



## **VIENNA INSURANCE GROUP (VIG)**

**Results for the first three quarters 2015  
24<sup>th</sup> of November, 2015 15:00 CET**

### **Conference Call Q&A-Session**

#### **Transcription**

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**Conference Duration:**                      **Approximately 45 minutes**

**Speakers:**                                      **Martin Simhandl, CFO**  
**Peter Höfinger**  
**Roland Gröll**

**Chairperson:**                                  **Nina Higatzberger**

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Operator The first question comes from the line of Bernd Maurer of RCB. Please go ahead, sir.

Bernd Maurer Good afternoon, a couple of questions from my side. First on the IT review, is the project now finalised or is it still ongoing, meaning that there could also be potential further impairments of IT infrastructure come in the next quarters? Second, in the life segment I spotted you reported other operating expenses of minus 134 in the one to three Q period versus minus 149 in the first half results, so it looks that, like that there has been a positive one off in the third quarter; can you please explain this development? Third, can you please quantify the impact of the local thunderstorms in Austria in July on your combined ratio? And last but not least a question which is of course on interest for investors is your view on the dividend, we saw the quotes from the press conference saying that your dividend policy remains unchanged paying out at least a third of net profit. So far, so good, but can you say something like if the €1.40 you paid out last year can be seen as a floor and a cut in dividend would be very unlikely from your current point of view? Thanks a lot.

Martin Simhandl Well, I've got four questions. Maybe the first and the fourth I will try to answer, the second will be answered by Roland Gröll, and the third will be answered by Peter Höfinger. May I start with the fourth question because it's maybe the fastest to be answered. In the current time, meaning in November, what we can say, and this Peter Hagen has already said, is that we stick to our dividend policy. And to make it clear, dividend policy, and this is unchanged since 2005, means a minimum pay-out of 30% of the group net result. Everything else for the time being I think is not to be said. Anything else has to be discussed and decided when the year-end result is on the table.

Second, concerning IT, you said is our IT project finished? Maybe I have to elaborate a bit on that. When we talk about IT, we are talking about a group with roughly 50 insurance companies and, as you know, the biggest part of these insurance companies has been acquired within, let's say the last ten years, and with every company you acquire a new IT system is added to your group. So what you see in such a situation is quite a heterogeneous IT world and of course we are over time working on that and to define what is useful for the future, what has to be changed, what we can further develop, what is not technically possible or sensible to further develop. This is, so to say, the environment.

When we talk specifically about the development of the last year, what we did, and this we announced already I think in the beginning of this year also in the telephone conference, is that we did a specific review on our IT development. We are always monitoring our IT systems, the landscape of our IT systems,



a huge number of roughly €2.9 billion but there you have the opposite effect in. Net, the effect is nearly zero. That's the main reason why we have this rather high volatility in other expenses life.

Bernd Maurer

Okay.

Martin Simhandl

Maybe the third question, Peter, please?

Peter Höfinger

Maybe coming to your question of the hail event, I have to say the hail event was not only affecting Austria, it was also affecting Czech Republic and Slovakia, so I cannot now exactly say you the figure just relevant for Austria. But looking to this hail event, it will be below 3% which is the impact.

Bernd Maurer

On the combined ratio for the full one to three Q period you mean?

Peter Höfinger

Yes.

Bernd Maurer

Thanks a lot.

Operator

Your next question comes from the line of Dhruv Gahlaut of HSBC. Please go ahead, sir.

Dhruv Gahlaut

Good afternoon, thanks for taking my questions. Just a couple of questions. Firstly, in terms of the Polish market, could you say as in could you comment where we are in terms of rates? Are you still seeing rates going down in the Q3 as well as Q4? Also, you mentioned about the reserves strengthening; is that still ongoing and do you think you might need to add more to results strengthening given the recent trends? That's one. Secondly, in terms of Romania, could you say as in what's happening there in terms of rates in Q3, as in are you still seeing market putting rates up or are you seeing that trend falling down at this point? And thirdly, on the investment margin, could you comment where your new money and back book rate yields are at this point just to get a feel in terms of how sustainable the investment margins could be going forward on the book?

Martin Simhandl

Maybe I start with number three, and the first two questions then can be answered by Peter. The investment margins, and when we talk about that, the main effect for us is always Austria. That's two-thirds or even more of the investment book and it's Euro, and here for this year we have new investment yields around 1.75, something like that.

Peter Höfinger

Maybe coming to the Polish market, on one hand side if one looks on the local results, the first half-year of the insurance company in Poland, you see that all over the place there is a reduction of the profitability. This is mainly driven by the lower rates which we're seeing in Poland and I think it's putting

pressure on the whole market to rethink their pricing strategies which they have. There are some slight signs but, again, I think it is too early to see a trend here, but there are some slight signs coming out of fleet business where one could have the feeling that there could be a stabilisation in the motor market.

If you look on the corporate business, still we are here on very low rate levels. There was in the first half-year, there was a large claim for the Polish market. Also this should put pressure on the market to have a more technical approach. Not yet really to be seen, so this is how I would see the Polish market. Coming to Romania, here in Romania you know that we have experienced over the last 12-18 months a quite significant increase by the rates in the motor business. We do not see currently trends that premium levels would go down again.

Dhruv Gahlaut                      Could I just ask a follow-up on Romania as in, are you able to push similar amount of rates, even in Q3, as in I think you were putting in double-digit rate increase at the half-year stage? Is that kind of momentum still going on?

Peter Höfingger                      Well, as I said, you have to look that you have a whole portfolio and you have annual contracts. So it's also if you are just renewing contracts which are, which have been closed more than 12 months ago, then you have automatically the increase which the market was doing.

Dhruv Gahlaut                      Right, thank you.

Operator                              The next question comes from the line of Sami Taipalus of Berenberg. Please go ahead.

Sami Taipalus                        Hi, thanks for taking my question. It's first of all, I just want to go back to this IT write-down and I just wanted to understand a little bit what it is that you've identified here. Is this, is the thing that you've identified things where the IT systems are not performing the function they should, or is it functions that you don't need, that you think that you don't actually need? And I suppose I also would like to understand if you will need to replace these systems with something and what sort of costs there will be associated with that? That's my first question.

Second of all, just looking at this remaining business that you have which has indeed performed very well over the last few years and certainly come from being not very material to something much better, could you just give us a little bit of a reminder of what's changed here? Is this the... did you change the strategy here somehow, or make any operational improvements, or is just, this just the natural development of the markets, and what could we expect from these businesses going forward? And then finally just a quick one on Slovakia; The combined ratio ticked up quite a lot year-on-year for the nine months; was there anything, kind of, one off in there or, I

know there was a bit of bad weather. Was basically the tick up fully attributable to bad weather? Thank you.

Martin Simhandl

Thank you for your questions. Maybe question number one I will answer and two and three I will hand over to Peter. The first question, IT write-down, what we did is we tried to identify how far there are software parts which most probably we will not use anymore or we will not use in the full extent or maybe we will not use for all those companies we maybe would have dedicated to. It's not that we have a situation where we would have, so to say, in place non-functioning systems for the current business. It is simply the question of how we develop the software for the current business in the different companies of the Group, how far it is sensible to unify or not to unify in the Group, to what extent this makes sense. And of course over time you see developments on the technical side which maybe make things, so to say, to be re-thought from a technical perspective but also from the business side. And insofar we try to identify what kind of software we have, what parts we think are worth to further invest in and what parts maybe it's not sensible and where to finish or where to not use even for a certain period.

Given that, when we look at the investment side, and I think this was your second question, of course you always have investments in IT in an existing landscape. We would not expect a specific extraordinary increase out of that development. We would rather see a reallocation in those investments and it's a question of simply where to, to what systems, to what developments you are focusing and we try always to do that in a way that our software is on the one hand performing good, on the other hand it's not, or it's on the lower end of costs, so to say, to save as much costs but to have a good performing software there. And this is what we did and what we identified here as what we will not use or maybe will not use for certain companies or maybe will not use within a certain period. We simply have done an impairment.

Sami Taipalus

Thank you.

Peter Höfingger

If I come to the remaining markets, on the one hand side one has to say that the economic environment in the remaining markets over the last years has improved and stabilised and we are benefiting out of this and taking the opportunities which we see in this more positive economic environment in the smaller countries. On the other hand, more and more in these countries we are benefiting from economies of scale, meaning that we are above critical size and therefore, together with our premium growth, we are able to increase our profitability. This is the main reason for our success there.

Coming to Slovakia, on the one hand side claims are due to weather conditions. On the other hand side we have also experienced larger claims. So it's a mixture of, one could say one-off effects, on the other hand side, large claims, we are

analysing them to secure that in the future underwriting we are better taking care of that.

Sami Taipalus Okay, but there is nothing to change your view of the, kind of the underlying profitability in Slovakia?

Peter Höfingler From today's perspective, no.

Sami Taipalus Thank you.

Operator The next question comes from the line of Ralph Hebgen of KBW. Please go ahead, sir.

Ralph Hebgen Hi, Ralph Hebgen from KBW. I just have one question which also relates to the incidence of NatCats in the quarters and I just want to share some data with you. If I just calculate the NatCats as a percentage of premiums, then in the third quarter now, 2015, I get to 6%. I am just rounding these numbers, 6% Q3 14 it was 6%, Q2 14, 5%, Q2 13, 6%, Q3 12, 7.5%.

So I just get the sense that recently, since about 2012 there were more quarters where you had a large incidence of NatCats or large losses. And so my question is whether you could perhaps comment on this dynamic. Has something changed? Have you more exposure, is there more exposure for the Vienna Insurance Group to large losses, have you investigated any potential increased incidents of large losses, has your geographical exposure changed, your reinsurance program? Any comments on this dynamic would be welcome. Thank you.

Peter Höfingler Well this is a very long topic. There are various impacts also on us. On the one hand side what we see over the last years is that there is an increase of frequency in, let's call it, small local events. You have, very locally you have hailstorms, locally you have flash floods, so you have a higher frequency of these small events which also is burdening us more on the net than on the gross side as reinsurance is here mainly to cover the big events.

You see also that in the last years for example floods, Austria, Czech Republic, you have a much lower exposure here, also due to the fact that there have been quite intensive investments of the governments in flood protection. So also here, maybe which would have been in former times large events, have become these times, these days some smaller events. So there is a certain change in how to see these weather-related claims and that's why we call it weather-related claims.

On the other hand side, to look at changes of climate I think it is much too early to speak about. You have to look over many, many more years than just the last three or four years.

Ralph Hebgen But just as a follow-up, is there any increased incidence in large losses in these numbers perhaps or perhaps to ask the question in a different way. If I asked you what your sort of normalised, in inverted commas, experience in NatCats, what would you say; is that an increased number going forward relative to the past?

Peter Höfinger Again, I would not say this and again I think it's a much too short time horizon to see any kind of tendency which is changing due to the weather.

Ralph Hebgen And anything on large losses? Did you do an investigation into your experience of large losses?

Peter Höfinger We always do an investigation when we make our modelling when buying the NatCat cover every year, so you know that we have developed models for our region, for the NatCat cover and there we also have these kinds of modelling. We do not see here significant changes. What we also did, but this we did already three or four years ago, we are also more and more taking into consideration in our underwriting the topic of a NatCat for large industrial clients.

Ralph Hebgen Thank you very much.

Operator Ladies and gentlemen, as a reminder if you would like to ask a question, please press star followed by one. The next question comes from the line of Thomas Unger of Erste Group. Please go ahead.

Thomas Unger Hi, good afternoon gentlemen and thanks for taking my questions; the first one will be coming back to the review of your IT systems, I just wanted to know this impairment, how does it affect your depreciation in the coming years? What does it change going forward? And then in the non-life segment for Austria, Czech Republic and Slovakia, could you quantify the impact of the hail event that you mentioned because I have seen that the earnings before tax declined in all three countries in Q3 while the gross written premiums still increased, at least marginally. So you did explain Slovakia with the larger claims and hail event but maybe you could quantify it for Austria and Czech Republic also. And it would be helpful if you had anything to say about your outlook for 2016. Thank you.

Martin Simhandl Maybe I will start with your last question. I think it is too early to give an outlook on 2016. So this is a time of a planning period and maybe it's simply too early. Maybe the two other questions, IT systems, if I understood it right, I will answer and the second question I will hand over to Peter.

The write-down of the IT software, in how far we have an effect on depreciation, if I understood the question right, I think this is again something that we clearly have to analyse because we have to analyse simply out of the fact that some of the

investments now, so to say, we have impaired, some others we will do (Note: further analyse). And the question also is for what period, what parts of the IT we are using and we will most probably in the coming weeks and months look closer at this. For the time being I would not see in one or in the other direction a big effect out of that.

Thomas Unger

Okay.

Peter Höfing

Coming back to your question which I think I have answered before, the hail event was not just affecting Austria but it was also affecting the Czech Republic and Slovakia. I just have the total figure, not now broken down by country.

Thomas Unger

Okay.

Operator

The next question comes from the line of Rahul Parekh of JP Morgan. Please go ahead.

Rahul Parekh

Hi, good afternoon, thank you for taking my question. I just have one question. All the others have been answered. Are you going to continue your claims for personnel in Austria or is it done for now?

Martin Simhandl

Sorry, I fear we have not got the question acoustically. Could you be so kind and repeat it?

Rahul Parekh

Yes. You did a precaution for personnel provisions in Austria. I just wanted to know whether the provision has been completed or we are going to still continue making provisions in the next quarter maybe.

Martin Simhandl

Maybe this could be answered by Roland. Roland, please be so kind.

Roland Gröll

This precautionary provision for our personal, in connection with our personnel costs is mainly driven by the development of the interest rate curve, so it's not easy for me to foresee the development of this interest curve in the future. But till the year end if nothing significant will change, I do not expect the material additional need for further provisions.

Rahul Parekh

Okay, thank you.