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Conference Transcription
Questions & Answers

VIENNA INSURANCE GROUP (VIG) Results for the first quarter 2014 Conference Call

Conference Date:	**May, 27th 2014**
Conference Time:	**15:00 Central European Time**
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Speakers:	**Martin Simhandl, CFO** **Peter Höfinger** **Roland Gröll**
Chairperson:	**Nina Higatzberger**

Operator: And our first question today comes from Mr Maciej Wasilewicz of Morgan Stanley. Please go ahead.

Maciej Wasilewicz: Hi, I got two questions if I may. The first question is just on your Polish combined ratio. I noticed that it increased slightly. The reason you have given is commissions have increased. That reason – commission – the increase is 4.6 percentage points in the cost ratio and the cost ratio seems extremely high now in Poland at 40 per cent. I was kind of anticipating that perhaps because of the back office consolidation that you guys had a couple of years ago or recently would have a more positive effect. Can you please elaborate a little bit more as to whether or not 40 per cent cost ratio is structural or whether there is any scope for that to come down, because it does seem a little bit higher than some peers at least?

The second question is on Romania. I know that you are going to be extremely limited as to what you can say about the recent events at one of your companies. But can you factually give us anything at all in terms of what the next step is in the process or the timeframe that you are facing in terms of the recent sudden investigation into one of your offices there? If you could just give anything that you can in terms of when we will find out more that will be very helpful. Thank you.

Martin Simhandl: Thank you very much for your questions. Maybe I start with the second one and then I will hand over to Peter who will answer your first question concerning the Polish combined ratio development. If I understood right, your question concerning Romania, is because the recent events that took place in our subsidiary Omniasig. This is something where we are concentrated on, insofar that whenever such items arise we fully cooperate with each and every official body. We also had a close look to all these items. I think we had talks in Romania and there are statements also from the supervisory authority that in our opinion gives a clear and fair view on the stability and positive situation of our company.

As far as we know till now and we have to be completely clear here, again, this is nothing that has offended our company. There are investigations against people and we do simply not know what comes out. Till now we are in a situation where we clearly investigate that from our standpoint and till now we have not found things that we could estimate to be so substantial that would reflect the actions that happened. But, again, we are closely cooperating with all official bodies and will see what comes out from it.

Peter Höfinger: When we come to Poland, you know that we have been already doing a lot of consolidation on the Polish market with our companies and realising synergies and having combined administration hubs for our non-life companies. What we see here in the first quarter and one hand side as it has been mentioned is some increase in commission levels, which – I hope – will be not a sustainable increase more let us say a seasonable one. We are having a minus in our premiums in non-life, which has immediately an effect on our cost ratio also.

What is the goal? Clearly in Poland it is that we further grow our business in non-motor property. We have been there quite successful in the last two to three years and this, I think, we will have to further develop or increase our premium base and therefore over the functionality of premium growth also to reduce our cost ratio. As you also know, synergies and cost savings is not a topic in our Group which we do project-on-project. This is an on-going activity. So also here we are expecting improvement on the absolute level of costs during the year, but we have to look more on our top line to further develop our top line in the non-motor area.

Maciej Wasilewicz: Thank you.

Operator: Our next question is from Mr Avinash Singh of Nomura. Please go ahead.

Avinash Singh: Hi three questions if I may. The first one is can you please provide some details into your increase of more than 4 per cent in Austrian claims this year because Italian branch office the premium is so low that it does not explain the entire 4 per cent increase and even that natural catastrophe has been kind of benign. The second question is that in Romania your MTPL sale out of non-life premium seems have increased as compared to previous years; what is particularly the strategy behind this. Third question would be, are you going to provide some numbers on your economic solvency as recently one of your competitors has started providing this. Thank you.

Martin Simhandl: Maybe again I start with the last question, economic solvency ratio. Of course, we are also calculating on that and be aware that it will not be for a long time that we are not disclosing that because simply there will be regulations about that. If we look at our competitor, again, we have a full disclosure there but you see also herein there are parts in, which are very individually calculated and this is the main item. You should be aware that we will have also under the Solvency II a very sound ratio and it is clear that it can be expected above what has been published by our competitor. For the time being as we are not disclosing it, this is what I can give you. It is a clear feeling about a sound Solvency II ratio.

Second question was dealing with the MTPL part in Romania. Maybe I elaborate a bit on the Romanian motor market and, as you know, there were two, three players on the Romanian market that did business in a way we always thought would not be sustainable and I think we have elaborated on that several times. As you know, one of those competitors in the meantime is under special administration and also one other, as far as I know, there is a sort of a recovery plan to be fulfilled.

We cannot say for the time being that the market is really turning around but there are some improvements in the motor premiums and a part of that you see also when you look at our MTPL development in our companies. But again here we have to be cautious insofar, because coming from unsustainable premium rates, the question always is how much you have to improve to be on a sound basis. But all developments going into the right directions and there are some that we see we will be positive on. We cannot estimate for the time being how it really works out and insofar we are cautious till now but there are some tendencies in the right direction.

Last, but not least, Austrian claims ratio development. I have now no detailed sub-figures with me, but the biggest part, of course, clearly comes from the Italian business. We have to be aware this is something what we said last time already that we are reserving the Italian business on a very high expected ultimate claims ratio. This is something that we are continuously doing and insofar clearly that effects our claims ratio and our combined ratio in Austria. It is completely clear that in Austria we have one company that burdens our claims ratio and our combined ratio, that is Donau, and one developing very good, which is Wiener Städtische.

Avinash Singh: Maybe a follow-up on Austria again. I mean your Italian branch office and the Italian premium sound very low. I mean do we … in number terms just 3 per cent of your entire Austrian premium. So I mean there is still the 4 per cent increment looks ... I mean there is something going differently in Austria domestic business as well.

Martin Simhandl: You have to be aware if you reserve a business on claims ratios which are over 100 per cent , then this clearly – even if the volume is not extremely high – impacts your business substantially even if the portion is not that big.

Avinash Singh: Thank you.

Operator: And our next question comes from Mr Michael Haid of MainFirst Bank. Please go ahead.

Michael Haid: Thank you very much, good afternoon. Three questions, I have to come back to the combined ratio in Austria. Can you give us the combined ratio ex Italy? Then second question, life insurance; I saw that you tripled the premiums in

Liechtenstein. Can you tell us the driver behind that is, what type of product you sell through Liechtenstein. My third question is also life; the pre-tax profit in the first quarter was, in my opinion, rather low 48 million if I remember correctly. Can you give us a reason for why it was so low? Is it just the low interest rate environment or any additions to the RFB or any reason?

Martin Simhandl: I will start with the first two questions, maybe I will have to ask again with the third question because I simply have not fully understood.

The first question – sorry, but we have not provided the split ex Italy.

Secondly Liechtenstein, we have to be aware that the Liechtenstein business is mainly single premium business and this is not something that counts only for 2014. It is simply volatile. There are times when it is more; there are times when it is less. If you would look at the development over the last two, three years there were always times when it was substantially higher and others when this was not the case. Again, here if we look on a volatile part of the business like single premium and we look at the development simply of one quarter, there you could have quite substantial effects that maybe would not be all over the year.

The third question I will hand over to Roland.

Roland Gröll: The main drivers for our life profitability are three issues. First of all in Czech Republic, if you look at the development of Czech Republic, we have a reduction in the life profit first quarter. The main reason is simply that last quarter in Czech

Republic we had some extraordinary gains from the disposal of investments, which did not happen this year. The second reason is mainly driven by Austria. First of all, same reason out of the lower investment result, which is not driven by the low interest rate environment but also by some extraordinary effect; and the third issue is that we built in the first quarter this year deferred profit participation. That are the three main drivers for the development of life profitability.

Michael Haid: Perfect. Thank you very much.

Operator: The next question is from Mr Ralph Hebgen of KBW. Please go ahead.

Ralph Hebgen: Hi guys, sorry my question has already been answered. Thank you very much.

Operator: Our next question is from Mr Bernd Maurer of RCB. Please go ahead.

Bernd Maurer: Good afternoon also from my side is only one question remaining. We are all focusing it seems all on the same things. I want to come back on Romania. In the last conference call, Mr Simhandl, you stated that you are quite confident to return to profitability in Romania in 2014. 1Q looks good with a pre-tax profit of I think it is half a million Euros, would you confirm your statement of Q1 would you still see a return to positive profit before tax for the full-year or do you see some clouds on the horizon or some issues in the coming quarters which make this target rather ambitious?

Martin Simhandl: I think overall, on the view of the full year that is the same what we gave to you last time. What we are simply saying now, and again this comes from our experience that we have a profitability in the first quarter, we are cautious; insofar it is small profitability. For the view, overall for the full year I would state the same what I did the last time.

Bernd Maurer: I understand thank you very much.

Operator: Our next question is from Farquhar Murray. Please go ahead.

Farquhar Murray: Hi gentlemen, just one question if I may. I understand you are not providing an estimate for the Balkan storm losses we have seen so far this quarter. I can understand matters are probably still to preliminary there, but would you have any sense as to whether this will qualify as one event or two just so that we can get a sense from a re-insurance perspective what your maximum loss could be.

Peter Höfinger: As you also said in the beginning of your statement, it is quite early for the assessment of the situation. You have to be aware that even until today some of the sites where they are destroyings not yet to be visited, so therefore the full claims, which we can expect – there is no reasonable answer to be given by the time today. As also stated by the CEO, we expect on the net side that there will be a couple of millions of Euro net effect on it, but it should not have a significant impact on the Group as such.

Farquhar Murray: And with regard to your re-insurance cover, is it going to be one event or two? Is that clear yet?

Peter Höfinger: It is not to be yet stated but I would see it as one event.

Farquhar Murray: Okay, brilliant. Thanks very much.

Operator: Our next question is from Vinit Malhotra. Please go ahead.

Vinit Malhotra: Yes, good afternoon. Just on the asset side for a bit, because most of my other questions have been answered. You know given the 60-odd basis points fall in the Austrian yield along with the European market. I was wondering is there any shift in the asset portfolio which you are thinking about because at the moment, on the slide I do not see much of a shift or on durations. Just also want to clarify, you just mentioned the life, there is a change in policy holder participation; is that also driven by complexity of liabilities and is there some model changes there as well that we should keep an eye on the life side. Thank you.

Martin Simhandl: Sorry, maybe I have to ask again. I am not sure if I understood your questions right. I think the first part was about the development of currencies.

Vinit Malhotra: No, interest rates. Sorry interest rates, bond yields.

Martin Simhandl: Bond yields in the Euro zone are pretty down and we are dealing with that. I think what is important insofar is how we look at that. We look at that from a portfolio perspective. Life insurance is a business in the end of the day where you do not change rapidly your portfolio, you are simply adding; that means that a lot of the assets are coming from past times. There are assets, of course, you are always trying somehow to be in line also as far as it concerns asset liability matching and insofar only a smaller part comes from new investments.

When it comes to new investments, as I elaborated, we had over the last years a clear focus on the one hand on governments. On the other hand when it comes to corporates we have reduced the bank corporates and we have increased other corporates – that is the one thing. When we look at the rest of the development, you will see that we have slightly increased the equity portion in our portfolio and, as far as it concerns real estates I have to elaborate more on that. In real estate we have to differentiate those real estates that are in housing societies. As you know we have had housing societies in full consolidations, which now are in equity consolidation, and insofar it seems and I say it like that, it seems that our real estate portion had decreased. But the real estate covering technical reserves in insurance has increased all over the last years and we think this is insofar appropriate because if you are doing real estate investments and a big part of that is done in residences and also in offices, so that you have quite sustainable and indexed in its development rent. So you have a very good coverage of your liability side in life and that is the way how we react on the interest rate environment.

Vinit Malhotra: And just on the life reserves; was the policy holder participation somehow linked to this falling point yields and basically I am trying to understand if there was a one-off issue effect in this quarter.

Martin Simhandl: There was no one-off effect in that quarter. If there would have been a one-off effect in that quarter you would mean that we would have decreased profit participation in our P&L. That we have not done.

Vinit Malhotra: Okay, alright. Thank you.