



VIENNA INSURANCE GROUP (VIG)
Preliminary results for the financial year 2020
Q&A-Session Conference Call
March 9th, 2021 | 15:00 CET

Transcript

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Operator The first question is from Youdish Chicooree, please go ahead.

Youdish Chicooree Good afternoon, everyone. Thank you for taking my questions. I've got two questions, please. The first one is on the CEE business of Aegon. You've said you are targeting synergies of 100 million. I'm just wondering, can you tell us which functions and areas are likely to generate them? And when are they likely to materialise? Is that something we should expect within the next three years or a bit longer?

That's my first question. Then secondly, on non-life, can you elaborate on the increase in the Polish combined ratio? And also, on Slovakia, what caused the improvement in the combined ratio, and is it sustainable, please? Thank you.

Elisabeth Stadler Thank you, Youdish. To answer your first question, given the size of the transaction and our existing presence in those markets, this means that we know the market quite well. This means we are, for sure, seeing cost synergies out of the combination and the cooperation of the different entities. And, of course, we will combine and streamline the processes. We have done first estimations rather cautiously, as we always do our estimates.

We came to a calculation that we expect a net present value of a little bit more than €100 million in synergies. Please understand that there are no more details at the moment which we can give. We will have to wait for the closing. But immediately when we are allowed to give you the information, we will, for sure, present it. Of course, this is not only for three years, this is for a longer period of five to ten years.

Your second question, looking at the non-life, the combined ratio in Poland, which increased. This is mainly because of cautious reserving for maybe a little bit unexpected claims, which will occur in the future. I hand over to Liane.

Liane Hirner And in addition, as mentioned on slide 15, there was an entire impairment of the activated insurance portfolio in 2020.

Youdish Chicooree What is that, sorry? This portfolio?

Liane Hirner The activated insurance portfolio was entirely impaired in 2020, so this is an extraordinary one-off in 2020, which led to an increased cost ratio in Poland.

Elisabeth Stadler Then you had the question concerning Slovakia. You are right, we have an excellent combined ratio in Slovakia. This is, of course, due to less claims in the motor business this year. I hope that, of course, we will do everything to manage

to keep this excellent combined ratio, but probably, this will not stay at such a low level for the future. But looking at the overall combined ratio, I'm quite confident that we can keep the combined ratio at around 95% over all our countries.

Youdish Chicooree

Thank you very much.

Operator

The next question is from Thomas Unger of Erste Group. Please go ahead.

Thomas Unger

Thank you very much for taking my questions. Good afternoon from me. With my first question, I would like to follow up on the answers that you gave on the combined ratio question. The combined ratio was excellent in Slovakia, but also in Austria and the Czech Republic in Q4, especially. Austria dropped to 86%, was that for the same reason that you explained in Slovakia? So, the motor business and the lower claims there.

Then secondly, on the Q4 results, the financial result. You've touched upon that in your presentation, but could you explain, within the financial result, the increase in other expenses, they doubled, quarter-on-quarter, to about 121 million in Q4, if my calculation is correct. Then also, the results from at equity consolidated companies was minus 23 million in Q4 alone.

And two more questions, if I may. One on the dividend. The pay-out ratio now is set at around 41.5%. What held you back? Is there any specific reason for not increasing the pay-out ratio? And moving it up towards the upper end of the policy range, around 50%. Is that because of concerns regarding the regulatory environment or was it capital?

And then lastly, I would ask you for some more details on the outlook. And if you could give us some colour of what the Aegon assets might add in 2021. And if you're looking at your pre-tax profit assumption, are you being very cautious here? The increase equals about the goodwill impairment that you had in Q2. So, do you anticipate any worsening of the operating environment or any other negative developments in 2021? Thank you.

Elisabeth Stadler

Thank you. Maybe I start with the combined ratio and then I hand over to Liane for the financial questions and then I take over again. I think we can be very happy with our combined ratio in the year 2020. Of course, this is a mix of the measures we have set and supported by agenda 2020. You know we have run these activities for a lot of years. We have been very consequent in supporting our companies, but also, in asking our companies for delivering their decrease in the combined ratio.

So, on the one side, this is the outcome of our initiatives in a lot of countries for the last years. And on the other side, of course, we have told you that we had less mobility during the COVID-19 crisis, and of course, this has slightly decreased our claims ratio. We are quite happy that we were able to steer the combined ratio less than 100%, and we can show a combined ratio of less than 100% in all of our countries. Even in Romania, where we have had a combined ratio of more than 100% over the last years. Also, here, we have set very, very concrete and stringent measures that we were able to show this good combined ratio, although the average market combined ratio for the year 2020, which is not finally reported, but for sure, it will be more than 100% in Romania.

Liane Hirner

Thank you for your question regarding the financial result. The first part of the question was why the other expenses increased. There are mainly two reasons for that. There are one-offs in the segment Austria regarding the early cancellation of a life reinsurance contract for a specific state subsidised pension product. And the market risk was released. So, this is shown in other expenses in Austria.

And in the Central Functions, there was a one-off regarding the shortening of the depreciation period of software, which led to higher regular depreciation of IT.

I'm sorry, I did not catch the second part of your question. Maybe you could repeat it.

Thomas Unger

The second part of the question relating to the financial result was regarding the at equity consolidated companies and that performance in Q4. It was negative €23 million.

Liane Hirner

This is mainly relating to the impairment of the participation in the tourism and hospitality sector.

Thomas Unger

Okay. Thank you.

Elisabeth Stadler

I take over the question concerning the dividend and the pay-out ratio. Thomas, you know we are always very cautious in our calculations and expectations, and of course also in this year. The proposal is clearly in line with our dividend policy. It's a little bit more than in the middle of our dividend policy, 30% to 50%. I think you clearly remember that last year, we stuck to our originally planned €1.15 per share, and we had to discuss this, of course, very intensively with our financial market authority. So, I think we were maybe a little bit more cautious here also in this direction.

The pandemic is, unfortunately, not over yet, and for 2020, also the regulatory recommendations from the EIOPA are still in place. So, I only can tell you that we are cautious in

this point.

Our proposal is based on a really careful review of all relevant parameters, and of course, we considered the macroeconomic and financial situation and its potential impact on a quite solid solvency and financial position of the Group on the other side. Our proposal, in my opinion, takes into account all the interests: the interests of the policy holders, beneficiaries, and the shareholders, and we try to achieve a fair balance of interests of all our stakeholders.

If I come to the outlook for 2021, this is, of course, not including Aegon. Of course, also this is quite a cautious outlook, maybe, because there are a lot of volatilities and uncertainties for 2021. We do not expect that the insurance business will be influenced so dramatically by the COVID-19 situation, but there are a lot of macroeconomic developments. Of course, we are dependent on the unemployment situation. Maybe on some bankruptcies, which, for sure, will happen. So, this is the reason why we were cautious on this side, too. We did not include Aegon and I really would like to ask you to wait until we have had the final closing, because then we will do a recalculation and come up with new figures.

Thomas Unger

Thank you. Could you just give me your assumptions for the financial result? Is it reasonable to base new projections for 2021 on the 2020 figure? I believe it was 600 million. Or would that be a very conservative assumption for 2021?

Liane Hirner

Regarding the financial result projections, 2020 was impacted by negative one-offs. So, I would rather see this as a conservative assumption to remain at this level. On the other hand, I would like to mention that there is pressure on current income, due to lower new money yields, and also, as mentioned before, regulators imposing restrictions on dividend distributions. This is also something we can see on the asset side. And, of course, there is still increased volatility in the capital markets.

Thomas Unger

Thank you very much.

Operator

As a reminder, if you wish to ask a question, please press star and one on your telephone keypad. The next question is from Michael Haid of Commerzbank. Please go ahead.

Michael Haid

Thank you very much and good afternoon to everyone. I have three questions, please. First, on the outlook, you expect gross premiums in 2021 round about flat year-over-year at €10.4 billion. Of course, there are many moving parts in this assumption. Can you provide a breakdown of your expectations into P&C, life, and health? I'm particularly

interested in your expectation for P&C.

The second question on life Austria. I noticed you cancelled a reinsurance contract in life for your Austrian and state subsidised life insurance book. I would like to get a better understanding of this reinsurance contract. How was this reinsurance protection structured and what does it change going forward, since you don't have it anymore.

And last question on motor insurance. Obviously, most insurance companies benefitted from lower frequency in many, many markets. To what extent do you observe now increased competition and pricing pressure in your motor markets? These are my questions.

Elisabeth Stadler

Michael, thank you. Coming to your question about the outlook, the premium is less. This is really, I would say, quite a big uncertainty, because we don't know how the premium development will be. We were very conservative in the development of the last year, not only we, but the whole insurance sector. And the final development was better than expected. So, I think if we go with a flat assumption, I think we are on the secure side.

I would expect life to go down, of course, because we still run the strategy to decrease the single premium payment. So, this, of course, will run into that direction. I would expect health to increase, because we still have measures and activities in a lot of the CEE countries, and we also have seen that in Austria, health insurance was more required than before and was more interesting than before. And I would expect this also for this year.

And for property and casualty, I would expect that we see a development, which we also have seen in this year, that especially other non-life insurances will go up in quite a significant demand. And for motor, I would expect to be quite stable, also, in this year. Maybe Liane can take the next question.

Liane Hirner

Regarding the reinsurance that got cancelled in life in the Austrian segment, let me explain it to you. In Austria, there is a specific state subsidised pension product. It's called "Prämiengeförderte Zukunftsvorsorge" which has a capital guarantee. This product was already launched in 2003 and had very high equity ratios compared to classical life products. For this market risk, a reinsurance solution was set up, but got cancelled in 2020.

Why was it cancelled? The product specifics changed. There is a lower maximum equity share. The track record and the history for this product built up over time and shows

that the risk bearing capacity within the Group is sufficient. This is the explanation.

Elisabeth Stadler

Thanks, Liane. Concerning your question for the motor business. Of course, we have seen lower frequency this year, but on the other side, we have seen higher sums, which we had to pay out, because when accidents happened, they happened in a very, very heavy way, followed by a high claim payment. We see pressure for pricing that is different from country to country, depending on the different local situations.

In many of the CEE countries, I would say we see a situation, which is really unaffected by COVID-19. So, this really differs from country to country. We are trying to avoid this decreasing of premiums and we try to balance out. And we will see what the development of this year will be. Because I would say mostly, in the insurance business, we expect that the development will go in a normal direction from the middle of this year.

Michael Haid

Thank you very much.