



## **VIENNA INSURANCE GROUP (VIG)**

Results for the first half-year 2021

Q&A-Session Conference Call

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Transcript

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Operator The first question is from the line of Youdish Chicooree with Autonomous Research. Your question, please.

Youdish Chicooree Good afternoon, everyone, and thank you for taking my questions. I have three questions, please. Just on premium growth, there was a material improvement in the second quarter and as a result premiums were up 3.5% for the first half, so I wanted to understand why you're still guiding for flat premiums for 2021. That's my first question.

My second question is on the solvency progress of 29 points to reach 267 at the end of June. I was wondering if you could quantify the contribution from operating capital generation and separately the benefit or the impact from favourable financial market moves, please.

And then finally, just on the Aegon CEE business, so the acquisition of the Aegon CEE business, can you give us an idea of the progress that you have made with the Hungarian authorities or government since April when they blocked the transaction? Thank you very much.

Elisabeth Stadler Thank you, Youdish. To start with your first question, given, I already mentioned it, the ongoing pandemic, we stay conservative. Happy to overfulfil our premium target, but for the time being we confirm the original plan. And, on the other side, also the development of life business is a little bit difficult to predict at the moment. If you look at the last years, you can see that the premium income in the second half was always lower than the premium income in the first half. In the last year, the difference was 0.8 million.

Then I take the third question before I hand over to Liane for the solvency. Concerning Aegon, we are really in intensive and, in our opinion, good discussions with the Hungarian government, especially with the finance minister. He is the one who is leading the discussions for Hungary. Please understand that I can't give you more information at the moment.

Youdish Chicooree But are you confident of a satisfactory resolution on that front?

Elisabeth Stadler We are still confident that we will find a common solution together with the Hungarian government and that we can solve the blocking which we see at the moment.

Youdish Chicooree All right. Okay, thank you.

Liane Hirner Okay. Regarding the group solvency ratio development, the group solvency ratio increased by 29 percentage points from year end 2020 to first half year 2021. Approximately eight percentage points out of this increase relate to the

€300 million restricted tier one instrument and the rest mainly derives from the increased interest rate, the increased risk-free interest rate. If we look at year end 2020, the interest rate turned positive after 20 years compared to the first half year 2021 where the interest rate turned positive already after nine years. So there is a positive impact mainly from the interest rate which has an impact mainly on the Austrian guaranteed life insurance book and business.

Youdish Chicooree

And operating capital generation, how much did that help during the quarter? During the first half, sorry.

Liane Hirner

The overall business development is satisfying. So there is also of course a positive impact from that side on the group solvency ratio but, as explained, the main impacts are the restricted tier one capital issuance and the positive trend in the risk-free interest rate.

Youdish Chicooree

All right. Okay, thank you very much.

Liane Hirner

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. I have three questions. First, P&C insurance. You showed remarkably strong growth in all lines of business, i.e. motor own damage, motor TPL and also other lines of business. I would like to get a better understanding of what drove this growth. Are there any special initiatives or any special new products which you introduced? And, if possible, can you provide a breakdown of this growth by volume and price increases?

The second question, also in P&C insurance, you mentioned the nat cat events seen in the third quarter. In light of this, could you provide an update of your reinsurance protection you have in place?

And the last question on the solvency. Now you are at a highly comfortable level of 267, or 235% if one excludes transitionals, this stands in contrast to your VIG25 target of 150 to 200%. How do you look at your current capital position? To what extent you feel it is still necessary to operate with a cushion on this target?

Liane Hirner

Let me start with the Solvency II question. The ratio is high and we are very satisfied with it, but it has not to be forgotten that the Aegon transaction is still open so this will have a negative effect on the group solvency ratio and our main focus still remains on further M&A. Our M&A department is

still quite busy, so this is the main focus.

And of course we have also not to forget that we have further uncertainties related to COVID-19. We feel very comfortable with this ratio and we hope it will remain stable throughout the rest of the year, but due to the uncertainties and the M&A activities there is for sure a trend that the ratio might go down by year end.

Elisabeth Stadler

Thank you, Michael. Concerning your questions, P&C, of course this growth is not coming by chance. Of course we have set a lot of initiatives following our strategy, a lot of special initiatives. Of course we have very attractive products in our different countries.

And I would say the main reason is for sure our good sales network, especially our own agents, also the good connections to brokers, and for sure the initiative, the newly launched initiative with Erste Bank where we want to increase the non-life business also over the banking channel is quite successful at the moment. I hand over to Peter.

Peter Thirring

Yes, so I will take over then for the question as far as the natural catastrophes are concerned. I can give you details on this. So we had two major natural catastrophes so far in this year. The first one was within the first half, in June this year. This was this hailstorm which mainly affected Austria and also the Czech Republic.

The other details are that we have a gross figure here of 144 million and a net figure of 42.3 million, so you can see that our reinsurance is working very well in this connection. What is mainly a non-proportional reinsurance, so we have an excess of loss for the group in nat cat for the group.

And the second event, but this does not affect the first-half year, this affects the second half year, this is the famous flood Bernd which mainly hit Germany, so this is a little effect or a lesser effect on our areas. There we have at the moment a gross effect of around 85 million. This might increase still to 95 million, but net is less than €30 million and this will not change anymore. So this flood took place in July this year and out of this we have a net effect, but of course this is second half year of a little bit less than 30 million and this 30 million will not increase anymore. Everything which is increased will go into the reinsurance.

Elisabeth Stadler

Okay. Could you hear us and understand everything? Hello?

Operator

I think the participant already disconnected, but we have two more questioners.

Elisabeth Stadler

Okay.

Operator

The next question is Oliver Simkovic from RBI. Your question, please.

Oliver Simkovic

Yes, thank you very much. I have three questions actually. The first one or the first two also on premiums. First of all, regarding life, there was also quite a good recovery in the second quarter. What was the main driver for this? I saw quite a bit in CEE, and what are your expectations on this side for the coming quarters?

The second one regarding your VIG25 guidance of 12.3 billion in premiums. What are the assumptions here regarding acquisitions and how much of this is purely organic growth?

Lastly, you mentioned that you have built some reserves in the first half already for the storms and weather events that occurred over the summer. Could you quantify how much of reserves you have built here and what is already mostly covered by that and what could further adversely impact the second half? Thank you very much.

Elisabeth Stadler

Thank you, Oliver. I would start with the questions concerning the premium. Maybe first the premium target in our strategy. At the moment, we expect a single digit calculated growth rate of roughly about two to 2.5% until 2025 as organic growth. This is in most of the markets above the market developments and everything what is above this is expected to come from M&A activity.

Also here I can say we are cautious for the time being based on what we have experienced during the last months of the pandemic, but also overall economic growth is expected and it's also expected to return to pre-pandemic levels from next year on. And it's also expected that again the CEE region would perform better than the European Union region, so also all the expectations are very positive.

We fear maybe that the broader part of the population in our region is affected and impacted by less available income and this could also have negative consequences on what can be spent on provisions and insurance. So also here we see, I would say, a conservative expectation from our group in the prognosis for and the plans for the next years.

We are, and I think you know this, and we still will be a very strong retail insurer. So at the moment we expect the growth mainly in P&C and health, and in life we would expect a stable development. But, as I already mentioned before, here it's really hard to make a prognosis how the single premium life business will develop. And this leads me to

your first question, the increased premium in life in the second quarter. This is coming mainly from Hungary and Romania where we have sold single premium life products through Erste Bank. And the reserve question, Liane?

Liane Hirner

I'm happy to take the third question regarding the reserving. In line with our conservative reserving approach, we reserved an amount in a mid-size double-digit million amount related to weather related claims, as well as COVID-19.

Oliver Simkovic

Thank you very much.

Liane Hirner

Thank you, Oliver.

Operator

Ladies and gentlemen, if you would like to ask any other question, please press star followed by one at this time. The next question is from the line of Thomas Unger with Erste Group. Your question, please.

Thomas Unger

Yes, good afternoon. Thank you very much for the presentation and then also thank you for taking my questions. I have three if that's okay. I would start with Austria and the premium development in Q2 alone. It actually declined while most other countries in your geographies showed very nice advances over the very weak quarter of last year. I understand that single premium income was one of the reasons for the sluggish development, but also the other business lines weren't improving as in other countries. So if you could give us an explanation here, I'd appreciate that.

And then in general the operating costs and the pressures that you see there. What are the reasons for those cost pressures and what can we expect in the coming quarters and maybe in 2022?

And then as a general topic, the weather related claims, and could you give us some details on the impacts on the combined ratio, maybe also by country, and how it also affected the central functions? And then more broadly, still remaining with the weather related claims, how concerned are you about nat cat and weather related events in the CEE region in the future? The recent hailstorm, the flooding, the tornado in the Czech Republic, if you could just put that into perspective for us? Does that change anything material for you in the future? Are you planning any price increases? And then also, what share of your business in P&C could actually be at risk or could be affected by increasing nat cat events and maybe in general climate change over the next ten years? Thank you.

Elisabeth Stadler

Thank you, Thomas. Let me start with the answer to your

first question. The Austrian premium in life is down because of less single premium brought through Erste Bank, so maybe you put this question in your house. But this is of course due to the strategy we have defined because we wanted to decrease a little bit the single premium business and increase more the current premium business.

Thomas Unger

Okay, and the other business lines? I meant outside of life single premium. The other business lines in Austria developed a little bit weaker than in other countries. Was there any specific reason for that?

Elisabeth Stadler

No, I think that is normal because the other countries, especially the CEE countries, have more growth rates because there is more potential for new business in these countries and maybe there are currency reasons in this.

Thomas Unger

Okay.

Elisabeth Stadler

Good. So let's go on with the weather related claims, Peter.

Peter Thirring

Yes, I can answer your questions for weather related claims. As I explained before, we have a reinsurance programme which works very well. So the effect net to our business are of course there, but the effect on the combined ratio is around 1.3% in this region and also the effect of the event in July will be limited. So, this is not dramatic. And as this was mainly in Austria and in the Czech Republic, which are our biggest countries, the effects on the combined ratio and on the loss ratio are similar.

As far as central functions is concerned, this is an effect mainly in the retail business so not so much on the central functions, with the exception of VIG Re which has of course a certain impact, but also there they have a retro programme on their own and also the most part is taken by the reinsurers.

The question of course if this, if we have events like this every year, then of course we might think of what happens to the premiums, this is clear. But, as I mentioned before, the biggest event for Europe was in Germany, which was the flood Bernd, which has a tremendous effect on Germany. But we are with the InterRisk only represented in a very limited area in property business and therefore we are not so much affected by this. But of course, I agree, if these events happen now every year, we have to think of how we can calculate our premium, this is clear. For the moment, we don't see this, but of course we have to watch the situation very, very carefully. For this year we have the thing, I think we have the situation under control and our very efficient reinsurance programme works very well.

Thomas Unger

Okay.

Elisabeth Stadler

So then there is the question missing, what about the pressure on the operating costs? Of course it's our target and for sure we want to reach this aim that we will try to decrease our costs because we have decreasing income of investments, what we have to compensate by saving costs and being more efficient and effective, and for sure this is the general competitor situation.

It's quite clear that we have to set up these targets here, that we have to decrease our costs, and to try to get better and more efficient on the claims side as well as on the cost side. For 2021, and this is still our ongoing target, we want to see a combined ratio less than 95% and this means of course to work on our claim ratio as well as on our cost ratio, not only in Austria but in all our countries.

We have different situations in the different countries. We have a lot of countries and companies where we are not so cost efficient because of the size of the companies and we have other countries where we have bigger companies where we can be more cost efficient. And of course we will try to do best experience here to give a lot of assistance and experience to these countries and these companies where we see some positive cost effects which we can reach in the next years.

Thomas Unger

Okay. Thank you very much.

Elisabeth Stadler

Thank you.

Operator

The next question is from the line of Bhavin Rathod with HSBC. Your question, please.

Bhavin Rathod

Yes, hi, good afternoon. I'm sitting in for Thomas for today. So I have three quick questions. The first one will be on the live single premium, the strategic reduction that you have been doing over the past few semesters. I just wanted to understand, where do you stand currently in terms of your strategic ambition? Is it something that you still expect to see in the foreseeable future?

The second one will be on your combined ratio for Romania and Turkey in particular. I just wanted to understand what drove those numbers up in the first half of 2021.

And the last one would be on your strategic ambition of lower than 95% cost. It would be helpful if you could just provide some granularities on the magnitude of improvement that we should expect going into 2025. And also, it would be helpful if you could provide some indication of which regions or geographies would contribute to most of

these improvements. Thank you very much.

Elisabeth Stadler

Thank you. We could hardly understand you so we will try to answer the questions. If we have misunderstood something or if you are missing some answers, please come again and ask your questions.

The first one was, you asked about the life strategy, about the single premium development. I think I already mentioned this in some of our last calls that we expect to have reached the bottom line of the decrease in single premium this year and we would expect that it would be quite stable for the next years.

The second one was the combined ratio in Romania what you were asking for. Our combined ratio in Romania is not as good as in some of the other countries, but for the Romanian country and for the situation in the Romanian country I would say it's excellent. I think we are nearly the only one or there are only a few insurers showing a combined ratio less than 100 in Romania at the moment. There are some showing even more than 120. So I can't say we are very happy, but we are quite happy with the situation we see there at the moment. And of course we are steadily looking at the development, at the premium development, at the development of our business, that we try to avoid especially this business with the high combined ratios or with very high losses we see in this country in some other insurance companies.

Then the third one was combined ratio less than 95, where or in which region we see most effect of improvement, did I understand that correct?

Bhavin Rathod

Yes, that's absolutely right. And any colour on the magnitude of improvement that we should expect going into 2025, at least the lower end quite wide open.

Elisabeth Stadler

Yes. We have some countries where we really have excellent combined ratios. This is, for example, Germany. This is for sure Czech and Austria. We would expect that in these countries it's not so easy to stay with these good combined ratios, so we have to look at the overall development. There are a lot of countries where we have combined ratios where we see improvement for the next years. This is, for example, the Baltics. This is Romania, again. This is Poland. We show very excellent combined ratios at the moment in Bulgaria. So this is quite different from country to country and from year to year, and of course this depends on the competitor situation we see in some of the countries.

In some of the CEE countries we have this development like waves, especially in the premium calculation. There are always some competitors trying to gain market shares and of course they are then selling under price. This is something what we really try to avoid and what we really do not do in any of our countries.

So you can be sure we observe this quite intensively and we have a really deep look into our combined ratios and we really take care that all our managers in the different countries and companies take all the measures they can to improve the combined ratio. So this is a clear goal which we see in every country and in every company for the next year.

Bhavin Rathod

Thank you so much.