



VIENNA INSURANCE GROUP (VIG)

Results for the first half-year 2018

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Conference Call Q&A-Session

Transcription

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Operator Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone wishes to ask a question may press star followed by one on their touchtone telephone. Please make sure your phones have the DTMF tones activated in order to register for a question. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question is from the line of Michael Huttner of J.P. Morgan. Please, go ahead.

Michael Huttner Well done for the very strong results. I have four questions, if I may. The one which is of real interest to me: could you maybe just talk a little more about the trends in motor insurance? From the presentation, I got the impressions that premiums are up and claims are down, and I just wondered how you see this developing and whether there's any particular line of motor or country of motor which was better?

And then, the other question is really to kind of dance around the subject of at what stage would you feel more comfortable to maybe review your guidance for 2020, given that if I annualise these results you would already make the numbers in 2018? That's it, thank you.

Elisabeth Stadler Thanks, Michael. Peter Höfinger will start with your questions concerning the trends in motor insurance.

Peter Höfinger Thank you for the questions. As you can see, we are growing in motor insurance. On the one hand, this is driven by new car sales. You see that everywhere in our region the general economic situation is increasing and is in quite good condition. This is also driving new car sales. If I say new car sales, this is also including used cars. This is also the driver specifically for our casco insurance premium growth.

If you look into Motor TPL, in some of our markets, we have seen, in the last 12 months, maybe even the last 18 months, a strengthening of the prices, as this normally takes quite some time until we have this in our total portfolio. You can now see it more and more. As an example, you can look at Poland, where we saw price increases; you can look at Hungary where there were quite dramatic price increases over the last 18 months;

also, recently, in Bulgaria; Austria, which is an important market, is quite stable.

As we mentioned, half a year ago, we saw a bit of a different situation in the Czech Republic, where there is quite fierce price competition, and where we have a clear leading position and where we are in the defending seat. But, nevertheless, looking at our combined ratio, here I think one can see a positive trend.

What we also did – and this is done under our Agenda 2020 – we are more and more using what we call a more sophisticated underwriting approach, so we're using more data analysis in our tariffs, having more segmented tariffs all over the place. And also, this shows, I think, first effects in our claims ratio and claims ratio improvement. This is also supported by our initiative of anti-fraud and claims, which is very much focused on the motor side, and here more on the Casco side. So this is, overall, more or less the tendencies which we see in motor. I personally would be quite optimistic for the near future, that these trends will continue.

Michael Huttner

Brilliant, thank you very much.

Elisabeth Stadler

Thanks. Concerning your question about the guidance, given the strong half-year results 2018, I would say we are quite confident that, by the end of the year, we would not expect something special, but maybe you remember our past experience has shown that it's always good to stay conservative. You know that the situation in the CEE countries can change quite quickly towards the unexpected. We will start the planning process in September, then we will discuss the prognosis for the end of 2018 and the plans for 2019 with all our companies in the different countries.

I would say, for the time being, we are very optimistic but, nevertheless, we have to keep in mind that new regulatory initiatives are approaching – I'm thinking of IFRS 17 – which will be even bigger and more costly than the implementation of Solvency II. So in general, maybe you remember that we have moved the originally planned figures for 2019 already into the year 2018, so we are quite optimistic but we will see what the end-year brings and then we will talk about our guidance for 2020.

Michael Huttner

Brilliant, thank you very much. Thank you.

Elisabeth Stadler

Thanks.

Operator The next question is from the line of Frank Kopfinger of Deutsche Bank. Please, go ahead.

Frank Kopfinger Yes, good afternoon, everybody. I have two questions. My first is on the earnings contribution from the housing societies. You mentioned that there are quarterly fluctuations and a seasonality embedded. Can you remind us what the seasonality looks like and what is different to last year?

And then, secondly, on the pre-tax result in Poland, there you saw rising P&C premium volume, it's up by 20%, the combined ratio improved slightly by 70 basis points; however, the pre-tax profit was more or less flat, it even slightly declined. Can you elaborate a little bit on the financials in Poland, therefore, please?

Elisabeth Stadler Liane will start with the housing society.

Liane Hirner There are some fluctuations in the housing societies. In this half-year, we have increased the earnings by around 14 million euros, but, as we already told you in previous calls and communications, the earnings are fluctuating and it's quite hard to predict, so this is the impact on this half-year 2018.

Frank Kopfinger But there is no specific seasonality in terms of Q2 is always stronger or something?

Liane Hirner No. It is fluctuating throughout the year. It depends when the houses are constructed and the depreciation starts. So this is hard to predict and there is no seasonality or pattern within one calendar year.

Frank Kopfinger Okay.

Elisabeth Stadler Thanks. Concerning Poland, maybe you have realised that we have quite a big decrease in the life insurance premium and, therefore, the costs are quite high compared to the premium income.

Frank Kopfinger Okay, thanks.

Elisabeth Stadler Thank you.

Operator The next question is from the line of Youdish Chicooree of Autonomous Research. Please, go ahead.

Youdish Chicooree Good afternoon, everyone. I've got two questions, please. I was wondering if you could just provide some more details behind your assessment of the Romanian market, please, because I

think you still have around 100 million of goodwill related to Romania, so I was wondering whether this was subject for review at the year-end, or are you confident it's at the correct level at the moment?

And then, secondly, on your combined ratio target of 95%, are you able to tell us whether you expect most of the improvement to come from costs, or is it, to some extent, dependent on the pricing environment in your various markets? Thank you.

Elisabeth Stadler

Thank you, Youdish. Sorry, we had a technical problem. Judit will start. She is responsible for Romania. She is there every week and she knows the Romanian market quite well.

Judit Havasi

Yes, so the Romanian market is still a very challenging market, especially in the motor area. I would give you an example, for example, the European commission also decided, in July, to send a formal notice to Romania requesting it to submit its observation on its national rules on MTPL insurance. If Romania does not act within the next two months, the commission may send a reasoned opinion on this matter.

And this is also a very good example that we have, on the economic and on the political side, a very, very fluctuating and challenging market, and that's why we just said we'll make a review regarding the planning and we need there maybe to be much more conservative for the year-end.

Youdish Chicooree

Okay, I understand.

Judit Havasi

And we have still the goodwill of about 110 million euros on Romania.

Elisabeth Stadler

Concerning the combined ratio target, of course we would like to reach the combined ratio of 95% by improving both claims ratio as well as cost ratio. We have set up a lot of initiatives in our Agenda 2020, a lot of initiatives looking at the claims ratio, this closed-file review and so on, which were all our projects we transport from one country to another, where we do best practice from one country to another.

And there are a lot of initiatives looking at the cost ratio, that we try to find synergies by doing some mergers in different countries, by merging the Sparkassen Versicherung companies to our bigger companies in the different countries and, of course, we are trying to create synergies by creating and expanding the administration and IT centres we have in the different regions for the different companies.

We talked a lot about this project, so I can give you a lot of information. For example, there is a big project in Austria, running now, where we try to implement one common IT for both companies in Austria, for Donau Insurance as well as for Wiener Städtische. That means we will have one IT system, we will have synergies in processes in project and, of course, in administration and claims handling.

The same we are doing in the Czech Republic at the moment. There, we are trying to create one common administration centre behind the two or three different companies we have in this country. There, we see a lot of potential. And so, there are a lot of activities in this case. We see positive effects in Poland, for example, where we did this exercise already in the last year, and so we want to transport this to a lot of other countries and regions.

Youdish Chicooree

Okay, understood. Thank you very much.

Elisabeth Stadler

Thank you.

Operator

As a reminder to ask a question, please press star followed by one on your telephone. The next question comes from the line of Bernd Maurer of RCB. Please, go ahead.

Bernd Maurer

Good afternoon. Two questions from my side. First, on the tax rate. The tax rate was high in the second quarter, I think mainly driven by the non-detectability of the goodwill impairment in Romania, but I was told, by your colleagues from investor relations, in the morning, that there were also some specifics in the Austrian business which led to a higher tax rate in the quarter and the review. My question is will the Austrian effect flatten out over the second half, meaning that if the tax rate was higher in the first half it should be lower in the second half, that you end, for the full-year, by the 21% to 22% as in the last years? Or can we only assume a normal tax rate of the 21%-22% corridor in the second half and the tax rate should be a bit higher for the full-year than usual?

That's point one, and question number two refers to the comment before on the IT systems that, for example, you mentioned in Austria to use one common IT system for Donau Versicherung and Wiener Städtische. How big is the risk for any write-downs of IT infrastructure, be it in Austria, be it in the CEE country from the initiatives in this field? Or is there need for any write-down? Could there be need? Is there risk for write-downs?

Elisabeth Stadler Thank you. It's interesting, everybody has two questions today. So Liane will start with the answering the first question.

Liane Hirner Thank you, I'm happy to take your question on the tax rate. You already stated that Q2, the tax rate is maybe influenced by the goodwill impairment of Romania, which is not tax-deductible, so the tax rate is a little bit higher in Q2. Regarding Austria, we had a one-off last year, so there was an impact last year also, and in the first six months of 2018, the tax rate is higher. This will come to a lower level in the second half of 2018, meaning for the whole year we will not reach the 21% or 22% level which we see as a normal level. That tax rate is expected to come down until the year-end, something in between.

Bernd Maurer Understood, thank you.

Elisabeth Stadler Judit Havasi will answer your IT question.

Judit Havasi The second question. As you know, we switched from this big common solution to a local solution based at the country level, to have an IT system. There is no danger to have impairment in the future. The project is very well on track. What we have still is two parallel IT systems, so we have to consider the costs, but this has nothing to do with write-downs.

Bernd Maurer Happy to hear. Thank you very much.

Operator The next question is from the line of Thomas Unger of Erste Group. Please, go ahead.

Thomas Unger Yes, thank you very much for the opportunity. I have three questions, for a change. The first one's a short one on S IMMO. First of all, was the gain booked in the central functions. I think you mentioned that gain that was booked in the financial result. Was that 14 million, did I get that right?

And then secondly, on the investment results, the current income was stable, year on year, in Q1 and now it moves higher in Q2. Have you seen the bottom there? Can we expect increases going forward? And then, thirdly, on the operating expenses, they were 568 million in Q1 and 523 million in Q2. Were there any extraordinary effects in either quarter? Can I expect to see the Q2 level in the next few quarters, going forward? Thank you.

Nina Higatzberger Thomas, sorry, could you repeat the last question, please?

Thomas Unger The last question was on operating expenses. They were significantly higher in Q1 than they were in Q2, and I was just asking

if there were any extraordinary effects in either of the two quarters, and which level could be the run rate for the next few quarters?

Elisabeth Stadler

Liane will answer the first two questions; the IT question will go to Judit again.

Liane Hirner

Regarding your question relating to S IMMO gain, this was booked in Austria. Regarding also current income in the financial results, we had better results in the housing societies, which are also included in the current income, so the seasonal effect was in this line of the income statement of the financial result.

Thomas Unger

How big was that effect in the current income?

Liane Hirner

Sorry, I didn't catch your question.

Thomas Unger

How big was the contribution or the effect of the housing societies in the current income?

Liane Hirner

The overall effect is +11 million. If you need further detail, we will provide you with it directly.

Thomas Unger

That's fine. Coming back to the first question, maybe the gain that you book on S IMMO, what was the amount again?

Liane Hirner

The amount was 14 million euros.

Thomas Unger

14 million, okay, thank you.

Judit Havasi

And regarding IT expenses, also what I mentioned is we will have higher IT operational expenses in Austria in the next few years, I would say in the next two to three years.

Thomas Unger

Thank you. In fact, I was asking about the operating expenses on a group level, overall. And if I look at the P&L, they were, in Q1, quite substantially higher than they were in Q2, and I was just wondering if the Q2 level, the 523 million, that you had on the group level, if that is a run rate that I can expect for the next few quarters?

Judit Havasi

We forecast something in between, so it will be higher than the Q2 level.

Thomas Unger

Okay, so in between Q1 and Q2?

Judit Havasi

Yes.

Thomas Unger

Okay, thank you.

Operator To ask a question, please press star followed by one on your telephone. We have a follow-up question from the line of Michael Huttner of J.P. Morgan. Please, go ahead.

Michael Huttner Thank you very much. I'll ask two, if I may. One is just a follow-up on the point about extra IT costs and potentially IFRS 17. I just wondered if there's a figure we can use, IFRS 17 compared with Solvency II, any indication? And the second one is on deals. You've closed the Gothaer deal in Poland. I just wondered how you see the potential for acquisitions, going forward. Thank you.

Elisabeth Stadler Liane will start with the first question.

Liane Hirner Regarding IT costs in relation to IFRS 17, I would like to state that we started a group-wide project with IFRS 17, setting up project teams and all the related things to that, so we incurred some minor costs this year. The big amount is expected to come in 2019 onwards. As you might be aware, the EU is currently endorsing IFRS 17, in the endorsement process, so at the moment we do not really know when IFRS 17 will become effective within the EU. But the big cost we expect from 2019 onwards. And what I can say, for now, is the cost of IFRS 17 we expect will exceed Solvency II implementation costs.

Michael Huttner Okay, thank you.

Elisabeth Stadler Concerning Gothaer in Poland, you know we signed the purchase agreement. The acquisition, I think, we already mentioned, strengthened our position in non-life insurance in the Polish market, where we try to gain a minimum market share of 10%, because Poland is one of the four countries where we want to reach this 10% market share within the next three to five years. Including Gothaer, we can show about 8%. I would say the deal is going forwards. We are in negotiation and in discussion with the authorities at the moment. We expect closing the end of this year, beginning of next year.

Michael Huttner And any further deals in your other three countries?

Elisabeth Stadler There are no concrete further deals, but maybe you know, if there are some targets coming up, we are always watching very closely and we are interested in some acquisition in some different countries, and of course there are some targets in the line now, I would say. If we have some news, we will let you know immediately.

Michael Huttner Thank you very much.

Operator

There are no further questions at this time. I'll hand back to Nina for closing comments.

Nina Higatzberger

As there are no further questions I would like to end this conference call. Thanks to everyone for your interest and questions. The next scheduled results call will take place on the 28th of November when VIG is releasing its first to third quarter results 2018. Have a good day and goodbye.