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Helvetia Group analysts' conference call
Half-year results 2019
Thursday, 29 August 2019

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(The spoken words take precedence)

Paul Norton, CFO Helvetia Group

(Slide 5) 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 first half of 2019.

I would like to start with slide 6.

(Slide 6) Net income increased by 29.4% – strong performance of both life and non-life business

We achieved a solid IFRS result of CHF 290 million, against CHF 224 million in the first half of 2018. The good result was driven by strong investment results following the favourable development of the stock markets. The technical development – especially in life business – also contributed to the profit increase. Finally, Helvetia benefited from a one-off positive tax effect in the amount of more than CHF 63 million. This resulted mainly from the reduction 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, both life and non-life business increased their earnings compared to the first half of 2018. In the **non-life** business, IFRS earnings amounted to CHF 199 million against CHF 147 million in the first half of 2018. The non-life technical result increased slightly, partly due to volume and as a good attritional claims development and a lower burden of major claims from natural catastrophes were partly offset by higher acquisition costs. In the **life** business, IFRS earnings stood at CHF 109 million. The margin

after costs increased significantly thanks to improvements in all profit sources. Both life and non-life business also benefited from gains on investments (in the life business this was offset by significantly higher expenses for policyholder participation and additional interest-related reserve strengthening) and the aforementioned positive tax effect. By contrast, earnings in the other activities area fell year-on-year due to consolidation effects.
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 7.

(Slide 7) Strong earnings improvement in all main segments
Helvetia improved its results in all segments with the exception of Corporate. In **Switzerland,** the results in life and non-life business were significantly higher than in the first half of 2018. The increase is mainly due to better investment performance, good technical results and the positive tax effect of CHF 63 million. In **Europe**, Helvetia generated a higher result in non-life business, which was due to a more favourable claims environment on the one hand and capital gains on the other. Despite higher capital gains, lower interest-related additional reserving and a stronger margin after costs, the life result in Europe remained at the previous year's level, as these effects were offset by higher expenses for policyholder participation.
The **Specialty Markets** segment was able to increase its result thanks to higher investment income.
The **Corporate** result was below the previous year's figure due to the usual consolidation effects from funds allocated to this segment.

I will continue with our growth in business volume on slide 8.

(Slide 8) Pleasing top-line growth driven by non-life in Europe and Specialty Markets
In the first half of 2019, Helvetia Group achieved a business volume of roughly CHF 6 billion. This equates to a currency-adjusted increase of 3.3 percent over the previous year.

In the **non-life business**, we achieved an increase in premium volume of 6.4 percent in original currency. The growth was mainly driven by Europe and Specialty Markets, where premiums increased by 5.9 percent and 17.5 percent respectively. Here, 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 4.4 percent higher premiums. However, this growth was partly offset by a decline in the liability business.

In the **life business,** business volume rose by 0.6 percent in original currency. I would like to particularly emphasise the very good development of **investment-linked products** in individual life **in Switzerland and Germany** and in the Group Life business in Switzerland. Here, Swisscanto achieved almost 50 percent higher premiums compared to the first half 2018. The extraordinary growth was mainly driven by the withdrawal of a competitor from the full insurance business last year. Despite the growth opportunities, Helvetia has pursued a conservative underwriting in the full insurance business in view of the low interest environment. Business volume for traditional life products decreased in line with our strategy.

Now, I would like to look at the profit by sources of the non-life business on slide 9.

(Slide 9) Non-life: strong investment income and solid technical results supported by a positive tax effect

In the first half 2019 IFRS earnings in the non-life segment increased by 35.3 percent to CHF 199 million. Main driver was the investment result thanks to the favourable performance of the capital markets, particularly equity markets. The technical result also improved slightly over the previous year thanks to a good attritional claims development and a lower burden of major claims from natural catastrophes.

Finally, the non-life business benefited from the already mentioned one-time positive effect from the reduction of deferred tax provisions.

I would now like to move to the net combined ratio on slide 10.

(Slide 10) Non-life: remarkable net combined ratio on a very good level with pleasing improvement in Europe

Group net combined ratio was 92.5 percent in the first half of 2019 against 92.7 percent in the first half one year ago, which is a very good level and once again underpins the good quality of our portfolio.

The **claims ratio improved by 0.6** percentage point to 63.3 percent. The main reason was a better NatCat ratio as well as a better attritional claims development.

Looking at the **cost ratio**, the **administration cost ratio** was stable year-on-year, while the **acquisition cost ratio** increased. The reason were shifts in the distribution channel and product mix in Switzerland and in Europe as well as an adjustment of the reinsurance structure.

On a segment level, **Switzerland** showed a stable net combined ratio of 86.5 percent. Claims ratio improved thanks to a better attritional claims development and a lower NatCat burden. The cost ratio increased however due to an adjustment of the reinsurance structure and because we expanded the higher commission partner business.

With 94.5 percent, **Europe** recorded a better net combined ratio compared to the first half of 2018. The improvement was mainly attributable to a more favourable claims environment in Germany.

All European market units achieved combined ratios below 100 percent.

In the **Specialty Markets** segment, the net combined ratio increased to 97.4 percent. While cost ratio improved due to growth related economies of scale, Specialty Markets recorded a higher claims ratio mainly resulting from the commutation of a retrocession agreement in Active Reinsurance and an unfavourable development of two major claims from previous years. The current year claims ratio however improved.

On slide 11, we will have a closer look at the life business.

(Slide 11) Life: higher gains on investments, good technical development and a one-off positive tax effect

In the first half of 2019, net income for the life business was CHF 39.6 percent above the prior-year's figure.

Looking at the profit by sources the **margin after costs** increased significantly thanks to improvements in all profit sources.

The rising **savings result** can be attributed to higher asset returns in Switzerland on the one hand. On the other hand, technical interest rates decreased in both Switzerland and Europe resulting from the replacement of old contracts with high guarantees with new contracts with low guarantees as well as from reserve strengthening.

The higher **risk result** also mainly resulted from Swiss group life business as a consequence of a better mortality result in the first half of the year.

The **other result** was positively impacted by fluctuations in the valuation of options for investment-linked products.

The **cost result** improved thanks to reduced costs and a higher income from cost premiums

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

The **extraordinary result** was stable compared to the previous year. A higher interest-related reserve strengthening in Switzerland was largely compensated by lower reserves for future conversion rate losses resulting from the new tariff in the Swiss group life business (one-off effect) and lower interest-related reserve strengthening in Europe.

Expenses for policyholder participation significantly increased, as clients benefit from higher capital gains, a better margin after costs and the contribution to earnings from tax reductions in Switzerland. This had an adverse effect on the net income.
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 12.

(Slide 12) Life: higher NBM driven by lower capital needs for group life (model changes) and better business mix

New business also developed positively in the first half of 2019. The new business margin rose by 1.8 percentage points year-on-year to 3.1 percent (half-year 2018: 1.4 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 13.

(Slide 13) Life: resilient interest margin in an ongoing low interest rate environment

Direct yield increased in Switzerland and declined in the EU countries compared to last year.

In **Switzerland** the interest margin went up when comparing the first half 2019 against the previous year. This was attributable to the following reasons:
Direct yield increased due to higher income from real-estate, increased income from equities and funds and a negative one-off effect in the previous year.
The **average technical rate**, i.e. the rate that we need to earn, also declined. 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 the first half of 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 half 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 14) 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 a few large loss events in Europe, 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, however, declined. 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 15) Investments: strong performance of equity markets drives investment result

Current investment income of CHF 511 million slightly exceeded the previous year's level of CHF 505.8 million due to higher dividend income. Annualised, the direct yield remained at 2.1 percent. Thanks to the positive performance of the equity markets, Helvetia generated capital gains on investments of CHF 144 million. The investment result recognised in profit and loss amounted to CHF 656 million, giving Helvetia a return of 1.4 percent (not annualised). The level of unrealised gains and losses in equity increased by CHF 1,390 million both on the AFS-classified shares and due to the lower interest rates on the bonds, resulting in an overall performance of 4.2 per cent (not annualised).

On slide 16, you can see the investment result broken down by asset class.

(Slide 16) Investments: higher new and re-investment yield thanks to equity and property investments

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

About 60 percent of the **current income** of CHF 511 million came from bonds and mortgages, which contributed CHF 256 million and CHF 42 million, respectively, in absolute terms. Dividends accounted for CHF 63 million and investment property for CHF 132 million. **Realised and booked gains** on investments amounted to CHF 144 million reflecting the strong equity markets.

As already mentioned **unrealised gains and losses** increased by CHF 1.4 billion.

The lower half of the slide shows the **return on new and re-investments**. In the first half of 2019, the total new or reinvestments amounted to CHF 1.8 billion. 74 percent of the funds were allocated in Euro and Swiss franc fixed-income securities, the remainder in mortgages, equities and real estate. Short-term money market investments were reduced in favour of real estate and alternative investments. 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 1.6 percent overall.

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