VIENNA INSURANCE GROUP (VIG)

Results for the first quarter 2022

Q&A-Session Conference Call

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Transcript

Operator: The first question is from the line of Oliver Simkovic from RBI. Please go ahead.

Oliver Simkovic: Hi. Thank you very much for taking my questions. The first one is regarding this precautionary 75 million that you've booked in the financial result. As I understand it, this is not an impairment yet, it's just a provision. How was this calculated and what assumptions did you use here? I would ask them one by one, if that’s okay.

Liane Hirner: Thank you for your question. The precautionary measures were booked in the other expenses in the financial result in the amount of €75 million. This is a net effect on the profit before taxes. It is mainly based on the Russian investments of €190 million and represents approximately a 50% precautionary measure, which has been taken in the first quarter. The final evaluation is expected to be done at half year, when we have to analyse any impairment need case by case. If we come to an impairment in half year, we will reallocate these precautionary measures within the financial result.

Oliver Simkovic: Thank you. The second one, you mentioned in your presentation deposits at Sberbank. Could you also quantify those, what the exposure is here? Will those have to be written off?

Liane Hirner: The exposure against Sberbank amounts to approximately €22 million. This was included in the initial exposure. In the meantime, the banks were taken over, so they have new owners and they have been excluded from the exposure. So, no impairment risk from that side.

Oliver Simkovic: Thank you. My last question is on Romania and the premium growth that you have there. I believe this is driven by the bankruptcy of City Insurance. Could you give us an indication on how profitable this business is, I guess most of it is in motor insurance? Just an indication would be good, thank you.

Peter Höfinger: Thank you for the question. First of all, the solvency of City Insurance happened in September. They had 45% of market share. The bankruptcy proceedings have then been approved by the court in February and all the contracts of City Bank ceased their validity beginning of May. This means that within these months, from end of September until beginning of May, the whole portfolio needed to be newly distributed in the market. Therefore, we are not expecting this growth to go forward with the same dynamic as we have seen in the first quarter.

Still, in Romania you have a mechanism which is called reference tariff. You can go over this reference tariff in certain segments with an actuarial calculation. We have in most of our segments doubled the average premium and I do believe we have a fair chance to not making losses with the Romanian motor group.

Oliver Simkovic: Thank you. That’s all from my side. Thank you very much.

Operator: The next question is from the line of Thomas Fossard from HSBC. Please go ahead.

Thomas Fossard: Good afternoon. Just a follow-up question on the 75 million of precautionary charges. If my understanding is right, you're saying to us that the net impact on the bottom line is 75, i.e. 75 is already net of tax and net of any policyholders’ attribution, if you could clarify?

The second question will be related to property and to the other property line where the growth is quite significant in Q1. I just wanted to better understand, which lines or subsegments are we talking about? What is really driving this strong growth since the start of the year? If you could provide maybe some granularity on what was driven by volumes or exposure growth versus pricing.

The third and last question for now would be, coming back to your slide number nine, where you're showing the evolution of the combined ratio. I appreciate that your cost income ratio, the cost ratio was down slightly at the group level. But when I'm looking at Austria, this was flat. Czech Republic, it was up. Poland, it was up. Extended CEE was up as well. All for the rate of growth in premium were pretty strong, as if you were not benefiting from any positive operating leverage. I was wondering if you could talk a bit about wage inflation going into these regions and possibly if this was something which was starting to be more impactful on your margins? And how we should think about this in terms of future development? Thank you.

Liane Hirner: I'm happy to take your first question. To clarify, the effect on the precautionary measures of €75 million, this is the effect on profit before tax. It's after profit participation, but before taxes.

Thomas Fossard: Can you quantify the exact number on the net? Should we apply the average tax rate or anything to have in mind here?

Liane Hirner: Yes, just take the average tax rate, then you will have, approximately, the net effect.

Peter Höfinger: Thank you for your question on property. The property growth in the first quarter is mainly driven by the group function, by the holding company, where we deal with

	international clients operating in more than one country in our region. On one hand, we were able to increase our rates quite significantly in the last renewal, but also de-risk with increased deductibles. On the other side, we were also winning new clients. We see less attraction for our international clients in the region to insure themselves with international monoliners, which are not based in our region, but functioning out of other places in Europe or the US where we were able to win business. There is one other effect which is driving the growth in the Czech Republic, this is a single effect there, the renewal date of one or two large customers has been shifted from the last year and this will level out throughout the year.
Thomas Fossard	Thanks for that. From your reply, the growth in other segments was mainly driven by reinsurance and renewals.
Peter Höfinger	International corporate business. It was also driven by reinsurance, but as I said, corporate business.
Liane Hirner	Regarding your last question, the development of the combined ratio, the cost ratio is decreasing in segment group function. Mainly due to the fact that in prior year we had higher cost relating to strategic projects in the first quarter 2021.
Thomas Fossard	Looking at a more local level, specifically to Czech or Poland or Extended CEE, I can see that despite growing quite significantly double-digit, it seems to me that the cost income is going up. Should we fear any wage inflation or be concerned about wage inflation coming into your books? It seems to me that you're not benefiting from any positive operating leverage at the present time.
Liane Hirner	Wage increase is not really the driver for this development. It's mainly reinsurance commission which is decreasing.
Thomas Fossard	Understood. Thank you.
Operator	The next question is from the line of Thomas Unger from Erste Group. Please go ahead.
Thomas Unger	Hello. Thank you very much for taking my question. I have two follow-ups to start with. First of all, I'd like to come back to the Russian investment exposure. The 190 million, is that gross or did you deduct the 75 million from that figure? I guess it's 190 million and if impaired, then deduct this from exposure that you show here. Is that correct?
Liane Hirner	That’s correct. The 190 million is the gross amount without any deductions. We just took precautionary measures in the amount of 75 million. But 190, no deductions on that side.
Thomas Unger	Then continuing with Romania. You talked about the sales

competitor here. I saw that profitability was actually very good compared to previous years, previous quarters. The combined ratio is down to 95%. What can we expect from this market going forward? That's one question.

The next question will be on your outlook. You're more than one quarter into the year already. Is there anything more specific that you can give us, other than the positive development of the operating result, your positive operating performance? Anything that you expect on premiums, on the combined ratio, on profitability, etc.?

Then, lastly, on the financial result, do you see a support coming from the increase in yields? We've seen a strong increase to the bond yields in some CEE countries. Can we expect to see a positive impact on the current income, on the financial results in this year, in the coming years? What do you expect from the yield environment here?

Peter Höfinger

I'll take the question on Romania. I refer to what I have said some minutes ago when coming to the motor business. We had already a colourful past in Romania, so we are quite cautious in giving the direction for the future. You have to be aware about one thing you have in Romania, the obligation of contracting motor TPL. So also this makes business a bit different than maybe in some of the other countries. We see still some volatile political landscape, which could also have certain influences on our insurance business in Romania. As it looks like, it goes into the right direction, nevertheless, I think for a market like Romania, cautiousness is the right attitude.

Liane Hirner

I'll come again to the financial result. As I already mentioned, the current income was quite stable in the first quarter of 2022. When we look back in the past quarters, current income was rather decreasing. What we see now is an increase in interest rate. Overall, we rather expect a more gradual increase in the interest rates in the upcoming months. This is overall good for us, especially for the guaranteed life insurance portfolio in Austria. This is also good for our solvency ratio and we can already observe this. We will see how this comes through in the current income. This year it's, from today's point, hard to predict what really will happen in the next weeks and months.

Thomas Unger

This mid-to long-term downwards trend in the portfolio yield, do you expect this at least to stabilise or even to turn around in the coming period? The yield development in CEE countries haven't really been gradual, it's been a jump now in the last few months. Do you expect an impact here?

Liane Hirner

We expect the average yield to stabilise. And of course in

	some of our markets we saw quite a rapid interest rate increase, but overall, for the group we rather expect a stabilising average yield.
Thomas Unger	Thank you. And maybe just on the solvency II ratio you mentioned in the presentation that it's slightly up quarter on quarter. Could you quantify that, up from 250% year-end?
Liane Hirner	It's only some percentage points, I would expect, up. Rather slightly positive development in the first quarter.
Thomas Unger	Then maybe lastly on the question on the outlook, if there's anything more specific than the positive operating performance that you can give us?
Liane Hirner	Up to now we are still not able to give an outlook for the whole year. As you know, we are cautious and it's really hard to predict as long as there are no peace talks. Nobody can really predict what will happen and when we look forward in this year in the next months and weeks. So, no outlook from today's point of view.
Thomas Unger	Okay. Thank you very much. Appreciate it.
Liane Hirner	You're welcome.
Operator	As a reminder, if you would like to ask a question, please press star followed by one. We have a follow-up question from the line of Thomas Fossard. Please go ahead.
Thomas Fossard	Thanks. Just coming back on the P&C and with a focus on motor lines. Any market you will flag where rates, the price increase is still running significantly above cost inflation? And any markets where you would flag that, where pricing is really not sufficient to cover claims inflation? Any indication of magnitude, just to reflect what you're looking for in the current environment and where you believe that the market needs to adjust. Thank you.
Peter Höfinger	Just as a principle statement, we have two factors we're always closely looking at. One thing is the claims inflation and the average claim, the other thing is the frequency. One must be aware that in Central Eastern Europe, differently than in Western Europe, there is a correlation between fuel prices and milage driven and, therefore, frequency. One topic very clearly is claims inflation, where we see currently different trends country by country. So, it's not yet a 100% clear picture, even though we are expecting to the see that come through. Generally, about pricing in motor TPL, I think I little bit emphasised the topic of Romania. For the other markets it's pretty stable. We are not just running for volumes, we very much also look on the profitability of our motor book.

Thomas Fossard	On the frequency, could you potentially quantify how much the frequency is running below currently, pre-pandemic levels?
Peter Höfinger	There is a tendency of lowering it, but to give you the figures of the first quarter is not yet reliable enough, but we see the clear trends.
Thomas Fossard	Okay, thank you.