VIENNA INSURANCE GROUP (VIG)

Results for the first half-year 2019

August 27, 2019 | 15:00 CEST

Conference Call Q&A-Session

Transcription

Operator	The first question is from Oliver Simkovic from Raiffeisen Centro Bank. Please, go ahead.
Oliver Simkovic	So, thank you. I actually have three questions. The first one is regarding the solvency ratio: so, the interest rates decreased, but the solvency ratio remains stable at 238%. Could you maybe lead us through the effects that compensated, which I presume, negative interest rate impact on solvency in the past six months? Then my second question is regarding the current yields you can actually realise on your investments. So, can you, maybe, put a number on the current new money yield, and also maybe explain a little bit about your investment strategy and how that has, maybe, changed in respect of the recent developments? The third question is regarding the growth rate, the premium growth: so, your guidance implies a growth for the full year of about 2.5%, if we assume the 9.9 billion for the full year. In the first half, you already realised a growth of about 5.8%. Could you, maybe, quickly talk about your expectations for the second half of the year, in terms of top line? Thank you.
Judit Havasi	So, the first question solvency ratio, on the group level, it's very stable, there are a lot of/ so many effects behind that. It consists of a declining solvency ratio in Austria. We have loss adjustments in Life, and we can see an increase of SCR due to the interest rate and due to the interest curve, so we lost, on group level, about 150 million adjustment; that means an increasing of SCR. The portfolio in CEE mitigates these effects very much, due to the fact that we have there a lot of risk insurance in life insurance and unit-linked insurance. And also, the merger contributes positive effects in a lot of countries that this resides, so that's why these positive effects can mostly equalize at the moment, the negative effects of Austria.
Oliver Simkovic	Thank you.
Liane Hirner	Then coming to your second question regarding current yield investments and our investment strategy. Our current yield, our average yield on fixed income is below 3%, our new money yield in the first six months is slightly below 2%, the investment strategy is unchanged. The third question you had regarding premium growth, the figure you mentioned for the first half of 2019, which amounted to 5.8% does include consolidation effects. Without consolidation effects, the increase in the first half 2019 would be 3.7%.
Oliver Simkovic	All right, thank you.

Operator | The next question is from Youdish Chicooree from Autonomous Research. Please, go ahead.

Youdish Chicooree | Good afternoon, everyone. I've got three questions, please.

The first one, I'd like to come back on the premium growth of around, just 4% organic. I was wondering how sustainable that level is, considering the challenges you face in Romania, and it seems that in Slovakia as well, premiums are falling in P&C and premiums are barely also growing in Czech Republic. So, that's my first question.

The second one is really on your guidance. You have left your targets unchanged for 2019 and 2020, so presumably, the degree of confidence you have in meeting, especially, the 2020 targets has been somewhat impacted by the interest rate environment. So, I wonder if you could just tell us of what mitigating actions you're planning to take to offset the interest rate pressure.

And then finally, another question on the Life business: you seem to be growing again after almost five years of contraction, so I was wondering what is driving this, and why now, given the decline in interest rates we have seen so far? Thank you.

Liane Hirner | Regarding your first question, premium growth, approximately 4% without consolidation effects, in our view, it's a sustainable development. We keep on our guidance for 2.5% for the whole year. We see some reduction, intentional reduction in Romania in the MTPL business, but this reduction is compensated by other segments, so due to our diverse structure, our group structure, we see, always, compensating effects, and we keep our guidance at 2.5% for this full year.

Regarding the guidance, you asked for mitigating actions. We are very confident still that we reach our guidance, our KPIs. We are very hardworking on our combined ratio, decreasing our combined ratio in the next two years, which is part of our Agenda 2020 initiative. So, no changes in this guidance.

Youdish Chicooree | Okay, can I just follow up on that, please? I mean considering the extent of the declines we have seen in interest rates, for example, year-to-date, does that mean you probably have to be more ambitious on the combined ratio in the next couple of years than your initially stated target of around 95?

Liane Hirner | Well, we keep our guidance. Given what you mentioned, the substantial decrease in the interest rates in the first half of 2019, the average yield on the back book and the new money yield for 2019 are expected to come down, but in the current planning, until 2020, we expect the financial result to, overall decrease roughly by €30 million each year; this is excluding any extraordinary result, which are not part of the planning. But especially for 2019, we expect the current income to stay more or less stable. Due to higher investment volumes, and this helps to set off the low interest rate impact.

Youdish Chicooree: Oh, okay, thank you. So stable this year, excluding extraordinary effects, and then a 30 million decline next year?

Liane Hirner: Yes.

Youdish Chicooree: Okay, great.

Liane Hirner: Without extraordinary effects.

Youdish Chicooree: Yes, sure.

Liane Hirner: And your question on the Life business. Life business in what's in the two quarters somehow impacted by mergers in the first quarter by We had a catch-up effect from the merger in the Austrian group companies, we already mentioned in the first-quarter call. In this quarter, we had an impact of the merger in Czech Republic, but for the next two quarters, quarter 3 and 4, 2019, we expect a development, which is more in line with Q3 and Q4 from the last year's development. 2019 a little bit higher result than 2018 overall.

Youdish Chicooree: Okay, understood, thank you.

Operator: The next question is from Frank Kopfinger from Deutsche Bank. Please, go ahead.

Frank Kopfinger: Yes, good afternoon, everybody. I have a follow-up on this new money yield question. I think, the number you gave us was the average for the first six months, and I would be interested on what your current, so as of today, your current new money yield is, and if possible, if you could break that down between Austria and CEE? And then, secondly, I'm looking into your segment, Austria, that you point to a better Life business contribution or a better contribution from the Life business for your pre-tax result, whereas the P&C combined ratio remained stable, so I was wondering whether you can elaborate a little bit on what exactly improved the Austrian Life business and profits?

Liane Hirner: Regarding your question on new money yield, the number I gave you is new money yields in the first six months of 2019, slightly below 2%. We do not have this split between Austria and CEE, and also I don't have the current numbers available. Turning to your questions, to the Life business of Austria, as I mentioned before, we have a catch-up effect out of the mergers of the Austrian group companies Wiener Städtische und S-Versicherung

	last year, and the P&C combined ratio is expected to remain stable.
Frank Kopfinger	Okay, thanks.
Operator	The next question comes from the line of Michael Haid from Commerzbank. Please, go ahead.
Michael Haid	Thank you very much. Good afternoon. Two questions, please. I noticed that your H1 figures include some provisions for strategic projects, as you call them. Can you give us a little bit more information about what projects you built provision for and how much the total provision amount is? And also can you tell us about to what extent these provisions are recurring or to what extent they are one-off in their nature? The second question is, with respect to the low interest rate environment in Austrian life insurance, can you give us an idea about your current duration on the asset side of the life insurance operations in Austria and on the liability side? Have you taken any measures, i.e., for instance, interest rate, derivative swaps, whatever, to reduce this asset liability duration mismatch, if there is any, and any changes in the investment strategy, given that the current yield environment is really rather negative?
Liane Hirner	Regarding your first question, provision for strategic projects, these provisions include, for example, IFRS 17, digitalisation projects and other regulatory changes the group is facing. We are talking about a low double-digit euro million number. Regarding the life insurance low interest rate in Austria, the average duration of the liabilities of the whole, of the asset, sorry, is around seven years for the whole group, and for the time being, of course, we monitor all the developments very closely, but we feel fine currently with the duration and the match.
Michael Haid	And the seven years, is that for the whole Austrian book, or is it for the life insurance book of Austria?
Liane Hirner	It’s overall for the whole book of the group.
Michael Haid	Including CEE?
Liane Hirner	Yes.
Michael Haid	Okay, and can you give it for Austria, standalone? Do you have that figure?
Liane Hirner	I’m sorry, I can’t give that. For Austria, standalone, I don’t have the numbers.
Michael Haid	Okay, thank you very much.

Operator	The next question is from Thomas Unger from Erste Group. Please, go ahead.
Thomas Unger	Yes, good afternoon. Thank you for taking my questions. The first one would be on Slovakia: you had an elevated combined ratio in Q2 of 102%. If you can tell us the reasons, and then, secondly, in Czech Republic, and now after the merger, you had some elevated other expenses, due to the merger in the first half; is that over? Can we expect any additional benefits on top of that, coming in the next quarters, or maybe 2020? And then lastly, on coming back to the financial result, maybe, obviously, the income from disposal divestments were substantially down year-on-year in the first half, and I'm wondering if you, in this yield environment, plan to step up your selling activities and realise some gains maybe in the second half of 2019 or 2020? Thank you.
Liane Hirner	Okay, regarding the first question, Slovakia, the combined ratio, this is a seasonal effect, no one-off's included. In Czech Republic, we have an initial impact of the merger. It's also somehow a shift in the line items in the P&L account, so we do not expect any further impacts out of this merger in the next quarters. Regarding the income, your question regarding income from disposal of investments, there are no plans to increase selling activities.
Thomas Unger	Okay. Coming back to the merger in the Czech Republic, do you expect to see any sustainable benefits now, compared to 2018 from 2020 onwards in costs, especially?
Liane Hirner	For this year, we will not see major benefits because we have, still, costs relating to the integration of the companies, but from 2020 onwards, we expect some benefits.
Thomas Unger	Can you quantify those?
Liane Hirner	Currently, I cannot quantify those numbers because our planning season starts in the third quarter and then we will have more information on that.
Thomas Unger	Okay, thank you. And maybe on Slovakia, the combined ratio, so you expect it to go down substantially in the coming two quarters?
Liane Hirner	Yes, that's correct.
Thomas Unger	Thank you.

Operator	As a reminder, if you'd like to ask a question, please, press star, followed by one on your touchtone telephone. There's a follow-up question from the line of Michael Haid from Commerzbank. Please, go ahead.
Michael Haid	Yes, hi again. Just two follow-up questions, one on Poland: you mentioned the higher expense ratio; can you give us the reason there? And one of your competitors in Poland, or actually two, they have mentioned that the competitive environment in Poland is becoming more severe; it's becoming more competitive. Is this something that you also notice? And the second question is on Romania: you mentioned the decrease of the Motor TPL business; what are your expectations for Romania and MTPL, going forward?
Liane Hirner	In Poland, we, as you mentioned, or heard from other competitors, also see some pressure on the market on the motor lines of business. There is competition. For our group companies we try to keep the premium levels, but we will have to monitor the situation going forwards. In Romania, we have still high management attention on the segment. As the unfavourable environment did not change up to now, we still have to deal with reference tariffs and we are intentionally decreasing our MTPL portfolio, as you can see in our numbers. Given the current situation, we do not expect our combined ratio to come down below 100% until year-end, so that's from the current standpoint.
Michael Haid	And in Poland, the expense ratio, why was it so high? Or why was it up? Let's put it this way.
Liane Hirner	Yes, the reason is, it's due to the mix of the portfolio.
Michael Haid	Okay, thank you.
Liane Hirner	We have some mergers for different portfolio mix.
Michael Haid	Mm-hmm.
Operator	Another follow-up question from Oliver Simkovic from Raiffeisen Centro Bank. Please, go ahead.
Oliver Simkovic	Yes, thank you. One more question regarding Slovakia: so, the growth in the country was primarily due to Life, and P&C actually slightly declined. What was the reason for this, and do you expect that in the future also? Thanks.
Liane Hirner	Regarding Slovakia, there is a decrease in the truck portfolio with also increasing average premiums for this type of vehicle. So, the P&C reduction relates to decreased truck portfolios.

Oliver Simkovic	And will that continue to affect P&C in the coming quarters, or was that just the fact that's over now and, yes…?
Liane Hirner	Well, from the current point of view, we expect the compensation with other business.
Oliver Simkovic	All right, thanks.
Operator	There are no further questions at this time, and I would like to hand back to Nina for closing comments. Please, go ahead.
Nina Higatzberger	Okay, thank you very much. Ladies and gentlemen, thank you for your interest. I am happy that all the questions went through this time. The next scheduled result call will take place on 27th of November when VIG is going to release its first to third quarter results for 2019. Thank you, have a nice day, and goodbye.

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