VIENNA INSURANCE GROUP (VIG)

Results for the first three quarters 2020

Conference Call (Q&A-Session)

Nov 26th, 2020 | 15:00 CET

Transcript

Operator — The first question comes from Michael Haid of Commerzbank. Please, go ahead.

Michael Haid — Thank you very much, good afternoon to everyone. I have two questions, and both are about the combined ratio in P&C insurance. First, I would like to get a better understanding of the combined ratio of 96.1%, and what are the moving parts, here? To my understanding, you must have incurred some frequency benefits in motor across all regions, basically. On the other hand, I understand you decided to reserve more prudently in this year.

Second, when I look at the combined ratios by regions, one country stands out, this is Poland, where the combined ratio increased marginally. Why is this the case? I assume there must be also some frequency benefits from motor in Poland. Why did the combined ratio in Poland not improve more?

Peter Höfinger — Okay, Peter speaking, here. You were mentioning the topic of frequency and the more prudent reserving. This has also to do with a situation which we haven’t had before due to lockdowns. We also assume that there are certain delays on one hand side in reporting claims, but also in respect if you look on court decisions or people going to court. So therefore, what maybe one can see today as the real frequency will be not the real frequency later on, because it’s a different environment than we are expecting the years before. Therefore, we are prudently also reserving in this respect. I also have to say it’s a very mixed picture, country by country.

Coming to Poland, I think what I said is very much also true for Poland, and we had also in Poland a bit higher number of medium-sized claims in property.

Michael Haid — Okay, thank you very much.

Operator — The next question is from Thomas Unger of Erste Group. Please, go ahead.

Thomas Unger — Yes, thank you very much for taking my questions also. Maybe right away to follow up on the combined ratio question. Could you talk about the combined ratio in Q3 only? In Austria it was clearly higher, in the Czech Republic clearly better, Romania, Hungary, Poland higher. What was the reason there? In the presentation you’ve mentioned that there was higher reserving, did that affect Q3?

And then staying in the Q3 results, the financial result, can you elaborate on the investment impairment that you had? You said 50 million, I believe in Q3 only?

And then turning to the outlook. We’ve only one quarter left, one month for 2020 and the EBT guidance is quite wide, considering that. Is that because you’re very cautious regarding the financial

	result and the volatility on the capital markets, or did you reckon with any one-offs potentially affecting the last quarter? Or does the operating performance in the last quarter have any question marks in your view?
	And also for Q3, I see that the operating expenses were quite high. They actually increased quarter-on-quarter by 51 million. What was the reason for that development in the OPEX? Thank you.
Liane Hirner	Thank you for your questions. I will start with the question on the financial result. We had some impairments in Q3, as I mentioned, approximately 50 million euros. This is due to our impairment rules. Approximately half of these impairments related to listed entities, so they're not reversible, and the rest relates to participations, especially in the tourism sector.
	When we come to the outlook, the range is quite wide because there are still a lot of uncertainties, not only on the capital markets but on the whole situation around lockdown scenarios. So the wider range also reflects these uncertainties.
	From a current standpoint, the operating performance of our companies is solid, and we also expect that in the fourth quarter. With regards to the financial result in the last quarter, we expect a financial result around the first quarter and the third quarter of this year, so that means a range between 140 and 125 million euros. This is what I can say to the outlook.
Peter Höfinger	Coming to your question of the combined ratio in Austria for the third quarter, yes, this went up. This is due to large claims in our industrial book which we were experiencing in Austria.
Thomas Unger	Okay. And the other countries in Q3, any specific factors for the combined ratio in Poland to be very high, and also Romania, Hungary about 100% in Q3?
Peter Höfinger	I mentioned, I think, when answering Mr. Haid, that we also had a higher activity in medium-sized claims in property in Poland.
Thomas Unger	Okay.
Operator	As a reminder, if you wish to ask a question, please press star and one on your telephone keypad. And the next question is from Thomas Fossard of HSBC. Please, go ahead.
Thomas Fossard	Yes, good afternoon. I've got a couple of questions. Two questions first on the group Solvency. The first one is could you shed some light on the potential benefits for application of the transitional measures you would like to secure, just in order of magnitude of how much it could be?
	The second point is taking the opportunity, you mentioned the S&P rating, maybe you could tell us what is the capital surplus you

are currently having in the S&P model over your single-A rating?

And the third question will be in terms of outlook for 2020, how do you expect the competitive environment on your main markets to evolve into next year? It seems to be that the loss environment has been positive, roughly, overall for you due to lower claims frequency, motor and things like that, so do you see some willingness or some of your competitors to potentially reinvest these frequency benefits into volume ambition and growth expectation next year? Or are you feeling that underwriting discipline remains strong across the board? Thank you.

Peter Höfinger

Thank you for the question. I'll start answering your last question. What we see, and this is now specifically seen in Austria, to a lesser extent in Central Eastern Europe, there is a quite significant hardening of the market in the property business, and specifically here in the commercial lines.

This has to do on one hand side, having a soft market for many, many years but on the other hand, the international competition of the commercial line insures. They are much more disciplined in underwriting, which also has effects here in Austria on our commercial book. So here we are realising rate increases in the property lines.

It's a very mixed picture when we come to the motor business. It's currently also the renewal season in motor business, and what maybe we see, and we are currently in it, is that we have a higher retention rate of our existing customers, so people are less willing to change the risk carrier in motor TPL due to the fact of less activities of brokers and agents due to lockdowns and different measures out of COVID-19.

So in some markets, we see a certain pressure on the premium level, but in some others, to the contrary. I think it's too early to have here a clear prediction what this means for the year 21.

Thomas Fossard

And Peter, if I may, specifically touching upon the Polish market, do you see any cost inflation issue due to imported parts? Is that something that we should have in mind for later in the year and 2021, in terms of combined ratio for the motor book?

Peter Höfinger

Yes, but I think most of this you would have seen already. The Polish zloty is coming back, so we should not see there this effect. We don't see generally price increases which are unusual in spare parts, so it's more maybe sometimes a seasonal currency topic.

Operator

And we have a follow-up question from Thomas Unger of Este Group. Please, go ahead.

Thomas Unger

Thank you, again. Just one more question from before regarding the operating expenses, and why it was that high in Q3, OPEX increased by 51 million, quarter-on-quarter. And one more question that I would like to add is, for 2021, and looking that year, I'm not asking for any guidance but what are your priorities, what will you focus on to improve the operating performance next year? Thank you.

Liane Hirner

Regarding the operating performance, we are quite satisfied with what we have seen in 2020, up to now. And regarding 2021, we will see the effects of further lockdown measures and so on, but we are confident that the operating performance will continue to be solid.

And we would like to remind you that we still have the initiatives of our Agenda 2020 in the focus, which has initiatives regarding improving the claims ratio and improving the cost ratio, so this is still a clear focus of us and this will remain a focus also in the next year.

Thomas Unger

Okay, thank you.

Operator

And we have a follow-up question from Thomas Fossard of HSBC. Please, go ahead.

Thomas Fossard

Yes, just catching up with the two previous questions I already filed regarding Solvency II ratio and potential benefits of the transitional application, and also the capital surplus you may have also above your single-A S&P rating. Thank you.

Liane Hirner

Very sorry, you were interrupted by the question from Mr. Unger. Of course, I did not forget your question, I would like to answer them right now. Regarding transitionals, you know that in the EU Solvency II framework, insurance companies have the right to use the transitional measures since the implementation of Solvency II in 2016 and many of our peers already applied for those measures.

For us, the trigger point to start the discussion to evaluate the application of transitionals within our group was the Solvency II review of long-term guarantees, where we expect the proposal in the end of next year, and in order to be able to react to any potential deteriorating measures that might come along with this review, we also want to secure this option of using transitionals.

The focus is on the guaranteed life portfolios, on those group companies like, for example, Austria. We started a formal application process in Q3 in Austria. As these transitionals are not granted yet, and we are still in the discussion with our regulator here, it's too early for us to give you any indications regarding the effects on the group solvency ratio.

We very much hope to be able to finalise this process in Austria until year-end, so that the transitionals can be applied as of 31st December 2020. And we will provide the solvency ratio including and excluding transitionals going forward. So for the moment,

	that's all I can say.
	With regards to Standard & Poor's rating and the capital surplus, we are in the range of a triple-A capital, and the surplus amounting around 700 million euros. [Note: over the triple-A level].
Thomas Fossard	Very good, thank you.
Operator	We have a follow-up question from Michael Haid of Commerzbank. Please, go ahead.
Michael Haid	Two questions, one on health insurance and one on life insurance. The health insurance, your competitors not far away from you, reported quite solid results in health insurance and pointed out that there were less claims experience during this lockdown period, I don't see that with your results. Did you not observe also some lower claims benefits from health insurance? And why is this the case?
	And the second question on life insurance, you do not provide new business figures for life generation, can you talk a little bit about how this developed in the third quarter, and what are your expectations going into 2021 regarding life new business generation?
Peter Höfinger	Maybe if I come to health insurance, I think we have a bit different health book from the geographical diversification than the other providers you are referring to. Therefore, certain effects, which are maybe much more seen in Austria and not to be seen to a similar extent in Central Eastern Europe. Therefore, we have a different experience in this line.
Michael Haid	Okay.
Liane Hirner	Regarding new business for life insurance, life insurance is more affected by lockdown measures. It's quite a volatile development, but we had reduced premiums in the first three quarters, and we expect the business going forward as it is now.
Michael Haid	Okay, thank you very much.
Operator	As there are no more questions at this time, I would like to hand back to Nina for closing comments.
Nina Higatzberger	Thank you everybody for listening in. If you have any further questions, Investor Relations is there - in home office, but ready to take your calls and further questions. So, I wish you all the best, stay safe and we keep in touch. Thank you, bye-bye.
Peter Höfinger	Bye-bye.
Liane Hirner	Bye-bye.