VIENNA INSURANCE GROUP (VIG)

Results for the first quarter 2020

May 20, 2020 | 15:00 CET

Conference Call Q&A-Session

Transcription

Operator	The first question comes from the line of Youdish Chicooree. Please go ahead.
Youdish Chicooree	Good afternoon, everyone. I have got three questions, please. The first one is on the outlook. I appreciate that it's quite difficult to make strong statements at this juncture, so maybe you could comment on which parts of the group are likely to be more resilient in the current environment and which parts are more sensitive to the macro development. And then secondly, on the combined ratio. Should you not be more confident in hitting your target on 95%? Because you had a strong start to the year and, as you say, lower claims frequency during the lockdown, and in the near term, as economic activity remains, it should help you. And then my third question is on the solvency. Could you help us here and be a bit more precise on where it is? Because the lower end of the range is a bit difficult, because you have got quite a big range. So, that would be very helpful. Thank you.
Liane Hirner	Thank you for your questions. The first question regarding outlook. It is really the situation that a strong statement is currently not possible. Of course, we very much look at the current situation and are in close contact with all our companies. But as I have already mentioned in my presentation, we are very well diversified over the group, so we have different effects offsetting also each other. But for the time being, no real strong statement is possible. When it comes to the combined ratio, the situation is quite good in the first quarter, but we do not expect this to be a trend for the whole year because there is a shift from claims from the first quarter to the second quarter. Now the lockdown measures are eased and people are starting to travel again, using their own cars, so we expect more claims frequency, on the one hand. On the other hand, we expect also more claims in the area of household, for example. Regarding solvency ratio, at the end of Q1, our ratio was at the lower end of the target range. What I can say from today and the developments since the end of Q1 is that we are still at the lower end of the comfort zone. Also, our solvency ratio is, of course, fluctuating regarding the capital market development or in line with the capital markets development, but we are still in the same range.
Youdish Chicooree	Okay alright, thank you.

Operator	The next question comes from Thomas Unger, Erste Group. Please go ahead.
Thomas Unger	Good afternoon and thank you very much for taking my questions. I'm following up on the previous question on the solvency ratio at the lower end of the comfort zone. Could you describe the main factors that impacted the solvency ratio now in Q1, going down from 210% to whatever it is now, 170%, 180% in the first quarter. Do you expect or anticipate to stay within you comfort zone throughout 2020? And then also, within the solvency ratio in the own funds, for the Q1 figure is the dividend for 2019, the proposal, still included? And also, the Q1 earnings, as well as a possible deduction or a possible 2020 dividend? And lastly, on your observations you described on page 14 for Q1 20, if you could elaborate on the development of the new business now and declining new business, as you described it, and talk a bit more on the claims situation. And on premium, should we expect the growth rate to slow in the coming quarters or should we anticipate a decline of premium income in Q2, three and four? Thank you.
Liane Hirner	Thank you for your questions. Regarding the follow-up question concerning the solvency ratio, of course the financial markets impact the first quarter ratio reduction of own funds due to the capital markets developments, we experienced. I cannot give you an outlook for 2020 now. The 2019 dividends are included in this calculation, so we see quite a stable development up to now in comparison with the first quarter 2020.
Thomas Unger	Was it mainly the spread development at the end of the quarter or what were the main factors there?
Liane Hirner	Yes, the decline in the revaluation reserve is mainly due to the spread development.
Thomas Unger	Of course we saw it also in the equity and the AFS losses, but have you recovered some of those AFS losses in the equity and, also, in the regular capital in the first six weeks of Q2 now as spreads tightened again?
Liane Hirner	I think the situation is relatively stable since then and what I can say is that there is no big further reduction or big further increase. It's quite a stable development since the end of Q1 up today. Regarding premium development. From the beginning of March, April, we see new business going

down. The situation is quite different from country to country. In this respect, high diversification of our group is a big advantage. We see different developments, especially in Austria. We had a dramatic lockdown situation starting in March, which, of course, led to a decrease of the business. We expect, for Austria, that we have seen the bottom line because shops are opening again this week, also schools started to open, so we hope to see some positive impacts coming.

Regarding the Czech Republic, it's quite similar to Austria, but the lockdown measures were not as restrictive as in Austria. In Poland, for example, until now, we have seen very little decrease. In Germany, for example, only a 50% lockdown was implemented and there, we see no effects or only minor effects on the business up to now. So, this diversification helps very much.

But we, of course, expect the new business to go down also in the next quarter. Company bankruptcies are to be expected, big players, like airports, hotels, and restaurants will be affected so we do not expect premium increases in the next months.

When it comes to the claims situation, I think this was also one of your questions, there is not so much impact. We have no event cancellation product. Business interruption is bundled, it's not too much affected and normally not in the insurance coverage included. We have less car insurance, but less accidents in motor business. But individual claims are bigger and more claims in household is something that we recognise, it is more a shift, but no really big impact. In total, we don't expect it to be a big influence, but for the year end, I cannot give you any concrete outlook.

The most critical for us is the development of the capital markets and interest rate environment. But also in this area, I would like to state that our portion in equities is with 3.7% rather low, and we have a good rating structure in our bond portfolio, but we expect to be effective in the next quarters also by further impairment. It very much depends on the further development of the financial markets.

Thomas Unger

Okay, and the impairment that you've just mentioned also with effect on the P&L now, what securities were affected there and do you expect that to worsen in the coming quarters or is that just a major uncertainty that you flag now?

Liane Hirner

In the first quarter, we had some equities impaired and also in the bond portfolio, but not really a big impact. It very

	much depends on the next quarters and how the situation develops. We rather expect more impairments in the next quarters.
Thomas Unger	So, more than in Q1?
Liane Hirner	Yes.
Thomas Unger	Okay, thank you.
Operator	As a reminder, that's star, followed by one, to ask a question. The next question comes from the line of Michael Haid of Commerzbank. Please go ahead.
Michael Haid	Thank you very much and good afternoon. One question only actually. The combined ratio in P&C, you showed a good improvement in the combined ratio across all your major countries basically. I would like to understand to what extent this impact, this lower combined ratio, was impacted by lower frequency losses in motor and to what extent you expect these lower losses to be passed on to clients by means of premium rebates? Have you factored any of this in your figures for Q1 already?
Liane Hirner	We have experienced lower claims frequency mainly in the motor business. This is the main driver for the development in P&C. And could you please repeat the last part of your question, I didn't really catch it?
Michael Haid	Yes, no problem. There is some political pressure and also maybe from competition that you have to have on this lower claims back to the policyholder by means of giving them more rebates. I heard that in some countries, insurance companies give one month's premium back or in Germany, for instance, there are policies out where the ultimate premium depends on the mileage driven. So, when there is less mileage, then the premium goes down. The simpler question is how much of these lower frequencies do you think you have to pass back to your customers?
Liane Hirner	Thank you for repeating the question. Peter, do you want to answer the question?
Peter Höfinger	Maybe I could take over. I think you have to differentiate the situation in Germany to Central Eastern Europe. In some of our countries, we do have also already tariffs, which depending on the usage of the cars, so there you have an automatic calculation there. In all our other tariffs that we have, it is much too early to assess if there will be the lower frequency result in any kind of political discussion of repays or paybacks of premiums.

	We have not factored it in in the first quarter results and I would not expect it to be in the major places where we are in this year.
Operator	The next question comes from the line of Thomas Fossard of HSBC. Please go ahead.
Thomas Fossard	Good afternoon. I have got several questions. The first one would be on the dividend. Could you remind us how we should think about your DPS 2019? For the time being, it has been put on hold and, if I am not mistaken, you have not timed a new AGM date. So, maybe you could help us to better understand how we should think about the DPS. Is that now completely conserved or is it just postponed? And also, what is the position of the Austrian financial regulator? The second question would be already to your Solvency II range, so the 170-230%. What would be the Group decision in the case you were to cross the 170% in the coming months for whatever reasons, maybe interest rate or something like that, if you were to cross down the 170%, what would be the impact? What would be the decision that actually will be implemented by the Group, in order to maintain a reasonable level of solvency? And the third and last question will be related to, you know in different countries, in light of the macroeconomic environment, there are a lot of discussions regarding insurance companies supporting or contributing to relaunch the economy funds or the relief funds. You're a big player in Austria, are you part or are you aware of any decision by which you may contribute to some relief funds in the coming quarters? Thank you.
Liane Hirner	Maybe I will start with answering questions one and two. Regarding the dividend, the AGM date is still not fixed, but we expect it to take place somewhat after the summer. Our dividend proposal is still valid and the final decision will be taken by the AGM, so no changes on this side. Regarding the solvency, the range between 170% and 230% is our self-defined comfort zone. So, if the Group solvency ratio would decline under the 170%, we still feel good capitalised. But as I said before, as already explained, currently, we are at the lower end of the comfort zone and we feel comfortable with that ratio.
Peter Höfinger	Excuse me, for the third question, could you shortly repeat it?

Thomas Fossard	Yes. In several countries, there is some pressures from the governments for the insurance industry to contribute financially to some relief funds so for the economy to restart. Thank you.
Peter Höfinger	Okay. I got it. There has been, in Austria, a bit similar to Bavaria, by the Insurance Association, there has been decided that for self-employed and for some touristic hotels and restaurants, where it's not clear if this is covered or if pandemics is included, it has been decided that the total insurance industry will contribute 15% of the sum insured to these topics, which amount in total for the Austrian insurance industry around €100 million. In no other countries we do have a topic like this.
Thomas Fossard	And for the P&R insurance group share, it's not yet part of the Q1 results, is it?
Peter Höfinger	It is not yet in the Q1 results, but for the overall Group, it will not have a too big impact.
Thomas Fossard	Okay, thank you.
Operator	We have a follow-up question from Michael Haid, Commerzbank. Please go ahead, Sir.
Michael Haid	Thank you very much. I have to come back to the solvency ratio. Did you take any management actions in the first quarter to limit the decline of the Solvency II ratio? And if not, do you plan to take any measures i.e. additional reinsurance or lengthening of the duration of your fixed income portfolio, or whatever?
Liane Hirner	Thank you for your question. We did not take any active actions to increase the solvency ratio and there are no current concrete plans currently to do so. But we will follow up and closely monitor of course the situation.
Michael Haid	Okay, thank you.
Operator	For any further questions, please press star, followed by one. There are no further questions at this time, so I will hand back to Nina for closing comments.
Nina Higatzberger-Schwarz	Thank you, everybody, ladies and gentlemen, for your interest and your questions. If anything comes up, the investor relations team, although still in home office, are ready to help and are reachable. The next scheduled call is going to be on the 26th of August, when VIG is releasing its half year results 2020. Thank you, once again, have a nice day, stay healthy and goodbye.