VIENNA INSURANCE GROUP (VIG)

Results for the first half year 2015
25th of August, 2015 15:00 CEST

Conference Call Q&A-Session

Transcription

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Conference Duration:	**Approximately 50 minutes**
Speakers:	**Martin Simhandl, CFO** **Peter Höfinger** **Roland Gröll**
Chairperson:	**Nina Higatzberger**

Operator	Your first question comes from the line of Michael Huttner of JP Morgan; please go ahead.
Michael Huttner	Fantastic, thank you so much; I have three questions if I may but only answer if that's okay. So on solvency I read with interest what has already been published, of course, which you put on slide six, the S&P rating with the financial risk profile very strong and capital adequacy exceeding the benchmark for the AAA level and I just wondered how much do you think that should give us a feel for where Solvency Two might be? Normally S&P and Solvency Two are not that far apart; S&P may be a bit more conservative and of course AAA may correspond to over 175%; it's not so much a number but to get a feel for whether we're thinking in the right ball park. On Austria, the 96.6% combined ratio; I can't quite square that, of course, with the comment by S&P which says strong competitive position in Austria, and of course it's because in Austria you have the Italy branch which is still loss-making, I just wondered if you could give us a feel for the underlying combined ratio of the Austrian operation, whether it's somewhere nearly as good as the Czech Republic or somewhere in between, just to have a feel. And then my last question is on the real estate; your amazing IR came to visit in London and spoke about real estate but I didn't quite fully understand and I just wondered whether you could say a few words; specifically how much is it? So I see the 6.4% and I wonder if that includes all your real estate or whether some of it is treated as equities or loans or something, and maybe you can say a few things about the characteristics, what would allow your Solvency Two to be a bit better there. Thank you.
Martin Simhandl	I think I will try to answer your first question and your third question, and maybe Peter will try to answer your second question. First then I will start with solvency; I think more than I have given to you for the time being I would not give. I think it's more than other groups have given as the standard formula results have not been published.***** ** Martin Simhandl made the following comment during the conference call presentation:* *As you know, we have not published any Solvency 2 figures till now. This comes simply from the fact that we are going for approval of a partial internal model. We are in the approval process and before we have the result of that we will not give details on the internal model results.* *What I want to give and to share with you is the development of the standard formula result on Solvency 2 and this, at the end of 2014 in comparison to 2013, has improved and it's now in the range between 170% and 175%. And you can imagine that a result of the partial internal model would be substantially above that.*

When you said the comparison between Standard and Poor's and Solvency Two, as far as I remember Standard and Poor's itself, they have published something where they are saying that Solvency Two is maybe a bit too conservative approach, so we will see.
What I think is important, and this I wanted to focus on, as Standard and Poor's, since I think one year and one and a half years are publishing also, so to say, the part results of the rating, a capital adequacy in that region we have is not very often given and I think it should give you a lot of comfort on us, this together.

Coming to your question concerning real estate, yes, 6 point something is the total real estate of our group. Why we think this is important; when we look closer a big part of that real estate is conservative housing real estate, especially in Austria, and these are assets that provide us with very stable cashflows and not only stable cashflows but cashflows increasing with inflation. And given the fact that in life insurance the liabilities have a long duration and the longer part of the durations to match with traditional other investments like bonds are not maybe that perfect because you have risk of changes of interest and other risks. It is, in our opinion, a very good match for the long part of the durations of our liabilities to have that conservative real estate.

Michael Huttner	Brilliant, that's very helpful; thank you.
Peter Höfinger	Maybe coming to question two, citing the S&P report; I think we did a lot of effort in restructuring the Italian business but you also know if you're restructuring a portfolio you can much more quickly reduce your premium volume than maybe your claims because there is a lagging behind with the claims of premiums which you have earned in earlier periods, so therefore you have a certain time lag that only the claims ratio comes down but I think we see here already quite a good improvement. To just give you a flavour, maybe, for Austria; we have another company, Wiener Städtische, which has no Italian business. Wiener Städtische currently has a combined ratio of 92.
Michael Huttner	Brilliant, that's very helpful; thank you.
Operator	You next question comes from the line of Thomas Neuhold of Kepler Cheuvreux; please go ahead sir.
Thomas Neuhold	Yes, good afternoon. I have two questions; firstly on the competitive landscape, I was wondering if you could give us an update in your core markets, Austria, Czech Republic, and Slovakia. You mentioned already Poland, that competition is quite tough here. What do you see currently and what are your expectations for the next 12 to 18 months? And the second question would be on page 18, your investment portfolio; I was wondering if you can give us a brief overview of which portion of this investment portfolio will mature in the next three years.

And what is the yield of the maturing portfolio compared to your new money yield? Or to put that question differently; by how much would your financial results decline on a like for like basis just out of the effect that you cannot invest the money at the old terms which you currently have? Thank you.

Martin Simhandl

Maybe the first question will be answered by Peter and the second I will try to answer.

Peter Höfinger

I think we should start with the most challenging market, which is Poland; we see in Poland in the last six to 12 months a more and more increasing price war in motor, specifically smaller insurance companies, direct insurance companies, which maybe also sometimes have an issue with critical size, are just looking for getting volume and putting a lot of pressure on the market on pricing. We see also this specifically in the fleet business and in the leasing business where the prices in the tenders went dramatically down. Overall the whole market has started to have worsening technical results. Somehow – but this is a very cautious saying from myself – somehow we have the feeling that the bottom could be reached. This does not mean that the premiums level will increase immediately but that maybe there is now a stop of further dropping of the premium level as the whole market is technically suffering in these areas.

We see the same competition also in Poland for large corporate business and for the core immunity business also here the last six to 12 months. With the tenders we saw double-digit reduction of the premiums in the market; for ourselves this means on the one hand underwriting discipline is core for us and therefore we are not willing for short-term volume topics to sacrifice our combined ratio and we are disciplining ourselves in Poland for not entering irrational pricings. On the other hand more and more we are having a segmentation strategy for our motor business to clearly target risks where we believe we are very competitive then also in our pricing.

We also started a project some months ago building up an own assistance company; on one hand to give an additional added value to our motor policies besides the pricing issue, but also on the other hand to be much quicker at the place of the accident and having the opportunity to better lead then the whole claims process in Poland, and also improving here our claims ratio, which we have. We also started already 18 months, 24 months ago, to have a strong initiative in retail non-life. Retail non-life includes in our meaning all the SME business we have here. We have had, for example, last year a double-digit growth in SME business; we are currently having in retail non-life a growth of six to 7%. This is not yet enough to compensate the premiums which we are losing in the motor business, nevertheless we are not willing, in this environment, to target for volume.

If we then maybe go to Slovakia; in Slovakia we were able last year, but also this year, to foster our position in property. This is also where we are further focusing in growing our property portfolio. In motor TPL competition is strong as it has been in the past and I think we are quite well able to tackle this issue in Slovakia, and therefore we also have I think an overall positive development.

In the Czech Republic we see a pressure here on the non-motor side, on the pricing. We are also slightly losing here premiums in our non-motor portfolio. Also here underwriting discipline is an important issue for us and I think if you look on our volume which we have and also on our combined ratio I think this is the fully right strategy to be further followed in the Czech Republic.
If we come to Austria, in Austria what we are showing here is minus 2.3 %. This is also influenced by the restructuring of our portfolio from Italy. In Austria itself we have a better development concerning premium development. We see here strong competition but also due to our multi-distribution and multi-branding approach I think we are very well able to tackle this situation in Austria and have a very positive development here on the Austrian territory.

This maybe is an overview on the competitive landscape of our core markets.

Maybe, Romania, just to say a word but I think this has already been mentioned overall in Martin's presentation; you see here that we are significantly growing again. There is a phase of calming in the market also due to the situation with the local competitor. We were able to significantly increase our average premiums which we have generated here in the market; therefore we are also growing so here we currently see that there is a positive development currently and also to be seen in the upcoming months.

Martin Simhandl

Maybe to answer your second question concerning the effects of the low interest rate environment, to give you some flavour; if we look at that the main item clearly is Austria because the biggest part of the assets is lying there and interest rates effect, of course, on the euro. If we look there we have in fixed income a duration of somehow seven to eight years, and out of that you can estimate what volumes in the year have to be re-invested. We have a new money yield in the first half-year, or even in the first seven months, somewhere between 1.75 and 2%. We have the current yield on the portfolio somewhere between 3 and 3.5, and then easily you can estimate that those bonds that are maturing are above that, and out of that you can see that the impacts are quite significant, that's clear.

Thomas Neuhold

Thank you very much.

Operator

Your next question comes from the line of Michael Haid of MainFirst Bank; please go ahead.

Michael Haid	Thank you very much; Michael Haid, MainFirst Bank, good afternoon. I have two questions please; first question on Poland P&C insurance, I understand that the competitive environment there is rather severe; you spoke about that. When I look at the quarterly loss ratios and expense ratios I notice that the loss ratios have gone up from levels of 55% in the first three quarters of 2014 to levels of clearly above 60% for the last three quarters. At the same time the expense ratio has gone down from levels of around 40% to levels of 33 to 34%, which I find surprising. Can you explain why the expense ratio in Poland has gone down so much and why this opposite movement? Second question; on single premium business, down minus 16%, is this only from capitalisation products or does this also include developments in single premium traditional life insurance products, in particular maybe Austria?
Martin Simhandl	Maybe Roland will answer your question.
Roland Gröll	Your question about the shift in Poland's claims ratio and cost ratio; the main reason is that we had last year some cooperation with local Polish banks and we do not have this cooperation this year. And out of the business we did with these local banks was a rather high commission rate we had to pay. Nevertheless it was profitable business and that's the main reason you see a shift between claims ratio and cost ratio, because on the other hand this business we did via these local Polish banks has a very low claims ratio. As we do not have this business this year you have a lower cost ratio simply because we have to pay less commission, but also you see an increased claims ratio simply out of that fact.
Michael Haid	And what type of business was this in Poland which you wrote through banks?
Martin Simhandl	This was non-life business. Maybe to come back to your question concerning the single premium; if I understood you right your question was is this only the effect of Poland? No, it's not only the effect of Poland; in Poland intentionally we have brought down over the last year the short term endowment product. On the other hand, given that interest rate environment – and this is what we have announced – we are, so to say, more cautious on the traditional single premium business for example in Austria. This is simply a question of profitability and we are focusing, of course, in the whole group more on current premium business which we think in such an environment is far more profitable.
Michael Haid	Maybe a follow-up question on this; why is the single premium business in Austria less profitable than recurring premium business?

Martin Simhandl	Given the low interest rate environment in single premium business immediately when you get the money you fully invest it. In current premium business you maybe get the premium in a period over ten or 20 years. Within those years the interest rate on the one hand on the market may change, several times maybe, and the second effect is that over that time your guaranteed development in your portfolio may develop also in a different way.
Michael Haid	Okay, thank you very much.
Operator	As a reminder, ladies and gentlemen, if you would like to ask a question please press star followed by one. The next question comes from the line of Bernd Maurer of RCB; please go ahead.
Bernd Maurer	Good afternoon, three small questions I do have. First could you please explain in the Austrian segment you showed for the first half period other non-technical result of minus 9.3 million, what this figure in fact is? Then on the overall CEE market situation; we saw, let's say, in the last two years quite a robust environment of CEE macro data but we saw no trickling-through of those developments in insurance markets yet; are you quite confident that we will see any improved overall market development in the second half of this year, or at least by 2016, or would you not be that optimistic? And my last question refers to the Italian business; it looks like you continue to shrink it quite considerably. When do you think your Italian, especially motor business, will have reached a scale where it's not impacting Austrian premium trends any longer, so where more or less you think you have reached a level where the business can stabilise now?
Martin Simhandl	Maybe I'll start with number two and number three very shortly, and maybe the first question then could be answered by Roland. When you're talking about the development of CEE markets I think we should also look at how the group result of our group is composed. I want simply to mention that this time two-thirds of the group result is coming from CEE. So we have seen quite a substantial increase on the contribution of CEE already. What we have not seen in the last years so clearly are substantial increases in premium volumes. Again this is very different from country to country. We have tried also to make very clear in what countries we have seen quite dynamic growth rates, and especially in the other CEE countries that has been substantial. Of course we would like to have more of that and of course we see a lag between economic development and insurance development. If this is becoming better this year, next year, the year after next year, frankly speaking I cannot tell you but I think we should be very aware about the positive impact of the CEE business on our group and the positive development of the CEE business on our group. Maybe Roland…

Roland Gröll	On your question there are other expenditures, especially in Austria; the main reason is the precautious provision for personal provisions, that’s the main reason. It’s also caused by the low interest environment; as you know we have to discount our personal provisions and we did it last year with two per cent and I personally do expect if the interest rates stay at the level we see today we will have to reduce this discount rate. We do not have the exact calculations now but we did estimates and this is the reason we show this amount under other expenditures and not directly in the personal costs or in the corresponding positions as we will do at the end of the year.
Martin Simhandl	Maybe concerning your third question, Italy; if I understood it right you said, when will be the impact of Italy on the premium development marginal? As concerns the premium development I would say we have brought it down very substantially and the amount is not that big anymore. We have to be aware that in such a development the cost development is, so to say, behind the other development because you simply have to build up structures, you have to maintain the structures, and of course Donau is working on that but this is hard work and that needs some time.
Bernd Maurer	Thank you, perhaps one follow-up on the personnel provisioning; could you give us numbers, please, which amount you provisioned in Q1 and which in the second quarter?
Roland Gröll	It was in the full first half-year less than ten million, something like nine million, and I do not expect that the effect on the whole year will be more than double the figures I have told you for the first half year.
Bernd Maurer	Okay, and a split of the ten million in the first and second quarters, do you have this?
Roland Gröll	Roughly 50/50 but I don’t know it exactly by heart.
Bernd Maurer	Okay, thank you.
Operator	We have a follow-up question from Michael Huttner; please go ahead. Mr Huttner, please go ahead.
Michael Huttner	Thank you; on Romania is it likely we’ll see break-even in the combined ratio in the second half? Then on health; I noticed the results were a bit light, I’m sure you mentioned it but I didn’t catch it, I just wondered if there’s anything there, or is it just the running yield in investment income? And finally, on the duration, so we have the duration of the assets I just wondered if you could say a little bit about the duration of the life liabilities and what the duration mismatch is now. Thank you.
Martin Simhandl	First I have to start with a question; I think we have not got your second question.

Michael Huttner	I beg your pardon; the health insurance result was a little bit lower than last year and I always think of health as being a cost-plus business so I was just wondering if there's anything special here. Thank you.
Martin Simhandl	Maybe in health, this I can answer immediately; we have to be aware that we are doing health business mainly in two countries, the biggest part is Austria; the second, by far smaller but also important for that country is Georgia. And in Georgia there was an existing state health programme which has been finished, I think the last part within 2014, that has simply disappeared and we have to be aware that in Georgia at that time two-thirds of the whole market were health and out of that half of the health was the state programme and that simply has disappeared.
Michael Huttner	I understand.
Operator	The next question comes from the line of Thomas Unger of Erste Group; please go ahead.
Thomas Unger	Hi, gentlemen. Just following up on your answer that you just gave us for the health business; in Q2 I realise that the profit before tax declined quite substantially compared to last year and I saw that the expense side was also higher than last year, is the explanation that you just gave with the state health business in Georgia the explanation for that? And second question; in Czech life business there was also a considerable decline in gross written premiums in Q2 only, however the profit before tax for the segment in the Czech Republic increased substantially in Q2; what is the explanation for that?
Roland Gröll	If we look at the Czech life business the sharp decline in the volume is only caused by a significant reduction of the single premium business, it's also mainly driven by the very low interest rate scenario in the Czech Republic and we see this effect by far stronger in the second quarter. If you look at the current premium business in the Czech Republic it's rather stable but we have a significant decrease of volume in the single premium business and we simply do this business very cautiously out of the margins and the profitability and that's the reason why the profitability is not affected at all.
Thomas Unger	Okay, not only is it not affected but it is also substantially stronger than in Q2 last year so that is quite…
Roland Gröll	That's nevertheless the main reason.
Thomas Unger	Okay.
Martin Simhandl	Your second question was dealing with health; that not only came from Georgia but also from the insurance technical side of Austria.

Thomas Unger	Okay.
Operator	The next question comes from the line of Dhruv Gahlaut of HSBC; please go ahead.
Dhruv Gahlaut	Good afternoon, and thanks for taking my questions, I've got a couple of them. In terms of Poland there was a change in regulation last year which allowed claimants to claim for cases between 2004 and 2008; have you seen any rise in claim costs arising from this change in regulation, or from an increase in bodily injury? And if you could quantify in terms of cases etc. Secondly, on cash flow remittance at the group level, are you seeing any issues from any of the subsidiaries or any of them from a regulatory standpoint? Thanks.
Martin Simhandl	Thank you for your question; the first question will be answered by Peter, the second by me.
Peter Höfinger	Yes, we see an increase in the claims which we are getting with bodily injuries since there is this change but it's for claims which are currently occurring.
Dhruv Gahlaut	And do you see a need to increase reserves or have you done any actions this time around on the back books?
Peter Höfinger	No, but for claims which we are getting our average claims get sometimes higher so we will have to reserve higher per claim. We are adapting our reserving policy according to the changing environment.
Dhruv Gahlaut	Right.
Martin Simhandl	Concerning cash back out of the countries, until now there was only one country that had influenced the cash back and that was Poland where the supervisory authority has set some regulation which more or less limited the payout ratio to 75 per cent.
Dhruv Gahlaut	Right, thanks.
Operator	There's a follow-up question from Michael Huttner of JP Morgan; please go ahead, sir.
Michael Huttner	It was just on Romania; I was just wondering when you might reach break-even in terms of combined ratio, and in life I just wondered if you could say what the duration of the liabilities is. Thank you.
Martin Simhandl	The duration of the life liabilities is a bit above ten years and the break-even in Romania, frankly speaking, we are quite cautious concerning predictions in Romania. I think what you have seen is what we managed this year and we are working on further improvements. If we will reach that this year I'm not sure, frankly speaking, and I would not like to predict Romania. I was so many times wrong. Sorry.

Michael Huttner	Okay, that's fine. Thank you so much.
Operator	Gentlemen, there are no further questions on the phone line.
Nina Higatzberger	Okay, if there are no further questions we would like to thank everyone for listening in. We hope to have you with us again for the release of the results for the first three quarters, which are scheduled to be on 24th November. Thank you.
Operator	Ladies and gentlemen, the conference is now concluded and you may disconnect your telephone. Thank you for joining and have a pleasant day. Goodbye.