Conference Transcription

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CONFERENCE DETAILS

Conference Date:	9 November 2010
Conference Time:	15:00 CET
Conference Duration:	Approximately 44 minutes
Chairperson:	Thomas Schmee

ACT Operator

Welcome to the Release of Results First to Third Quarter 2010 conference call on 9 November 2010. Throughout today's recorded presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation please press *0 on your telephone for operator's assistance.

I will now hand the conference over to Thomas Schmee. Please go ahead, sir.

Thomas Schmee

Thank you, Julie. Ladies and gentlemen, good afternoon and good morning and welcome to the seasonal telephone conference for the results of Vienna Insurance Group. Our table round here in Vienna consists of Martin Simhandl, CFO, Peter Hoefinger, Member of the Managing Board, and Roland Groell, Head of Group Finance and Accounting. Martin will guide you through a short presentation about the results and this will be followed by a Q&A section. Martin, please go ahead with the presentation.

Martin Simhandl

Thank you, Thomas. Ladies and gentlemen, it's a big pleasure for me to present to you the results of the first three quarters of this year for Vienna Insurance Group and what in general I can say in the beginning I have the possibility and am proud to present to you a very solid development and performance.

The main figures profit before tax is up by roughly 11%, gross written premium by more than 7%. On the other hand the net combined ratio at 98.2% which is influenced by NatCat losses. And last but not least an improved financial result which shows better capital market environment.

The next slides in your presentation, that's slide five and six, give the main figures for the first three quarters. Gross written premium up to more than €6.5 billion. Profit before tax roughly €378 million. Net profit after tax and minorities a plus of also more than 10% to €291 million. The combined ratio I already mentioned. Earnings per shares exceeding €3 per share and the ROE before tax nearly 11%.

Ladies and gentlemen, let's go and step into more details of the profit and loss account and the balance sheet. These are the slides eight and nine of your presentation, income statement. What I want to point out in addition the development of the net premiums a plus of more than 10% to roughly €5.9 billion. The financial result is an increase of more than 23% to nearly €900 million; on the other hand, an increase of more than 13% on expenses for claims and insurance benefits. And last but not least €67.5 million taxes which means a corporate tax ratio, corporate tax burden, of nearly or a bit below 18%.

Concerning the balance sheet figures: on the assets I want to point out the development of the investments a plus of roughly 7% to €27.7 billion. On the other hand on the liability side the development of the shareholder's equity a plus of 6.2% to more than €4.9 billion. I will elaborate on that later.

The next slide gives more details concerning some main figures in the profit and loss account. Slide ten gives an overview by country and regions of the development of the gross written premiums. I start with Austria. We see a rather flat development in Non-Life. On the other hand a very good increase in Life, in total 6.2% increase in gross written premiums. In Czech a plus of nearly 8% overall and a very positive development in Life. Nearly 28% plus also in Slovakia, very positive plus in Life of nearly 16% overall roughly 2% plus.

In Poland, a very, very positive development in Non-Life, a plus of 48%. On the other hand, in Life the portfolio restructuring with it is more or less completed so now we see a rather flat development on which we can build on in the future. Romania, despite very positive development in Life, and I will come back to that, we have seen a negative development overall coming from Non-Life reflecting our aim to increase the profitability of our business in Romania.

What I want to elaborate a bit more in detail is the development of the business of the so-called s Versicherung Group. These are insurance entities we have bought from Erste Bank in 2008. What clearly comes out is that it has been the right decision in the right time. We see a very positive development here and given the fact that we are coming out of the crisis that we are in post crisis I think is very positive to be seen, a plus of more than 47% in gross written premium. Very, very positive development as well in Czech as in Romania but also in the other CEE countries double-digit premium development in our s Versicherung entities.

Slide 11 gives you an overview of the development of expenses for claims incurred. The Group's loss ratio has increased by roughly 1%. We see a different development in different countries on the one hand. In Austria and Slovakia we see a decrease in the loss ratio. In Austria it's an effect of the lower claims frequency. In Slovakia it comes out from the underwriting side. On the other hand we see some sharp increases as well in Czech Republic as in Poland and this reflects the very negative weather conditions of this year and especially the NatCat effect we have seen in these countries. Last but not least Romania. Romania, here we see a decrease in the claims ratio, a very huge decrease which not only comes from the increased tariffs but also out of some FX effects and other things which we have to see in combination with the development of the costs in Romania that's on slide 12 of your presentation where you see on the other hand a significant increase in Romania.

Overall, the Group's cost ratio is up by around 1% point. In Austria it's more or less the same level coming out from acquisition costs and in the same time the admin costs are down by around 0.5% points. In Czech Republic we have a rather stable development. We have here a situation where the positive cost effects coming from the efficiency programmes are somehow offset by lower reinsurance commissions.

Slide 13 gives you an overview on the financial results. We see on the one hand a increase in the current income but, and this is especially important for the overall result, we see significant decrease as well in depreciation, impairment and in losses from the disposal of investments. Overall we see an improvement of more than 23% to a level of nearly €900 million.

The next two slides give you an overview of our investment portfolio. First, slide 14, a general overview and you see it's a quite stable development of our portfolio, slight increase on the bond side and a slight decrease on the loans and real estate side in proportion. And the next slide, slide 15 gives you an overview of the bond portfolio on the one end by issuer. We have increased the government part in our bond portfolio and that is what we have continued. In the meantime that's roughly 50% in the same time we have decreased the bonds issued by financials. On the rating side more or less a stable development, a small increase in AAA with a small decrease in AA more or less.

Slide 16 gives an overview of the development of the shareholders' equity. Overall we see an increase of more than €400 million which in combination with the dividend payment of roughly €165 million come to an overall net increase of roughly €300 million which gives a Group shareholders' equity of roughly €4.9 billion.

Last but not least, an outlook for this year and for the coming year. What we see on our business side in Non-Life, the motor business is influenced on the one hand that we have a trend to smaller cars so the business itself has a tendency to shrink and we also see some sharper competition. On the other hand we see a fairly stable development in the corporate business as well as in the non-motor Non-Life business.

In Life we see a very positive development of the business and we see an increased demand for Life and what I already elaborated especially the bank distribution channel in that situation is very important for us and gives a very positive result. What we think out of our estimation is that the insurance industry sees a sort of a time lag between the economic cycle, the recoveries of the economies on the one hand and the insurance industry cycle, so in Non-Life we think that the current subdued volume will continue. In Life we are more positive because we see a quite significant demand.

Concerning the result of our Group we expect the profit before taxes to be raised by at least 10% and the single-digit premium growth for this year. This is what we already said and we stick to it and on the other hand for 2011 we think that the profit before taxes will further increase by around 10% and we also see a single digit premium growth. This all is subject to the overall economic and legal environment and also the NatCat situation will not be an adverse for us.

This in a nutshell is my presentation for the Group's results of the first three quarters. Thank you very much for your attention and we are open for your questions now. Thank you.

Thomas Schmee

Thank you, Martin. Operator, we are ready to go with the Q&As.

ACT Operator

Thank you. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received. There will be a short pause whilst participants register for a question.

Thank you. The first question comes from Ralph Hebgen. Please go ahead.

Ralph Hebgen - KBW

Yes, hello and good afternoon. Ralph Hebgen from KBW. My first question focuses on Life. I have seen the growth in premiums was actually quite – actually was very good certainly and in particular compared to P&C. Would you be able to illustrate the background of this, what is driving this growth?

And the second question would be to the extent that this is driven by single premium products in spread business would you be able to comment on the profitability of that business focusing on the average guarantees which you have in the in-force book and the average return on investments in your Life assets? Thank you very much.

Martin Simhandl

Thank you very much for your question which has two parts as I understand. The first, the reason for the growth in Life of course there will be different reasons but out of our view on the one hand we see a general increase in demand in life insurance again. In the crisis itself, it would have to be expected that already then there would be a certain additional demand for life insurance coming from the saving and security standpoint but what we saw at that time was that the people were not prepared to bind the money for a longer time. As the price itself has more or less gone this has been proved that the one main reason may be on the customer side. The second which I elaborated on that is that clearly with the Erste Bank as partner we have a very strong distributor in life insurance. This is a banking organization being in retail extremely strong as well in Austria and Czech, in Slovakia and Romania and the effects out of that we very clearly see. That's for the first part of your question.

The second part concerning the single premium business I think what we should a bit elaborate on is that in the single premium we see a significant part which is non-traditional Life which there is a clear tendency versus index linked products which very often are somehow created in a way that it is sort of a mantled bond and clearly out of such products you never have a problem with guarantees because there is no guarantee on it because the investment risk is up to the customer. What we do not see for the time being is a deterioration of our investment yield basis by single premium inflows, that I could say.

Thomas Schmee

Does that cover your question?

Ralph Hebgen - KBW

Yes, sorry I am still on. Yes, indeed, thank you very much. Just can I have one followup. Is it possible to share with us what the average guarantee on the spread business which you writing in the in-force book is and also what's your average - well I can look up myself what the return on investment is but the average guarantee in the in-force book which would be interesting to hear.

Martin Simhandl

Yes, overall I think I gave you two figures which are important for you. The one is the overall in the whole group which is between 3.20% and 3.25% and the second which I think we have to elaborate separately is Austria where it's around 2.9%. Why to elaborate on Austria separately? We clearly have to see that the interest rate levels in different countries are very different. If you look to Poland or also Czech it's different to us, it's significantly higher. If we are talking about a low interest rate environment we have to focus to Western Europe and then we come on the investment side clearly to the Austrian situation in our Group and there the average interest rate that counts is around 2.9%. In comparison to that in Austria the fixed income book yield in Life is around 4.5%, something like that so you clearly see there is a lot of space.

Ralph Hebgen - KBW

OK. Fantastic. Thank you very much.

ACT Operator

Thank you. The next question comes from Enrico Mattioli. Please go ahead with your question.

Enrico Mattioli - Deutsche Bank

Good afternoon. Just a couple of questions. One is with regard to the bond issue you have declared. I read that you are mentioning - I do not know if it's official statement - but there were €500 million mentioned on the news and I wanted to know if you could elaborate more about this because your Solvency I ratio seems very solid. Are you thinking of simply increasing the financial leverage or you know to take advantage of the low yield or are you planning any further acquisition or simply is it because of Solvency II ahead which is maybe worrying you?

And the second one is regarding the investments. I saw that the split between the investment between Life and Property shifted in nine months compared to H1 around €2 billion towards Property and Casualty from Life and this gave a stronger result to this line of business, the P&C, in terms of ordinary result. I was wondering if you can elaborate why there was this move in terms of investment? Thanks.

Martin Simhandl

Well, two questions, I will try to answer both. The first concerning the bond you were speaking about. What we said is that we are thinking about if this could be a good idea to make it very clear. What I can elaborate is why it could be thought that it could be a good idea. Well, clearly what you said interest rate environment is rather low on the one hand and so secondly if you look at our equity composition you will find out that there is not very big leverage.

Clearly there is no specific need for us for the time being but while insurance groups if they work on a cautious level should have a look farer into the future and that could include to take some opportunities. Clearly what I want to add to that is that we do not see any significant acquisition for the time being somewhere around. If you look what we have done and we announced that some weeks ago was the acquisition of InterAlbanian. This is a company with some €5 million premium volume so that gives you an idea of that.

Secondly, your question concerning the development of the segments P&C and Life, I want to elaborate a bit on that. There are some effects coming out from the split we have done. The holding itself is in the segment P&C and so automatically all holdings held by the holding which are not insurance subsidiaries are accounted in P&C and that especially counts for the housing societies we have which till the split have been part of the Life business and out of that clearly you have some effects on investment income as well as on the interest rate that has been paid because these are leveraged companies as you know and also the expenses of that company. All that you see now in P&C and that's the main effect.

Enrico Mattioli - Deutsche Bank

OK, thanks. Can I ask a follow up with regards to the capital? Did you see any link between the possibility to raise money through subordinated debt and the fact that there has been the QIS5 exercise with Solvency II or is it completely not connected to this item? Thanks.

Martin Simhandl

Well, the development of the Solvency II is a very interesting story but frankly spoken the QIS5 itself in comparison which was being seen before and we will see how it comes out in the industry but from our view that would not frighten me.

Enrico Mattioli - Deutsche Bank

OK, thank you.

ACT Operator

Thank you. The next question comes from Dhruv Gahlaut. Please go ahead with your question.

Dhruv Gahlaut - HSBC

Good afternoon, guys. A couple of questions. Firstly, if you could give an update on the costs savings programme where you are with that and if you plan to initiate on further initiative in the same respect? Secondly, if you could provide an idea on the pricing on the Non-Life side in your key markets. And thirdly, on the reinsurance pricing following the NatCat activity, what kind of reinsurance prices are you seeing for next year? Thank you.

Martin Simhandl

I think these three questions, the first will be answered by Roland Groell concerning the costs savings programme, the second concerning the pricing development in P&C in general will be answered by Peter Hoefinger and also the pricing development as we see it in the reinsurance as I understood will be answered by Peter. Please, Roland.

Roland Groell

According to our cost efficiency programme we announced last year that our aim is till the end of this year to increase our efficiency or save costs to an amount of €100 million. We are on track. Till the end of this quarter or the third quarter we achieved about €90million of this. So we are rather sure that we will achieve an additional €10 million till the end of the year.

Peter Hoefinger

OK, when we go to generally pricing in our main markets, let's start with Austria. If you look in our figures, in Austria, you will see that we have deliberately decided not to be part of a price war in a motor business. What we can see is very slowly but somehow in this competitive environment in the motor market there could be first signs that this system again coming a bit back. Therefore we are not too optimistic about the pricing in motor business but at least it seems to be that a bottom line is reached and with some tendencies that there are possibilities to again participate maybe a bit more in this market.

If we look on the corporate side here clearly one has to say that for international accounts we still see a quite soft environment. On the other hand side, we are able with insurance programmes covering our clients all over Central and Eastern Europe to have one hand side an advantage in our infrastructure and servicing in relation to the competition but also to have a certain mixture of our pricing covering more countries than just one and so being not just caught in the price and development of one market. One thing which could be said which normally is somehow also a tendency that bottom line is somehow reached. There are already some large industrial clients asking for multi-years contract so obviously also these professional buyers of insurances do believe that in the upcoming years pricing is more likely to go up than to continue to go down.

If you look at Czech Republic over here, clearly pricing is somehow influenced by the general lower volumes in the motor business as already described by Martin. The tendency to buy smaller cars, cars with less horsepower and therefore less tariff premiums, is putting pressure on the overall market. Also that in comparison to the years before that there is less cars owned by financing or by leasing due to stronger elements of scoring by the financing institutions supporting more used car sales which also in the end is resulting in lower tariff premiums and a longer duration of driving the cars so not changing the car so quickly then maybe there was tendency to some in the past. Therefore, a competitive environment to be continued.

If you look to Poland, there are various aspects which have to be taken into account specifically the loss history in Poland this year which is significantly influenced by NatCat events which haven't been there in Poland for the last seven, eight, nine years is changing the overall view on the risk assessment of the market participants. We are in Poland very strong in motor business. We are a bit underrepresented in the area of property. We do see most probably the opportunity to now having the chance getting better price business in property which we haven't had in the past as the whole market will need to recover from the losses which they have experienced in Poland.

Romania is still hit by the overall economic situation so if you look here on new car sales, there is not yet the rebound to be seen. We have decided in Romania, also out of our market position, to have an approach which is clearly orientated towards increasing the profitability of our portfolio saying that this means introducing of deductibles but also having quite significant increases of our premiums to certain segments which has been proving to be loss making in the past. Most of the international market participants are following here to our ideas. There are still in Romania although some local players which are generating volumes by lower prices but at a certain period of time we are also seeing that more or less the whole market will experience a hardening in the motor market.

If we now come to NatCat, looking on this year, this year was a very unusual year by our region. On one hand side unusual from the frequency and from the different events which we had from snow pressure to floods to hail but also geographically in areas where we haven't experienced in the past this kind of NatCat events. As also already mentioned gross we have claims of more than €180 million. In net this means something around €70 million. It's also some kind of stress test for our NatCat cover which we had experienced this year and I think for this exceptional year we could prove to still deliver on our results even having this unusual environment.

For the pricing next year there is to be expected certain increase for the NatCat cover. Clearly it has proven not a single action towards the player of Vienna Insurance Group. This will be for the whole players acting in this region. We do have a significant advantage here. Bundling our NatCat covers out of the countries and therefore taking benefit of our natural diversification before going to the third-party market giving us a different power of bargaining and also giving us certain element of efficiency towards the reinsurance industry as we offer the reinsurance industry to be part of our programmes with signing just one contract and negotiating in each and every market and see with each and every player so that the reinsurance companies do get their global diversification. In relation to our competition we feel relatively well positioned on the other hand side we will see also on the reinsurance market certain pricing to exist for NatCat cover. I hope I could answer your questions?

Dhruv Gahlaut - HSBC

Yes, thank you.

ACT Operator

Thank you. The next question comes from Ralph Hebgen. Please go ahead.

Ralph Hebgen - KBW

Yes, hi, Ralph Hebgen again. One followup question on the discussion of guarantees and yield in the spread business. Would you be able to illustrate - you mentioned there is for example a 2.9% guarantee in Austria, there is 3.2% or thereabout at the Group level. Would you be able to illustrate how quickly that guarantee will step down as we go forward in time? You would think that old contracts carry higher guarantees and more junior contracts carry lower guarantees, so as you go through in time the guarantees would step down perhaps in concert with the yield on the fixed income assets. This dynamic it will be interesting to see your view on this how this dynamic might develop in the Life portfolios of your Group. That is question number one.

And the second one is just what I always ask and I forget this time which is the contribution of net realised gains to pre-tax profits either in the nine months stage or in the third quarter. Thank you very much.

Martin Simhandl

I will elaborate on your first question and Roland in the meantime is elaborating on your second question. Concerning the guarantees, of course, we are going down over time. To give you an impression the guarantee on the new business in Austria for the time being is 2.25% and if the interest rate environment would continue to be as it is in the second half of this year and there are already discussions then maybe able to go down at the beginning of next year or around that to 2%. There are some discussions about that. On the overall portfolio, we always see a slight decrease over time. This is not in effect coming extremely fast but over time and continuously it's going down. That's the one side.

The other side is if we look at the interest rate environment I think that also we should imagine we see a situation where so to say indices on interest rates have changed the nature. Fox example, if we look at the Euribor and/or also on the swap rate, we normally should estimate and that was pre-crisis that these are conditions for refinancing of banks at a flat level. That is not and not at all for the time being. The nature of such indicies has tremendously changed and because who gets money for swap flat now. And even if you look at the government side there was a long tendency to look at the German bond, OK. The German bond have - there are very big issues, big volumes in one issue. It's a strong economy but clearly it's not the only and single government and if you look at the development in the last two years you clearly can see that it was extraordinary and not only extraordinary in the whole interest rate development itself but in comparison with practically each and every other government.

I want to call in mind for example that not long ago just some months we have in Austria, Austrian Republic, spread of 60 basis points and so this we also have to take into account when we are talking about interest rate. In general it looks a bit deeper than it is. Roland will answer to your second question.

Roland Groell

Your question was the distribution of our extraordinary investment income to the bottom line. If we look at our so called extraordinary investment income we have on the positive side the write-ups and the real life gains and if we include also the real life losses and impairments on our investments we have about €120 million flat positive income out of our extraordinary investments income and out of this €120 million about €40 million to €50 million we show as profit on the bottom line. The difference is shown as deferred profit participation of Life.

Ralph Hebgen - KBW

Are you saying that in the nine months stage €40 million to €50 million net realised gains contributed to pre-tax profits?

Roland Groell

That's right.

Ralph Hebgen - KBW

OK. Thank you very much.

Roland Groell

That's right.

Ralph Hebgen - KBW

Which incidentally would mean that there was nothing in the third quarter then, as there was nothing in the second quarter?

Roland Groell

Sorry, once again.

Ralph Hebgen - KBW

Which I believe would be equivalent to saying that there was zero or near zero in the third quarter as there was also near zero in the second quarter.

Roland Groell

It was near zero in the third quarter, some million in addition, so we have this very similar level in comparison to the first half year, that's right, something in addition.

Ralph Hebgen - KBW

Yes. OK. Thank you very much.

ACT Operator

OK. Thank you, sir. We have no more questions at this time. Please continue.

Thomas Schmee

Thank you, Julie and thank you very much to everybody for participating in this telephone conference. We hope to have you with us for our next event on our schedule which is on 25 January 2011 for the release of the preliminary results. Thank you and have a good day. Bye.

ACT Operator

Thank you. This concludes the conference call. Thank you for participating. You may now all disconnect.

END OF CONFERENCE