

PZU Group's 2019 results: record-breaking profit, sales and employee engagement

The highest net profit, the highest sales and the greatest employee engagement – in 2019 the PZU Group generated the best results in its history on the stock exchange.

Net profit totaled PLN 3,295 million, sales totaled PLN 24.2 billion and ROE was 21.2%, nearly double the European average among insurance companies. At the same time, employee engagement came in at 51% according to the largest study in Poland called Kincentric Best Employers.

“PZU Group employees perform amazing feats. Their engagement has risen sharply in contrast to the downward trends on the market. It was at its peak in 2019 and translated into fantastic results. The best earnings in our history on the stock exchange and record-breaking sales testify not only to the effective implementation of our ambitious strategy under the slogan “The New PZU – More Than Insurance” and innovative projects but also to the PZU Group becoming in the last few years a place where employees want to work and work with a sense of total commitment, thereby achieving spectacular successes”, says the CEO of PZU, Paweł Surówka.

The level of PZU's employee engagement has grown by 11 percentage points since 2018. It is several points higher than not just the average for insurance companies, but for all companies in Poland.

“What's important is that PZU's record-breaking financial results are based on sustainable foundations and high employee engagement has made a contribution. PZU's strong market position gives us an edge poising us to generate robust performance in the future, too. Analysts of S&P Global Ratings confirmed this by raising PZU's rating outlook from stable to positive with a rating of A- in 2019” adds Surówka, the CEO. As he has emphasized, the Group is having spectacular successes despite the demanding market situation: price pressure and regulatory burdens.

2019 is now the third year in a row during which consolidated profit attributable to holders of the parent company on a per share basis has grown. Earnings have risen by 14% since 2017, while the dividend per share has doubled to PLN 2.80.

Net profit was PLN 935 million and ROE was 23.7% in the fourth quarter of 2019, which was the best fourth quarter in the PZU Group's history. The pace of sales growth in this quarter was the highest in the entire year. Premium growth in individual life insurance in the fourth quarter was 37% on a year-on-year basis, while the sales of non-motor insurance were up 30%.

“The combined ratio (COR) in non-life insurance was 88.4%, thereby beating the strategic objective for the full year of 2019, despite the demanding situation on the motor insurance market. On one hand, this was the result of increasingly better management of price and distribution models making it possible to acquire and retain clients who have a loss ratio profile we consider to be desirable. On the other hand, further work related to optimizing

cost processes supported this process. 2019 was another year in a row in which the administrative expense ratio stayed at the low level of 6.8%. Implementations in digitalization contributing to automation of client service and reducing back office costs were especially favorable in this area. They involved, among other things, the usage of robotics in claims handling and the development of capacity hidden in the new approach to managing shared databases. In the long run these changes will contribute to stabilizing the cost ratio at a strategic level of 6.5%”, says PZU management board member and CFO Tomasz Kulik.

2019 was an unusually successful year for PZU Życie. The market data available for the first three quarters show that during this period PZU Życie ratcheted up sales by 2.5% year on year while the gross written premium for the overall market fell by 3.1%. This translated into PZU Życie’s take-up of 2.2 percentage points of market share up to 39.9%. PZU’s key market share of periodic premium stayed very high at 45.9%, while it was 62.4% for protection contracts.

“We are proud that PZU Życie with such a high insurance market share was still able to become the leader of new sales of employee group insurance. In addition, we have reported very high growth of new sales in segments in which PZU Życie’s market share was traditionally lower, i.e. in individual insurance. Gross written premium on individual insurance in the fourth quarter of 2019 shot up by 37% year on year. This is the outcome of tightening cooperation with the PZU Group’s banks and rebuilding the life products distribution network”, remarks Tomasz Kulik.

At the same time, 2019 was a period of particularly intensive growth in the PZU Group on the private health services market. PZU Zdrowie’s revenue climbed 47% versus the previous year. The number of PZU Zdrowie’s own centers doubled to 130 thanks to acquisitions, chiefly Falck Centra Medyczne and the Tomma Group, thereby adding, among others, 35 clinics offering imaging diagnostics. PZU Zdrowie also enlarged its network of partner centers whose count reached 2,200 at the end of 2019.

“This is a particularly important area for us. By growing PZU Zdrowie’s network we are able to provide patients with increasingly better access to services at the highest level. We were the first medical operator to launch Virtual Clinic, thereby enabling patients to obtain a consultation from a physician, receive a referral for testing or a prescription for medications without leaving the comfort of their own homes. We also opened the first telemedicine office in which patients can do diagnostics on their own by using a specialist apparatus”, says Surówka, the CEO.

2019 was also a time of rapid growth in bancassurance and assurbanking leading to the advent of new products, services and climbing results. The premium collected in collaboration with the banks belonging to the PZU Group was PLN 0.89 billion at the end of 2019, or more than two and a half times more than the year before, thereby nearly reaching the level not projected to be achieved until 2020. Cost reduction ensuing from cooperation with the banks totaling more than PLN 120 million has outpaced the strategic objective planned for 2020 totaling PLN 100 million.

The web-based Cash Loan Platform launched in 2019, the result of PZU's cooperation with Alior Bank, is one example of an innovative solution. It gives employees convenient access to quick, inexpensive and safe loans for which they can apply through their employers. This augments the attractiveness of employers on the labor market as it allows them to offer additional, non-wage related benefits to their employees. *"The cash platform is an excellent solution to strengthen our relations with group clients. It supports retention while opening up an option for Alior Bank to penetrate a new client segment"*, highlights Tomasz Kulik.

The myPZU platform, the most extensive electronic client service system on the insurance, finance and health market has become a symbol depicting the PZU Group's digitalization. Individual clients' accounts administered through the inPZU platform have been integrated with this platform. It undergoes regular improvement and expansion whereby institutional clients can also invest their funds through inPZU.

As Paweł Surówka underscores, the results generated in 2019 and the successively implemented solutions allow us to gaze into the future with a large amount of optimism. *"They constitute proof that the PZU Group is a dynamic organization that fastidiously observes the market environment and analyzes market cycles. It is capable of drawing conclusions based on the changes taking place, or even get in front of them to the benefit of its clients and shareholders"*, recaps the CEO of PZU.

The PZU Group is the largest financial institution in Central and Eastern Europe. The value of its consolidated assets topped PLN 343 billion in 2019. It serves 22 million clients in five countries.

PZU Group's key accomplishments in 2019:

- Net profit of PLN 3,295 million, a record-breaking result in the PZU Group's history on the stock exchange despite rising price pressure and regulatory burdens
- Record-breaking insurance sales – gross written premium of PLN 24.2 billion
- Return on equity of 21.2%, nearly twice the European average for insurance companies
- Solvency II solvency ratio of 220%, and thus one of the highest seen among European insurers
- Very high profitability in the non-life segment in Poland – combined ratio (COR) of 88.4%, above the strategic objective for 2020 by 3.6 p.p.
- Operating margin in group and individually continued insurance of 21.3%, thereby beating the strategic targets
- Investment performance surpassing our strategic ambitions: the yield on the main portfolio is 2.5 p.p. above the risk-free rate year to date while maintaining the portfolio's safe composition

- Administrative expense ratio of 6.8% – in line with the plan for 2019
- S&P Global Ratings raised PZU's rating outlook from stable to positive with a rating of A-
- Net earnings per share up 14.0% and dividend per share has doubled since 2017 to PLN 2.80
- Record-breaking gross written premium on foreign operations – increase of 11% y/y
- The premium collected in collaboration with the banks belonging to the PZU Group grew 160%, or by PLN 0.89 billion and cost reduction ensuing from cooperation with the banks totaling PLN 123 million has outpaced the strategic objective planned for 2020 totaling PLN 100 million.
- PZU Zdrowie's top line is up 47% year on year
- The number of PZU Zdrowie's own centers has nearly doubled to 130.

PZU Group's key accomplishments in the fourth quarter of 2019:

- Net profit in the fourth quarter was PLN 935 million, the highest in the PZU Group's history
- High ROE of 23.7%
- Acceleration of the pace of growth of gross written premium and net earned premium in comparison to the beginning of the year: growth rate of GWP at 7.7% and of NEP at 4.2%
- Fastest incremental growth since early 2018 of gross written premium in life insurance at 7% despite the shrinking market in Poland
- 37% growth year on year in the premium on individual life insurance, substantially higher than at the beginning of the year
- Record-breaking sales of individual protection products in life insurance totaling PLN 145 million and the highest sales of non-recurring investment products in eight quarters totaling PLN 253 million
- Dynamic growth in non-motor insurance – up 30% year on year, reflecting PZU's strong competitive position
- Very high profitability in the non-life insurance segment – the combined ratio (COR) in the non-life segment is 84.9%, which is substantially better than the target level set in the strategy, despite the higher level of the loss ratio

- Investment performance outpaced the strategic objective – the return on the main portfolio was 2.7 p.p. above the risk-free rate