Financial Media Conference – the Helvetia Group
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Financial figures

(The spoken word takes precedence)

Paul Norton, CFO of the Helvetia Group

(Slide 5) Financial figures

Ladies and Gentlemen, I am very pleased to provide you with more detailed information regarding the financial figures for the reporting year 2012, and I will start by taking a look at the business areas on slide 6.

(Slide 6) Result by business area

All areas showed a pleasing operating performance in the reporting year, with good contributions to profit. This confirms the healthy development of our business in the current conditions of economic and financial uncertainty.

Life business reported a profit of CHF 139 million. This solid result is due to healthy risk results and a good investment result, which enabled us to increase policyholder bonuses. In addition, the continuing low interest rate environment required additional increases in technical reserves, which we were also well able to absorb. The contribution of the life business to the result was, therefore, in total only 10% below that of the previous year.

Thanks to a 2.1 percentage point improvement in the combined ratio to a very pleasing 93.5%, the non-life business was able to increase its profits significantly by 33% compared to the previous year, to CHF 181 million.

As well as the better technical performance in the reinsurance business, the improvement in earnings in “Other activities” is attributable primarily to the absence of negative foreign currency effects on the investment funds, in comparison to the previous year. The net income reported comes more or less from the reinsurance business.

I would now like to take a look at the results by geography on slide 7.

(Slide 7) Result by geography

With a contribution to the result of CHF 237 million, the Swiss home market again proved itself to be a solid pillar of the Helvetia Group. Philipp Gmür will talk to you later on in detail about this country market result, which once again is very good. The growth in income in our foreign markets is also pleasing. In the reporting year, despite the difficult economic climate, they once again achieved significantly higher results than those of the previous year.

This applies especially to the German country market result, which is again profitable with a contribution to the Group result of CHF 27 million. The measures we launched in the previous year to reduce risk and strengthen earnings power in the non-life business are consequently showing their first positive effects. Further cost savings, an improved claims experience and a higher investment result have had a favourable effect as well. Further, reserve strengthening negatively impacted the prior year non-life result.

Despite the considerable snowfall and the two earthquakes in Northern Italy, the Italian country market result of CHF 17 million is significantly above that of the previous year. The strong increase in profit here is mainly due to an improved investment result.

The overall result of our Spanish business at CHF 21 million is slightly below that of the previous year, mainly because the net result from investments decreased slightly. We are still confident regarding the overall solid technical development, with a combined ratio of 92.9%, which indicates our technical discipline. In view of the still challenging Spanish insurance market, we are very pleased with the performance achieved.

Thanks to an improved claims ratio, in the “Other insurance units” segment the contribution from Reinsurance to the Group result was slightly above the already good result of the previous year. The country market result for Austria was also solid. The good investment result there was able to compensate for the increased claims incurred due to adverse weather and large claims, which was reflected in the combined ratio. Conversely, due to a higher level of claims, the French country market result was below that of the previous year. The transport insurance portfolio acquired from Gan Eurocourtage has been on our books from 1 December and has therefore hardly affected the result. Overall, due to the changed composition of the portfolio, we expect the combined ratio in France to increase in future.

As already mentioned, the considerable increase in income for the corporate segment can be attributed to the absence of the negative foreign currency effects on the investment funds.

I will continue with the development of our business volumes on slide 8.

(Slide 8) Business volume in original currency: -1.8%

In view of the difficult economic environment, the business volumes for our Group proved to be very robust at CHF 7.0 billion. Business performance, however, was mixed depending on the business line. The slight currency-adjusted decline of 1.8% can be attributed to the life business, where the volumes are 3.1% below those of the previous year. As Stefan Loacker has already explained, this is primarily due to the budgeted reduction of new business in the Swiss group life occupational pension scheme business. On the other hand, the substantially higher premium volumes in individual life business have had a compensating effect. A 15% growth in the capital-efficient unit-linked and index-linked products is particularly pleasing.

We are also very encouraged to see organic premium growth of 1.7% in the non-life business, not including the portfolio sale and purchase in 2012. All business lines show positive growth rates, with the exception of the accident and health insurance business, where, as planned, we sold on the accident and health portfolio we acquired with the purchase of Alba and Phenix. Compared with 2011, which was characterised by strong growth in the non-life business due to the acquisition of Alba and Phenix, reported growth in 2012 was primarily due to organic growth. The Gan Eurocourtage transport portfolio, which we acquired towards the end of the reporting year, was only reflected in the non-life growth for 2012 to a negligible extent. This acquisition, together with the majority interest acquired in Italy's Chiara Assicurazioni, will also be noticeable at Group level in 2013. We reported a partially selective decline of 2.5% in assumed reinsurance, which pursues an exclusively profit-oriented policy.

As well as the strategically influenced volume effects in Switzerland described above, the influence of the recession can be seen in Italy and Spain in the country growth rates. Both markets show declining volumes, from an overall market perspective, and record a double-digit decline in some business lines, but our country units still consider this to be good, given the circumstances. We are also satisfied with Germany and Austria which – with the exception of the traditional life business in Germany – were able to show positive growth rates almost consistently across all business lines. Due to our earnings-related restructuring measures and disciplined underwriting policy, slower growth but better profitability is expected in 2013 for the German non-life business.

Also in France we have grown significantly more strongly than the market, with premium growth of over 13%. The increase can be attributed to the acquisition of the Gan Eurocourtage transport portfolio only to a limited extent, because only the premium income for December was taken into consideration in the financial statements.

Philipp Gmür will provide you with detailed information about the Swiss development later on.

(Slide 9) Combined ratio non-life

As you can see from slide 9, the combined ratio improved by 2.1% compared to the previous year to a very good 93.5%. Despite natural catastrophe and adverse weather claims in Austria and Italy, claims experience in the reporting year was also pleasing thanks to the high quality of our portfolio. Overall, the claims ratio improved by 2.3 percentage points compared to the previous year. Thanks to strict cost management, the decrease in the cost ratio achieved in prior periods could be confirmed at 28.7% for the reporting year.

The net combined ratio in Switzerland at 85.0% remains at an outstanding level. As already discussed, Germany has shown a turnaround. Primarily thanks to our profitability improvement measures, our German market unit was able to reduce its net combined ratio by almost 10 percentage points. Apart from Austria, which was noticeably affected by the adverse weather and frost damage, all countries show a combined ratio of less than 100%.

As already communicated at the half year, we booked the Group-wide improvement in the practice of calculating reserves to cover uncertainties in claims development as a restatement of prior years, directly via equity, and this resulted in only negligible adjustments to the ratios for 2011. We will now take a look at the life business and the traditional embedded value on slide 10.

(Slide 10) Value of new business

New business volumes fell compared to the previous year, primarily due to the previously mentioned trend in volumes in Switzerland. Compared to the previous year, the value of new business declined from CHF 33 million to CHF 28.7 million due to lower volumes and the generally lower level of interest rates. We adjusted the country-specific risk discount rates to take into account the changed interest rate environment, which partially compensated for the effects of the lower level of interest rates. Overall, new business profitability, which is derived from the development in new business volumes and value, is down slightly compared to the previous year at 0.9%. Nevertheless, the value of the portfolio increased markedly, driven by the expected added value of the value in force, the value of new business and the positive impact of the adjusted risk discount rates. The operating embedded value return is some 10%. Overall the development of the Helvetia Group’s life business continues to be positive in light of the continuing difficult economic environment.

(Slide 11) Direct yield and guarantees in life business

Despite the continued difficult financial situation, the gross margins for the benefit of the insured and shareholders in Switzerland as well as in the EU countries proved stable. In Switzerland, the average technical liability rate reduced somewhat more strongly than the direct yield, while in the Euro area, the two values moved slightly downward to the same extent. Our long-term analysis also showed that the interest rate margin would decrease only negligibly over the next five years, even with sustained low interest rates. We therefore remain clearly in a position to comfortably service the guarantees to our customers. I will continue by looking at the changes in equity on slide 12.

(Slide 12) Changes in equity 2012

By end of 2012, the Group‘s equity had increased by 11.5% compared with the previous year to CHF 4.1 billion. As well as the good annual result, growth was driven by the increase in unrealised gains of our AFS financial assets, which are due to shareholders and policyholders. As of 31 December 2012, the unrealised gains had become a considerable proportion of more than 11% of the equity, compared with just 6% in the previous year. This, naturally, had an effect on our return on equity.

(Slide 13) Swiss Solvency Test

As already shown by the development of the equity, the capitalisation of the Helvetia Group also improved in 2012. The Solvency I ratio increased by 8 percentage points to 229%. But also on a risk basis, capitalisation remained at a high level thanks to a prudent risk management approach. In 2012, we consistently reduced our exposure to the PIIGS countries in areas that are not of relevance to our business. As part of our economically-aligned asset liability management, the duration gap was reduced at an early stage so that the Swiss Solvency Test could also easily withstand the dramatic decline in interest rates of the last two years.

As you can see from slide 13, 6 out of 7 of our internal models under the Swiss Solvency Test have been temporarily approved by FINMA (Swiss Financial Market Supervisory Authority) within the planned ongoing approval process. This progress has prompted us to provide more quantitative information about the Swiss Solvency Test. As of 1 July 2012, SST coverage was within a range of 150 to 200 percent, which meant the temporary reliefs from FINMA were not in force at that time and, have therefore, also not been included in the calculation. Although the calculations for the Swiss Solvency Test as at 1 January 2013 have not yet been completed, on account of the general easing of the economic environment, we expect the SST coverage to have improved in the 2nd half of 2012. The temporary reliefs are also not essential here. As a result of adverse market developments in the Swiss Solvency Test, the risk of running into a deficit is thereby relatively minor, as you can see from the sensitivities in respect of the key risk factors.

I shall conclude my talk by taking a look at the proposed dividends for last year on slide 14.

(Slide 14) Dividend policy

The very good annual result and the sustained balance sheet strength have enabled us to increase the dividend proposal to the Shareholders´ Meeting compared to the previous year by around 6%, to CHF 17.00 per share. This corresponds to a payout ratio of 44%, which is within our target range. The dividend yields an attractive 4.9%. 14.00 CHF / share will be paid from the capital reserves, which is tax-free for private persons domiciled in Switzerland. As a result we have now effectively fully passed on the tax-free distributable capital contribution reserves of Helvetia Holding to the shareholders.

My colleague, Ralph-Thomas Honegger, CIO of the Helvetia Group, will now provide you with more information about the investment result. >>>