



VIENNA INSURANCE GROUP (VIG)
Results for the first three quarters 2022

Q&A-Session Conference Call

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Transcript

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Operator First question is from the line of Youdish Chicooree with Autonomous Research. Please go ahead.

Youdish Chicooree Good afternoon, everyone, and thank you for taking my question. The first question is on the combined ratio. You have guided to a combined ratio of around 95 for this year. I was wondering whether you could talk about the sustainability of this level going into 2023, given inflationary pressures and the fact that already in the third quarter it was, I believe, 96.5. That's my first question.

My second question is on the Czech Republic. If you could just remind us of what's driving the strong premium growth and the deterioration in combined ratio in the Czech Republic, and whether going forward, you believe that you can adjust prices to offset some of the issues you've seen around severity and frequency in motor? Thank you.

Peter Höfingger Thank you for your question. The increase of the combined ratio in the third quarter this year to 96.5 is on the one hand side driven by the first-time consolidation of Aegon and, therefore, also the including of the insurance tax, which has an impact on the combined ratio. Secondly, and this is also relevant for your second question, we had quite a higher number of weather-related claims in Czech Republic, which also had an impact on the combined ratio for the third quarter.

Looking forward to next year, maybe starting at that point, and I think one has to keep this in mind, in the region where we're operating, Central Eastern Europe, inflation is not something which is new, which is appearing the first time in the last 50 years, as it is maybe in Western Europe. All of our manager in Central Eastern Europe in their respective countries had already times of high inflation. Therefore, we do have experience in how to deal with these issues, and mechanisms are in place for dealing with it.

On the one hand's side, depending on the country, we do have automatic indexation for long-term contracts, which is not always linked to consumer price index, but also linked to construction price index or sometimes on the motor side, it's linked to motor repair costs index or the relevant price increases. Secondly, where we have not long-term contracts, it's annual contracts, where we always evaluate at the renewal of this contract the sum insured, adopt the sum insured and, therefore, also the premium beside rate increases. We feel quite committed also for the year to come, that our target will stay around 95, if there is not very exceptional NatCat events or significantly higher frequency of NatCat events that we'll be able to keep around this target which we are putting ourselves.

Youdish Chicooree Thank you. Just to clarify, if we focus just on your main markets,

you don't think there are competitive pressures or maybe regulatory pressure that could prevent you to do the pricing changes you want?

Peter Höfing

We do have the competitive pressure already today.

Operator

As a reminder, that's start followed by one two after the question. Next question on the line is from Thomas Unger with Erste Group. Please go ahead.

Thomas Unger

Good afternoon. Thank you for taking my questions. The first one, I would like to touch upon the financial results in Q3 alone. The current income was very high, you mentioned in the presentation that this was affected also by the first-time consolidation of the Aegon assets. But also on the expenses side, it was quite a bit higher than in previous quarters with the depreciation of investments higher, other expenses higher. What is behind those developments? In the P&C in the business line, P&C alone was negative in Q3. If you could explain that, I would appreciate it.

Then, looking at Austria only, and also only in Q3, premiums were down. Is that due to single premium life? Also, the combined ratio was up compared to previous quarters, so if you could explain that, that would be helpful.

Then, lastly, you mentioned the windfall tax in Hungary to be booked in Q4 and already booked now in Q3. What about 2023, will it be booked in the first quarter already or do you spread this out evenly across the quarters?

Then I'd also be interested in your feeling, whatever you can give us, about 2023 in terms of premium growth in this environment. Thank you very much.

Liane Hirner

Thank you for your questions. I will start regarding the financial result in Q3. This was in the other income area (Note: in the P&L), mainly impacted by the first-time consolidation of Aegon Türkiye with FX gains due to the US dollar portfolio there. Other expenses are more seasonal effects, nothing special.

Regarding Hungary, the windfall tax was booked in 11 million as announced in the third quarter and another 11 million is expected to follow in the fourth quarter. For next year the tax will be booked by each quarter and expected to be at the same amount as this year, so we'll spread it over the year.

Nina Higatzberger

Thomas, I guess it was the last two questions, the financial result Q3 is answered, is this okay?

Thomas Unger

Yes. Is that also the explanation for the P&C financial result being negative in Q3?

Liane Hirner

Let me check.

Peter Höfingger Maybe in the meanwhile, I'm trying to answer your last question. Premium growth going forward next year, it's difficult to predict because it's very much dependent on the overall economic development in our region. This combined with the inflation rate, clearly the inflation is also a driver of the premium growth as we are increasing sum insured and correspondingly, the premiums. I would not expect to have this strong growth which maybe we have been seeing this year. Then, depending on the overall economic development, we will see how generally the markets and the premiums will develop. But this is very much depending on the overall economic development, and I think for everybody, it's quite difficult to assess how GDP growth will develop in Europe next year.

Thomas Unger Thank you. Maybe just on the development in Q3 in Austria with premiums softer quarter-on-quarter.

Peter Höfingger If I look on Austria, for sure, the non-life premiums were growing, so the effect, I assume, will be in the lower life single segment. This is the reason here in Austria.

Thomas Unger Any specific reason for the combined ratio being up in the quarter?

Nina Higatzberger 97.5 to 97.6, no special reason here. Maybe a seasonal effect, but nothing we would flag here.

Thomas Unger Right, year-on-year it's stable, but compared to the previous quarters, probably a seasonal effect. Okay, thank you very much.

Liane Hirner Maybe coming back to the question regarding financial result, other expenses. Here included are precautionary measures for various projects which we do usually in the third quarter.

Thomas Unger Thank you.

Operator Next question is from the line of Bhavin Rathod with HSBC. Please go ahead. Mr Rathod, your line is open, please go ahead.

Bhavin Rathod Hello, am I audible?

Operator We can hear you now, thank you.

Bhavin Rathod Good, sorry about that. I have just a couple of questions from my side. The first one would be on Romania, given the fact that we have seen a significant improvement in the combined ratio and it seems like the MTPL market is becoming more disciplined. It appears that although you are number one in Romania, but in the MTPL market just to note the number, just wanted to understand your strategy in terms of how you're thinking about growth in the MTPL market, given the discipline that we are seeing in the MTPL market. That would be my first question.

The second one would be on Poland. Standalone 3Q combined ratio again seems to be a bit on the higher side. If you could just comment a bit about what we're seeing in terms of competitive dynamics over there? That would be really helpful.

The last one would be on your re-investment rate, if you could just provide what is your current re-investment rate compared to the current running yield? Thank you so much.

Peter Höfing

Thank you for your questions. Let's start with Romania. Yes, in Romania we are seeing now more risk-adequate premiums in motor TPL, therefore, combined ratio is slightly below 100. This is not yet a satisfying element, but you also know that Romania is a quite volatile market. There are also new market entrants coming to Romania, which will maybe again create uncertainties within the motor TPL market. Our group has been very disciplined also in the growth of motor TPL. We are very much targeting in Romania to have a balanced portfolio between the different lines of business and not to be purely dependent just on one line of business, with different strategies by competitors in the market. But currently, I think we are on a reasonable way overall in Romania.

When we go to Poland, in Poland one can see that the competitive landscape is currently very intensive when it comes to motor TPL. You also see that we do have a negative growth in Poland in motor TPL. This is driven that we are disciplined and that we are not entering into this price war. Specifically in the fleet business we are very restrictive, seen here in our book. I do not expect this to change this year, but I believe that maybe next year, also due to the pressure of inflation and, therefore, a certain increase of average claim will also drive market pricing a bit up next year.

Liane Hirner

Coming back to your question regarding the re-investment rate. The new money yield in Austria in the first nine months amounts to 2.47% and has increased over the past months due to the rising interest.

Bhavin Rathod

How does it compare with the current yield or running yield?

Liane Hirner

The average yield on the fixed income in Austria for the nine months is 2.48%, so nearly the same.

Bhavin Rathod

Right, understood. And quickly, the last one, if I may. I just wanted to understand, should we be concerned about the windfall taxes in Czech Republic, does it have any implication for Vienna Insurance?

Liane Hirner

The additional tax on premiums relates to Hungary. I think what you're referring to is maybe the banking sector. There is no additional windfall tax for insurance companies in Czech Republic.

Bhavin Rathod

Perfect. Thank you so much.

Liane Hirner

You're welcome.