured in the original currency.

The result in original currency also rose in non-life business due to the earnings contribution from Basler Austria and the reinsurance structure. The life was now 14% higher than in 2014, mainly because of improved risk results.

Specialty Markets includes the business lines marine, engineering, and art in a specialty lines of Swiss and international market unit, the French market unit is specializing in marine, insurance and the globally active reinsurance business. The segment result of Specialty Markets was CHF 43 million, which was 11% higher than in 2014. All the units in the segment contributed to this improved performance.

The Corporate segment includes the Corporate Center and group reinsurance. In addition to the financing companies and the holding company, its contribution results of minus CHF 67 million, fell short to the previous year's figure of minus CHF 3 million. This resulted from a weak result from group reinsurance, currency losses relating to the scrapping of the euro peg in January 2015 and the planned financing costs for the debt instruments which we raised in connection with the acquisition of Nationale Suisse, and I'll give you more on that later.

If we continue with the growth in business volume on slide 10. In 2015 year, the Helvetia Group achieved the business volume of CHF 8.2 billion, which is an increase of 11% over the previous year in original currency. This mainly resulted from the acquisition of Nationale Suisse and Basler Austria. Our non-life business was a growth driver with increase of 35% in original currency.

In the life business area, the volume of investment linked insurance solutions and deposits increased by 5% overall, while traditional insurance solutions declined. This resulted in overall decrease of 4% in the life business.

The Swiss country market posted the biggest growth rate by segment with an increase of CHF 584 million or 13%. I will return to that later in the next slide. The anticipated positive acquisition related effects were also apparent (16:17) in the European segment which posted 5% growth in original currency.

In the non-life business we achieved a 19% increase in premiums by original currency in Europe. All the market units in this segment posted pleasing double-digit growth rates in original currency. Life business, on the other hand, decreased by 12%, measured in original currency. This was mainly due to lower traditional life business volumes in Italy and in Germany which the improvement in unit linked products and deposits could not offset. All other market units were able to increase or at least maintain that business volume compared to the previous year.

In the Specialty Markets segment, we also achieved a 29% increase in volume over 2014 in original currency. Specialty Lines Switzerland/international market unit was the principal growth driver due to the first full year consolidation of the former Nationale Suisse business. Active reinsurance also posted an impressive performance with 16% premium growth resulting from targeted diversification by region and business lines, as well as the selected expansion of existing business relationships.

With that I'd like to turn to Swiss home market on slide 11. With the acquisition of Nationale Suisse, Helvetia strengthened its strong top three position in Switzerland as a leading Swiss all lines insurance company. In non-life business, we increased premium volume by 73% to CHF 1.4 billion.

As I've already mentioned, this is mainly due to the acquisition of National Suisse. The main growth drivers were motor and property insurance and the newly added accident and health portfolio. All sales channels contributed to this growth. The most important sales channel in Switzerland in 2015 was once again Helvetia's own sales force. However, Helvetia was also able to generate satisfying growth in the online sales channel to smile.direct. smile.direct once again earned top marks in customer satisfaction surveys in 2015. Helvetia is, therefore, already very well positioned in this strategically important online sales channel segment.

Business volume in life business remained around the prior year level in a consistently challenging low interest rate environment. In individual life business, premium volume increased by 7% to CHF 951 million, whereby the main contribution came from the full year consolidation of the former National Suisse portfolio. The guarantee plan is demonstrating a positive trend in the sale of modern insurance solutions.

However, overall, Helvetia was not able to build on the growth from prior periods. Extraordinarily low interest rates made it practically impossible to present customers with products of similar appeal to those of previous years. Although sales of the second tranche product (19:33) were again very strong, they were not able to compensate for the short fall in the first half of the year. Demand for full insurance solutions remain consistent in group life business. As a result, we achieved growth of about 3% in regular premiums, which are important to for sustainable growth.

However, the regular premium growth did not compensate for decreasing single premium business in 2015. So group life business fell by 3% overall. We've said the lower single premium volumes, as part of our strategy, are being very selective about our new business in this low-interest rate environment.

So if we'd like to move to slide 12 and to the combined ratio. The net combined ratio improved over prior year by 1.4 percentage points to 92.1%. The net claims ratio fell by 0.2 percentage points due to improved net claims experience, which is also underpinned by the reinsurance structure. At 29.4%, the cost ratio was 1.2 percentage points down on the prior year. This was partly due to realization of notable synergies. All the market units achieved a combined ratio of below 100%.

If we move now to slide 13 to the life business. We can see that the operating result fell by CHF 37 million from the prior year level, mainly driven by the two principle earning sources, the savings result and the risk result. The risk result improved. However, the savings result fell mainly due to revaluation of bonds to market value as a result of the acquisitions. Just to emphasize this profit by source is not on an underlying basis, it's on a IFRS reported basis.

Profit before tax on hand was up CHF 39 million or 25%. There were two influences here. Reserves strengthening was lower overall during reporting year and the prior year was impacted by the one-off amortization of goodwill in Italy.

If we move to slide 14, on embedded value and new business margin, we can see that the Group's embedded value was CHF 3.2 billion at the end of 2015, which corresponds to a CHF 217 million or 7% growth over the prior year. The life units acquired in the second half of the prior year, so that's the life business Basler Austria and also Nationale Suisse, were only included at the end of 2014 to the extent of their adjusted net asset value. So they were not fully modeled in the embedded value.

In this year, the new portfolios and all the burial insurance in Spain were modeled for the first time and included as all components in the 2015 embedded value. All of these adjustments increased embedded value by CHF 209 million as of 1 of January 2015.

Embedded value was CHF 8 million higher on 31 of December 2015 compared to 1 of January 2015 as operating profit was higher on the back of more favorable cost assumptions and a positive contribution of new business.

There were headwinds on the economic front as a decision by the Swiss National Bank to scrap the euro floor resulted in a sharp decline in investment yields in Switzerland, and negative exchange rate differences with the EU units. Dividend payments in the first half of the year also reduced the shareholder value of the life insurance portfolio.

The new business volume was down in 2015 and Switzerland (23:25) took a conscious decision to reduce its sales of full insurance solutions for the occupational pensions, the second pillar (23:32). And in the foreign markets, new business volume fell, the most capital-intensive traditional savings products. The value of the new business written in 2015 declined from CHF 26 million in the previous year to CHF 23 million because of the smaller volume in new business. And in Switzerland due to the considerably lower interest rates on new investments relative to 2014.

In the foreign markets, however, the value of new business rose year-on-year despite the lower volume of new business. The first full consolidation of the profitable burial insurance in Spain also contributed to this development.

As a consequence, the profitability of the Helvetia Group new business based on the development of the volume and value of new business, improved slightly from 0.8% to 0.9% in the reporting year. First, the impact of lower investment returns in Switzerland was compensated from one of the prior units – from the foreign units.

If we look at slide 15, which deals with our direct yields and guarantees in the life business. Direct yields fell in Switzerland and in EU countries as a result of the lower interest rates. Nevertheless, the interest rate margin increased in Switzerland. This was closely linked to the adjustment of the guaranteed interest rate (24:54) the second pillar, occupational pensions, retirement assets on 1 of January 2016 from 1.75% to 1.25% and a corresponding adjustment to extra mandatory rates, which have already been reflected in the average guarantee rate calculation. Because that decision was taken in October, we already anticipate that in the calculation.

We expect the yields, investment yields, will continue to fall as in recent years, meaning, the expected future returns will, therefore, also fall further, with the margins stabilizing at approximately at the same level as in 2014. However, it must be borne in mind the average interest rate, which Helvetia actually will have to meet in future to cover its liabilities, will also fall. That is because maturing contracts with high guaranteed interest rates are being replaced by lower guaranteed interest rates, we have extra capital (25:52) additions to the reserves.

If we look at slide 16, we can see the results of the other activities by source. As I mentioned earlier, I'd like to talk to you more about these results. The contribution fell from minus CHF 2 million to minus CHF 69 million in the year-end review. This is mainly attributable to the technical result for group reinsurance which fell by CHF 41 million. This was impacted, in particular, by unfavorable claims experienced on the foreign portfolio of the – from portfolios of the former Nationale Suisse companies which seeded many claims for group reinsurance as a result also of their reinsurance structure.

As a result, the current restructuring of these unprofitable portfolios and the completed and planned adjustments to the reinsurance structure, we do expect the group reinsurance will not be impacted the same extent in future. We expect this to be effectively a one-off.

Alongside the decline in the technical result of group reinsurance, gains and losses on investments decreased by CHF 14 million compared to previous year, which can basically be attributed to the SNB decision to scrap the euro peg in January 2015. Moreover, we did not obviously have a Nationale Suisse dividend this year which we had in prior years.

Finally, the financing costs for the bonds that we've raised in connection with the Nationale Suisse acquisition (27:27) full year for the first time. Corporate costs stayed at roughly the same level as in prior years because of the achieved synergies whereas the Nationale Suisse (27:38) proportionately included in the prior year.

If we look at investments on slide 17, current income in 2015 came to CHF 988 million which was CHF 5 million lower than in 2014. There are two reasons for this. The depreciation of euro and the current investment income earned in euros was a bit less in Swiss francs than in the previous year. And in addition, persistently low interest rates weighed on investment income.

Direct yield came out at 2.2% against 2.5% in 2014. This was mainly a result of the lower terms on the new investments, the reinvestments. In addition to current income realized in book gains amounted to CHF 117 million. This came from gains in equities and through bond sales, mainly due to the liberate switch of the bond portfolios through lower euro yields to currently more attractive U.S. bonds.

In total, the investment result recognized in the income statement was CHF 1.1 billion, CHF 170 million down on the very good, excellent, in fact, 2014 performance.

In the wake of extraordinary interest-driven increase in the previous year, unrealized gains in equity declined by CHF 370 million. The decrease was mainly due to slightly higher interest spreads and once again the weaker euro. Performance was in line with the market at 1.6%. A final point worth mentioning is that we earned CHF 79 million on investment linked insurance solutions for our customers.

On slide 18, you can see the investment result broken down by asset class. Just under two-thirds of the current investment income of CHF 988 million comes from bonds and mortgages which contributed CHF 557 million and CHF 89 million, respectively, in absolute terms. Dividends account for CHF 60 million and investment property CHF 237 million.

Gains and losses on investments were CHF 117 million whereby earnings on equities, bonds and property were affected by currency losses. The developments in non-realized losses in equity came from the previously interest rates and spread trend. Valuation margins on the bond portfolio fell by CHF 312 million.

The lower half of the table shows the return on new and recurring investments. Over CHF 5 billion in total reinvested or newly invested in 2015, just under 80% of which was allocated to bonds, primarily the new BBB corporate segment, U.S. dollar bonds and convertibles.

We were thus to get rather negative rates in Switzerland to some extent. Nevertheless, we also had to contend with higher hedging costs to cover our foreign accountings prices. Otherwise, the funds were mainly invested in equities and mortgages. In mortgages, Swiss life insurers were able to offer attractive conditions due to their long-term liabilities. Direct yields or new investments – reinvestments totaled 1.8%.

Slide 19 brings us back to acquisition-related temporary special effects. Our outlook up until 2017, which we announced (31:20) conference a year ago, is basically unchanged. I would nevertheless like to emphasize that these are approximate indications and individual positions can still change.

We exceeded our 2015 forecast regarding synergies due to the very pleasing progress of integration. We achieved synergies of CHF 45 million, mainly from Switzerland, the Corporate Center in Austria. As a natural result, the integration costs in 2015 year was CHF 75 million, placing them above the expected range as well, but in line with the synergies. We are well on track to achieve our synergy targets and even slightly exceed them.

Financing cost booked in the reporting year came to CHF 13 million, and the amortization of intangible assets under IFRS of CHF 60 million, which were at the previously announced level, as well as the additional planned depreciation due to the revaluation of interest-bearing securities to market value of CHF 43 million.

If we move to slide 20 on changes in equity, we could see that even after the two acquisitions, Helvetia still enjoys a solid capital position. The SST ratio by the end of June was within the target range and by the way, just as an (32:40) we are usually half-a-year delayed because of the time we needed to produce the SST. So we'll refer to June 2015 and that was within the target range of 150% to 200%.

With CHF 5.4 billion, the Group's equity capital was 5.4% down on 31 December 2015 compared to the year-end 2014. This was due to a reduction in unrealized gains and losses recognized in equity for the AFS financial investments, currency effects from the recalculation of the equity of the European market unit, and the higher value of pension liabilities due to lower interest rates in Switzerland.

I'll bring my presentation to an end looking at the dividend on the next slide, slide 21. Here you can see the excellent full year result and sustained balance sheet strength allows us to increase the proposed dividend at the shareholders meeting to CHF 19 per share, an increase of almost 6% over the prior year. Based on underlying earnings, this corresponds to a dividend payout ratio of 45% which lies in the target range. The dividend payout ratio is 66% based on the IFRS result and gives a dividend yield an attractive 3.4%.

And with that, I'd like to hand it back to Stefan Loacker.

Stefan Loacker {BIO 15157193 <GO>}

Thank you, Paul, for your explanations on the financials of 2015. I would now like to summarize also the look into the future, helvetia 20.20, the strategy which comes under the motto, integrate, innovate and increase.

Before I really look into the next five years, please allow me just for a minute to set out where we stand today after the strategy 2015 is now completed and we are just heading off now for the next five years' phase.

Generally speaking, our last five-year strategy was designated to excel in growth, profitability and customer retention. With every measure that we can look at, we find that we have been growing the relevant metrics roughly by one-third in the last five years. So we have been growing the volume by 30%; the profits by 30%; dividend, 30%; and also number of clients has done this.

So with regard to what we have achieved in the last five years, we are really happy. That growth was much more than market average. And it has been achieved by a mix of organic development plus the acquisitions that we did. Nevertheless, we can now not just relax and sit back, we have ongoing challenges as every other company probably as well. We are facing a slight change and an ongoing change in the customer behavior. We do have to cope with very low interest rates also in the coming years.

We are now in the middle of these different solvency regimes in Switzerland in the SST and on the Solvency II side in Europe now relevant and different and complex to manage in the phase of a situation where we are still heading for also progress in our market positioning in the units abroad. So that is a setting which shows you that we think that we are starting from a position of strength, but we are facing also challenges that will keep us busy.

Certainly, it helps that – and that you can find on slide 24 that Helvetia today is well positioned. We are in a top three position in our very stable and profitable home market. As you have seen much more geared towards the non-life business nowadays, as you have seen generating a bit more than two-thirds, 70% of our Group's profit. So that's certainly again the solid foundation for our development in the future.

We are also happy with our European franchise. We have presences in four important and attractive European markets. All of them are profitable and all of them are scalable also in the future. And we think that especially in this market consolidations will continue and we are in a situation to use these opportunities.

With the Specialty Markets, we have a footprint which goes a bit beyond our European traditions, so to say. As you know, this is a very international book of business from its nature both in the reinsurance, but also in engineering, marine, and to a certain degree, as well in art.

We are not stopping at the borders of Switzerland or Europe, which means that we can also capitalize on long-term growth perspectives that we have around our Asian territories and other places. And it certainly also adds to diversification benefits of our Group's portfolio. So this footprint is here to stay for the strategic periods as you have probably read. It's not our idea to change it dramatically. With the exit of Belgium that we did last year, we find ourselves in positions that are sustainable and healthy for the future.

What we want to do, and that's on slide 25, is to leverage on this existing footprint both on profit and on premium volume side with different prerequisites. In Switzerland if, in fact, we see more a profit contribution that will come to a larger degree, now from the fully phasing in of the synergies that are still not fully harvested. But probably the growth rate will be not the main target for us in Switzerland, especially around the life insurance in the second period and traditional single business where we are a bit more cautious than in the previous years. That will give a bit of a headwind against our volume situation.

In Europe and in the Specialty Markets, we do have both a volume expansion that we think from an organic point of view but also helped by selective acquisitions and an increase on the profit side, which means that we have to harvest now fully the synergies of the latest acquisitions and also increase somehow our technical profitability in one or the other markets through re-underwriting exercises that we still have ahead of us. So the combination of profit contribution, which is growing from our Swiss business and a profitable growth opportunity that we have abroad, makes our overall portfolio attractive and also important opportunities for the next couple of years, are visible within that footprint.

Our strategy, helvetia 20.20, and you see the beginning of those ideas on slide 26, is certainly not a revolution. It is certainly capitalizing on what we are, on what we have done in the last couple of years, but it's designated to keep us relevant and modern for our customers. It's also giving priority to an increasingly hybrid or digital customer behavior which we will combine with our given presences in the field. We are not heading towards pure online model in the next five years, but we have to play on all means that our customers are expecting. And certainly also our overall ability to innovate and to adopt to new situations will be more important than in the recent years.

For us, always important is to find the right balance between the expectations of the key stakeholders that we have: customers, employees and shareholders. We do not want to give advantage to one to the extent of the other. Like our logo, the triangle, which has equal length on every side, we try to keep these under control and in a Group balance. Certainly, it's around that it values for customers that comes alongside personalization, digitalization and more targeted solutions but also for our employees, we are an attractive and forward-looking employer and also for our shareholders, which can and will expect an increasing profit and dividend capacity from our Group; everything will be dealt with in the new strategy.

Clearly, we have started to discuss along the major trends that we see in the future. You can find the summary on slide 27. No surprise, we do see that the insurance market is in a flux is changing. There is a certain internal dynamic in non-life. There is a repositioning in life going on and we are also expecting continuous consolidation within the sector and also some new competitors coming in from outside those who have access to the big data or those who have access to other means which gives a new opportunity for them to come also into the life or non-life insurance business.

Digitalization certainly is a driver, I have already mentioned it. It's a technology that is not only changing customer behavior but is also changing the state of the art in insurance management. As we have seen, it's not only the large number but it's increasingly also the small number, the individual number that is as a technical mean helped by all the data in our focus.

So these trends are certainly important and we tried to capitalize on them. On slide 28, you find some of the most important findings. For the non-life business, we find ourselves in the markets that we are acting in a environment that should allow for a continuous story of organic growth. With both combined ratios helped by some bolt-on acquisitions in the markets that we are present and certainly, developing also around digitization and smart data, the underwriting art, pricing art, and also cost optimization in the processes which will be drivers in the non-life business.

In life business, situation is more challenging. As you know, we have lower interest rates to expect – or low interest rates to expect also for the next couple of years. In fact, if we talk about 2020, today, (43:50) look into forward rates, you do not see much, much of a game changer here. And that comes alongside with an increasingly heavy solvency capital underpinning. So that situation really require action.

The main trigger is careful asset liability management and here certainly it would be a bad time to start with that, but thanks to our efforts in the last couple of years that you have followed, our duration gap is only 0.5. So that we are really in a good position to unwind our back book in a profitable way to generate enough returns to capture the guarantees and the surplus and a shareholders' benefit as well.

But certainly for the new business, the times of traditional life insurance are more or less over and we have to go strictly in the way of capital efficient new products or de-risk products, so to say, on the single life side.

For the second pillar, in Switzerland, which is one of our largest pieces of business, we are largely optimistic or you could say cautiously optimistic that along (45:01) with the debates on the reform of the Swiss pension scheme, we find an environment in the next couple of years which still makes it feasible to be part of that, also full solution coverage. You know that the reform should take place by 2020. There is even now a certain piece of optimism that it will be already voted for in 2018 which would certainly help along with the conversion rate and other topics that we are waiting for.

Largely, we also think, the third item here that the consolidation will continue to happen. Probably from our angel more in Europe than in Switzerland which is already a highly consolidated environment, but beyond the traditional scale driven M&A which will be part of our agenda also in the next couple of years. Also, innovation and venturing like type of activities will take place. Also for us, that's an important ingredient. We are already an active investor in the venture environment, which gives us access to a couple of hundred startups every year which we – and really analyze and look into in the FinTech environment.

And we are also now in the middle of a preparation for an innovation center that we will carry out with the University of St. Gallen, designated to look into the future of the insurance model. So, with all these maintenance (46:32) out there, we are sure that we will not miss the point to be an active and relevant player in the changing insurance market in the next couple of years.

Much has been led already on digitization. On slide 29, you find the three key ingredients that we take center stage. Certainly, the topic is so called never ending. It touches many, many things. But the three key priorities in our strategy will be online business models as number one, which is covering everything from digital service to digital sales multi-access by all means.

As Paul has mentioned, we have the advantage of a strong starting point in Switzerland through smile.direct which is the leading online carrier in this country, is again increased its volume by 10% last year, now to CHF 80 million, very profitable business. So that's certainly a good thing to have when you talk about the digital or more digital future. But we also have interesting projects already since a couple of years in our markets abroad. But we have to go forward in this endeavor.

Second point is smart data and analytics. Increasing personalization where it makes sense. On the product side, on the pricing side, on the underwriting side, it goes also into fraud detection where we can use intelligent data in the larger degree. All these things are not happening overnight. But if you look into a longer term future, two years, three years, four years, five years, we are sure that there is a lot to do in this sector.

Last but not least, process optimization, also not something that we start only now but have been also active in the last years. But that will also continue more automatic processes, self-service processes that are linked with our host (48:32) systems that will also help to not stop in cost advantages in the future.

So, all in all, these initiatives will be carried out in each and every of our country market, and we do really give an emphasis also from a corporate point of view that we are making progress in all these items.

Everything certainly is, again, centered around our customers' needs which are changing. The ROPO effect is happening. People are using more means situationally, a personal one, the non-life (49:08) mean at the same time, a broker or a bank account or a physical agent as they want, claims regulation will take place in different circumstances. So, certainly, our promise to the customers that we are a personal and reliable insurer will not change, but the means in order to fulfill these expectations will become broader in the next couple of years.

The motto of our implementation is simple. It's called integrate, innovate and increase. Every single business unit of our Group is now crafting its individual measures for making this strategy happen along this motto. More or less, every business unit is still in the last phase of the integration of the last acquisitions and also on the process streamlining side active. At the same time, we are having a plan for the digital transformation also for each and every business unit and targeted innovation at least now in Switzerland and also some interesting projects in Spain and Germany going on that side.

Certainly, that all should turn out into higher customer benefit, mainly convenience and personalization, higher product value by use of smart data for the non-life business and non-traditional concept in the life business, and certainly also process efficiency as I mentioned through synergies and process restructuring will take place.

We cannot do this on ourselves. As you see on slide 32, we need and we are counting on our employees to make that happen. We have seen in the last 18 months once more how committed and passionate our employees are even in tougher times which we had through the integration process to make things happen. And I'm very pleased to have that team on every level, in every market to make also this new strategy, which we post (51:17) for more innovation and more changes than we used to have also in the coming years (51:22) It's not the strategy of making many people redundant. It's the strategy of making our business relevant. And therefore, everyone can contribute.

What you probably have already looked into our financial targets on slide 33. Our vision for 2020 is to become a company which is earning CHF 10 billion or more on the volume side. This is something that we cannot just achieve through organic growth. That will play a major part, but we also need further acquisitions as we go along to reach this target. But we are certainly optimistic that we will find some targets.

On the profitability side, we have sharpened our cost – our combined ratio target from 94% to 96% which was our corridor for the last five years, now to less than 93% for the next five years. This comes along the larger proportion of our Swiss business, of course, but also the synergies and the technical improvements in all the other places.

New business margin in life which is now reported at 0.9%. Our ambition here is to leverage it up to 1% or more for the next coming years. On the cost side, Paul has already mentioned that we are optimistic to fully phase into synergies. We have originally reported CHF 105 million to CHF 130 million corridor. We are optimistic that we will be on CHF 130 million or even a bit more in the next couple of years by end of 2017.

Capital targets are also something of great importance for us. We think along the sharpening on the SST calculations that are to be expected around the ideas of bringing more standard models into place in the Swiss environment. We think that a good SST target ratio for the next couple of years will be 140% to 180%. That will still sort out from what we know now, that should be a feasible target corridor and an A rating for Standard & Poor's is still important for us especially for those niche businesses we are in.

The ROE target is lifted from 8% to 10%, now to 8% to 11%. As you know, we are not making a specific contribution for the unearned valuation reserves that we have on the bonds. So that's the full equity phased in will bring us to this number 8% to 11%.

And finally, we have also become a bit more aggressive on the payout ratio which was 30% to 50% in the last five years. We are now optimistic that we will stay in the lower corridor, so to say, in the narrow corridor of 40% to 50%. And for the first time, we also gave you an absolute amount as a specific additional guidance which would be at or more than CHF 1 billion as dividend for the next five years.

So, in a conclusion, the new strategy which focuses on integrate, innovate, and increase is not a revolution, but it should keep Helvetia fit for the future while still remaining personal and reliable which we think are important attributes to the insurance business also in the coming five years.

With this, I came to an end of our active presentation. Thank you for your patient listening. We are now changing to the Q&A session for which, as I indicated in the beginning, not only Paul Norton and myself, but also Philipp Gmür, Ralph Honegger, and additional colleagues are available in this room.

I'm now giving back to the operator for – no, I think we can start with the questions here in the room, as we usually do, and then we go to the queue on the telephone line. So, we start with possible questions in this room.

Q&A

Operator

55:41

Q - Peter Casanova {BIO 2168233 <GO>}

Thank you. Peter Casanova, Kepler Cheuvreux. Could you give us an indication what the premium volume was between the old structure in terms of growth or decline in life and non-life? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Yes, an indication is possible, a detailed number, not anymore because we have really merged these operations, and they have no flag anymore from which side they come. But generally speaking in terms of non-life, we would have in a like-for-like situation, reported roughly 1% growth in Switzerland.

There are some one-offs because we have different dates now for premium in car, so that's mainly the number. We also would have slightly positive numbers in that area 1% or 2% in Germany, Spain, and in Austria while we would have reported a minus 2% (56:41) almost in Italy, which is still in a situation of depressing car insurance premium.

On the life side, we also have a mixed picture. Organically, we would have even a sharper decline than we have now, which will be driven by lower – single payments in the second pillar in Switzerland, and less production in Italy as you have seen also in the combined figures because in the foreign countries, Nationale Suisse has not significantly contributed to the life side, which was more non-life business that we have there.

So, all in all, I would say, more or less stable situation which is not bad for an integration year. I have to also underline that probably now in 2016, we still see some marks of profitable re-underwriting. So there is a couple of portfolio pieces that we will not re-underwrite now from 2015 to 2016 which is probably then the last piece of reshuffling of our business after the integration. And then, should stabilize and continue to grow organically going ahead.

Q - Peter Casanova {BIO 2168233 <GO>}

Excellent. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Next questions, please. Over there.

Q - René Locher

Yes. René Locher, MainFirst. So, first one on slide 19, so I'm trying to get a feeling where you end up on a net profit basis in 2017. Now, you reported an underwriting – underlying net profit of CHF 439 million. You have included CHF 45 million of same synergies. So there's still – when you target now CHF 130 million plus, and I take the CHF 130 million, there is still some CHF 65 million after-tax (58:48) So this would mean a plus CHF 65 million and if you take a look at the other activities. Paul mentioned that reinsurers could be like a one-offs. So this would add an another CHF 35 million sold for 2017 and ending up then at CHF 539 million. So what I would like to avoid is that they do some double counting, that some of the synergies are perhaps included in the other activities. So, this is my first question.

And then the second one on slide 33, given that you have quite an ambitious combined ratio target of below 93%, I was a little bit wondering for cost to see that (59:39) the return on equity target is between 8% to 11% because you have now some CHF 3.8 billion in premiums and non-life business. So this means that 1% ratio point would improve operating profit by CHF 38 million and yeah, perhaps you can explain a little bit, how you (01:00:02) 8% to 11% return on equity target. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Excellent. I think with regard to your analysis on the results components that we had in 2015, as far as I can see from my angle, you did no double counting or obvious mistake. Nevertheless, I mean the situation is not stable in the future with regard to the investment results. So that's probably the thing that you have to take also into account that alongside the interest rate environment and now also the negative equity markets that we had, you could probably not take the investment return as (01:00:45) given forever. But for the technical components, I think you're on the right track. Does your question (1:00:51)

Q - René Locher

Okay.

A - Stefan Loacker {BIO 15157193 <GO>}

On the combined ratio, our optimism that we are in a position to repeatedly report combined ratios net below 93% comes to a certain degree now after the acquisition of Nationale Suisse. The much larger proportion of our Swiss non-life business, which if you go into the details, has again reported an 85% for this reporting year of 2015, which is mainly unchanged to the year before, which is also indicating that the Nationale Suisse portfolio quality has not diluted our situation and there are still some cost synergies to be phased in.

And in our markets abroad, again, we have a headwind (1:01:41) situation now in 2015 which was not fully perfect, especially in one or the other countries. I'm also underlying the situation in Italy. We had to see that especially the Nationale Suisse portfolio was generating combined ratios above 100%, which has diluted our overall situation. So that takes time, another, I would say, one year or two years to re-underwrite those portfolios.

So, that, yes, we are already a bit below 93%, but we think there is still room to improve. So that's the reason why we have upgraded, so to say, our target of 94%, 96% to below 93%. Nevertheless, the ROE is also driven by the capital that we are underpinning on the life business, which is not so easy to develop in the shorter term to increase the ROE on the life side. So that the combined ROE in this corridor of 8% to 11% for us, seems a feasible corridor. Do not forget, we are not making adjustments for the year, for the unearned revaluation gains on the bonds, which if you were to deduct these, like some of our peers are doing, that would add, like, 1.8 percentage points to our underlying ROE. So that gives you an indication of where we stand with regard to our capital efficiency in the balance sheet.

Q - René Locher

Can I just quickly, a follow-up question on this slide 12? So, that was really a positive surprise to see that European combined ratio of 97.1%. And I remember in 2013 Nationale Suisse had a combined ratio for its foreign operation of I guess, roughly (1:03:34) 110%. So...

A - Stefan Loacker {BIO 15157193 <GO>}

So, it has improved overall but not too much. Unfortunately, it needs a bit more time, but given the proportionality and, I think, overall, the proportions are broader like 1 to 10 in terms Helvetia and Nationale Suisse. If you boil it down to the non-life, it was rather 1 to 7, and that means that the larger contributor to these results are the old Helvetia units, but there is still component of the new portfolios dragging a little bit. But generally speaking, the direction is the right one, but as you know in our business, things will not happen overnight. You need a couple of years to sort it out completely.

Q - René Locher

And last. Is it included Belgium, the 97%, no?

A - Operator

(01:04:32)

Q - René Locher

Okay.

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. The next question. please. Over there.

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah. Daniel Bischof, Baader-Helvea . A couple of things. So, on the SST, I think you mentioned standard (01:04:46) model as an important element. What were the other considerations that you have to come up with this – was it 140% to 180%?

And also, I mean, looking 30% sensitivities to (01:04:56) credit spreads, any indication that you're still in the targets while it's the range of 150% to 200% at year-end and also currently maybe what happened?

Then on the life side on page 13, I think it's quite remarkably to improve the risk result, many competitors mentioned that competition is increasing in that area. And do you think this is stable at this level?

And then on, M&A, I think you mainly mentioned Europe as an area which you're looking at, I mean any specific countries you're thinking of and also what is the capacity or the M&A approach (01:05:43) that you currently have?

And then the last one, digitalization. I mean, in terms of investments, what do you expect there in the next couple of years? And should we expect the some sort of straying (1:05:53) on the earnings in the midterm?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these interesting questions. Let me start with the SST ratio. On slide 77 and 78, you have some additional disclosures here. Yeah. The discussion, unfortunately, around the SST is not fully finished. And I would say a year or even two years ago, I thought that we were now on solid ground with regard to the measurement of the metrics around the SST. But we are still in a situation of an ongoing discussion both on a strategic level but also on an operational level.

On the strategic level, there is now the question of moving away from the individual models more towards standard models, which unfortunately, at least for the life side, are not yet available. So it is very difficult to say what that means in the future. Does it mean that our ratio will stay the same, or does it mean that there will be a change in number? That's certainly something that takes time and there's a common effort under the management certainly of FINMA, but including also experts from the industry to deal with this method.

Generally speaking, a larger emphasis on standard model is not a bad thing because it makes life easier, it makes comparisons easier, but the transition from a complex individual model and today we have 70 models in our industry in Switzerland to a rather standard driven environment is certainly a delicate movement. And that's still something that we cannot fully assess what it means.

On the other side, there are also operational changes going on. For those of you who like to understand the details, we have this ultimate forward rates after a long time, 50 years plus, which has been set as a principle by 2.9%. No one knows really how the interest rates will be in 50 years but that has been somehow the answer to that question. But that has now been lowered down to 2.7% and also some other technically components, which we thought are fixed, have become a variable. And that makes it easy to understand that.

Generally speaking, the coverage is probably a bit more under pressure than we thought two years ago given these elements. And that's the reason why we think that for the longer term a target corridor of probably 140% to 180% might be a feasible one. But that's still a discussion that needs to be fulfilled.

If I come to the risk result, the fact that that was increased isn't (1:08:48) mainly driven by the consolidation, it's mainly driven by the portfolio of Nationale Suisse Life which also had a risk profit component in itself on the fact that that is now fully consolidated and has been the largest part of the contribution in that step result (01:09:08)

Q - Daniel Bischof {BIO 17407166 <GO>}

So, was that mainly the credit life business they had?

A - Stefan Loacker {BIO 15157193 <GO>}

No, generally, they had the single life book (01:09:13) of actually CHF 200 million to CHF 300 million. And, again, which had a profitable risk component in it. And that's now visibly in our numbers. Credit life does not play a major role in that analysis.

On the M&A side, I certainly can underline that we are not having appetite for new market territories. We are sticking to the market territories that we are already active in Switzerland and in Europe. And also in the niche businesses that we have. Certainly, the potential for further consolidation in Switzerland is not really high anymore, so we see more fantasy in that question in the European perimeter where we are certainly focusing on non-life business and not on life business as an M&A ingredient.

Our dream, of course, if you have a long-term view will be that we come (1:10:15) closer in or at the top 10 positions in the non-life markets, in the four non-life markets where we are present now. Today, we are already number eight in Austria. We are number 9 – no, number 10 in Italy in the non-life market, so we feel quite happy with these. We are number 20 in Spain, and number 28 in Germany. And certainly, I mean, the gap to the top 10 is large especially in the big markets. So, I'm not saying that we will cover that gap in the next five years. But our idea is to approach stepwise into that direction, while life business is probably not completely excluded but it's not something that we would actively go for.

And beyond that scale driven M&A, we are certainly also actively looking into ventures, also innovation driven M&A where we could see major (01:11:07) someone could add know-how and value in whatever smart data or analytics. So that is not only a scale gain for the next couple of years but also skill driven M&A landscape which is a new element.

I mentioned that we're already seeing a couple of hundred start-ups a year which means you have completely different processes as compared to the traditional M&A where we have a couple of projects a year and not many hundreds.

With regard to our funding capacity, I would say given our hybrid capacity today, we are talking about a given capacity without additional equity of medium three-digit million Swiss francs that we are talking about. So that should be the suitable dimension for good bolt-on acquisitions in Europe as we know that from the past.

And on digitalization or digitization, there is no particular cost budget attached to that priorities of the future, but what we see is that also in the last couple of years, roughly speaking something around CHF 50 million has been invested in our IT and modernization of processes. On average, we have had years where it was maybe CHF 30 million and other years where it was CHF 70 million. So that is something that we are already continuously spending which is then normally activated over a certain period of usage. And we think that largely within that corridor, we are able to fund and underpin also our digitalization strategy, so that there will be no particular I would say much (1:13:01) or visible drag on the results or on the dividend capacity sourced by these investments.

Q - Daniel Bischof {BIO 17407166 <GO>}

Any sense where the SSTs right now?

A - Stefan Loacker {BIO 15157193 <GO>}

Right now, we are in the calculation of the SST and we're in the middle of that calculation. We have a time lag of a couple of months and we will report on the number 11% 16% (01:13:28) in September and that's our usual six months time delay that we have here.

Next question, over there please.

Q - Operator

Yes. I have three questions. The first one on the life side, can you maybe give us some hint on the reserve strengthening? I assume that growth around 10 basis points in the interest rate guarantee.

The second one on the combined ratio (01:13:55) disclosed the impact from prior years and nat cat or big losses, can you give us some hints in close lease (1:14:01) terms I mean I assume prior year was more or less the same as 2014 and nat cat was below 2014 from communications here?

And the third one for the ROE target 2020, so is it right to assume that if we assume the same level of interest rate today then the 8% is the one, and if interest rates go up rather on the 11% side?

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these questions. I suggest to hand over to Paul for life reserving and one-off items (1:14:34)

A - Paul Norton {BIO 16145125 <GO>}

The life reserving is as usual flows (1:14:40) in the financial statements. On chapter...

A - Operator

166.

A - Paul Norton {BIO 16145125 <GO>}

Pardon?

A - Operator

Page 166.

A - Paul Norton {BIO 16145125 <GO>}

166 (01:14:52) So, it increased by CHF 61 million last year. And if you look at the prior year figure from 2014 accounts, you can see it's somewhat less than that.

Q - Operator

And that was mostly in the (01:15:07) Switzerland.

A - Paul Norton {BIO 16145125 <GO>}

So, yeah. Yeah certainly Switzerland 90% of the if you're looking at (01:15:09)

Q - Operator

I'm so amazed that these are (1:15:12) not included in the figure?

A - Paul Norton {BIO 16145125 <GO>}

It's not included in that figure, but I mean, it's not significant compared with this one.

A - Stefan Loacker {BIO 15157193 <GO>}

Non-life one-offs items and something (01:15:22)

A - Paul Norton {BIO 16145125 <GO>}

Yeah. The combined ratio this year was not particularly hit by net counts (1:15:31) but there were one or two large claims more than it was expected in the prior year. We had – I mean I think we mentioned in the half year at the old (1:15:40) Nationale Suisse book, there was a very large bakery (1:15:43) in Southwest Germany (01:15:45) There were a quite a few large claims coming from (01:15:49)

A - Operator

(01:15:55)

A - Paul Norton {BIO 16145125 <GO>}

If you see the nat cat on slide 12. It's roughly about the same.

A - Stefan Loacker {BIO 15157193 <GO>}

Let me take out (1:16:07) for the ROE target, I mean, the fact that we are communicating a corridor means that there is an uncertainty between and we do not want to give a snapshot guidance. For those you have already seen today, we are at 8.9%, 8.6%. And there is still something churn (01:16:31) on the synergy side. There are still some elements which I've already been mentioned previously that we think should be a one-off and not repeat on the negative side for the next couple of years, but certainly, there are question marks around the volatility of the investment results as we go along. But the fact that we are indicating also 11% should be possible and we are not stopping at 8% to 10% means that if things go well, a double-digit number is possible and that's what we are indicating.

Q - Operator

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Next question, please. We have, for the moment, no more questions in the room. So, I suggest to give to the operator and we start with the questions from our colleagues outside. Please go ahead. Do we have questions in the line?

Operator

The first question is from William Elderkin from Goldman Sachs. Please go ahead.

Q - William H. Elderkin {BIO 3349136 <GO>}

Thank you. Hello, everybody. A couple of questions please. First one, I was just surprised that you decided to have a formal volume target in your objectives over the next couple of years. I can understand why you won't have a growth target, for example, for per share earnings, but I'd be interested in the thinking and rationale behind that.

Secondly, while you show the interest rate sensitivity to your SST coverage ratio on slide 78, I was just wondering does that include interest rate to the floor of zero or does that allow interest rates to move into a negative place?

Thirdly, can you just talk about the stresses that the current interest rate environment is placing on your business with – from what I can see negative rates in key reference currencies had for seven years, eight years, nine years on the forward curve? And particularly, what you're doing in terms of your traditional life business where I think you had premium volume of something like CHF 1.2 billion last year, really, what those products are doing for you. What those products are doing for customers? What was the current reinvestment rates available?

And then finally, I'm sorry, I know this is a lot of question, just where are you putting new money at the moment and what sorts of returns you're getting on that new money? Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you, William. Maybe I can hand over to Ralph Honegger, our Chief Investment Officer, with regard to the question of where do we invest our new money and what is also the perspective going along on the investment side. Given the forward rates that you have indicated and then we will reflect what it means on the life business. So, please, Ralph, may I give the word to you?

A - Ralph-Thomas Honegger {BIO 4932832 <GO>}

Okay. Well, basically we do the same things as we already did last year. I mean, especially last year we went into U.S. dollar (01:19:32), we did invest in before. We also opened the BBB corporate segment through our investments, so there is also still some room left to invest in that. Besides that mortgage loans are quite attractive in the five-year-plus duration for insurance company due to the insurance cost that banks have on this long-term mortgages and then we have quite a good pipeline in real estate projects in Switzerland.

On top of that, selectively we go into equity and we are looking at alternative investments, especially private debt. So this is basically the mix we are investing this year in. As you could see on slide 18, the average last year of our new investments was at 1.8%. I mean, I can't really tell what it's at the moment. It's probably slightly above or down not very much.

A - Stefan Loacker {BIO 15157193 <GO>}

What it means for our life business is probably reflected, at least partially, on slide 15. If we turn to that situation once again. Obviously, as you can see the direct yield is having a clear trend. It's getting a bit less every year from 2.6%, 2.5%, now 2.3% with a certain step effect in it and that that will continue.

What you can also see is that in the light grey column, our liabilities against our policyholders is also decreasing which is mainly following two patterns. The most important one is our second pillar business which is a purely Swiss specialty which, as you know, there is an interest minimum target that is set for the mandatory part of the business each year by the local government. And then, we have the so-called extra mandatory business which is equal in size and importance where we are free to set the parameters. And both have been adjusted considerably now towards 2015, 2016.

We have lowered the mandatory part or the government has lowered from 1.75% to 1.25%. And we have even done more on the so-called extra mandatory part which has been lowered now down from 1.25% to 0.5%. And that has given again, I would say, room for maneuver and that has also stabilized our margin.

On the single life business, since many years, we have been very active in selling what we call tranche products. So these are like closed boxes in terms of asset liability matching and we have been really successful in doing so. But for the first time now for a couple of years, especially in the first half of 2015 where the situation got quickly more complicated, we were not in a position to have the right products available. So it took us until the second half of the year to come up with a tranche product again, which was able to fulfill our margin targets and also have a certain upside for the clients.

So, the traditional business, which is still, I would say, in favor of some of our clients, is certainly not the key priority for the coming years. What we had as a particular one-off probably in 2015 was the fact that our local regulator has reduced the maximum crediting rate in these products and that usually triggers a last wave of demand as long as the conditions are still favorable for the customers and that was also happening to a certain degree in our book of business. But that should be a one-off and will not repeat in 2016.

Generally speaking, the new business pipeline that we are looking for in Switzerland as well as in Europe is having less and less components of the traditional life business, not just for shareholder reasons but also for policyholder reasons, we find that modern products have more appeal.

With regards to your questions on interest rate sensitivities, which are highlighted on slide 78, I'll give over to Paul Norton and as far as I understood is your question, are we also modeling negative interest rates or do we limit the models after zero, Paul?

A - Paul Norton {BIO 16145125 <GO>}

William, I'm going to have to come back to you on that detail, because we did previously have a floor model then, but I wouldn't get (1:24:42) below zero. But, I'm pretty certain then change that, but we'll come back to you.

A - Stefan Loacker {BIO 15157193 <GO>}

On the growth target, this is certainly is not the most important of our targets. But if you are in a situation where you come across a so-called magical number of CHF 10 billion and you cannot avoid offsetting such a target. But as I mentioned previously, this is something that is certainly also depending from an M&A opportunity, from a pure organic growth rate, it will be tough or even an over ambitious target, given the fact that, as we mentioned before, that we are walking away more and more from the traditional life business, which certainly would allow for a lot of volume but not generally speaking for a lot of value. So, this is something which is more an ambitious number to become a double-digit volume in terms of CHF 10 billion to be reached.

Q - William H. Elderkin {BIO 3349136 <GO>}

Okay. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Is that answering your questions, William?

Q - William H. Elderkin {BIO 3349136 <GO>}

Yes. Sorry. (01:25:48) questions. That's very helpful.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you. Do we have more questions in the line?

Operator

The next question is from Jonny Urwin from UBS. Please go ahead.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Thanks for taking my questions. I just had a few questions around the sort of digital theme. I mean, firstly, there's a lot of talk in the presentation around what you can do digitally and what will you? The angles that you'd just like to expose. I'd just be interested to hear some tangible examples of what you're already doing and also what you think you can do?

Secondly, specifically to the Swiss non-life business, how much of the distribution do you think you can get online in time? And I suppose how do you manage the relationship with tied agents from doing so?

And then thirdly, I'd just be interested to hear your thoughts around how you think you can kind of invest in us to compete? I mean, firstly, in Switzerland, you're up against the larger multi-lines with a lot of firepower here, and potentially they could invest more. And secondly, in Europe, your subscale at the moment you'd like to grow there more potentially through acquisition. I mean, how can you invest the right amount in the digital platforms to succeed in these markets, particularly when the European multi-line competitors are investing billions, not millions here. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Thank you for these questions. I'll start with the last one. Certainly, it's a question of relative scale, but it's also a question of relative complexity. Helvetia fortunately has only to transform six business units into a more digital environment and not 60 or even more than that like some global competitors have to do.

So, relatively speaking, we are in a situation of a manageable size of investments. And certainly, we are also playing the synergy card as a group, so we are not leaving all the local presences alone, but we are investing in a common road map in order to keep us on track with the digital transformation along three clear priorities, the ones that you have heard; online models, which means online sales and online services, smart data and process optimization. So those are the topics of focus in which we are investing our money and maximizing the synergies that we have along our footprint which is Switzerland and four European markets.

Tangible examples are probably the most important one is our existing business, which is smile.direct, as I have mentioned. It is generating CHF 80 million today out of CHF 1.4 billion, CHF 1.5 billion non-life business, so that you can have an idea on where we are already today in terms of proportion on the digital side.

It's very difficult for us to give a best estimate in which direction that number will grow over the next five years. Certainly, we are expecting a larger number of growing customer portfolios on the direct side but it is not that big that we are facing a battle between our traditional agents and that online channel. In fact, we have positioned smile.direct for the pure online customer. And it has a different pricing. It has a different service element. It's in fact, self-service element and we are not targeting the same hybrid customers with the smile.direct approach, so that should not be something that causes a lot of friction inside Helvetia.

Other projects will follow. We are discussing a joint venture in Spain with a large telecom provider, which will go into the direction of pay as you drive. We have other projects in Germany, which are also including intelligent new sales channels in different type of new products. So that will unfold step wise and we do not have the one big project that will tackle all these digitalization topics over the next couple of years but a decent roadmap that we can digest and that will bring the right results.

Q - Jonny Urwin {BIO 17445508 <GO>}

And how do you think you can sort of match the – or compete with the investment of (01:30:30)? I mean, it just seems to me, the position here is very small and it seems a bit curious that you'd like to grow in an area where it will be very hard to compete. I mean, isn't it just better to focus on Switzerland?

A - Stefan Loacker {BIO 15157193 <GO>}

No. That's a question that we have, again, discussed in detail when we were talking about the fundamentals of our new strategy, 20.20. In fact, we are convinced that for a group of our size, the dependency on one market alone will be a disadvantage. So we have a situation certainly that our Swiss business has become even more important now after the integration of Nationale Suisse. We're even a bit more biased towards Switzerland. We have been a couple of years ago, rather on a 50/50 level in terms of profits, but now we are clearly biased towards Switzerland, which is not bad because this is a good environment and to be a leading player in our home market is certainly a strong pillar.

But to have only that would be certainly not providing enough opportunities, also for a growth story would not provide for a lot of diversification benefits. And that's why we are convinced that the overall configuration including some European players is the better option for us.

As I have mentioned we are already in the top 10 in two of the four places which is certainly large enough to be also profitable and we are doing a good job as a niche player, certainly, in Spain and Germany where we're also earning money. So there is no stop the bleeding item. There is no problem with these situations. On the contrary, these are scalable franchises which should give us opportunities for profitable growth in the future.

Q - Jonny Urwin {BIO 17445508 <GO>}

Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Do we have more questions in the line?

Operator

There are no further questions at this time.

A - Stefan Loacker {BIO 15157193 <GO>}

Then I give back here to the room if there are some last questions around the table. There is one, in fact.

Q - Operator

Yes. So, just on slide 15, can you provide me with the numbers on a Group level, split between the current income and the guarantees you have on your balance sheet?

A - Paul Norton {BIO 16145125 <GO>}

What do you mean by that (1:33:03)?

Q - Operator

What, I mean, I guess in, like in 2014, you have also showed Switzerland, Europe at then on a Group level. I mean, you have an average guarantee on your balance sheet. I mean, not for total Switzerland and Europe, but overall. I'm sorry.

A - Paul Norton {BIO 16145125 <GO>}

We haven't disclosed (01:33:25) because the combination of Switzerland and Europe, I mean, Switzerland is (01:33:31). So in CapEx is roughly the (01:33:37).

A - Stefan Loacker {BIO 15157193 <GO>}

: On slide 15.

Q - Operator

I can that. I can do that.

A - Stefan Loacker {BIO 15157193 <GO>}

Yeah. So the balance sheet split on the reserves, you can find on slide 56. Again, as Paul mentioned, it's like 80% or so is coming from the Swiss reserves. And, therefore, also the margin is largely driven by the Swiss reality. While the European side is a bit more marginal now.

Q - Operator

And perhaps another stupid question, but when I took a look at Switzerland like it's 2.32% and then in Europe, we are at 2.85%. How do I compare these returns with the current income or the current yield of 2.2% on slide 17? I mean, if I would not seen slide 15, I would go to slide 17 and just take the 2.2%, right?

A - Stefan Loacker {BIO 15157193 <GO>}

No, the life has a longer duration.

A - Paul Norton {BIO 16145125 <GO>}

Yeah.

A - Stefan Loacker {BIO 15157193 <GO>}

And that longer duration is generating higher yield. So if this is just looking into the life book, my...

Q - Operator

Yeah. I know, it's okay.

A - Stefan Loacker {BIO 15157193 <GO>}

The numbers on slide 18 and 17 are generally integrating non-life as well.

Q - Operator

Yeah. Yeah.

A - Stefan Loacker {BIO 15157193 <GO>}

And so, you have a shorter duration and the lower yield on non-life and the other way around on that.

Q - Operator

All right. Thank you.

A - Stefan Loacker {BIO 15157193 <GO>}

Yeah.

Q - Operator

Last but not least, the target of CHF 1 billion cash for return to shareholders over five years. Now, when I'm looking at slide 20 of paid out, CHF 201 million for the CHF 19 dividend, so I was wondering a little bit, now, over five years, your target will hit more than CHF 1 billion. I don't want a hard number, but again I remember you mentioned in one of your interviews that following the full integration of (01:35:46), we expect a CHF 2 to CHF 3 increase in the dividend. Yes.

A - Stefan Loacker {BIO 15157193 <GO>}

Which is, I would say, still a fair expectation going into the future. The absolute number of CHF 1 billion is what's that larger than. So it should give you an indication that we are confident that we can keep that absolute amount despite the mentioned uncertainties around solvency which is probably the other side of the discussion. And, yeah, in fact, what we would expect from today is that we go with a smaller step wise increase of the dividend and then if the full synergies are available, we have a bit larger steps to be expected. That's it.

Q - Operator

Thank you.

A - Paul Norton {BIO 16145125 <GO>}

Just one other point. The dividend (01:36:39) also includes a coupon from a hybrid, which are (01:36:45).

A - Stefan Loacker {BIO 15157193 <GO>}

Okay. Thank you.

Q - Operator

Sorry, Paul. In this CHF 1 billion?

A - Paul Norton {BIO 16145125 <GO>}

No. It's not only CHF 1 billion (01:36:54).

Q - Operator

Okay. That's a fewer sales.

A - Paul Norton {BIO 16145125 <GO>}

(1:36:56-1:37:11)

A - Stefan Loacker {BIO 15157193 <GO>}

Any questions left? There is one more.

Q - Operator

Yeah. Just a short one on tax rate going forward. I mean, in 2015, you have the low tax rate, especially in non-life, I mean what should we expect going forward?

A - Stefan Loacker {BIO 15157193 <GO>}

Tax rates going forward, Paul?

A - Paul Norton {BIO 16145125 <GO>}

Basically, we have a rough tax rate of around about 20% and we expect that to continue. There is something called Corporate Tax Reform III in Switzerland, which is coming up and there's a massive amount of uncertainty as to what that means. But for the moment, we should say, it's around about 20% to 23% is the average. In Switzerland, it's totally unreckonable in a place like Italy where it can be over 50% but we – on average tax rate, we say 20% to 23% there.

A - Stefan Loacker {BIO 15157193 <GO>}

Excellent. I think that's it for the room here. Anything left in the pipeline? No, that's not the case. That brings me to the end of this meeting. I would like to thank you for your ongoing interest in our company. Thank you for your excellent questions and we would hope to see you be it on the road or in our next meetings in person again. Have a nice afternoon. Bye-bye from (01:38:37).

A - Paul Norton {BIO 16145125 <GO>}

Thank you.

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. Good-bye.