powered by CHORUS CALL

Conference Transcription

Questions & Answers

Conference title : **VIENNA INSURANCE GROUP (VIG) Results for the First Quarter 2013 Conference Call**

Date of conference: **Tuesday, 28th May 2013**

CONFERENCE DETAILS

Conference Date:	28 May 2013
Conference Time:	15:00 Central European Time
Conference Duration:	Approximately 55 minutes
Chairperson:	Nina Higatzberger

Operator:

Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. You questions will be answered in the order they are received. If you are using speaker equipment today, please lift the handset before you are making your selections. Anyone who has a question may press star and one at this time. And the first question is from Maciej Wasilewicz from Morgan Stanley. Please go ahead, sir.

Maciej Wasilewicz:

Hi, it is Maciej from Morgan Stanley. Thanks very much for taking my question. I have two, if I may. The first is on your capital position. You mentioned that your Solvency 1 ratio is above 250 percent. I am just wondering; previously you talked about your acquisition war chest at a certain level. How much actual capital do you hold above your minimum requirements, looking at your tightest minimum requirements, that is actually distributable; i.e. I am trying to figure out whether or not your ROE is a little bit being suppressed by additional caution or whether your ROE, at the current level, is where it is for operational reasons? Number two: looking at your overall growth picture, I was wondering if you could provide any more detail, in particular on the Czech and the Slovak markets. From what I understand, you are actually doing quite well, relative to the market, within those markets, but I am just wondering, is there any sign that those markets will turn around and begin to grow again anytime soon, or are conditions just very tough at the moment for everyone and there is no foreseeable turnaround in the next twelve to 18 months? Thank you.

Martin Simhandl:

Trying to answer your first question concerning our capital position, the one thing to look at that is the solvency one position. As you know we are in a situation where we expect eventually a new regulatory environment with new capital definitions, meaning solvency two, but it is not until now. That is the one side. The other side what we are looking at is our capital position against the Standard & Poor's model and as you know, we are also here well capitalized. And up from the capital position, we are significantly above the target that we want to have, in so far that we want to have the minimum for our current rating. This, to say so, concerning your question on the ROE, I am not completely sure if I have understood it acoustically. But if you look on the ROE figures, of course they are influenced by the total equity position. I think what is important, in so far, for Vienna Insurance Group, as we are a group having quite a lot of intangible positions in our equity, is to look at the return on tangible equity, meaning excluding the intangibles and if you do so, you will see that the ROE of that group is a very good one.

Peter Höfinger:

Maybe for your question two, concerning Czech Republic and Slovakia. Czech Republic, on the one hand side, has been mentioned in the presentation, there is a certain FX effect on it. Nevertheless, there is a strong pricing pressure on the motor TPL market. We have decided, as being one of the dominant players, to keep an underwriting discipline and look on a favourable claims ratio: therefore we are not joining any kind of price dumping. We are trying to even better balance our portfolio and go stronger in retail – non-life, non-motor – where we see first successes, but these are still small premiums per contract, so this will take time to see certain effects in the corporate business. We do have already a very good position in the Czech Republic and are slightly also growing there. How is this developing over the year? I can just guess. I would think that it should at least stabilise and maybe that there are first signs of a little bit of hardening of the market. Slovakia, one hand side, you have to see our growth which we are generating in life business with the single premium. This is very much due to our very well developing co-operation with Erste Bank in Slovakia and I would expect that we are further developing in this co-operation with Erste Bank in a good direction. Coming to non-life, a bit the same like in Czech Republic, we are keeping underwriting discipline in motor TPL, therefore not joining just for volume reasons to underwrite any large fleets which we believe are economically not senseful. In Slovakia, we do have even higher potential than we have in Czech Republic in the corporate business, property business. There we have a lower market share in relation to Czech Republic and there we are currently on the way to launch certain initiatives to grow in these areas to also there get another share in our portfolio.

Maciej Wasilewicz:

Thank you.

Operator:

And the next question is from Michael Haid from Main First Bank. Please go ahead, sir.

Michael Haid:

Thank you very much. Good afternoon. Two questions on the combined ratio. First, you published a combined ratio net of re-insurance, 96.9 percent. Can you give us your combined ratio gross of re-insurance and do you intend to increase your retention over the forthcoming year? Second question, the combined ratio of Slovakia, I noticed that the expense ratio was 60 percent and the claims ratio 36 percent. You mentioned, as one reason for this, the internal re-insurance. Can you explain how it affects the expense ratio and the claims ratio? And can you give us the combined ratio in Slovakia, excluding the re-insurance, the internal re-insurance?

Martin Simhandl:

I will try to answer your first question and maybe the second question will be tried to be answered by Roland Groll. The first concerning combined ratio gross and net; we have not provided figures for now. Overall, and this maybe fluctuate over short time, but overall, clearly over a longer period, the combined ratio gross is always better than the combined ratio net, otherwise re-insurance companies would not earn money. But as we are concentrated on what our group is earning out of its business, and we are defining our re-insurance need out of what we think is good for us out of the risk perspective, we look at the result net. Concerning the retention overall, what you could have seen over the last years is that we have, by creating an own re-insurance company for the group, we have succeeded to take those parts of the risks that smaller group members would have to cede to the re-insurance market just because of their small size, that we are able to hold back within the group. But in general we have, for the time being, no idea to change our re-insurance strategy, meaning that led to a situation that we have a slight increase in the retention of the business and that could also be for the coming time.

Michael Haid:

Okay, thank you.

Roland Gröll:

According your second question of combined ratio for Slovakia – If you look at the net combined ratio for Slovakia, we have a claims ratio significantly below 50 percent – something like 35 percent – and a cost ratio of nearly 60 percent, which indeed looks on a first view quite strange. The main reason, as you mentioned, is re-insurance programme. Generally, we have, especially in motor business but also in natural catastrophe group insurance programmes and what we see in the first quarter in Slovakia is simply a shift from the claims ratio to the cost ratio, driven by re-insurance provision. Or the other way round, you can estimate about 10 to 15 percentage points, higher claims ratio and lower cost ratio, if you exclude this re-insurance business, which then looks similar to the past and similar to other countries.

Michael Haid:

But the combined ratio, if you exclude internal re-insurance, is not this similar to the combined ratio in Slovakia.

Roland Gröll:

The gross combined ratio the same is true what Martin Simhandl says, overall for VIG a gross combined ratio is slightly better. But generally, you will also see a shift that means higher claims ratio and lower cost ratio, if you look on a gross basic in Slovakia. But on the total combined ratio no significant impact - slightly better, if you look at the gross figures.

Michael Haid:

Okay, thank you very much.

Roland Gröll:

You are welcome.

Operator:

And the next question is from Michael Van Wegen from Bank of America Merrill Lynch. Please go ahead, sir.

Michael Van Wegen:

Yeah, hi, good afternoon. It is Mike Van Wegen, Bank of America, Merrill Lynch. Two questions as well, please. I would also like to focus on your combined ratio. You showed a half a point deterioration year-over-year. That goes against what we have seen for many of your peers in Europe. Looking at the slide, most of your countries, if not all countries actually, have shown an improvement. But it seems that particularly the group functions, or the central functions, has affected this number, causing the deterioration. Can you help me understand what is driving that and how we should look at that going forwards? And then the second question is you mentioned Romania, the situation being poor but stable. What is the outlook there? Are you still comfortable that you are on track to get back to a profitable underwriting situation next year? Or what needs to be done to get back to that situation? Thank you.

Martin Simhandl:

Okay, maybe Peter is answering.

Peter Höfinger:

Maybe for the first question. As you said, the combined ratio is very stable, so there is a difference of 0.5 percentage. Secondly, we are talking about the first three months, so this is also a short period of looking to it. But there have been a number of different reasons and I am just mentioning some of them as an example which had maybe an effect of this 0.5 percent. We had some seasonal effects in Austria from the commission side, from commission payments, which can be expected to get normalised over the year. On the other hand side, we have successfully changed new production portfolio in Poland to a larger share of property where you have a higher commission loading which, in the end, is going under expense ratio. In Poland we saw certain effects in the claims in the first quarter – some larger claims, on one hand side, in motor TPL, some in corporate business, which then had an effect from the re-insurance, that on one hand side, you see that this gets reduced from the claims ratio but certain affects then on the cost ratio. So therefore, these bundles of effects, which I have just mentioned as an example, had this influence of 0.5 percent.

Martin Simhandl:

Concerning Romania, this is a question, frankly spoken, that is not easy to be answered. What we are seeing and what we have reported is a slight decrease in the claims ratio, this is the one thing. The second thing, we see a further sharp decrease in premium, meaning that the MTPL part of business in our total portfolio is further decreasing. These are clearly measures that we have taken to improve the business. On the other hand, as you see, we have not - although we have such a significant decrease on the premium side - we have not an increase in the cost ratio, in so far also our cost-cutting effects are quite successfully. But we are not where we want to be. We have become very cautious in predicting effects in Romania. Me personally, I think we are quite on a good way, what we have tried, where we want to be in the end of this year and next year. But I think we have to look at the development, quarter by quarter, and hopefully it is going on like that.

Michael Van Wegen:

Okay, thank you. If I could, perhaps, go back to the first point on the combined ratio? My focus was mainly on the claims ratio where I am bit surprised to see the deterioration that you are reporting, in particularly it seems to be driven by the central function rather than the operating countries. Is there anything beyond some large claims in motor TPL that you were referring to, that we should be aware of, because I suspect that they would not necessarily fall in the group function area, unless there are some re-insurance effects going on there? Thank you.

Peter Höfinger:

Well, as I also mentioned, there is also some larger claims in corporate business and there is a certain re-insurance function on that.

Michael Van Wegen:

Okay, thank you.

Operator:

And the next question is Raphael Caruso from Raymond James. Please go ahead, sir.

Raphael Caruso:

Hi, good afternoon everyone. Quick questions on my side; first of all, in 2012 you decided to develop the short-term and low margins products in Poland, with the view of growing your clients' bases and selling them other insurance products. So, I wanted to know why did you down-size short-term, single premiums business in Poland after one year. And have you succeeded developing your clients' bases? I mean, did you see major changes or any evolution? My second question – you have no more growth in top line and it seems that CEE emerging markets are losing steam; so by extension, you could lose your status of emerging market stock. So, what do you plan to do to find some catalysts – I mean, maybe growing your dividends, for instance? That is the question.

Martin Simhandl:

Okay, I want to try to answer your question. First, if we are looking at Poland, we always have clearly communicated that this short-term endowment product for us, is not a benefit as such. But what we are targeting is that, in combination with that, we are getting regular premium business. And you see, and we have reported that, that we have double-digit growth in so far, and that is developing quite well. And this is a nice profitable business. Maybe, and also that we have reported last year, maybe out of the development of last year - the short term endowment product - the development was more intensive and bigger than what we would have planned and expected and, in so far, it is completely natural out of that, that this is going down. But apart from that, we have to be aware this is a product having a tax impact and the stability of that product from a taxation point of view is also under discussion, so it is completely clear that this will have a tendency downwards. What we want to show – and I think we clearly could show, as you can see – is that this does not affect our bottom line result. It is the other way round. With that business, we were able to increase profitable business in Poland and, in so far, we think we are on a good way. Concerning the top line growth, I think we have to differentiate a bit. Of course, there are some countries where, out of specific market situations, the top line development is not that good. We have talked a lot about Romania and we see quite a significant decrease. We have talked about Slovakia with a competitive motor market, but apart from that and if you look closer to the rest, you see quite significant increases. And especially, and I want to draw your attention to, if you look at the remaining markets you see most of that double-digit premium growth, meaning there is, apart from developments in some of the remaining countries, quite positive effect.

Raphael Caruso:

Okay, just a follow-up regarding the last questions. So, you are not trying to change your dividend policy or the way you remunerate your stakeholder?

Martin Simhandl:

Well, when we are talking about dividend policy, we have to be aware, this is a policy which we have set in 2005 and I think it was a policy which was not so bad to be set as that. A policy that you are able to follow for nearly ten years, meaning it is quite a stable policy, and in so far, changes of such policies you have, I think you only should do if there is really a necessity over a certain period. I think this is not something that you should change from year to year.

Raphael Caruso:

Okay. Okay, thank you very much.

Operator:

And the next question is from Ralph Hebgen from KBW. Please go ahead.

Ralph Hebgen:

Yes, hello. Good afternoon. I have got three short things. The first one relates to an element in your P&L which is composed of two items: other income and other expenses. If you, basically, subtract other expenses from other income, and let me call that the other income result, then it is striking that the profit growth from quarter, from year to year basically, which you just reported, was materially driven by this other income result. So, I would be interested in, perhaps, an explanation of what these two items comprise and also why the result was so strong. I am, of course, aware that this is still a negative result but it is significantly less negative in the first quarter 2013, than it was in Q1 2012. And the second question is, why is the profitability in the health segment so strong. And the third one – I do not know whether you can disclose this – but it would be interesting to actually have the actual amount of the single premium, short-term products which you write in Poland, which you call STEP, in Q1 2012 and also in Q1 2013. Thank you very much.

Martin Simhandl:

Thank you, Ralph, for your questions. Maybe I start with the second one. If we are looking at health, I think the first thing what we have to see is the figures here are rather small. So in so far, changes in percentage seem to be rather big but the overall figure is rather small and we have to take further into account that we have only three months until now. What we see in health, we see it for the first quarter and I would add that for the first quarter, we see on the one hand a better, so to say, claims side. The other side we also see a better financial result in health and that together leads to that. I want to stress, on one hand, it is a rather small figure; on the other hand, it is one quarter. Concerning other income expenses, the answer will be given by Roland maybe. To introduce that, it is a bit more complex but the overall, you will see that the effects of other income, expenses are so to say, equalised in the technical results so, for the first glance, the impact seems to be quite significant but if you look closer, you will see it is not, but more details from Roland.

Roland Gröll:

According our other income, other expenditures, you are absolutely right. If you look at that figures, both together are about 30 million better than last year and by far the main reason is simply FX effects. And this - at this time, positive FX effects are mainly driven out of our life business in Lichtenstein. In Lichtenstein we build up our local financial statements in Swiss Francs, and if you look at development Euros / Swiss Francs, and we do a lot of life business there in Euro, that is the main reason where we have the first quarter this year a positive impact, but at the same time we increased our mathematical reserves in Euro. The same is true, for example, for Serbia, where we do also main parts of our life business in Euro, and out of the currency development we have in the first quarter of this year, positive effects out of the FX development. And last but not least, there is also an impact out of the Czech crowns. That is the main reason why we have a significant better result, both together other income and other expenditures, mainly driven out of currency effects and you see the increase of the UPR mathematical reserves, not as directly as you can see the effect in the other income, other expenditures.

Ralph Hebgen:

So, what do these items actually mean? What is other income and what are other expenses?

Roland Gröll:

First of all, if you look at the stable part of this other income, other expenditures, let us start with other expenditures, part of that is expenditures out of our non-insurance companies, for example, insurance tax, fire tax, something like that. But if you look at the development at that part of other expenditures they are rather stable. The same is true for other income. For example, as you know, we work very closely together with Erste Bank and Erste Bank sells insurance contracts for us but also we, vice versa, are selling bank products for them and out of that activities, receive also a kind of commissions for that, that is, for example, part of other income which is also rather stable. But the volatility in the other income is mainly driven by this FX effect, as I mentioned before.

Ralph Hebgen:

Okay. Thank you very much but excuse me, Mr Simhandl, I think, referred to the fact that the impact from this, which I can see from the headline, is not in fact - does not actually filter through into the pre-tax profits.

Roland Gröll:

It is very important to mention that this better result out of other expenditures, other income, does not mean that, for example, the reason for our growth in profit, there is nearly a one-to-one relationship, the better result in other income, other expenditures, on the one hand, means higher mathematical reserves or higher un-earned premium reserves in our technical income, or in our technical result. And that is very important to know.

Ralph Hebgen:

So, how much of this would you say, is typically represented in pre-tax profit, per quarter?

Roland Gröll:

There is no material - it had no material impact.

Ralph Hebgen:

Okay. It is about neutral. Fine, thank you very much.

Martin Simhandl:

Ralph, there are certain expenditures, as Roland said, for example, fire tax. These are expenditures you have all the time and of course, it is impacting your P&L, but there are other things that, so to say, are moving targets which mainly are in that way, that you have one effect on the other income, other expenses side, but the counter effect you have in the technical provisions. So this is equalising. It is just that the one is in the technical; the other is in the other income, other expenses. That is what we wanted to point out.

Ralph Hebgen:

Okay.

Martin Simhandl:

Okay, well, frankly spoken, your third question, I do not have actual figures in concerning this short-term endowment product but you can be aware it is a significant decrease what we have made here in Poland.

Ralph Hebgen:

Can you disclose the difference then? How much did these premiums decline, year on year?

Martin Simhandl:

Me personally, I have now no figures but you see that we have recalculated the premium gross figures and out of that, you quite easily could estimate how much it is.

Ralph Hebgen:

Okay, great. Thank you very much, indeed.

Operator:

And the next question is from Avinash Singh from Nomura. Please go ahead.

Avinash Singh:

Hello, good afternoon. Two questions, if I may. The first one would be: can you please provide some details of first quarter NatCat and reserve releases number? The second would be regarding your strategy, like with the investment income is coming down and top line growth outlook subdued if I take overall, I mean, markets of VIG. What is your going to be near-term strategy to support your bottom line growth? Thank you.

Martin Simhandl:

Maybe I start with the second question. And the first question then will be answered by Peter. Concerning the investment income, yes, it is true that we have a decrease in our investment income. It is overall seven million from roughly 277 to 270. Of course, to a certain extent, this reflects decreasing interest rates, and that is quite clearly in such an environment. On the other hand, you see how rather small this impact is. We have to be aware that the financial result itself, the biggest part of that is not directly going into the bottom line – the biggest part of the financial result is the financial result that is related to the traditional life insurance business and in life insurance by far the biggest part of the financial result belongs to the customer and this we always have to be aware of. Then I hand over to Peter for the first question.

Avinash Singh:

One follow-up; can you please provide your current re-investment rate?

Martin Simhandl:

The current re-investment rate, of course, for the whole group is something very to be differentiated because it is a lot of different countries and currencies. But to give you a flavour, the biggest part of that is in Austria, and it is Euro in Austria, and here you could estimate that it is somewhere around three percent.

Peter Höfinger:

Maybe the first question concerning NatCat, we did not have any big NatCat event last year in the first quarter. The same is true for this year, so no big NatCat event. But on the other hand side, what we call the bad weather compensation claims, it is a bit too early to tell exact figures because claims are developing for the time, but as it looks like as an indication, we will be here more or less on the same level as we have been in the first quarter, last year.

Avinash Singh:

Okay, thank you.

Operator:

And the next question is from Thomas Neuhold from Kepler Cheuvreux. Please go ahead, sir.

Thomas Neuhold:

Yes, good afternoon. I also have three questions, if I may. Firstly, on your investment strategy, following those two questions just answered before. If interest rates stay lower for longer, could this lead to any change in your investment policy going forward, meaning that you would potentially move up the risk a little bit in order to increase returns? Second question is on your strategy in the remaining market segments. Which markets you consider currently as particularly attractive and do you see in this markets any potential for acquisitions in order to fuel organic growth? And the last question would be on the recent press report. It looks like you are considering looking for the disposal of your Bulgarian pension insurance company, Doverie. Can you comment on that please?

Martin Simhandl:

Well, maybe I will try to answer all your three questions. First investment strategy: I think if you look at our investment strategy, you will see that it is rather stable and if we have done changes, we have done them over time. And if you look closer, and you have to be aware if you look so, you have to exclude the housing society, and then what you will see, in fact, is that over the last two, three years we have quite significantly, not in an overall perspective for the whole portfolio, but relatively increased real estate and maybe this is one of the answers you could give to that development. In our opinion, life insurance and traditional life, is the main source of our assets. Traditional life insurance you always should be cautious when it comes to investment. You should be conservative in your investment strategy.

Remaining markets: well, if you look at the development, as we said, there are a lot of remaining markets where we have double-digit premium growth. If you look at how we performed and what we think that could be marketed to further expand. Well, I look back, for example to the Baltics, out from review 2008 – 2009, where everybody said that the Baltics are a real problem. It has turned out that we have grown all over this time quite positively and we have developed our market share. And this is something what we could further do, for example, or Ukraine, which is quite a huge market which is completely underpenetrated. This is also something where we further could elaborate on. Or for example, also, Turkey is a market that is, for the time, quite significantly growing. But also in other markets we see that, and we see also here that rather small markets in their contribution to growth are significant. I spoke about the Baltics. We have, for example, significant growth rates, more than 15 percent, in Bulgaria, in Albania and so on. I think, overall, you can see that this is part of our business that offers a lot of opportunities.

Thomas Neuhold:

Okay. And then the last question on the Bulgarian pension insurance company?

Martin Simhandl:

Well, I think on the last question I only want to comment in a general form. It is true that we have the pension company in Bulgaria and I do not tell any secret because this is something what we have said over years, that we do not consider pension as core. As long as you are telling that, it means that a lot of interesting ideas could be spread out or not and these are things that I am clearly not commenting as long as there is no significant situation to comment on.

Thomas Neuhold:

Okay, thank you very much.

Operator:

We have a follow-up question from Michael Haid from Main First Bank. Please go ahead.

Michael Haid:

Thank you very much, again. Just one additional question regarding your recurring investment income; I am on page 13 of your presentation in the P & C segment which includes the holding. I noticed that the current income has come down significantly from 95 million to 74 million and also, on the interest expenses which includes interest on financing debt, it came down from 14 million to 8.8 million. I am assuming that this has something to do with the changing accounting of the housing societies. Can you quantify the effects – how much of the decrease comes from this change in accounting?

Martin Simhandl:

You are completely right and I have not now the figures in detail but you could estimate that this is clearly, by far, the biggest effect.

Michael Haid:

On both items, right?

Martin Simhandl:

You have explained the difference already, so you have not given me any chance to explain it.

Michael Haid:

No, I wanted to have in fact the split between how much comes from the housing societies and how much from the lower investment yield on your remaining portfolio but you said it is by far the highest portion comes from the housing societies.

Martin Simhandl:

That is it, yes.

Michael Haid:

Okay, thank you.

Operator:

And we have a follow-up question from Ralph Hebgen from KBW. Please go ahead, sir.

Ralph Hebgen:

Yes, hi. It is just on net realised gains. I calculated in Q1 2013, you had 44 million of net realised gains. How much of that actually filtered through into pre-tax profits?

Martin Simhandl:

Ralph, we would have been completely disappointed if you would not have given that.

Ralph Hebgen:

Yeah, I know, I feel duty bound to ask it.

Martin Simhandl:

As it is already a tradition, Roland will answer it.

Roland Gröll:

Hi, Ralph. I missed this question also. The contribution to the bottom line was less than EUR20 million.

Ralph Hebgen:

All right. So that is in line with normal developments and nothing special?

Roland Gröll:

Yes, yes.

Ralph Hebgen:

All right, fantastic. Thank you.

Operator:

Ladies and gentlemen, if you would like to ask a question please press the star followed by the one on your telephone.

Nina Higatzberger:

If there are no further questions, thank you, ladies and gentlemen, for listening in. We hope to have you with us again on the 29th of August for the half year results presentation. Goodbye.