



VIENNA INSURANCE GROUP (VIG)

Preliminary results for the financial year 2018

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Conference Call Q&A-Session

Transcription

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Youdish Chicooree

Good afternoon everyone. I've got three questions, please. The first one is really on pricing trends in non-life. If you could provide an update on the pricing trends in your five largest CEE markets. And secondly, with respect to the investigation of the Romanian Competition Council, I just wondered, what is the status of this investigation, and do you remain comfortable with the provision you recorded in the third quarter?

And finally, on solvency, you ended the year with a very strong ratio of 239%. Could you help us understand the main drivers of the change from the level of 222 at June? I mean, here, I'm particularly interested to know the benefit from these intra-group mergers and also what hit you had to absorb from financial markets in the fourth quarter please. Thank you very much.

Elisabeth Stadler

Okay, thanks. So let's start with the pricing trends in our largest CEE markets. Peter Höfingger will answer your question.

Peter Höfingger

Good afternoon. Let's start with Austria. It's a pretty stable development and environment. What is maybe interesting, what we saw with large corporate customers very much to the year end, that there was a hardening. So we see in the renewals on the commercial side a slight hardening. Sometimes it's not always shown premium-wise, but condition-wise. So I think Austria is quite positive in this environment.

If we look to Czech Republic, also here in Czech Republic, we see a competition still in the motor market but we also see here a certain development which allows us, specifically in the commercial business, to further develop our portfolio, and we have generated also quite a good premium growth in the commercial lines. In the year 2017, we ourselves, but also the market in Czech Republic, was hit by a quite high frequency of middle sized and bigger claims which forced the market to be more disciplined.

Slovakia is still, in the motor business, strong competition. Nevertheless, in Slovakia, we have decided to follow a much more segmented underwriting, specifically in motor business and accepting also in motor business to lose certain businesses and let it go away. And I also believe that here, the market will stabilise in the foreseeable future.

Poland, there we had the last 18 months, 24 months now already, there was a hardening. It is now stable. You also see this in our own development of our company and in the development of our claims ratio. The market is now stable, and we would also expect this going forward in the short-term future.

Romania, you know that is a special case. There, we have, on one hand side, the topic with certain limits on the premiums. The commercial line is stable. We are here heavily sanitating our portfolio and we will see that we will have a negative premium overall development of our companies in the sanitation of our portfolio. This is a short overview for the pricing environment.

Youdish Chicooree Okay. But overall, do you expect to be very close to the six I think 6.7% growth you managed to record in 2018, going forward?

Peter Höfingger We do have clearly ambitious growth targets in the non-life area for what is here. We, on the one hand side, in Central and Eastern Europe, are very much supported by the economic environment with having GDP growth above 3%. You also see in the growth of our Casco portfolio, that again, people are buying new cars and that leasing companies are becoming more active. So we do see also for this year opportunities to further grow our non-life portfolio.

Youdish Chicooree Okay, great. Thank you very much. That was very helpful.

Elisabeth Stadler Okay, I'll hand over, Liane, to do the Romanian case.

Liane Hirner Regarding the Romanian Competition Council, we already built a provision in the third quarter in the amount of a low double-digit Euro amount. There is no further reserving risk currently. There is a decision recently that has been taken to the local companies. We are evaluating this and probably any legal actions we'll be taking against this decision. Currently, provision is made and, based on the knowledge for the moment, is sufficient.

Youdish Chicooree Okay, thank you.

Elisabeth Stadler And concerning solvency, Judit Havasi will answer your question.

Judit Havasi So the solvency ratio, the development, is mainly driven by the SCR part. There are several small changes. For example, changes by EIOPA in the equity shocks, from 40.9% to about 33% and we also have reduced slightly the equity related portfolio in Austria. These two factors had a... had a result in our SCR before diversification of 35% in SCR reduction in this part.

And also, the mergers had a very profitable and good advantage for us. We could increase our diversification in the bigger life portfolios, especially in Austria. We could diversify much more the costs related to the products. My expectation is also for the future that we can more equalise the specific volatility due to the interest rate development for the future. Would be a good added value for us.

Youdish Chicooree Sorry, I didn't quite catch your last comment on the interest rates.

Judit Havasi My expectation is that we can a little bit equalise volatility in the interest rate sensitivity, based on this model decision.

Youdish Chicooree Okay, all right, thank you.

Operator The next question is from the line of Michael Huttner of JP Morgan. Please go ahead.

Michael Huttner Fantastic, thank you. Just three questions. On the solvency, I was interested in your last comment. Maybe, is this going forward? And how much could it boost your solvency ratio versus the low volatility and interest rate sensitivity? And second question is on the tax which seems to be down and up again. I just wondered what the number is we should be using on a, kind of, sustainable basis to have a view of net income.

And then the third is on cash flow. Can you help me, you know, peers like Zurich, Generali, AXA, provide remitted cash flow figures – what is sent by the subsidiary to the parent – and then they provide a holding company cost, so we have a clear view of how much cash is available for dividends, for growth, etc. And I just wondered if you can give any indications on this.

I spoke with your wonderful IR team earlier and I understood – maybe that's not what they said – but I understood that the remittance of profits from the subsidiaries to the parent is around 80%, which is an amazing number, it's very high. I think your peers aim for between 60 and 80, so 80 is the top end. And I just wondered if you can talk a little bit about this. Thank you.

Elisabeth Stadler Thank you Michael. Let's start off again with solvency. Judit, please.

Judit Havasi We have already our biggest mergers behind us. But for sure, this was very important and helped in order to stabilise our volatility part in the negative interest rate volatility, because we show you also in the last conference call that we had a rather big volatility in that. And we are working on that continuously. So maybe we have a little bit more, but now, I can't really see much more

of the concrete results from the mergers. We're working on the costs and on more efficiency for sure.

Michael Huttner

Okay.

Elisabeth Stadler

Concerning the tax issue, of course, we have an average rate which we assume to be about 22%, but it always depends on some special regulations, if we are doing some write-offs, some adjustments. This year, for example, we had some special effects in Austria which we can't influence. We are looking forward to stabilise the difference between the two results and to have quite a standard tax ratio. But this is not possible; we are not able to steer this in that manner we would like to. But I think an average rate would be about 22%.

Michael Huttner

Okay, thank you.

Elisabeth Stadler

If you are asking about the cash flows, of course we have cash flows available, but the dividend upstream to the holding from the operative companies is dependent on the local results and not on the IFRS results in our group. So it's not so easy to give the guidance here.

We have about 60% to 80% which we would like to see or to get this dividend into the holding. But again, this is to be seen different from country to country. It depends on the solvency ratio, on the capital needs in the different companies in the different countries.

You know, we are active in a lot of emerging countries. We are growing there quite rapidly. And this, of course, is sometimes the need of capital in the different countries, and therefore, the upstream of the dividend to the holding is not fixed, but we decide it from company to company and from year to year.

Michael Huttner

Brilliant, thank you. That's very helpful.

Elisabeth Stadler

Thanks.

Operator

The next question comes from the line of Michael Haid at Commerzbank. Please go ahead.

Michael Haid

Thank you very much. Good afternoon. Two questions. First on the dividend policy, you gave us a range of 30% to 50%. If my math is correct, then in 2017, the pay-out ratio was 40%; 2018, it was the upper end of your target range, so 48%, 49%. My question is, why do you give us a range? What does it depend on, whether you are on 30 or on 50%? And can I conclude that

when your profitability increases, you feel more comfortable at 30% rather than at 50%? That would be my first question.

The second question is on the Agenda 2020. I have the impression that – and I think you said this also – that the Agenda 2020 had been enhanced since you incepted it in 2017. Can you give us a view, or can you share with us what you are looking at, or where your focus, currently, is the most? And how it can be further enhanced, going forward?

Elisabeth Stadler

Okay. So I would like to start with the answer of the last question, Agenda 2020. I think we are quite good on track. We gave you a lot of information concerning this agenda and the different pillars of the agenda. We want to save costs and optimise the existing business on the one side and safeguard the future on the other side.

I think we can say we are really on track or we are maybe a little bit ahead of track in our Agenda 2020 because we have set up really very, very concrete measures. We are measuring all the activities and all the projects in a very stringent way and we see that this leads to positive effects and that we see that the outcome of our targets of Agenda 2020 is really a very, very positive one.

Michael Haid

And on the dividend?

Elisabeth Stadler

Concerning the dividend, I would like to put the question back. This was the concrete wish of all of you in the investor survey that you wanted to have a range for the dividend pay-out ratio, and we always have heard from you that all our peer groups have ranges and we only have a minimum rate which we will pay out for dividend.

That's why we decided to give you a range, to give you maybe more stability in your planning. You are right, in 2017, we paid out 38%, and this year, we paid out 48%. The dividend will, for sure, follow our results – hopefully our positive result development in the next years.

Michael Haid

But the dividend is then obviously dependent on the capital position and also on the growth that you experience in especially in Central and Eastern Europe, I assume.

Elisabeth Stadler

I would not say that the dividend is following the growth we expect. I would say the dividend is following the operative, the net result we earn from year to year. And I think you know this, and

I always told this in my last calls and in all my interviews, that I don't want to pay out more than what we earn.

And we have a lot of plans for the future. You know, we want to grow, to see future growth in the CEE countries, which is not always possible by organic growth. We also would like to do some mergers and acquisitions. And therefore, we need some capital, and therefore, we want to have a quite satisfied capital situation, that if there is a target coming up – and this happens really very, very often that we are checking the targets – we can take the chance, if we want.

Michael Haid

Okay, fantastic. Thank you very much.

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 also have three questions. My first question is on the impact from the housing societies. So this time, the effect was rather big, and it seems to be more volatile than probably at least we have assumed. So any guidance on what the levels should be going forward would be certainly helpful here.

And then secondly, coming back on the solvency and also on the diversification benefit, my takeaway is now that obviously the improvement or the lower capital requirement is coming from a higher diversification benefit. And the question is how much upside do you see from here from further actions? Be it further merger of entities, legal entities, but also on a regional perspective, how much upside do you see here in your diversification?

And then thirdly, you touched the area of acquisitions and I think you also touched it in your press call. Do you have any number for us in terms of wallet which you have put aside for future M&A activity?

Elisabeth Stadler

Thanks. We'll start with the housing societies, Liane, please.

Liane Hirner

As already mentioned in several calls, there has always been volatility in the housing societies' results. Given that affordable housing is a huge topic in Austria and the housing societies are very active, we will see how their contribution develops, going forwards. I would not expect that their contribution is above the roughly 70/80 million we normally expect. But we will keep an eye on it and track the developments from quarter to quarter.

Elisabeth Stadler Solvency, Judit, please.

Judit Havasi Merging decisions are not only based on the Solvency II factors. This is one of several factors. So we are always checking this case when we are planning on merging. I would say, one of the factors, this is a strategical decision to have mergers.

We had, in the last two years, 11 mergers. We have a lot of experience in that, and what kind of effect we have for the Solvency ratio. But as I said, it's one of the factors and not the only one factor. We have a very good Solvency position so we are not forced because of the Solvency position to merge.

Elisabeth Stadler And looking at the acquisitions, there is no specific budget and, of course, there is no war chest. You know we are Austrians and Austrians don't go into wars; Austrians like to marry, yes, and to win their competitors.

I would say given the excellent position of VIG in our region, we are really looking at probably all available targets coming to the market. We are also approached, not only for CEE but also from some other neighbouring markets of our region, and we are really in a comfortable position – we can choose and act opportunistically when we want.

Of course, and I mentioned this also in the press conference, the targets must fit to our strategy. This is really a very, very important criteria – they must support our growth ambitions, top line as well as bottom line, and of course, we must have fair prices. We don't pay any strategic prices because we are present in all the countries where we would like to grow, and it's not necessary to pay some strategic entry prices for some markets.

Frank Kopfinger Okay, thank you.

Elisabeth Stadler Thanks.

Operator The next question is from the line of Miroslav Frayer of Komerční Banka. Please go ahead.

Miroslav Frayer Good afternoon. My first question is regarding taxation. What is your view on taxation or how serious is potential higher taxation in your major markets? And the second question would be about the single-life premium. When can we expect the premium to stop declining, or if we can expect that it will decline to zero, practically, in the future years? And the third question would be again about Romania, if we can expect a return to profit this year or not. Thank you.

Elisabeth Stadler Okay, we'll start with the tax question. Our CFO, please.

Liane Hirner Regarding the taxation, what we observe is that in almost all of our countries, in general, tax bases rather increase than decrease. This is an overall comment I can give you on that.

Miroslav Frayer And for example, with respect of Romania, because in Romania, there was some hiking in taxation in some sectors, but I'm not sure if this will be also in insurance or not.

Liane Hirner I think you are maybe referring to the banking sector, which is not affecting the insurance business in this respect.

Miroslav Frayer Okay, thank you.

Elisabeth Stadler Coming to life and the single-life premium, I presented in the morning that we have volume of life single premium at the moment of about 950 million, which is a decrease of 14% compared to the last year. And I also mentioned that our highest level of single premiums was in the year 2012, where we had 2.3 billion of single premiums. This has really decreased significantly over the last six years, and I would expect that we see the bottom this year, or latest, next year, but we are in the situation that the decrease is very slightly going down now.

Miroslav Frayer Thanks.

Elisabeth Stadler And concerning your third question, Romania, Peter Höfing.

Peter Höfing You know, with all this volatile situation which we have in Romania and which we saw also last year, we are now taking a very strict and hefty restructuring and there's a very clear goal that we will be profitable this year.

Miroslav Frayer Okay, thank you.

Operator We have a follow-up question from the line of Michael Huttner of JP Morgan. Please go ahead.

Michael Huttner Thank you very much. Thanks for this opportunity. Two questions. On the dividend, so target range 30 to 50, but is it a progressive dividend? In other words, would it at least be the same level as the previous year or does it actually... can it vary down?

And then my second question, if I count the... if I add up the one-offs or what I consider to be the one-offs in 2018, so housing went up 24 million, Romania goodwill, 50 million, Turkey goodwill, five million, the Romania fine, low double digit, I come to a total one-off figure of about 40, 45 million negative. So if I add that back to the profit pre-tax of 485, I get to somewhere between

520 and 530, which in theory is within almost within the range of your new... for 2020.

And I just wondered, am I missing something? Because this would imply that you don't actually need... you know, you can like me, you could have a cup of tea and a cake all year or for the next two years, and still achieve your targets. Thank you.

Elisabeth Stadler

Thank you Michael. I would like to start with the first question, the earnings per share. Of course, this will go up for the future because I think we explained why we have this special effect this year, that the net result after tax is lower, much lower, than we have seen in the last years. And for the next years, we expect of course an increase of the profit before taxes and the profit after taxes, and therefore, also an increase of the earnings per share. And concerning the one-offs, I hand over to Liane.

Liane Hirner

We had quite some one-offs you mentioned this year. But going forward, you know, we are in a market that's very difficult so one-offs could also happen in the next years. That's what I would like to say. And our goals are ambitious, our earnings goals are still ambitious – no time to sit back and drink a cup of coffee.

Michael Huttner

Brilliant. Thank you very much.

Operator

Again, if you have a question, please press star followed by one on your telephone. The next question comes from the line of Thomas Unger of Erste Group. Please go ahead.

Thomas Unger

Yes, good afternoon. Thank you for taking my questions. Two, if I may. First, on the cost ratio, which increased in 2018. And you talked about this in the presentation. But what was the effect of the mergers on the cost ratio in this year, and what measures can be taken to bring the cost ratio down, and what is your outlook for the cost ratio in the midterm or until 2020?

And the second question would be on the health insurance. If I look at the supplemental information that you provided in the Excel sheet, I see that the health segment was weak in Q4 2018, with expenses for claims and benefits going up in that quarter. What was the reason for that? Thank you.

Elisabeth Stadler

Thanks. Concerning the health question, there are some seasonal effects, you know. This is quite a young business in some of our CEE countries and in Austria, we have, compared to the CEE, a big portfolio, but compared to our competitors, our portfolio is not as big as the others. So we see seasonal effects in our portfolio maybe a little bit more.

And looking at the cost ratio, of course we had this increase in 2018 because it was a special effect of the mergers. We did 11 mergers and I think everybody knows this and this is quite clear and quite normal, that mergers lead to higher costs at the beginning, and it takes two to three years until you can see the positive cost effects out of synergy effects and synergy earnings.

So we expect that the cost ratio is going down in the next years, and we have already included these in our outlook for the year 2020. But on the other side, if we overtake or if we make some acquisitions, this could again have an effect that we have some higher costs for the first years on the other side.

Thomas Unger Okay. And could you quantify the sector, the impact that the mergers had in 2018?

Elisabeth Stadler It's hard to quantify. I would say as we were impacted in the biggest countries – in Austria, as well in the Czech Republic – I think it's about, I don't know, 1% to 1.5% of the cost ratio.

Thomas Unger Okay. And for the combined ratio, for the improvement of the combined ratio from 96 to 95, this should mainly be driven from the cost side. Is that correct?

Elisabeth Stadler This should be driven from both – from the cost side and the claim side also. Because you know the activities from Agenda 2020, closed-file review, anti-fraud, this is still ongoing and there we expect also some positive effect for the next years. And on the other side, we expect some positive cost effects.

But as I mentioned, it takes two to three years until you see the positive effects out of the mergers. I really can't definitively say that we also already see these effects in Austria and Czechia this year. In the plans, they show the decreased costs from next year on.

Thomas Unger Great. Thank you very much.

Elisabeth Stadler Yes, thank you.

Operator We have a follow-up question from Michael Haid at Commerzbank. Please go ahead.

Michael Haid Thank you very much. Two questions, two additional questions. First, on embedded value to Werner Matula. The embedded value calculation, I see assumption changes of 197 million. Can you say where these assumption changes come from? Are they changes in assumptions regarding policy holder participations or do they come from the mergers? That is my first question.

And the second question on your outlook for 2020. You increased it from previously above 500 million to 530 to 550 million. And I think you mentioned the trigger was good performance in 2018. Can you tell me what exactly the trigger was? What makes you more confident to achieve 530 to 550 in 2020?

Elisabeth Stadler

Werner Matula will start.

Werner Matula

I will start with the embedded value. Thank you very much for the question. I guess you are referring to the Austrian result, the assumption changes. Positive assumption changes has nothing to do with policyholder participation; this is like assumption changes on costs or on lapses, and they are definitely driven by the merger, because the merged companies simply have updated assumptions due to the effects, typically, on costs, what we heard already today.

We did not see an effect on the cost in 2018, but definitely we will see them in the future. And you'll see the opposite effect on the experience variances or on our operating variances. So that's clearly merger effects. It has nothing to do with policyholder participation in this case.

Michael Haid

Okay, thank you very much.

Elisabeth Stadler

So if I go to the outlook 2020, what makes me so optimistic? Of course, first or one point is that I must admit that if we increase the premium, of course the profit should follow a little bit this increase. Second, there is a very positive outlook for the CEE region for the next year and we expect to have profitable growth in this region.

Third, we are really on track with our Agenda 2020 and, as I already mentioned, there are a lot of activities which we have set up where we already have seen the first positive results and where we expect to see positive results also in the next years. And the last point, what we touched, that we will try to find more synergies, more positive cost effects for the future.

Michael Haid

Perfect. Thank you very much.

Elisabeth Stadler

Thanks.

Operator

And there are no further questions at this time. I hand back to Nina for closing comments.

Nina Higatzberger-Schwarz

Okay, thank you very much, everybody, for your time and interest. The next scheduled results call will take place for the first

quarter results 2019 on 22nd May. So thank you. Greetings from Vienna, and goodbye.