VIENNA INSURANCE GROUP (VIG)

Results for the first quarter 2021

Q&A-Session Conference Call

May 19th, 2021 | 15:00 CEST

Transcript

Operator The first question comes from the line of Michael Haid of Commerzbank. Please go ahead.

Michael Haid Thank you very much and good afternoon to everyone. Two questions, both relating to the combined ratio of 95.2%. This, as you mentioned, includes lower weather related losses. Basically, to my understanding, zero net cat losses, it must also include some frequency benefits from lower claims in motor. And then you mentioned a somewhat more conservative reserving. Can you shed some more light on this and put down some figures here? That would be very interesting.

And then in central functions, there was a pre-tax loss of minus 42 million. To my understanding, this includes also some additional reserving. Is it more cautious reserving or is it reserve strengthening? I think you mentioned IBNR reserves. In what lines of business did you put the additional reserving? These are my questions.

Peter Höfinger Good afternoon. Peter Höfinger speaking. Thank you for your question. Yes, we had lower weather related claims. Unfortunately, it's not zero. We are in the 20 millions. We have been, in the comparable quarter, in the 30 millions. Specifically, there have been frequency events of freezing rain in the Baltic states, which has had quite a significant impact on the frequency in the Baltics.

If you talk about the general frequency in the motor business, one has to be aware that specifically in central and eastern Europe, due to less state subsidies for COVID-19, lockdowns are not in our countries in the first quarter anymore. Shops, in most of the countries, have been open, even restaurants. So, the activity of people locally has been on a comparable basis to last year. Where there is an effect, clearly, is cross-border travelling or international travelling, due to restrictions on entering and quarantine requirements when travelling.

Very frankly speaking, and here, we have also been cautious in reserving, this is a situation where we do not have experience from the past. So, depending on the efforts of the vaccination, and then again, behaviour of the population and the clients, there could be also one scenario that during summertime, international travel will significantly increase, due to the fact that people are eager to go on holidays. But they will significantly less use airplanes for holidays, and will maybe more use the car. Therefore, not knowing how the frequency topic and the international travel going forward in the next months to come, I think there is a reason for having a certain conservativeness.

Liane Hirner Taking your question regarding central functions where we have a decline in the result before taxes. This is mainly due to higher claims reserving, due to our conservative accounting approach.

It’s more cautious and mainly relating to the MTPL business in the amount of a higher single digit million euro amount.

Michael Haid: Okay. Thank you very much.

Operator: As a reminder, if you wish to ask a question, please press star, one on your telephone keypad. And the next question comes from the line of Thomas Unger of Erste Group. Please go ahead.

Thomas Unger: Hello, good afternoon. Thank you for taking my questions. First of all, I’d like to follow up on the combined ratio, maybe the claims ratio side. When you say that 95% of last year should be sustainable now, do you expect the claims ratio to go up a bit this year? And that compensated by the cost ratio for the full year 2021? That would be my first question.

The second one would relate to the financial result. What can we expect going forward now as a quarterly rate? Is the 175 million record now in Q1, is that sustainable? So, that would make around 700 million for 2021. And I’m talking about if the financial markets remain relatively stable.

And then also I would like to hear about your interest rate and yield environment expectation for this year, and maybe also the coming years. And how do you plan to position or adjust your investing portfolio to benefit from a potentially changing yield environment? Thank you.

Liane Hirner: Thank you for your questions. Regarding the combined ratio, we expect the combined ratio to be stable at around 95%. Of course, it depends on the development of the claims ratio. We didn’t have high natural catastrophes up to now, so this can always distort the ratio. But when I look for 2021, I would rather expect a stable development on the claims ratio side and the cost ratio side from today’s perspective.

Regarding the financial result, for the whole year, I expect something between 2019 and 2020. More a stable development also in the next quarters. There are no real signs that financial turbulence is on the horizon, so a rather stable outlook, from that perspective.

And when it comes to the interest rate expectation, we expect the low for long scenario at least for the mid-term for the next years. So, of course, some pressure on the new money yield and the current income. I would like to give you some numbers. The overall average yield on fixed income in Austria amounted to 2.67% in the first three months of 2021. The new money yield in Austria in the first quarter amounted to approximately 1.7%. So, still on a relatively stable level, compared to previous quarters in last year.

Thomas Unger: Okay, thank you. On the claims and cost ratios, you do expect

	that you can sustain the level that you had in 2020? And also on the claims ratio side, where you had some benefits from the lockdowns in the COVID-19 crisis?
Liane Hirner	Yes. We expect a sustainable development. As I said before, always not knowing weather related claims and natural catastrophes, which we can't, of course, plan or foresee.
Thomas Unger	Of course. Thank you very much.
Operator	The next question is from the line of Thomas Fossard of HSBC. Please go ahead.
Thomas Fossard	Good afternoon. A couple of questions on my side. The first one would be on the P&C side. Could you comment a bit more about the competitive environment and how you see the competitive environment evolving maybe in your three top markets, Austria, Czech Republic, and Poland? And if you could focus a bit more, as well, on Poland and what you are expecting, in terms of combined ratio development here. It's been relatively stable so far into the year, but it looks like competition is increasing a bit, I would say.
	The second question is related to your Solvency II ratio. I think that, if I'm right, the target you set in the past was 170% to 230%, but that was before applying transitionals. And now that the ratio includes transitionals, I just wanted to check with you if this had any implication on your solvency target. Thank you.
Peter Höfinger	Thank you for your question. Motor pricing in Austria is relatively stable, so we do not see a change in the environment here. More or less the same is true for Czech Republic. As you have already indicated, it's a bit different in Poland where competition has become more fierce. We also see a certain reduction of our average premium in Poland, but this is also driven by quite a sophisticated segmentation strategy, which we are running there. We have developed a dynamic pricing model, which also led us to now focusing more on either lower cost cars or lower horsepower cars, which automatically, is also reducing the average premium.
	Therefore, we are optimistic, even though the competitive environment is becoming fiercer having this segmentation strategy with a dynamic pricing to enable us to keep a reasonable level of profitability. One market, maybe, which is also important for us, which was not mentioned by you, is the Baltics. There, we have seen in the fourth quarter, but also, in the first quarter this year, a very fierce competition. This also has to do with certain specialities of market dynamics in the Baltics and the digitalisation there. But recently, there is indication that rates are bouncing back.
Thomas Fossard	Very good, thank you.

Liane Hirner	Taking your question regarding our group solvency ratio, which amounted to 238% as of year-end, including transitionals on technical provisions, which were applied for the first time year-end 2020, by some group companies. The solvency ratio without transitionals amounts to 195.1% at year end. The solvency target range is currently under review, together with our new strategy. But what I can reemphasise again is that the steering of the Group and the companies will remain on solvency ratio without transitionals on technical provisions.
Thomas Fossard	Thank you.
Operator	As a final reminder, if you wish to ask a question, please press star and one on you telephone keypad. We have a follow-up question from Thomas Unger of Erste Group. Please go ahead.
Thomas Unger	Thank you. Just one more question on the health segment. The performance in Q1 was very good and that was based on rising premiums, but also, low claims and benefits in the quarter. Is it fair to assume that the profitability will come down in the coming quarters with some further pressure or increased pressure from the claims and benefits side as we move out of the lockdowns and into a more normal market environment? Thank you.
Peter Höfinger	Yes. We have been benefitting a bit from people going less frequently to hospital. On the other side, if you had some kind of acute treatment needed, you were going to hospital. Or if you were not going to the hospital, you are not now going, because you have been ill in February and you are now going in June. So, there will be a sustainable positive effect in the health business. What we see on the sales side, and this is a bit more central and eastern Europe, new business is picking up more dynamically as COVID-19, being a health crisis, has also increased the sensitivity towards this topic. And people are more willing and able to talk with us about it and conclude health insurance.
Thomas Unger	Thank you very much.
Operator	The next question is from the line of Youdish Chicooree of Autonomous Research. Please go ahead.
Youdish Chicooree	Good afternoon, everyone. Thank you for taking my questions. I've got three questions, please. Firstly, I think you mentioned competition has got more fierce in Poland. Could you give us a sense of the level of price decreases you're seeing in motor and whether competition is also strong in property? That's my first question. My second question is on the solvency ratio and whether you have an update for us as of end of the first quarter. And then finally, just a clarification. I think earlier, you talked

	about increased reserves. Did you mention that the amount, by which you increased it was high single-digit? Is that correct?
Liane Hirner	Responding to your last question, yes, this is correct.
Peter Höfinger	Going to the first question, I cannot give you a very clear answer to the motor topic. As I mentioned, we are now running there a segmentation strategy, therefore, we are looking at different segments, which will not then give you the picture on the overall market in the right way. When it comes to property, you see that we have quite a significant growth in this line in Austria on the central functions. This is more the multinational accounts, which we have, and there, we were able, also due to the market dynamics, to profit from the hardening of the market. This kind of hardening can be seen in most of the region, but with different dynamics. So, Austria and the larger accounts significantly more dynamic than maybe than in central and eastern Europe, where corporate business is maybe a bit better described as SME business. And there is less connection to the global insurance world, as we have benefitted from, here, in Austria, from about the physical absence of some of our international corporate commercial insurance carriers, due to lockdown and travel restrictions, which gives a benefit for us, as a regional player, in central and eastern Europe.
Youdish Chicooree	Thank you. And then Solvency?
Liane Hirner	Thank you for your question regarding Solvency II. We will give the next update with the half year figures on the solvency ratio. But as you will have realised, the interest rate curve went up and this, of course, has a positive impact on our Group solvency ratio. So, for the first quarter 2021, the solvency ratio is above what we have seen at year end 2020.
Youdish Chicooree	Thank you very much.