



**VIENNA INSURANCE GROUP (VIG)**  
Results for the First half-year 2020  
Conference Call (Q&A-Session)  
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Transcript

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Operator The first question comes from Youdish Chicooree. Your question, please.

Youdish Chicooree Good afternoon everyone. Youdish from Autonomous Research. I got just two questions. The first one is on just a premium growth in motor. You grew 5% in Q1, and obviously second quarter was impacted by the COVID-19 disruption. I was wondering whether you could tell us what you're seeing in terms of premium growth in MTPL and CASCO in July and August. That's my first question.

And then secondly just on the insurtech and digitalisation initiative you mentioned in the slide, you talked about gaining access to 300 start-ups and meeting up with 43 of them. I was just wondering whether you could tell us how much you're prepared to investment in these companies and how much you've invested so far. Thank you very much.

Elisabeth Stadler Thanks, Youdish. Let me start with the first question, the premium growth in motor. Of course, we have seen a decrease in the first time after the lockdown. That is quite clear. There was no mobility. There you could see less cars on the streets in nearly all our countries, and of course we are coming back to a quite normal situation at the moment.

This differs from country to country, and I would say our diversification is really helpful in this situation. We always see countries where the lockdown is really hard, and we see other countries where the lockdown is very smooth or where we are coming back to normality already.

Of course, we see an increase in July and August, this is quite clear, because there is more traffic. There is more activity on the road. And we see that there are still less cars sold than in the years before. But it's going up in in the last two months.

Youdish Chicooree Thank you. Just in terms of the five main markets you mentioned earlier, is there a big difference between these markets?

Elisabeth Stadler Of course, there is a difference between the markets. I would say, Austria and Czechia, they are quite similar. The situation is a little bit worse in Slovakia, and on the other side, we see a very good development in Poland. Especially in the Baltic States, the lockdown was quite heavy, and there we saw... I would say, in the Baltics, we saw the biggest decrease in the premium in motor insurance in the first months after the crisis, and there we are still not at the level before the crisis.

Youdish Chicooree Thank you very much. Very clear.

Elisabeth Stadler Then your question concerning the digitalisation initiative. You have seen we had more than 300 really interesting candidates, which were pre-selected from Plug and Play, and we ran 40 meetings. And we have identified ten interesting candidates. We

are going into deeper analysis now, and this could be of interesting cooperation for our operative insurance company.

You ask how much we would be willing to invest. I think that depends, of course, on due diligence and on the outcome and the prognosis of this activity. We have made a reservation of, I would say, about 20 million per year for initiatives like this. But of course, if there is a business plan behind where we can see that there is a positive output or that we can earn our money back, then maybe we even would be willing to invest more.

Youdish Chicooree

That's very helpful. Thank you.

Elisabeth Stadler

Thank you.

Operator

The next question is from the line of Oliver Simkovic with RCB. Your question, please.

Oliver Simkovic

Hi, thank you very much for taking my question. Actually, it's three of them. The first one is regarding claims. Can you give us more insight into what kind of impact the pandemic had on claims? Was it a negative impact from that?

And also maybe, if you have information, on the positive contribution from potentially lower claims and motor insurance. Maybe, in line with this, also whether you expect a gradual recovery in motor insurance claims to pre-crisis levels, or you are already seeing a full recovery in the summer.

The second question is regarding premiums. In the second quarter, it seems like P&C and health held up pretty well. The biggest decrease was in life insurance. Do you expect life insurance effect similar to the second quarter to continue also in the coming quarters, or do you see somewhat of a recovery as the lockdown ended?

Lastly, regarding financial result, you mentioned that part of the relatively good result is due to the reallocation of amounts in the portfolio, which triggered some realisation gains. Could you give us information how much this actually was? Thank you.

Elisabeth Stadler

Oliver, thank you. I will hand over to Liane for the claims, and then I take over for the premiums and finish the claims again.

Liane Hirner

I will take the third question regarding the financial result. We did some reallocations. We amended the new investments in the first half-year 2020 to hit the new reality of significantly reduced new production volumes. The impact is a lower double-digit million Euro amount.

Oliver Simkovic

Thank you.

Elisabeth Stadler

Then I take over the question concerning the premiums. Especially, you wanted to know about the situation in life

insurance and the effect. Also here, I can give the same answer as we have heard before. Due to our diversification, we see really very, very different effect in the different countries. Of course, life insurance significantly went down immediately after the crisis. I think that is quite normal.

If you have to take care of how to handle the situation, how to change from business office to home office, if you don't know what will be the situation of your employer and so on, then I would say the first idea of the client is not to conclude a life insurance contract. The situation was that this went down significantly, the new premium business in life insurance.

But I must say that the situation has changed, and it's slightly going up now. We see that in critical times, like these, the clients are now taking more and more care of their future care. They are especially looking at health insurance and also at pension insurance. We see in a lot of countries some single premium amounts which are invested into life insurance contract, into pension insurance contract.

The clients are taking care of their future security, you can say, and I think we will see this effect until the end of the year. If you have seen the figures, life insurance is quite flat. It's slightly going down in current premium and on the other side slightly going up in single premium. If you ask me, it's hard to give an outlook for the year end also in this case. But I would expect that the situation will be quite flat until the end of the year like so.

Oliver Simkovic

Thank you. Understood.

Elisabeth Stadler

Thank you.

Operator

The next question is from the line of Michael Haid with Commerzbank. Your question, please.

Michael Haid

Thank you very much. Good afternoon to everyone. Three questions if I may. First on the combined ratio.

Combined ratio 95.5 in the half-year. 95.9 in the second quarter, stand alone. Given the lockdown periods in the second quarter, I would have expected a bigger impact from lower frequency losses in motor. Can you tell us why this has not been the case? From my understanding, you may have also incurred higher severity, but I'm not sure about this.

Second question on the solvency ratio, which improved from 170% to 183% quarter-over-quarter. Surprisingly strong, in my view, when I compare you to other insurance companies. For other insurers, the volatility adjuster in the solvency calculation was a burden in their solvency calculation. Was that also the case for you, and did you take any management actions to support the capital position?

Last question. On slide 15, you show some significant growth in other non-motor property business plus 7%, 2.7 billion. Can you tell us in what lines you generate this strong growth and maybe also what regions?

Elisabeth Stadler

Thank you, Michael. We will start with question 2, solvency ratio. I hand over to Liane.

Liane Hirner

Thank you, Elisabeth. With regards to year-end 2019, we saw a decline in the solvency ratio, this is mainly affected by the low interest rate environment, as we all know. From year-end 2019 to mid of 2020, we are facing a significant decline of the risk-free interest rate up to 400 basis points, depending on the maturity band. Therefore, our SCR increased up to 6% due to a smaller mitigating effect of the differed taxes and profit sharing.

On the other hand, our own funds are reduced by minus 10%. This mainly comes from the traditional life business in Austria. All in all, this is summing up to a loss in the ratio by around 25% compared to the year-end 2019. In the second quarter, we saw a small recovery, let me put it like this, credit spreads went down, and the equity markets went up. It's a quite stable development in the second quarter 2020.

Michael Haid

And did you take some management actions in the second quarter? For instance, the reallocation of investments, did that help you? Did you lengthen the duration?

Liane Hirner

Not really. What I can say is that we are further having a focus on strengthening our asset-liability management. We have still the focus on optimising our life insurance portfolio mix, so no specific measures in the second quarter.

Michael Haid

Okay.

Elisabeth Stadler

Then I will take question No. 1 concerning the combined ratio, and you asked about motor insurance and lower frequency. Of course, we saw lower frequency, and of course, we saw higher severity.

We have seen, on the other side, there was lower frequency in claims. But of course the claims occurred, and the amount of the claims normally was quite heavier than we have seen the standard before the crisis.

And of course combined ratio is impacted by an IBNR reserve, which we have put in a double-digit million provision for claims occurred but not yet reported at the moment. Question No. 3, the significant growth of 7% in non-life. This is driven by, I would say, normal increase in individual business and especially bigger increase and bigger growth in corporate business.

Michael Haid

Thank you very much. The IBNR reserve, can you say, is it low or high double-digit million amount? I have to ask.

Elisabeth Stadler I would say it's a low double-digit amount.

Michael Haid Thank you very much.

Elisabeth Stadler You know we are conservative. But I think we manage our business quite well, so I think it will be sufficient for us to have a low-double digit provision in that case.

Michael Haid Thank you very much.

Elisabeth Stadler Thank you.

Operator The next question is from the line of Thomas Unger with Erste Group. Your question, please.

Thomas Unger Good afternoon. Thank you for the presentation and also thank you for taking my question. I have a few. First of all, you talked about the dividend and your arguments, you laid them out, on why you stick to your proposal. But do you see a risk that the FMA would block the distribution still in September?

And then the second question, on the financial result, you also explained the gains that you recorded in Q2. But assuming a normal or not extraordinarily high level of volatility on financial market, what could be a run rate for the coming quarter just for the financial result? Would it be between 160 and 180 million for the quarter?

And then also, thirdly, on Romania, are you...? I've been looking at the quarterly developments. The profits were really strong in Q2 compared to previous quarter, though certain premiums were lower. But net earned premiums were higher. Can you explain the development in Romania, please?

And then also I understand that you don't give guidance for the full year 2020. But is there something that you can say about the underlying operating performance for the near future? The coming quarter trends and premiums. Can we expect a full-year premium level to be higher than last year or below? Thank you very much.

Elisabeth Stadler Thomas, thank you. Quite tricky questions you are putting to us. Liane would like to start with the financial question.

Liane Hirner Thank you.

Elisabeth Stadler Or with the answer to the financial question.

Liane Hirner I would like to say that due to the current uncertainty, especially on the financial market, it's not possible for us to give a run rate for the next quarter. Sorry for that, but it's really impossible.

Thomas Unger Okay.

Elisabeth Stadler Okay, then I take over to the dividend question. As you know the Austrian FMA obviously quite well, I again must say that this is of course a recommendation, and of course we understand this

recommendation. But there are some other rules how and when insurance companies are able to pay dividend. This depends on the solvency ratio, and in our opinion, our solvency ratio is really very stable.

You know that our capital basis is a quite strong one, and also Standard & Poor's is always mentioning this in their report. We had a fantastic year 2019, and so we really feel well positioned to pay the dividend to our shareholders, especially as there are, as I already mentioned, a lot of private investors through the pension fund and the pension scheme, who are really waiting to getting out their money.

And of course they will, for sure, invest this money. I think this is quite a good measure to keep the capital stability and the capital investments in our world. This is the reason why we stick to our dividend proposal of €1.15. We already have calculated this in our solvency ratio in all our calculation. And if you look at the half-year result, more than 200 million after a write-off of 120 million, I think we really are in the position that we can take this decision and we can make this proposal.

Concerning your question Romania, of course we see, and you know this, that the Romanian market is a very difficult one or was a very difficult one. We had a lot of motor portfolio there.

The premium situation was not the best one for the insurers. You know that we had this premium caps and that we had the reference premium. We have set up a lot of activities and a lot of measures, and we now see that we can profit out of these measures, that these measures really make good effect. We focus on profitable MTPL business and motor business, and our activities now pay off. And hopefully we see this development also for the next month.

Maybe there are some special effects in the second quarter. But in general, we are really satisfied that the situation has changed in Romania. We have, I think, the first time since three or four years, a combined ratio less than hundred. This is not market standard, but we are clearly below hundred at the moment. And it is the clear intention and the clear goal to stay in this level and make profit also out of our motor business in Romania.

Then you wanted to have a guidance 2020. I think all the insurance companies and all the companies at the moment are really not able to give a serious outlook. And especially for us as insurance company, we are a very conservative company. We are always looking into the future, so I think this would not be serious to give an outlook at the moment. What we mentioned is that we can manage our operational business, that we know our insurance business quite well, and that we don't see at the moment any big surprises in this case.

But of course the situation on the capital markets and the interest and the development of the capital market is still quite insecure. So I really ask you to understand that we are not able to give guidance at the moment.

Thomas Unger

Sure, sure. Thank you very much. I really appreciate it.

Elisabeth Stadler

Thank you.

Operator

The next question is from the line of Thomas Fossard with HSBC. Your question, please.

Thomas Fossard

Good afternoon everyone. I got couple of questions. The first one will be related to the goodwill you may still have on all the regions. I was wondering how safe they were in light of the COVID environment.

The second question was, any potential contribution to relief fund in Austria? I think that was part of the discussion at the Q1 call. Has the market come to any conclusion on this? And the third and last question will be related to potentially the liquidity position of the group or the funding of the 2021 dividend.

Obviously, you've been talking of the Austrian regulator, but can you talk about possibly, say, regulatory environment in your other operating entities outside Austria where potentially you could face, I would say, a bit more restriction in dividend upstream back to the group? Thank you.

Elisabeth Stadler

Thank you. Liane will start.

Liane Hirner

Thank you. I will take the question regarding goodwill impairment. As we already announced in our ad hoc announcement on 10th August, we decided to conduct scenario analyses for certain cash-generating unit groups, which at the end lead to this goodwill impairment of €120 million. In total, our goodwill amounts to 1.2 billion now.

If there would have been more requirement regarding the half-year, we would have booked it. So this is everything for the moment. I cannot exclude any additional measures until year-end, as we already explained that goodwill impairment mainly was due to significant increases in the discount rates. So it heavily depends on the development of the discount rates in the capital markets.

Elisabeth Stadler

Thank you. The question second was contribution to this fund in Austria, and I think this has been published officially that all the Austrian insurance companies or the Austrian insurance industry has created, together with our government, assistance fund of about €100 million for this business interruption insurance for especially touristic enterprises.

And we are participating in this fund, of course, because we are running this business in both of our operating companies, and

therefore we are participating in this fund in the amount of market share.

Our market share in Austria is about 25%. We have seen that the solutions have been accepted, I would say, by about half of the involved clients until now, and we would expect that we will see that this fund will be fully accepted and fully used by the involved participants.

Then you ask about the liquidity position for 2021. You know this, and maybe you have heard this, that due to the COVID-19 pandemic and due to the uncertainty about the future economic development, some countries where our VIG insurance companies operate have restrictions looking on dividends or have recommendations from the regulator that they shall not pay out dividends.

This is the case for Czechia and Poland at the moment, so we did not get dividends until now from Czechia and Poland. We got dividends from nearly all our other countries. The result is that we have about 50% reduction of the dividend paid to VIG holding in the first half of 2020.

But this does not have any effect on the cash or cash equivalent available in the group, and this does not involve our cash flow statement. Of course, we expect that we will get the dividends maybe later this year, or if we won't be able to get them this year, for sure, we will get them next year.

So, I think the liquidity position for 2021 for paying dividends is quite sufficient at the moment. I don't know if you know, but for sure, you would intend that as we are conservative, of course we are looking also in this direction paying dividends out from a conservative perspective. And of course we have done some reservations for paying dividends not only for this year but also for next year.

Operator Ladies and gentlemen, if you would like to ask another question, please press star followed by one on your telephone. The next question is from the line of Ashik Musaddi with JP Morgan. Your question, please.

Ashik Musaddi Hi, thank you and good afternoon everyone. I just have one question, as most of my questions have been answered. Can we get a walk-through of the solvency ratio from 210% to 183%? And apologies if it has already been answered because I joined the call a bit late. Sorry for that.

Liane Hirner We experienced a reduction of the solvency ratio in the first half-year of 2020. The main decline relates to the first quarter to the market developments especially in the first quarter 2020. In the second quarter, we saw a stabilisation, also small increase in the solvency ratio. I explained already that the main effect relates to

ultra-low interest rate environment.

The risk-free rates declined up to 400 basis points, depending on the maturity band. Our SCR increased by 6% and due to a smaller mitigating effect of differed taxes and profit sharing. And on the other hand, our own funds are reduced by minus 10%. This mainly relates to Austrian traditional life business. This is a short summary on the development of the solvency ratio of the first half-year.

Ashik Musaddi

Thank you. It looks like majority of the drop is because of interest rate, and if we speak to anyone, it looks very unlikely that interest rates are going anywhere in the near future. So how do you think about this 183% solvency ratio?

Are you pretty comfortable with it? You have been running your balance sheet at about north of 200% solvency ratio, and now it is well below that. So how do you feel about this 183%, especially given there is a reasonable UFR element as well in the solvency ratio?

Elisabeth Stadler

In the light of the current environment, we feel very comfortable with this group solvency ratio.

Ashik Musaddi

That's very clear. Thank you.

Operator

The next question is from the line of Desmond Kinch with Oversea Asset Management. Your question, please.

Desmond Kinch

Hi, sorry to belabour the point on the solvency ratio. My recollection was that the company said that the bottom end of the company's comfort level with the solvency ratio is 180%. Clearly, you are sufficiently confident with 183% level today to pay a dividend. Could you please restate what your comfort level is in terms of the solvency ratio?

And then I have a second question relating to the goodwill impairment of about 120 million in Bulgaria, Croatia, and Georgia. In all three of those markets, the combined ratio fell, so there wasn't a problem with underwriting claims, losses, or expense ratios in those markets. Could you please give us a bit more understanding of why the decision was taken to make those goodwill impairments?

Elisabeth Stadler

Thanks for your questions. Liane will take over the questions.

Liane Hirner

Thank you. Regarding the first question, solvency ratio, our comfort zone starts with 170%, so 183% in the current environment, it is a very... We feel very comfortable with that ratio, and I would also like to mention that in the current group solvency ratio, dividends are also deducted.

Then we come to the goodwill impairments. I explained that the reason for the goodwill impairment is not so much the underlying

business. It's more the increase or to the major extent the increase in the discount rate due to the volatile market environment in this current COVID-19 pandemic. So, it's not so much the underlying business. It's a technical issue. But we have substantially increased country-risk premiums. This is technical.

Desmond Kinch

Thank you.

Operator

The next question is from the line of Thomas Fossard with HSBC. A follow-up question. Your question, please.

Thomas Fossard

Thank you. This is just a remaining one regarding your reinvestment rate or your new money yield in your fixed-income portfolio. Could you shed some light on what has been the average reinvestment rate year to date and how this compares to last year? Thank you.

Liane Hirner

I'm going to answer your question. Our new money yield in the first six months 2020 in Austria amounts to approximately 1.7 percentage points, which is a decline compared to 2019, which amounted to 1.83 percentage points.

And of course, given the volatile market environment since March this year, we expect the new money yield also coming further down in the next month.

Elisabeth Stadler

The maximum guaranteed interest rate in Austria for new business at the moment is 0.5% just to give you an information what we promise to the clients and what we earn on the other side.

Liane Hirner

The overall yield on fixed income in Austria for six months amounts to approximately 2.8%.

Thomas Fossard

2.8 is the running yield, is that right?

Liane Hirner

Yes.

Thomas Fossard

Thank you.

Operator

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

Nina Higatzberger

Thank you all for your interest and for listening in. Maybe you're interested to hear that the annual general meeting is held on 25th September, and there will be a broadcast of the event. There will be a link on the web page. Goodbye from Vienna and stay safe and healthy. Bye-bye.

Elisabeth Stadler

Thank you. Bye-bye.

Liane Hirner

Bye-bye.