VIENNA INSURANCE GROUP (VIG)

Preliminary 12M 2024 Results

Q&A-Session Conference Call

12 March 2025

Transcript

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two.

Questioners on the phone are requested to disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question. Anyone who has a question may press star and one at this time. The first question comes from Youdish Chicooree from Autonomous Research. Please go ahead.

Youdish Chicooree

Good afternoon, everyone. Thank you for taking my questions. I've got three questions. The first one is on your guidance. And I was wondering whether you could elaborate on some of the assumptions behind it, namely in terms of revenue growth, P&C combined ratios, etc. That's the first question.

And then, secondly, just on your top line growth that you reported, actually in the last three years, has been quite strong. Now that inflation has moderated, would it be fair to expect quite a significant deceleration from the double-digit growth you have achieved?

And then, finally, on capital deployment, once again, you end the year with a very strong solvency ratio, whether or not we include transitional. So I was wondering, in the past, you've said you would deploy the excess by reinvesting in the business and on M&A as opposed to distributing to shareholders. So firstly, is that still your position? And then secondly, on M&A, what are your target countries and lines of business for expansion? Thank you very much.

Hartwig Löger

Okay. I will take and start with the last question from my side. In your question, what about our interest in M&A and maybe investment in that case, I just want to open that we are still in our strategic programme VIG 25, which is ending this year, and we already started the discussion about our strategic options for the next three years, 2026 to 2028.

In this discussion already started but not finished, we also are screening our core markets, Central Eastern Europe, where we have quite strong market positioning in main markets, also as market leader, but we still are interested and see the potential, for example, in the country of Poland, but also, as you know, we are also interested to clear up about positioning or starting more activities in Slovenia. So this is on the basis of the current existing markets.

But still, we are screening also in the way of expansion in the form of special markets. As you know, we have, beside our 20 core markets, 10 special markets already, which are focusing sometimes in niche perspective on growth, but also in a very profitable way, expanding and supporting our total results.

So this means that we are ready, and as it was mentioned by Liane, also our strong solvency basis gives us the support also to taking the opportunities which will come up and fit to our strategic programme, which we will then present also end of this year to clear up which activities will follow in this way. To the other questions, I hand over to Peter Höfinger about your questions of combined ratio.

Peter Höfinger

Thank you for your question. If I understood it right, it's combined ratio and correlation to higher guidance for the year 2025. So on one hand side, truly we have been benefiting from inflationary effects in the last years, which was also driving our growth. But please never forget, inflation means that we also have increased our sums insured, our underlying sums insured. So also this effect is here. We are now on a higher level of sums insured.

On one hand side, within our investment portfolio, we were able over the last years to shift to higher yield bonds. We are continuing to benefit out of this. Even though maybe interest rates could be flat going forward, our portfolio has been changed over the last years, so investment result, on one hand side, will support our further development of results.

On the other hand side, and this was mentioned in the presentation of my colleagues, you saw the forecast of GDP. We will benefit from the GDP growth. This GDP growth is also quite supported by internal demand. We had an over-proportional salary inflation in Central Eastern Europe, maybe differently to some other businesses.

We do have more clients than employees. Therefore, we are over-proportionally benefiting from salary inflation, having our customers having a higher living standard, and therefore a higher need for insurance. This is even supported by tendencies which we see of repatriation of CEE people working in Western Europe coming back to Central Eastern Europe, seeing the attractiveness of job opportunities, but also rising living standards.

I have just one figure in mind, which is Romania. So in Romania, since the end of COVID, more than 850,000 people have repatriated to Romania. These are principally younger people, more energised people, people which are

	expecting a higher standard of living, which they have learned in Western Europe. And they are also willing and used to insurances. So also this will support and drive our growth. This makes us quite confident that we will reach our guidance which we are giving for the year 2025.
Youdish Chicooree	All right. Thank you very much. It sounds like quite a lot of the growth is assuming some decent volume growth from all the factors you mentioned. So I would think that is not just motor, but also property and other lines of business.
Peter Höfinger	If I understand it right, because, unfortunately, your line is not so clear, it will be driven by other non-life lines. And if you look on our performance over the last year, the performance was also very much driven by Casco business. And Casco business is the clear indication of internal demand. People are willing to buy new cars, used cars on finance basis. Therefore, they need also to take out a Casco insurance, which shows a very positive consumer climate. And this, we believe to continue.
Youdish Chicooree	All right. Thank you very much.
Operator	The next question comes from August Marčan, UBS. Please go ahead.
August Marčan	Hi, good afternoon. Thanks for taking my questions. I have two, if that's okay, first on the payout ratio. I appreciate this might be a good problem to have, but given your strong EPS growth, it has outpaced the DPS growth over the last couple of years, so the payout ratio has been declining. Do you see any scope of increasing the payout ratio from the low 30%? And what will be the binding constraint limiting you if you don't see that? And then secondly, on your reinsurance. Last year, Boris was a massive event in the CEE. Did this change your reinsurance programme or increase your reinsurance pricing at renewals? Thank you.
Peter Höfinger	I'm happy to start with the second question of reinsurance. Yes, Boris was a major reinsurance event. It paid off that we have invested over the last years and decades, having a closer relationship. We are working together with two external modelling companies. There is no market model in Central Eastern Europe, so our models most probably are the most sophisticated. We are the market leader. So the reinsurance industry, when they want to get Central Eastern Europe as a diversifying element in their portfolio. They sign on our contract. This is then reflected on their conditions.

	This is also the reason why we have been able, over the last years in the hardening, to still keep our terms and conditions. And also looking forward, in principle, we will keep our basic logic of the programme. There will be certain adaptation. But one also has to be clear, Boris has been a modelled event, and we therefore also paid model premiums in the past. So reinsurance industry did accept that this event is happening. Because for this, we are buying reinsurance industry, there is no major change in our reinsurance politics going forward.
Liane Hirner	I'm happy to take your question regarding the payout ratio and dividend per share. Last year, we changed our dividend policy to the last year's dividend as the minimum dividend. So we increased this year, as already has been said, from €1.4 to €1.55, which follows the positive development of our performance. We have no plans to change this dividend policy. Also, we consider a dividend yield of 5.1% as attractive, also in the current interest rate environment. And I would also like to remind you on the positive outlook Hartwig Löger gave before. So we have a guidance of our profit before tax in the range between €950 million and €1 billion, which shows the positive development also expected for next year, which also should lead hopefully to an increased dividend. I hope this answers your question.
August Marčan	Yes, thank you.
Operator	The next question comes from Thomas Unger from Erste Group. Please go ahead.
Thomas Unger	Yes, hello. Good afternoon. Thank you for taking my questions also. I'd like to get some more details on the outlook for 2025, if you could talk about the individual geographical segments - Austria, Czech Republic, Poland, Extended CEE. What do you see as the growth driver for 2025 in terms of revenue growth, but also profit development? Do you see the smaller segments, extended CEE, special markets, continuing to be the growth drivers, or how do you see Austria and Czech Republic developing? And looking back, and staying within the segment, Extended CEE, very positive development in 2024. If you could zoom in on this segment and talk about the countries in a bit more detail, Bulgaria, Romania, the Baltics, Slovakia, all with very significant earnings increases, I'd appreciate that. And then also the significant uncertainties currently, geopolitical, financial markets, how do you see that affecting your results? So how does that affect your outlook for 2025,

the impact on the capital investment result from the yield curve changes and so on and so forth? And also, for the capital ratio, do you have a combined stress scenario? If multiple impacts affect you negatively, what could be the impact on the capital ratio? Thank you.

Hartwig Löger

Okay, thank you for your questions. I will start from my side and then hand over maybe to Peter Höfinger when we come to Romania, Bulgaria and maybe some other detailed countries.

So I think overall, our outlook for 2025 is running on the basis which was successful in 2024. What we see especially is that Poland still has room for growth on a higher level, and also profit. So this segment, I expect from my side, will come up in 2025 again. As you know, we did the merger in 2024, also to focus and concentrate in our activities there. There is still potential in also parts of P&C, and also corporate, where we are focusing on in the strategy in Poland.

Your question to Austria and Czech, on the one side, when we come back maybe to slide number 18 where I mentioned also the expectation on GDP growth, we know currently that Austria is on a quite low level, recession awaited also for 2025. But even in Austria, we see out of the development of 2024 there is room, especially also in the way of health business, but also in the expectation that life will, step by step, come back. And especially Wiener Städtische is showing also, in the partnership with Erste Group, that there is the possibility still also for growth above the market. And in this form, also inflation coming back in some form will also bring a basis of growth in Austria still.

Czech, for itself, there is some pressure on the market, but with two strong players, especially beside Kooperativa as the market leader, we have ČPP, still in a very positive growth activity. Here, we also have high potential in cross-selling coming up of the existing portfolio. And also, with new life insurance, we are quite successful on the market, which will also bring up positive expectation for the upcoming year in this area.

You touched also extended CEE. We have in 2024 very strong support in this form of Romania. And so now, I'll hand over to Peter Höfinger to go into detail that way.

Peter Höfinger

I will start a bit more in general words about Extended CEE, also with the smaller countries. Looking in the more volatilities we are having and the more volatilities we have ahead, not just geopolitical, all these countries in Extended CEE are used over the last years and decades to deal with volatilities. Therefore, societies but also the businesses there have a very different resilience in coping with these challenges.

I mentioned already, in answering before one question, there is a certain repatriation element from Western Europe, having a lower economic performance in Western Europe, therefore giving less opportunities for people from Central Eastern Europe having there jobs, returning to their home countries, which gives an impetus of energy and new labour forces, which is important in all these people which have been outside of what we call the extended CEE.

They have an education, they understand other languages, they have seen a different way of living, they have a different expectation of the environment, which they also would like now to have again in their home country. All this is also driving the dynamic which we see there.

This is also supported with looking to the dynamics of going more to a multipolar world with taxes and tariffs, where also within Europe, manufacturing companies will have to think about having manufacturing sites within the European geographical area, so in lorry distance to the main factories, maybe in Germany. Also this will further support foreign direct investment in our region, combined with having the repatriated people from Western Europe, so also having workforce there.

Specifically in Romania, we do have in Romania currently quite a volatile political situation, but there is a certain decoupling of the economic environment from the political situation. So economy and GDP growth is quite favourable in Romania, regardless of the political topics, and we see a positive atmosphere and a positive business approach in Romania.

We are having still there issues with regulatory topics, with certain price capping on the motor business. But this is now already for some time there. This price capping has forced us to focus very much on other lines of businesses, and we see now the first fruits of having there very much focus on non-motor business lines and growing very much in property and private property and commercial lines and health, which is supporting the profitability which we see today in Romania.

And we have a profit increase in Romania of 46%. We have an increase of insurance service revenues, about 25%. Quite similar in Bulgaria, where we are also growing double-digit in profits and in insurance revenues. So we also do have a quite optimistic and positive outlook for extended CEE for the year 2025.

Liane Hirner	I am happy to take also your question regarding the uncertainties and how this affects our outlook and other KPIs. I would like to remind you that in the last five years, we had uncertainties to manage, and we managed them very successfully. And as such, we feel very well prepared also for the volatile current environment, and also in the upcoming months, we expect some volatilities. We have models in place for stress test scenarios. And due to our high capital strength, and also due to our diversification, which leads always to compensatory effects, I am quite confident that we will handle the upcoming volatilities also in the same way as we did in the last years. And here, I would also like to mention that EIOPA did a stress test last autumn. 48 companies or groups were participating in this stress test. And the outcome for VIG was that after these stresses, without any management reactive measures, we had still a solvency ratio above 200 percentage points, and with this result, among the top three companies in Europe. So due to our high capital strength and also diversification, I am confident with the outlook that we have given for 2025.
Thomas Unger	Thank you very much.
Operator	The next question comes from Tejkiran K M from White Oak Capital Management. Please go ahead.
Tejkiran Kannaluri Magesh	Hi. Thank you very much for the opportunity. I just wanted to double-click on the 2025 outlook again. So thank you very much for the comments on growth and profitability development in answers to the previous questions. But I also want to understand, if we adjust for the impairment in Hungary for this year itself, the profit before taxes, adjusting for the impairment, would already be in the range that you're targeting for next year. So does that mean that with all these developments in the business, you might also expect one-offs, and this target is given, adjusting for those one-offs? Or how should we think about both of these factors interplaying with each other? And my second question is on the impairment again, if you could help us understand, as of your current expectations, do you think we are all done, or what should happen next year that might trigger another impairment in Hungary? Thank you very much.
Liane Hirner	I'm happy to answer your question. Let's start with the impairment. As I already explained before, this impairment was the result of the additional insurance tax burden by the Hungarian government. And we performed some scenario

analysis behind, and the result was, and I must say, we had a conservative approach in our scenario analysis, that this resulted to this impairment of €116.3 million. The remaining goodwill in our books is approximately €70 million. So the risk for further impairment, if it materialises, will not really affect materially our results.

For going forward, we will see how the Hungarian government will deal with the additional insurance tax. And if there are any changes, negative changes, this could lead to further impairments. But as I said before, this is from the total amount not something that we cannot manage here at the group.

From the result, the result was impacted by the additional tax. In 2024, the amount was approximately €50 million. For 2025, we expect a negative profit participation from the additional tax in the amount of €30 million. We will see what will happen in 2026. If we exclude the additional taxes, the company has a sound operating performance, and this is also our expectation in the mid-term and long-term future. I hope this answers your questions.

Tejkiran Kannaluri Magesh
Yes, thank you very much.

Liane Hirner
Thank you.

Operator
The next question comes from Rok Stibric from Oddo BHF. Please go ahead.

Rok Stibric
Hi, good afternoon. Thank you for the presentation and also the opportunity to take my questions. Yes, you've mentioned basically a lot of things already, so I'll be brief. I have only two follow-up questions. First one is regarding the guidance. We talked about Casco as regional development. However, I would still be keen on learning a bit more on how do you see life and health segment developing in the next 12 months, let's say.

And my second question is concerning the capital management or dividend policy, if you may. So I understand that there could be some M&A plans coming up. You don't really feel like changing the dividend policy that you recently established.

However, I'm just looking at numbers now. You increased your cash position by 10%. Solvency is in a very comfortable level. Could maybe a special dividend be an option? Is this something that you were considering when proposing the dividend to the Supervisory Board? Thank you very much.

Peter Höfinger
Thank you for the question on life and health. I start a bit with life business on one hand side, after many, many years

of low interest rate or zero interest rates, we are again back to an environment of interest rates which is again giving a higher attractiveness to our classical life product. There is no other product, no banking product, which is offering these kinds of guarantees in the long run.

And you have to be aware about one topic, very different in Central Eastern Europe than maybe to Western Europe. State pensions already today do not give enough for keeping your living standard which you have until your working time. Everybody who is working today and is in the working age knows this. So the sensitivity, the awareness of old age savings is, in the end, much higher in CEE than maybe in some Western European countries, where we still have very luxurious state pensions and the need to put money aside is not so imminent than maybe it is seen in Central Eastern Europe. So therefore, we are quite positive about the life business, also in relation with our banking partner, Erste Bank.

Also seeing the topics of limited state budgets, and therefore a certain reduction on social security elements in the countries, gives a protection gap for elements, on one hand side, in risk life, but also very much in health business. So we are positive with product innovations on the risk side biometrically, but also on the side of old age savings, that there will be again the certain dynamic which we will benefit off in this area.

In health business, when you look on the catch-up potential of living standards in Central Eastern Europe, on one hand side, you see it with Casco, so people bought quite newer cars, apartments have been refurbished, people have been on holidays. What they are now also expecting is reasonable and state-of-the-art healthcare, which is not, in most of the cases, provided by the state health system.

That's the growing element of our health business. And we are growing in Central Eastern Europe, more or less all over the place, double digit, because people are willing to take out health insurance to receive health treatment and healthcare on the standards which they expect and which they have learned outside of the countries.

We are very much involved in further developing healthcare products which are very much supported by digital features, where there is a high willingness and acceptance by people of Central Eastern Europe to also use digital applications in healthcare.

And we are also willing to go down the value chain. So there is already a country, like in Bulgaria, where we have invested into a health clinic, so also to ensure that we provide these kind of services to our insurance clients for health. We are quite bullish on how health business will develop in years to come.

Liane Hirner

Regarding dividend policy, I already explained that we changed it in 2023, and there are no plans currently to change the dividend policy, which introduced a floor of the last year's dividend to be the minimum dividend for the next year. So €1.55 will be the basis for 2025. As we expect growing business and growing profits, I would also expect that the dividend, following the improved results, will also follow this trend.

I would also like to remind you again that we are still in a very volatile environment. We are well prepared for this volatile environment through our diversification and strong capital position. But taking this into account, no special dividends are in discussion for the time being. So we will stick to our dividend policy for the moment, and no changes here in the near future planned.

Rok Stibric

Many thanks to both of you.

Operator

As a reminder, if you wish to ask a question, please press star and one. The next question comes from Bhavin Rathod from HSBC. Please go ahead.

Bhavin Rathod

Hello, good afternoon. Thank you for taking my questions. So I have three on my side. The first one would be on the combined ratio, slide number 11, wherein we are seeing a 0.8 percentage point deterioration. However, if I go a step back and look at the combined ratio of nine months 2024, it was rather flat on a YoY basis. Implicitly, this means there was some underlying deterioration in the fourth quarter standalone. So can you just talk about some of the drivers that took place in fourth quarter that led to this deterioration?

And maybe related to that, can you talk about the higher claims that we have seen in Czech Republic? What’s been driving that higher property claims? And is that more structural in nature, and should we expect that to improve going forward in terms of the combined ratio in Czech?

The second one would be on slide 12, the CSM roll-forward. While I appreciate it, you don't really provide the sensitivity of CSM to market movements, it would be helpful if you can just breakdown the impact of €286 million that was the change in variable fee in terms of how that was driven by different market movement pieces, i.e. change in interest rates, spread movement, equity market movement. So what's driving that deterioration?

	And the last would be, again on the same slide, the PVNBP was quite strong in 2024. The growth was pretty strong in 2024. Can you just talk about the sustainability of that PVNBP? Should we expect a similar level to sustain going forward as well? Thank you.
Peter Höfinger	Thank you for the question to the combined ratio. You know that we had [storm] Boris in end of September. Czech Republic has been quite heavily hit there. I think we made a very conservative first estimate of our claims. Nevertheless, there is a certain specific of flood claims. Differently to storm claims, flood claims do have a certain delay in reporting because people are realising their claims a bit later. We therefore have also in the fourth quarter further increased our IBNR. Let's see if we have been maybe too cautious on the IBNR or if they are right for the flood. So this is one of the elements. And yes, there has been a bit a higher frequency on property retail claims, which I see as a certain [special] appearance, which I do not see as a tendency. And I am optimistic that we will come back to the combined ratio in Czech Republic without special events like the flood which we are used to having seen.
Liane Hirner	Regarding your questions on slide 12, CSM, the changes in variable fee mainly derive from a reduced interest rate environment. So this is the main impact here. And regarding present value of new business premiums, this value increased quite significantly compared to last year because it only shows the new business. So here, I would like to state that this result also underlines the VIG strategic approach to exploit always opportunities in all our markets. This year, we had quite good impact from the special markets, especially Türkiye, and we are well aware that maybe these opportunities may not be sustainable in the long run. So this would be the explanation for 2024. I hope this answers your question.
Bhavin Rathod	Yes, that's very helpful. Thank you so much.
Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Nina Higatzberger-Schwarz, Head of Investor Relations, for any closing remarks.