VIENNA INSURANCE GROUP (VIG)

Year-end results, Embedded Value and Solvency II for the year 2016

20th of April, 2017 15:00 CET

Conference Call Q&A-Session

Transcription

Speakers: **Martin Simhandl, CFO**
Judit Havasi
Werner Matula

Operator	The first question comes from the line of Michael Huttner of JP Morgan. Please go ahead.
Michael Huttner	Good afternoon. Thank you very much. Solvency for me was a lovely surprise. I just had a couple of questions on that. Could you, and you probably said it, just to make doubly sure, does that include transitionals in the 195%? And the other thing, is there a target range to that figure, just to understand for me, for a group like yours 195% seems a high level and I just wondered? These are my two questions. Thank you.
Judit Havasi	We have no transitional, voluntary transitional rules included and I would say we have a very good feeling with this 195%. We have no special target range.
Martin Simhandl	But it could happen that we are discussing one and then be sure you will be one of the first to know it.
Michael Huttner	Lovely. Thank you very much.
Operator	The next question comes from the line of Frank Kopfinger of Deutsche Bank. Please go ahead.
Frank Kopfinger	Good afternoon, everybody. I have two questions also. The first is, and I'm sorry if I've missed it, could you comment again on the 19% capital generation, whether this is, would be the normal level going forward or whether there are some one-offs included in this 19% capital generation and what would be the normal level? And the second question is, unfortunately I have to come back to the financials as you provided the split, the financial split, within the former segments P&C, Life. Within the P&C segment, what you see is that the investment income was quite weak and if you look in the data that you provide now based on the geographies, Austria and Poland, then you see that the weak investment income is mainly coming from Austria and Poland, but it's not coming so far from the current income which I would have expected due to a decline in investment interest rates. It's more coming from a higher level of interest expenses and other expenses, so could you comment on the investment income overall in these two areas and what is going on there?
Martin Simhandl	Let me start with the second question concerning P&C. The effect that we see, a weaker P&C development, simply comes from the fact that in P&C the duration, the liability duration is by far smaller, and if you decide to realise profits on investments here you do not have that problematic you would have seen in life, where if you realise you could burden the future. In P&C if interest rates are going down it makes more sense to realise and if you have realised in the past, then of course this

is going down and that's what we have seen. So, for example, in Poland in the years 2013-14 we have clearly decided that from the fact that we saw a sharp decrease in the interest rates to realise some profits, and I think that was a good decision given the fact that in the meantime the interest rate in Poland has already turned around.

Judit Havasi	To the capital generation, the capital generation includes our IFRS result, the repurchase of the subordinated loans and the planned dividend. I would say the normal level for us is between 10-20% every year.
Frank Kopfinger	Okay, thanks.
Operator	And we have a follow-up question from Michael Huttner of JP Morgan. Please go ahead.
Michael Huttner	Thank you. On slide 21 which is the sensitivity analysis you show two numbers which I'm particularly interested by. The first one is the sensitivity to interest rates and there's an asymmetry, but it goes the opposite way of your peers. So a rise of interest rates of 100 bp's adds 21% and a fall of 100 bp's reduces it by 16%. Normally, or what I'm used to at your competitors, is to see a rise in interest rate providing an uplift, but a fall in interest rates providing a bigger negative. I just wondered if you can comment on that to me. It suggests that it's weird. I don't understand it. I just wonder what the cause of it is. And the other thing is, compared with Alliance, and it's the only figure I can remember, the sensitivity you have to the ultimate forward rate, the UFR, is much higher. So I think Alliance, they said the UFR of 50 bp's would be equivalent to 5% on their solvency. For you, UFR reduced by 55 bp's, so to 3.65, that's 11% and again I just wondered. I know you don't comment on competitors, but can you give a feel for where this slightly higher sensitivity is coming from? Thank you.
Martin Simhandl	Maybe I start with the last one. I think you should bear in mind that it's one of the intentions of this group to cover the long end of the duration more with the cash flows out of the real estate. The real estate cash flows under Solvency II we, for the time being with our partial model we cannot show in the interest rate sensitivity. Maybe others are covering that more on the bond side or in a full internal model in another way. Here, maybe there's a difference coming up.
Judit Havasi	And to the ultimate forward rate, I would say there is mainly effects from Austria we have a guaranteed portfolio, and we have this effect regarding the guaranteed portfolio and the average guarantee.

Michael Huttner	And what is the level of the average guarantee, please, in Austria?
Judit Havasi	2.3%.
Michael Huttner	0.3%?
Martin Simhandl	No, 2.3%.
Michael Huttner	2.3%?
Martin Simhandl	2.3% on the book and on the new business in the meantime it’s 0.5%.
Michael Huttner	Okay, and what is the duration mismatch in terms of liabilities and assets? I don't know how to ask the question.
Martin Simhandl	This is… again, if you look at the sensitivities you would calculate maybe something around four, five years but, again, here I have to stress that factor; we are covering, and this is in our opinion a good way, we are trying to cover the long end of the durations more on the real estate cash flows and that we cannot calculate in. I cannot give you an exact number, but I would estimate that significant part of that mismatch can be covered by the real estate. You have to be aware that the biggest part of that real estate is conservative housings, meaning residential we have and that mainly in Austria. That’s residential with rather low rents, so you have very stable cash flow, stable not on a nominal interest basis but on a real interest basis, meaning including the development of the purchase price index, and that gives on the long end in our opinion a very good safeguard. For the time being we cannot calculate it in, but materially we think that’s the better way to cover it instead to buy very long bonds where you have a high sensitivity if interest rates are turning around.
Michael Huttner	Yes, it makes perfect sense. Can you give maybe just a feel for how much of the income or how much of the value is in this real estate just to get a feel?
Martin Simhandl	Yes. If we talk only about, if we exclude the housing societies because they are not in the insurance balance sheet and to cover the technical reserves, if we take the other real estate which is a book value of roughly 6% of the total portfolio but the market value of roughly 9%, then… and we have tried to calculate something. You have to be aware there are houses in which we have since more than 100 years, yes, and these are not houses that you are selling. It’s simply you are always reinvesting a little part of what you get in, yes, that means maybe you have on a market value a current

income of, let's say 4% or 5%, you use maybe 1-1.5% to reinvest and that means you have maybe net less, but this is a very steady stream over very long term and it's increasing by purchase price index. And in so far we have calculations, I know it's not easy to calculate, but these are streams that are far beyond normal bonds that you can buy on the duration side.

Michael Huttner — Yes, it makes a lot of sense. Thank you. Thank you for the explanation.

Operator — The next question comes from the line of Michele Ballatore of KBW. Please go ahead.

Michele Ballatore — Yes, good afternoon. My question is again about the sensitivity analysis of your Solvency II. It regard the volatility adjustment. So, I mean, you have a sensitivity of 9% on the volatility adjustment. Despite the use of volatility adjustment, I know the sensitivity to credit spread is particularly high compared to your peers, it's at 19% so what I want to know is why it's so high despite the use of the volatility adjustment for your Solvency II. Thanks.

Martin Simhandl — We are not so sure. What we have seen is that our peers are somehow in the same range, around 20 but maybe you can disclose us some figures that we can go more into depth. We are very interested in that.

Michele Ballatore — Well, the average among the large caps is around 9%. This is the sensitivity 100 basis points and increasing….

Martin Simhandl — This is not the figures we have.

Michele Ballatore — Okay.

Martin Simhandl — But it's maybe worth to elaborate on it and, you know, Solva II new figures we have to find out how calculations are done on the one hand, on the other side, we have to compare, and what we are comparing is what is published and we take it from, more or less from the comparison of the big investment banks or some other publications. And the better we have insight, the better we can look what the reason is for and if there is one. Yes, but we are very interested to work on that.

Michele Ballatore — Okay.

Operator — We have a follow-up question from Frank Kopfinger of Deutsche Bank. Please go ahead.

Frank Kopfinger — Thank you. So my first question is then on embedded value on the new business margin improvements. Can you comment there on especially in Austria where this improvement comes in 2016? And then on Solvency II again on slide 19 where you have the walk on the solvency funds, my understanding is that within this valuation adjustment within this 316 there's also reflected the underlying risk margin; if so, could you comment on how big your underlying risk margin is?

Werner Matula

Okay, let me start with the new business value. You are specifically interested in the improvement in Austria. There are two reasons. The major reason being the lower guarantee on the traditional books, which we have already heard today is 0.5% which obviously had an effect on the new business margin, but we already achieved quite significant expense savings. We have seen that a little bit before on the health insurance side which is also included here, but also in the other entities which are included on Austrian German business the same, so together the profitability increased to 2%.

Judit Havasi

Yes, and you're right, in this position this is the sum of a this positions. That also included the underlying risk margin.

Frank Kopfinger

Can you comment on, how big your risk margin is?

Martin Simhandl

Werner will elaborate because that's in line of Solvency II, but embedded value in the meantime.

Werner Matula

Yes, I mean, I can comment on the risk margin on the life and health businesses which at least the net risk margin shown in the embedded value. Let me have a quick look. This was €974 million after tax. Yes, so this is the effect in the own funds for the life and health business. On top of that we of course have another component on the P&C side which I see my colleagues are gathering right now.

Martin Simhandl

Maybe we can answer that a little bit later when we have the figures; is that okay for you?

Frank Kopfinger

Yes, sure. Okay, thank you.

Operator

The next question comes from the line of Bernd Maurer of RCB. Please go ahead.

Bernd Maurer

Good afternoon. Can you please give an update on the motor price cap in Romania? What's your expectations? Will the law be renewed after May? Shall it stop after the six-month period? Are you aware of any new laws probably harming you as well? Just an update here and the potential consequences, please.

Martin Simhandl

Well, what I can tell you about Romania is what has happened, what concerns going on. There are a lot of discussions, if it stays, if it's abolished, if there is a different system included. Nobody for the time being really knows what will be, but what has happened, I can give you a clearer picture. Of course there were measures taken to avoid lossmaking business. For us that means that the MTPL premium has significantly gone down in Romania, during the first quarter of this year. Apart from that of course, for example, the commissions have been decreased in parts, especially those businesses that you do not want, and some other measures have been taken. This simply to steer the business in a way that, within that circumstances the outcome will be the best possible.

Bernd Maurer

Thank you for this. But you said the motor premiums came down significantly; can you give a kind of indication what significantly really means in the end?

Martin Simhandl

It will not be so long from now when we talk about the first quarter and then we can give you a clear picture.

Bernd Maurer

Okay, thank you.

Operator

And we have a follow-up question from Michael Huttner of JP Morgan. Please go ahead.

Michael Huttner

So it's kind of the same question but from another angle. You know when you calculated the goodwill adjustment including that on Romania, what assumptions did you make for the future profitability of that country? Did you kind of assume that the combined ratio could achieve your group target, which I think is around 96, or do you think or do you estimate or whatever that it's more likely to stay around the current level of 100? Thank you.

Martin Simhandl

I think you should be aware about two things. The one is that when… we are talking here about 2015 and you can read that in the notes of 2015 financial statement that we made some precautions, let's say it like that, to cope with developments which could be not that positive that originally maybe would have been foreseen. In so far on the combined ratio we took an approach where we thought that Romania per se is rather a challenging country. That's the one thing, but the second thing I want to elaborate is another thing. Until 2015 we had a different composition of the cash generating units and we felt in Romania with two parts, life and non-life, and now there's a combination out of that and the non-life goodwill that existed in Romania in the meantime including what we did now for 2015 has been written down very substantially. But you have to be aware that the look at Romania in, beginning from 2016 on is not on non-life solely but on non-life

	combined with life. That's the second effect you should be aware of.
Michael Huttner	I understand. Thank you. Thank you very much.
Operator	There are no further questions at this time.
Nina Higatzberger	Okay, we just want to follow up on the question of Mr Kopfinger.
Werner Matula	So regarding the risk margin in our solvency balance sheet, now talking about the risk margin added to the best estimate and sums up to the technical provisions, as a total amount we have in our books €1.7 billion.
Nina Higatzberger	If any further questions arise, investor relations is there and ready to help with any further questions. At the moment it seems that we have no further questions. Let me just remind you on the next scheduled event which is going to be the annual general meeting to be held on 12th of May and we will have a live webcast of the presentation of our CEO in the course of the AGM. So thank you and good afternoon.