VIENNA INSURANCE GROUP (VIG)

Results for the first three quarters 2017

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Conference Call Q&A-Session Transcription

Speakers: **Martin Simhandl, CFO**
Judit Havasi
Peter Höfinger

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Operator: First question comes from the line of Daniel Bischof from Baader Helvea. Please go ahead.

Daniel Bischof: Thank you and good afternoon. Three questions from my side. The first one on slide 15, the solvency target range. You mentioned a number of management actions in case the solvency ratio is above 230%. One element that's missing is this capital repatriation to shareholders, so it would be interesting to know if this is also an option. Secondly, could you talk a bit about the performance of InterRisk? Really it's amazing that for years you report above market growth and well below market combined ratios now at 79%, so I'd be interested to know if this very strong performance in Germany is sustainable. And then the last one, on the Baltics, I think the targeted break even here is 2019. You seem to be reasonably close to that level already. Should we expect any extra integration costs next year there or are you ahead of plan here?

Martin Simhandl: Well, maybe I will try to answer your questions. First the solvency target range. I think what we wanted simply to do is to focus your attention that this is a group that over many years - and we see the chance now again very clear - was a clear growth story. To give you a bit of flavour, as we see it now there's a lot of targets coming to the market. There are some of the international groups that have not reached their targeted market share, so they are out of economies of scale in CEE, and recently some of those have decided to step out. In such situations I think it's a good idea to take the opportunity. Different would it be if on a longer term basis on the one hand we would be in the level of solvency we would not think to be needed, and there would be no growth potential where we think we can add added value for the shareholders. That's completely clear. But I think that will become more important again.

We are coming from a situation out of the financial crisis where growth simply was gone. We have talked about that several times, that growth was coming back to CEE and of course there were some offset effects as we had sometimes increase in competition in some lines which brought down premium rates and insofar also affected growth. But the basic development in CEE is back. It is back so strong that it moves already also the West. And I think in such a situation more concentration on growth is a good idea.

Second, to performance of InterRisk, I want to thank you that you have looked so close to that as I'm responsible for Germany in the management board. Well, you wanted to know if this is sustainable. A Seven in the beginning of the net combined ratio in Germany maybe not sustainable. This is extraordinary. Normally it’s in the low 80s. If you look back over the years this would be a typical combined ratio we had in some years, also net combined below 80 but that’s rather rare. But overall a very good combined ratio here is sustainable because these are companies that follow a clear niche strategy which is concentrated on real, profitable lines.

Last, the Baltic. The Baltic on the one hand we see a clear tendency towards a black zero. I cannot say if this will be already this year but it’s not far from us, on the one hand. On the second, we have some integration effects as we are doing mergers there, but I would not expect a big additional cost out of that, that would really destroy our ongoing path there.

Daniel Bischof	All right. Thank you.
Operator	The next question comes from the line of Bernd Maurer from RCB. Please go ahead.
Bernd Maurer	Good afternoon. Also three smaller questions from my side. First, you mentioned that investment income was supported by disposal of investments and gains from realisation. Can you quantify the impact please for the nine month period and/or the third quarter? And second and third, two questions regarding Poland and Romania. Would like to hear your view on the current pricing situation and the short term outlook for motor pricing in Poland. That’s point two. And point three, coming to Romania. After the motor price cap was somewhat changed in May you scaled down the business. Do you see any change of regulation coming again with the beginning of next year? If not, would you further scale down business significantly? On which, let’s say, view from your side should we base our projection for Romania?
Martin Simhandl	Maybe I try to answer your first question. The second I will hand over to Peter and the last one to Judit. When you look at the slide 12 you see the income from disposal of investments which has increased by 5 million from 94 to 99 million. Behind that is more realisation on the equity side. I have now not the figure but it should be around 20-30 million, something like that.
Bernd Maurer	Okay, 20-30 million from the equity side in the nine months period?
Martin Simhandl	We could check it…

Martin Simhandl	But the overall situation is that in comparison to what we have planned, the income from the disposal has slightly increased instead of a decrease that we had planned. That's the effect.
Peter Höfinger	Coming to Poland, you know where we are coming from some years ago, the whole Polish market and motor business had a combined ratio feelable above 100%. This has changed now since 18-24 months. We are now at a risk adequate level of the premiums. I do believe that also for the short- to midterm there should be not significant tendencies that the market is going down again, so we would expect a more stable development going forward in motor business.
Bernd Maurer	Okay, but if you see the risks on the up or the down side, then I take your answer that you see it rather to the downside then for the successful implementation of further price hikes.
Peter Höfinger	I think the whole market paid a high price two years ago and everybody's still remembering how hurtful these years have been. So as I said, I believe that we are now at a risk adequate level for the pricing and I believe that this is to be continued.
Bernd Maurer	Okay, thank you.
Judit Havasi	And the third question about Romania, in May fix/capped tariffs were changed to the reference tariffs, and we have still the situation that is given by the law and we are observing the situation. Romania has a combined ratio overall in the non-life portfolio of below 100%. That's why we are still observing and of course we are trying to enforcing our portfolio to the other direction. That means property, household and casco insurance and try to keep the MTPL in range.
Bernd Maurer	What do you expect or do you hope for any change of regulation or is the current environment here to stay for the time being from your point of view?
Judit Havasi	It will be like this for the time being, for the next.
Bernd Maurer	Thank you very much.
Operator	The next question comes from the line of Michael Haid from Commerzbank. Please go ahead.
Michael Haid	Thank you very much. Good afternoon. Sorry, I have missed part of the presentation so if you have answered the questions I apologise. First question on the combined ratio. The combined ratio in the third quarter was 98.0%. That consists of 69.3 claims ratio and 28.7 expense ratio. That was the same as in the third quarter 2016. At the same time, in the third quarter 17 you had 90 million weather related losses. That is 8 percentage points in the combined ratio, so the simple question is why was

	the combined ratio not higher if I take into account that 8% is clearly above what you expect in a normal quarter?
	Second question on life insurance. The earnings before tax this year was 67 million. That surprised me positively. Can you say, if any, to what extent this 67 million included some elements which are extraordinary, or what are the drivers of this strong result? What would be more a normal, sustainable level in life insurance? Those are my two questions.
Martin Simhandl	Maybe I'll start with your second question, if it would be so easy to have a normalised result in life. I think what I can give you a flavour is that the two elements where this improvement is coming from. It comes on the one hand, and this counts and you will see it in the presentation both for Czech and Slovakia, from a better investment result. And these are countries where the regulation towards participation in investments by the customers are not so strict than for example as they are in Austria.
	And on the other hand it simply comes from an increased and a better placed life portfolio, meaning that you know that since some years and with more and more effort and more and more result, we are concentrated to write new business that has better margins, that has more biometric elements in it, and this is simply also the second part of the improvement in the life result. Insofar the second question, and the first question I'd like to hand over to Peter.
Peter Höfinger	Coming to your question on the combined ratio, I think clearly there is a different seasonality this year than last year in the NatCat events. If we compare the combined ratio for the first three quarters it's 97.3, down from 97.9. With, as you mentioned, around 90 million of weather related claims. In comparison to last year, last year we had in the third quarter around 50 million weather related claims.
Michael Haid	Okay, but 90 million is 8 percentage points in your Q3 combined ratio. Were there any other extraordinary effects? I'm thinking about reserve releases from prior years or anything like that.
Peter Höfinger	There has been no extraordinary reserve releases in Q3. As I said, it's more also the seasonality which we had in the NatCat events.
Michael Haid	Okay. Thank you very much.
Operator	Next question comes from the line of Frank Kopfinger from Deutsche Bank. Please go ahead.
Frank Kopfinger	Good afternoon everybody. I have two questions. My first question is sort of a mix, on your solvency target range but also

	on your priorities. Your focus seemed to be very much on growth, and you mentioned also that there might be potentialities. So can you comment some more on the financial power that you currently have? And then secondly in your outlook you also mentioned the effects from the mergers in Hungary, Slovakia and Austria. Can you shed some more light on the combined level of cost synergies, and also on the time frame?
Martin Simhandl	Sorry, could you repeat the last part of your question?
Frank Kopfinger	Yes. I was asking whether you can provide some information on the effect of your planned mergers in Hungary, Slovakia and Austria. Whether you can come up with a level of cost synergies which you are targeting and also on the time frame?
Martin Simhandl	In principle for the time being I cannot do this. What I would expect for the coming year, and I think this is a good message for 2018, that overall somehow the positive and the negative effects will equalise. As in the beginning, you know, there are always additional costs and I think that's not a bad thing. Insofar for the merger and the first question, the financial power, let's say like that… For what is on the market I see a good potential of our group to be part in whatever we see is reasonable. And I think this is exactly the position you should have when opportunities arise. We are talking here not about huge volumes but we are talking about an increased potential that means that there are, so to say, more targets coming on the market and we will have of course a very close look to it. And you should be aware that we are not buying just to produce volume but we are buying to produce future profits and to produce future development potential. And whenever this is given we will be very prepared to be part.
Frank Kopfinger	Thanks.
Operator	Next question comes from the line of Thomas Unger from Erste Group. Please go ahead.
Thomas Unger	Yes, good afternoon. Thanks for taking my questions. I have a couple. First of all, on the other income I saw that it was quite strong in Q3 in Germany and Liechtenstein, and also in Romania and Bulgaria. What was the reason for that? That's my first question. And then secondly, the life single premium development was also good in Q3. It actually increased sizable over Q3 2016. Do you think that the decline now is over? Has it stabilised? What is your outlook for that? And speaking about outlook, is there anything that you can say for the quarters after Q4 2017 or is it too early for that?
Martin Simhandl	Maybe I'll try to answer your first question and I'll hand over to Judit for the second. The other income, when we look at Ger-

many, Liechtenstein, we should be aware that in Liechtenstein the currency, the balance sheet currency, is the Swiss Franc and that has the effect that if you have changes in the course of the currency that you have effects both on the asset side and on the liabilities side. And that is not booked in the same way. The one is booked in the insurance technical side and the other is booked in the other income expenses. And insofar whenever you have changes in the currency here, and we have changes not so much this year but last year and the year before, there will be effects in other income, other expenses. It's FX effects.

Thomas Unger	Okay. And in Romania and Bulgaria? Also elevated there?
Martin Simhandl	Romania, Bulgaria? I have to have a closer look.
Thomas Unger	Okay.
Martin Simhandl	In Romania it seems that it comes out from an acquisition that we have done last year and that we are integrating now.
Judit Havasi	For the question regarding life insurance, single life. Yes, we have now some better results, especially in Slovakia and Poland regarding single life. But we are still planning for the next year reduction of the single life production and after the next year, after 2018, we are planning in 2019 a small increase in the single life production.
Thomas Unger	Okay. And regarding the overall outlook for VIG in 2018? Is there anything you can say about that?
Martin Simhandl	Well, we are in the finalisation of the plans and we will come back to you, most probably when we talk more closely about the year end result.
Thomas Unger	Okay, thank you. I appreciate it.
Nina Higatzberger	As there are no further questions I would like to end this conference call. Thanks to everyone for your interest and questions. All the best and we hope to have you with us again next year for our calls of Vienna Insurance Group. Thank you. Bye-bye.