Helvetia Group analysts’ conference call
Full-year results 2019
Wednesday, 4 March 2020

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(The spoken words take precedence)

Paul Norton, CFO Helvetia Group

(Slide 4) Financial figures
Ladies and gentlemen, I would also like to welcome you to our conference call today. Within the next 25 minutes, I will give you more detailed information on our financial performance in the 2019 financial year.

I would like to start with slide 5.

(Slide 5) Net income increased by 24.9% thanks to strong capital markets & tax effect, solid technical result
We achieved a solid IFRS result of CHF 538 million, against CHF 431.0 million in 2018. Based on continuing solid technical results in life and non-life, a significantly stronger performance from investments was the main driver of the increased result. Finally, Helvetia benefited from a one-off positive tax effect of CHF 93.2 million. This resulted mainly from the revaluation of deferred tax provisions as a result of the federal tax reform and the associated cantonal tax reductions in Switzerland.

In terms of business areas, we increased earnings in the life and non-life businesses compared to 2018. Both the life and non-life business benefited from gains on investments and the positive tax effect mentioned. In life business, the margin after costs increased. Important drivers of the improvement were positive valuation effects on investment-linked products and a better development of the cost result. These effects were largely offset as we strengthened reserves, mainly relating to the continuing low interest rate environment and as a result of an increase in expenses for policyholder participation. The non-life technical result, on the other
hand, declined because an improved claims ratio from the current year business was unable to fully compensate for higher acquisition and project costs and lower run-off profits from reserves for losses from previous years. However, the good development of the current year claims ratio underpins the sound quality of our portfolio. The result in other activities was lower than in the previous year due to the usual effects from the consolidation of our own internal funds, the cession of weather-related claims in Europe and large losses in Specialty Lines CH/International to Group reinsurance as well as higher project costs. We will have a more detailed look on the profit sources of the non-life, the life business and other activities in a moment.

Let's turn to the segment results on slide 6.

(Slide 6) Strong earnings improvement in all main segments
Helvetia improved its results in all segments with the exception of Corporate. In Switzerland, Helvetia recorded significantly higher profits in life and non-life business compared to 2018. Based on ongoing solid technical results the increase is mainly due to better investment results and the positive tax effect from the national and various cantonal tax reforms. In non-life technical results were below the previous year, as a lower current year claims burden could not compensate for higher costs and run-off effects from reserves for losses from previous years. In the life business a better margin after costs and higher gains on investments were partly offset by significantly higher interest-related reserve strengthening and an increase in expenses for policyholder participation.

In Europe, Helvetia generated a better result in the non-life business, which resulted on the one hand from a growth-related higher technical result and on the other hand from capital gains. The life result in Europe remained at the level of the previous year. Higher capital gains were outweighed by increased expenses for reserve strengthening – notably in Germany (ZZR) – and higher expenses for policyholder participation.

The Specialty Markets segment increased its result thanks to higher investment income and a higher technical income driven by increased volumes.

The result of the Corporate segment declined year-on-year. The reasons were the usual consolidation effects from the Group's own funds and losses from weather-related claims in Europe and large losses in Specialty Lines CH/International that were ceded to Group reinsurance. Additionally Helvetia had higher project costs.

I will continue with our growth in business volume on slide 7.
(Slide 7) Pleasing top-line growth driven by non-life in Europe and Specialty Markets
In the 2019 financial year, Helvetia Group achieved a business volume of roughly CHF 9.5 billion. This equates to a currency-adjusted increase of 5.6 percent over the previous year.

In the non-life business, we achieved an increase in premium volume of 8.3 percent in original currency. The growth was mainly driven by Europe and Specialty Markets, where premiums increased by 5.8 percent and 23.7 percent respectively. Viewed by line of business, growth was particularly supported by the property business, engineering and active reinsurance.
In our Swiss home market, we were able to increase premiums by 0.8 percent. Property business, which benefited from the expansion of partner business (B2B2C) showed 3.4 percent higher premiums. However, this growth was partly offset by a decline in the motor business.

In the life business, business volume on group level rose by 3.0 percent in original currency. I would like to emphasise the very good development of investment-linked products in individual life in Switzerland, Germany and Italy and of the group life business in Switzerland. Here, particularly noteworthy was the good development of our modern capital-efficient insurance solutions Swisscanto and BVG Invest.

Now, I would like to look at the profit by sources of the non-life business on slide 8.

(Slide 8) Non-life: strong investment income and solid technical results supported by a positive tax effect
In the 2019 financial year IFRS earnings in the non-life segment increased by 20.0 percent to CHF 398 million. Main driver was the investment result thanks to the favourable performance of the capital markets, particularly equity markets. The non-life technical result, on the other hand, declined because a favourable claims experience in the current year was unable to fully compensate for higher acquisition and project costs and lower run-off profits from reserves for losses from previous years. I will provide you with more details on the next slide. Finally, the non-life business benefited from the already mentioned one-time positive effect from the revaluation of deferred tax provisions.

I would now like to move to the net combined ratio on slide 9.
Group net combined ratio was 92.3 percent in 2019 against 91.0 percent one year ago, which is still at a very good level and once again underpins the good quality of our portfolio.

The claims ratio increased by 0.6 percentage points to 61.7 percent. We had a very pleasing decrease in the current year claims ratio, which emphasises the quality of our current business. However, this was not able to compensate for an expected decline in run-off profits as old portfolios run off. I would like to emphasise particularly that prior year development was additionally impacted by the strong growth in active reinsurance and in the French market unit due to its underwriting year accounting logic, which leads to a shift of claims from current year ratio to prior year development. Without these two units, the run-off ratio would be positive, as in previous years. In the annex on slide 31 the mechanism of the underwriting year accounting logic is explained in detail.

Looking at the cost ratio, the administration cost ratio was almost stable year-on-year, as a growth-related improvement in Europe was offset by an increase of project costs in Switzerland. The acquisition cost ratio increased. The reason were shifts in the distribution channel and product mix in Switzerland and in Europe.

On a segment level, in Switzerland the net combined ratio was higher than in the previous year. The claims ratio increased due to a decrease in run-off gains from reserves for claims from prior years as a result of the expected gradual run-off of whiplash loss reserves and of the reserves for the portfolios acquired from Alba and Phenix in 2010.

With 94.8 percent, Europe recorded a better net combined ratio compared to 2018. While the claims ratio remained more or less at the previous year's level, cost ratio slightly improved mainly as a consequence of higher volumes.

All European market units achieved combined ratios below 100 percent.

In the Specialty Markets segment, the net combined ratio slightly increased to 96.4 percent. The cost ratio improved due to growth-related economies of scale. However, Specialty Markets recorded a higher claims ratio mainly resulting from a less favorable development of a few major claims from previous years in France and Specialty Lines CH/International and a one-off effect from the commutation of a retrocession agreement in Active Reinsurance.

On slide 10, we will have a closer look at the life business.
(Slide 10) Life: higher gains on investments, good technical development and a one-off positive tax effect

In the 2019 financial year, net income for the life business was 52 percent above the prior year’s figure.

Looking at the profit by sources the margin after costs increased significantly thanks to positive fluctuations in the valuation of options for investment-linked products and a better development of the cost result.

The savings result however declined mainly due to declining investment returns while interest expenses for retirement assets in Swiss group life remained unchanged.

The lower risk result also mainly resulted from a weaker disability result in the Swiss group life business.

Gains and losses on investments significantly increased due to the good equity market performance.

The extraordinary result was lower compared to the previous year. A higher interest-related reserve strengthening in Switzerland and Europe and the absence of a positive one-off effect in the previous year in Switzerland (release of the cost of living adjustment fund) were partially offset by lower future conversion rate losses due to the new tariff in the Swiss group life business (one-off effect).

The better margin after costs, higher capital gains and the contribution to earnings from tax reductions in Switzerland led to a material increase in expenses for policyholder participation.

Finally, as already mentioned, we benefited from a one-time positive tax effect.

I would now like to switch to new business, which has developed very positively, as you can see from slide 11.

(Slide 11) Life: higher NBM driven by lower capital needs for group life (model changes) and better business mix

New business also developed positively in 2019. The new business margin rose by 1.2 percentage points year-on-year to 2.9 percent (2018: 1.7 percent). This improvement was driven by the Swiss group life business. On the one hand, model changes that led to lower capital requirements had a positive effect. On the other hand, the new business margin also benefited from a more advantageous business mix in Swiss group life due to higher new business growth with more profitable capital-efficient insurance solutions.
I would now like to continue with the development of the interest margin on slide 12.

(Slide 12) Life: increasing interest margin despite ongoing low interest rate environment

Direct yield declined in both Switzerland and the Europe segment compared to last year.

In Switzerland the interest margin went up when comparing 2019 against the previous year. This was attributable to the following reasons:

Direct yield decreased due to the ongoing low interest environment. The average technical rate, i.e. the rate that we need to earn, also declined, albeit more sharply than the direct yield. The main drivers here were:

- the successful revision of our traditional product portfolio and the focused sales of modern, capital-light products, replacing maturing insurance contracts with high guaranteed rates and
- additional reserve strengthening.

In Europe, the interest margin remained stable compared to 2018. Here, we see a drop in the average interest rate Helvetia has to generate in order to meet its obligations due to additional reserve strengthening and new contracts with lower guarantees replacing old ones with higher guarantees. However, yields were also declining due to the low interest environment and therefore the margin remained at the previous year's level.

In total, the interest margin for the Group as a whole increased.

On the following slide, I want to provide you with details on the profit for other activities.

(Slide 13) Other activities: net income lower due to consolidation effect on own investment funds

Looking at the profit by sources of other activities,

- The net technical result in group reinsurance decreased, resulting from weather-related claims in Europe and large losses from Specialty Lines CH/International, ceded to group reinsurance.
- The investment/FX result was lower year-on-year due to the usual consolidation effect from our own investment funds. Here, the positive impact of capital market
developments shown in the individual market units is balanced out in the other activities business area.

- The **costs/other** result decreased. This can be attributed to higher project costs.
- **Financing costs** remained on the prior year's level.

The next slide shows the development of our investment result.

**(Slide 14) Investments: strong performance of equity markets drives investment result**

Current investment income of CHF 947 million almost maintained on the previous year's level, despite the continuing low interest rate environment. Direct yield was at 1.9 percent, compared to 2.0 percent in 2018. Thanks to the positive performance of the equity markets, Helvetia generated capital gains on investments of CHF 456 million. The investment result recognised in profit and loss amounted to CHF 1,403 million, giving Helvetia a return of 2.9 percent. The level of unrealised gains and losses in equity increased by CHF 1,432 million both on the AFS-classified shares and due to the lower interest rates on the bonds, resulting in an overall performance of 5.9 percent. Investments with market risk for the policyholder increased by CHF 469 million driven by the growth of the unit- and index-linked insurance solutions and rising share prices.

On slide 15, you can see the investment result broken down by asset class.

**(Slide 15) Investments: strong performance of portfolio and stable new and reinvestment yield**

The first table shows the performance of the total investment portfolio.

About 60 percent of the **current income** of CHF 947 million came from bonds and mortgages, which contributed CHF 498 million and CHF 82 million, respectively, in absolute terms. Dividends accounted for CHF 75 million and investment property for CHF 252 million. **Realised and booked gains** on investments amounted to CHF 456 million reflecting the strong equity markets.

As already mentioned **unrealised gains and losses** increased by CHF 1,432 billion.

The lower half of the slide shows the **return on new and re-investments**. In 2019, the total new or re-investments amounted to CHF 2.7 billion. 77 percent of the funds were allocated in
Euro and Swiss franc bonds, the remainder in mortgages, equities and real estate. Due to the interest-rate-induced rise in hedging costs for the US dollar, the portfolio was partially restructured in order to reduce the weight of the American currency. The new investments achieved an average return of 1.5 percent overall.

(Slide 16) Dividend per share increased to CHF 5.00 – attractive dividend yield of 3.7%
With regard to the dividend, our strategy is to increase dividend year on year. Thus, the Board of Directors will propose to the Shareholders' Meeting to raise the dividend to CHF 5.00 per share. This corresponds to a dividend pay-out ratio of 58 percent based on the IFRS result adjusted for the one-off tax effect, which is above our target range of 40 – 50 percent. The dividend yield is what we believe an attractive 3.7%. On the next slide you will see that the dividend is fully covered by our strong cash production – which means it is financed out of the operating business.

I will now turn to slide 17.

(Slide 17) Strong operating cash production ensuring dividend payment
Helvetia passes virtually all operating cash production its subsidiaries generate right through to its shareholders. We have the advantage that many of our foreign operations are branches of Helvetia Insurance Company, St.Gallen, which makes capital very fungible. All operating companies are subsidiaries of Helvetia Insurance Company. It receives cash remitted by the entities and passes the part designated as dividends for our external shareholders on to Helvetia Holding, which pays dividends out.

You can see that on an IFRS basis, the individual market units remit a substantial proportion of their IFRS earnings to the Group. Compared to the previous year, Specialty Markets' operating cash production was lower. The reason for that is Group reinsurance, which is included in the remittance figures of Specialty Markets. Group reinsurance provided a lower dividend contribution because it was impacted by claims from NatCat events in the Europe segment and large losses from Specialty Lines CH/International, that were ceded to Group reinsurance. Let me emphasise that Group reinsurance is mandated to provide group-internal reinsurance coverage and is as such subject to profit volatility.

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