VIENNA INSURANCE GROUP (VIG)

3M 2024 Update

Q&A-Session Conference Call

29 May 2024

Transcript

Disclaimer:

Operator

The first question today comes from Bhavin Rathod from HSBC. Please go ahead with your question.

Bhavin Rathod

Hi there. Thank you for taking my questions. So I have three on my side. The first one would be on the GWP development that we have seen in the first quarter. Would you be able to provide some additional colour, as in what kind of pricing we are able to get in the first quarter vis-à-vis the kind of volume growth we are seeing, especially in the P&C book? So any details around the pricing versus volume mix would be really helpful.

The second one would be on the topic of inflation. Obviously, we are seeing some improvement in the headline inflation. Are you able to say what level of improvement or increase we are seeing on the claim inflation side?

And the third one would be on the premium growth that we have seen in Poland. Reading the comment for Poland, I get an impression that the premium growth in the motor part was rather more subdued. So are you able to say what kind of dynamic you are seeing in the Polish motor market in the first quarter? And would you say you are being more conservative on the Polish motor premium growth, given the challenging market that we have been seeing for quite some time? I guess these are the three questions that I have. Thank you.

Peter Höfinger

Thank you very much for your questions. All the three are on my side. Starting with premium growth pricing P&C, you will have to a little bit differentiate here corporate business with retail business.

Corporate business in our region, the main renewal is 1 January. So the renewal is in the last quarter of last year. We were able in corporate business last quarter, last year, for this year, to further increase our pricings and/or change our conditions.

This also has to do with the hardening of the reinsurance market. We also have seen here specifically, with more local competitors, that they have more realized during the renewal changed terms and condition in reinsurance, and therefore also the market was going up in prices.

In retail business, the renewal is throughout the year. And depending on the market there is sometimes automatic index clauses. So if inflation goes down, so also indexation goes down. But this is reflecting then also the basis for the claims inflation, which leads me to the next question.

When we talk about the claims inflation, also here, we have to differentiate very much between motor business and property business. In motor business, it is important to notice that in relation to maybe the rest of Europe, our cars which we are insuring have a much higher average age. We are talking here between 13-15 years, which means also that the spare parts are not so sensor-driven, and also, the inflation on the spare part is not comparable with new cars' spare parts.

At the same time, we are having since years a quite sophisticated garage management all over the place. So we feel quite comfortable with the claims inflation in motor in relation to the indexation of our motor premiums.

Property claims inflation is very much correlated to the construction price developments. Here we see, over the last six to 12 months, a quite flattish development. Therefore, we also believe that we are able to well manage the claims inflation in this area.

When it comes to Poland, yes, we are underperforming in growth in the motor business. This is quite intended on our side. We still do not feel comfortable in all the segments in the motor market in Poland from the risk-adequate pricing and are therefore not very much on the growing side in motor business. We do believe that maybe throughout the year, we will see some changes on the Polish market, and then our risk appetite in motor business will change accordingly. I hope I have answered your questions.

Bhavin Rathod

Perfect. That's very helpful. Thank you so much.

Operator

The next question comes from Rok Stibrič from RBI. Please go ahead.

Rok Stibrič

Good afternoon and thank you very much for the presentation. I will have two questions. I am interested if you might have some high-level estimates available for the combined ratio, perhaps at group level, of course.

And the second question is related to the reinsurance developments. So have you seen some change in trend in comparison to the last year? Because so far, I think 2024 has been relatively well when it comes to nat cat losses.

And last but not least, do you have some assessment of the reinvestment yield? Has this number now peaked, or do you think you still have some potential for further increases here? Thank you very much.

Peter Höfinger

Thank you for the question. For the combined ratio, in the first quarter, we are not announcing the combined ratio. You know our combined ratio last year, which was 92.67. The first quarter had less weather-related claims activity. I maybe answered in another question the development of pricing and claims inflation, so I think you can have some idea about the development of the combined ratio.

When we come to reinsurance trends, there was a different renewal for this year. It was much more structured than it was the year before. There was enough capacity available by the reinsurance industry. On the other side, the reinsurance industry kept discipline and was very much focused on reinsurance contracts which were claims-affected, to change their conditions. It was not always so much the topic of prices. It was also the topic of retentions.

When it comes to nat cat, we do have a big advantage in placing our nat cat programme. On the one hand side, we are placing it for the whole group. So before we go to the reinsurance industry, we have natural diversification. We are having two modelling companies modelling our portfolio. We are the market leader in the region.

So, most probably, it's one of the highest quality programmes where large reinsurance companies, with one signature, can get the diversification from CEE in their portfolios. For this, we are asking for an attractive price. Therefore, we do see pressure on pricing in nat cat, but we feel comfortable in relation to the prices which we get from the primary side.

Liane Hirner	I'm happy to answer your last question, your third question, regarding the assessment of the reinvestment yield. I can give you the numbers. For 12 months, 2023, the average new investment yield of total VIG was 5.5%. And this compares to the first quarter 2024 with 5%, total VIG. I hope this answers your questions.
Rok Stibrič	Yes, thank you very much. Very helpful.
Operator	The next question comes from Thomas Unger from Erste Group. Please go ahead.
Thomas Unger	Hi, good afternoon. Thank you very much for the presentation and also taking my questions. I'd like to come back to the solvency ratio and the development that you've seen in Q1, with the slight retreat. Can you confirm that the requirement remained stable also in Q1 and that the decline is solely due to the decrease in own funds? And I didn't quite get it. Is the dividend for 2024 now included in the own fund calculation, so the minimum level for next year? That's my first question on solvency ratio. Second question would be, you touched upon the weather-related claims. What did you see in Q1 in terms of large claims and also nat cat events? Anything to date in Q1 or

	Q2 for the first half of 2024? And then, you reiterated your targets, profitability targets for 2024. Is there anything that you can tell us about the operating trends in Q1, and now going into Q2? Anything that affects the business operating result materially would help. Thank you very much.
Liane Hirner	Thank you for your questions. I'm happy to answer your question or to clarify your questions regarding solvency ratio. The development in Q1, when we come to the solvency capital requirement, this is in line with the increase of the volumes and premium growth and business increase in the first quarter, so a slight increase in the SCR and also in the counterparty default risk we have in the first quarter, an increase due to the fact that companies, including the VIG Holding, is preparing for interest or for dividend payments, so we have more cash in the first quarter usually. And when it comes to the own funds, it's correct that due to our new dividend policy, which says that the last year's dividend is the minimum dividend, we now have to include the 2024 dividend already fully in the first quarter. So this will flatten out over the year. In the last years, with the old dividend policy, we had always one-fourth of the planned dividend, or of the planned dividend in each quarter. So we had an increase in the ratio out of that. And now we had to change how we account for the dividends in the solvency calculation. And also, not to forget, even in the solvency calculation with transitionals, we also have to decrease the own funds by the full effect of the transitionals. We lose about €100 million per year on funds due to the decrease of transitionals, and this also has to be fully taken into account in the first quarter. But this will also flatten out over the year. And no other specifics or special topics or trends to be mentioned regarding the solvency capital requirement and the solvency ratio.
Peter Höfinger	To your question to weather-related claims, as mentioned, there was a lower activity of weather-related claims. Also maybe to remind, last year, in the first quarter, there was also the earthquake in Turkey. Net figures I can give you. The net weather-related claims were €21 million in the first quarter this year, in relation to €50 million last year. Maybe to your last question, I am not aware of any operational exceptional events in the first quarter.
Thomas Unger	Okay. Thank you very much.
Operator	The next question comes from Youdish Chicooree. Please go ahead.

Youdish Chicooree

Good afternoon, everyone. I've got three questions as well. The first one is really to just go back on your opening comments on the improved economic outlook in the markets you operate and the various drivers you talk about. I was just wondering, can you talk about how this could impact your life business versus your P&C business? Because in P&C business, some markets have been seeing higher frequency. So I was just wondering if you could elaborate on that to start with.

And then secondly, on the reinvestment yield, was that for the total group? And that was just fixed income in, or was that the total investment portfolio? And then lastly, in the Polish market, you've talked about you pulling back because the pricing is not adequate enough. I think one of your major peers saw quite a deterioration in Q1 because of a rising frequency. Have you seen a similar development? Thank you.

Liane Hirner

So I'll take over the second question regarding the reinvestment yield. I can confirm that the 5% relates to the total investment portfolio of VIG Group.

Youdish Chicooree

Okay. All right.

Peter Höfinger

Coming to your topic of frequency, here again, in the property business, frequency is stable. In the motor business, frequency, and I'm talking for the group, not for a specific market, is also stable, and it's still a little bit below pre-COVID times.

One of the hypotheses on why this could be is that obviously, in the COVID time, for the lockdowns, many people from Central Eastern Europe which are working in Western Europe, in France, Spain, Germany, Austria, returned home for the lockdown and not all of them went back to Western Europe.

We see this in Austria in the tourism industry, where we are looking for employees, because obviously from our neighbouring countries, people found jobs back home after the lockdown, which means also that there is less mileage driven internationally on weekends or once a month, where people were commuting from countries where they were working back home, which can be one of the drivers that overall frequency in motor is slightly below what we saw pre-COVID.

When it comes to Poland, I think I have nothing to add. Yes, our risk appetite in motor business is limited currently in Poland for profitability reasons. I think I have mentioned that.

Youdish Chicooree	And on the different outlook for life and health versus P&C, based on the macroeconomic outlook?
Peter Höfinger	What I can tell you is that health business is growing all over the place, and this has to do also with the macroeconomic outlook. If there is more disposable income, they are also willing to spend part of their money for a private health insurance. This we see all over the place in Central Eastern Europe but also in health in Austria. When it comes to life, this is different market by market. For example, we see a quite attractive growth ratio in Romania in regular premiums, which also has to do with a very successful banking distribution which we have in Romania. We are also quite reasonably developing the life business again in Austria. With the rising interest rates of the last two years, also classical products are again gaining attractiveness, and not yet, but first signs that also single premium business can accelerate in the forthcoming future.
Youdish Chicooree	All right. Thank you. Thank you very much.
Operator	Ladies and gentlemen, that was the last question, and I would like to hand back to Nina for closing comments.
Nina Higatzberger-Schwarz	Thank you for your interest in this Q1 update of Vienna Insurance Group. We look forward to presenting the half-year results, then again in more detail, on 28 August. And if you have any questions in the meantime, please do not hesitate to contact us in the Investor Relations Department. Thank you and goodbye.