VIENNA INSURANCE GROUP (VIG)

Results for the first quarter 2017

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Conference Call Q&A-Session

Transcription

Speakers: **Martin Simhandl, CFO**
Roland Gröll
Peter Höfinger

Dhruv Gahlaut

Good afternoon, thanks for taking my questions. I've got three of them. Firstly could you quantify what the new money rate was both for the life as well as for the non-life portfolio?
Secondly on the price in the motor segment, could you say which are the markets currently where you're seeing rates are going still above the claims inflation, especially in the TPL business at this point?
And on Romania, are you seeing much discipline in the market, isn't combined ratio for you a sort of after a long while now below 100? I'm assuming still the rates have to be earned through so there should be some more positive impact coming through but are you seeing markets still remaining disciplined from a competition perspective? Thanks.

Martin Simhandl

Your three questions; maybe the first one I want to answer; the second I would propose that Peter is answering and the third one I'll hand over then to Roland.
As I understood the first question it was the new money yield for the investments of this year. What I can give you now is for Austria which is the biggest block. I don't have it for the whole group but Austria was slightly above 2% in the first quarter. In comparison, Austria guaranteed rate life is now below 2.2.

Peter Höfinger

Maybe when we come to motor TPL, what I can a little bit explain you is where we see hardening of the premiums, I've not yet exactly all the figures with me on quarterly basis for the claims inflation. What we see is in Poland clearly that there is a hardening in the motor TPL premiums. Therefore we are also benefiting out of this and we are growing. We have been disciplined in the past but we are now re-entering here the market.
I think it was mentioned already in the overall presentation of Romania that due to the regulations in November there has been the fixed premiums which also then resulted in a negative growth which we see in motor TPL.
In Hungary, we see a hardening of the tariffs over the last 12-18 months and we are growing in Hungary therefore in motor TPL. In the years before we have been very disciplined in doing motor business. We now see the opportunity to re-enter this market and take benefit of the development.
In Bulgaria the motor premiums are flat but there has been a certain hardening during the last year so here in motor TPL we have growing development where we believe that we are currently also benefiting out of the premium level which Bulgaria has reached over the last 12 months.
This is overall, let's say, the main markets, how motor TPL is developing. Austria is quite stable, yes.

Dhruv Gahlaut

Can I just do a follow-up on Poland actually? Combined ratio for you guys is now close to 96. Even the PZU reported a good combined ratios. Do you think rate increases are sustainable for this year as in you expect rates to continue to go up or you think you're reaching a point where your books are okay from a rate perspective?

Peter Höfinger

To look in the future is always a difficult thing, yes, but my assessment is that we should not see significant changes in the rates we have now in our markets within this year.

Dhruv Gahlaut	Do you mean flat or you mean it goes up from here?
Peter Höfinger	Overall I would see them flat.
Dhruv Gahlaut	Right.
Roland Gröll	On your question on Romania, if you look at the Romanian situation, I want to split it into three periods. The first period is last year until November. Their market discipline was very high. We saw in this period significant increase of average premium which was very positive for us and for the whole insurance sector. Then this very specific law started with capped tariffs. In average these capped tariffs were 20% below rates before. Now we have a new situation that after six months this MTPL law is not valid any more. It's not final because the president has to sign the law and some details which should be published by the regulator are still not available but generally of course that this time of capped tariffs are over now is generally positive for us but it's too early to evaluate each and every detail because we still miss these details. If I look at the market discipline today - if you look at our international competitors, market discipline is still quite high in Romania so I personally expect also for the full year 2017 quite a high market discipline, especially if we look at our international competitors.
Dhruv Gahlaut	Right. Thanks for those.
Operator	The next question comes from the line of Michael Huttner of JP Morgan. Please go ahead.
Michael Huttner	Fantastic, thank you very much and thanks for these lovely numbers. I have three questions. The first one is, there's been a big improvement in combined ratio pretty much everywhere except in the Czech Republic. I just wondered if you can say a little bit what's happened there and whether we might revert to the below 90% combined ratios we've seen in the past. The second, in terms of Solvency 2, I know it's probably something you don't look at but when I ask other companies like Allianz or AXA whatever, I always ask for the organic capital generation, the capital generation from earnings. In your case I think last year you gave a capital generation figure of 19%, of which I kind of guess 10 is from investments and 9 is from earnings or the other way 10 from earnings, 9 from investments. And I just wondered if you could give us a feel for what the capital generation was in Q1. And within Solvency 2 I'm just wondering, why is the required capital down. It's a tiny change but given you're growing so much I was a little bit curious. Thank you so much.
Peter Höfinger	So, to the topic of Czech Republic, we have experienced in the first quarter higher frequency as usually I would call it medium-size property claims. Therefore it's going up and we also saw in relation to the first quarter 2016 higher claims in weather-related claims.

	Over the year I would guess that this will be more balanced and will go down. I think a combined ratio below 90 is always excellent. This - I'm not sure.
Michael Huttner	Okay, thank you.
Martin Simhandl	When it comes to your question to Solvency 2, when we were talking about capital generation last time we already said there is, let's say, maybe a standard of information which is in development on the market and we are closely looking on that. We have not provided that for the first quarter for different reasons. The one is we want to get more surety of how it's calculated between the different market participants; that's the first thing. The second thing is that of course the development of one quarter is always more volatile than one year and in principle we have decided to calculate that on a yearly basis. If you look closer you see that within the first quarter we have seen an increase on the Solvency 2 equity, which is more than €200 million, roughly €230 million on the other side, as you have seen and clearly said, we see a decrease of roughly €70 - 80 million on the solvency capital requirement. Of course we have seen changes on the interest rate and this has effects on the best estimate calculations. We have seen also some favourable developments on rating side, as I said, which also diminishes market risk and if you look closer on the capital requirement it's more from the asset side that drives the decrease and not the liability side as the business grew, as you have stated very clearly. Apart from that what we also have seen is that we have an additional positive effect on the best estimate side coming from the structure of insurance portfolio, meaning of a tendency of more index and unit-linked business which provides here also a better effect on the Solvency 2 equity. These are the effects behind. Yes, you can if you want, easily calculate out of that a rate of how it has changed. I'm not so sure if it gives a very concise picture because it's one quarter, and if you look at that from quarter to quarter you will see some fluctuating effects. I think it's more appropriate to look at such figures on a yearly basis.
Michael Huttner	Brilliant, that's very clear. Thank you so much, thank you.
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. My first question is on your P&C financial results. There's a significant or very high volatility within your financial results within the P&C segment and it's not only in the realised gains, which could be a driver; it's more on the regular income side, which surprised me. Can you comment on where this volatility within the regular income is coming from in P&C? And then my second question is on the combined ratio in Austria. Can you comment on how much of this improvement is driven by underlying improvement of your Donau Versicherung and was this the Italian issue or whether it did come from lower weather claims or higher reserve releases also?
Martin Simhandl	When it comes to the investment results on P&C, as you have stated, on the one hand it comes from realisations we

have done on the equity side, as I already said. Apart from that you have to be aware that the housing societies are accounted under P&C in that group and you have ordinary income coming from that housing societies, which are simply shown on the P&C side. I think this explains the development. When it comes to the Austrian development I would also try to draw your attention to two facts, mainly, so to say, where the effect is coming from. We have seen a more favourable claims development in Austria on the one hand, quite significant in this quarter, and we have seen better cost developments and here of course we also have seen effects from organisational measures which are done also in Donau, in combination with the Italian business.

But I think you have to look at it together, it's both; it's costs overall and in Austria it's also a favourable claims development and insofar we end up with a quite significant better combined in Austria.

Frank Kopfinger	Okay, maybe just a follow-up on the P&C financial result. Is it then fair to say, as we have noted the housing societies fully consolidated, is it then fair to say that the Q1 regular income level is the right date to look at going forward?
Martin Simhandl	Sorry, not understood. I think what I wanted to draw your attention, is that if you have the current income you would estimate here that you have seen a jump which look very nice, yes, from the Q4 on in 2016 but you have to be aware that the main financial income of the housing societies is current income. On the other hand, against that you have operational expenses of those housing societies, you have interest expenses and you have ordinary depreciations on the real estate and insofar it doesn’t end up at that figure. And if you combine that together the net effects for the first quarter we have shown. And yes, you see such amounts but you have to be aware a part of that is not directly coming out of the insurance P&C business.
Frank Kopfinger	Okay, thank you.
Operator	The next question comes from the line of Thomas Unger of Erste Group. Please go ahead.
Thomas Unger	Yes, good afternoon, thanks for taking my questions. First I would like to come back to Romania. You’ve explained the effect of the MTPL freeze and I can see that the gross written premiums are down but overall if you could give us the overall picture and describe the dynamics. The P&C segment was quite good, profit is higher; also the net earned premiums are up substantially in this quarter. Was it the development of the combined ratio that drove that improvement in profitability? That would be my first question. The second one is, do you stand by that guidance that you gave us - I think it was last year - where you said that you were aiming for an ROE of 1%, 1 percentage point higher than your cost of equity? First of all is that target still valid? Secondly if you could give us the cost of equity that you compute now and against what ROE would you compare that to. And then thirdly you received the approval for a share buyback programme in the AGM recently. When and under

	which circumstances would you consider launching such a programme?
Martin Simhandl	Okay, maybe I'll start with the second and third questions and Roland will give you the answer on the Romanian question. When it comes to the ROE target, that target you were talking about was something that was said, I think, in 2011. We were not able to continue with that from the year 2015 on, frankly spoken. We are now on a level that I think our cost of equity now is somewhere around 7%, which means pre-tax that's higher. That would mean that we are now somewhere around our cost of equity. For the time being this is something what - so to say - we want to at minimum hold stable. Of course for the further future this is something we want to exceed but we have transferred to you our estimation of what we want to earn. On the equity side, you know our dividend policy that means that we have a slight increase. That's also what you have seen in the first quarter on the equity side so with that growth that we are estimating I would estimate that our ROE is something that stays stable and it should stay stable at around the cost of equity. We try of course out of that position and this is a position where we have turned around the business, where we are now equalising and over-equalising the decreasing investment result on the rest of the result and from that basis in the coming years we further try to develop; but for the time being I cannot say more to that. When it comes to the share payback the one thing was to get the approval because you only can act if you have the approval. The second thing is something what we are working on and is also something where we have to look on what are the levels of Solvency ratios we are feeling well, on which are the levels we are feeling not well because they're not good enough and what other levels where we feel it would be an exaggeration and then such ideas would come in place with share paybacks. As you know, this is for a period of 30 months, meaning two-and-a-half years and I think it's quite important to have that possibility within that period. For the time being we are not planning that but we are looking on what would be appropriate levels for us and here again we have to look at our peers on the one hand. The second thing - and that's also important - we have, as we think, a quite good and appropriate rating from Standard & Poor's. This rating is also based on a very strong capital position and if we look here for a further development we have to estimate quite clearly from our view what we want to have on the capital side, meaning when it comes back to the share buyback I think it's an important decision that we have the possibility, that we have it now for two-and-a-half years. For the time being we are not planning but we will over the coming months and within the coming year try for us to fix levels where we think we should have our capital position out from the regulatory perspective, out from the Standard & Poor's perspective and what to do then.

Thomas Unger	Right, and is there a preference now maybe of the share buyback programme over increasing the dividend, assuming you're comfortable with your solvency ratio and you see excess equity that you have?
Martin Simhandl	Frankly spoken I think for the time being nobody would be very glad if we would skip the dividend for a share payback programme.
Thomas Unger	No, not saying that you should skip the dividend but if you were to consider raising the dividend or the pay-out ratio and instead prefer the share buyback option.
Martin Simhandl	Let me think about it but this is something what we have not thought about, frankly spoken.
Thomas Unger	Sure.
Roland Gröll	According Romania and the combined ratio and profitability of non-life business, generally if you look at our development of a reduced MTPL business, significantly nearly 50% down. That's simply because last year we had the first 11 months of quite high average premiums and that's the reason why we increased the MTPL share significantly. And as we saw the first quarter of this year with these capped areas it means an average minus 20% of a reduced MPTL share simply out of profitability reasons. I'm quite happy with the portfolio mix in non-life now. Casco in Romania in average is profitable business; the same is true for other property. If we look at MTPL in particular we have to say MTPL is not MTPL. There are huge regional differences in Romania, especially between Bucharest and the countryside; also huge differences if you look at passenger cars in comparison to trucks. So what we tried and will try is simply to improve also our portfolio within the MTPL overall, that means less trucks, more retail passenger cars, countryside is more attractive if you look at the claims frequency for example also if you look at average claims. And overall I think the full effect of these capped tariffs we do not see in the results of the first quarter but we have a fair chance for the full year to have Romania overall, the combined ratio below 100. In addition - and that's simply homework - is we have started last year some projects like anti-fraud, closed file review which means optimisation of our claims handling and also a third streamlining of our back office activities, which will go on as we'll improve our claims situation and our cost situation. If we look at the cost ratio; went down first quarter, nearly six percentage point down, mainly driven that we paid by far less commission for not-profitable MTPL business and the combination of market development, legal environment and improvement of our companies will hopefully result full year in a positive manner.
Thomas Unger	Great, thanks.
Operator	There are no further questions at this time.

Nina Higatzberger: Okay, thank you, Jasmin, thank you, everybody for your interest and questions. We hope to have you with us again on 22nd August when VIG is going to release the half-year results 2017. Good afternoon and goodbye, thank you.