Corporate News

Interim Statement Q1 2020

Deutsche Familienversicherung maintains its growth track in Q1 2020

- Number of new contracts reaches 27,718, exceeding expectations
- Gross premiums written substantially higher by 31.2%, to reach EUR 26.4 million
- Existing premium growth up by 7.0%, to EUR 108.3 million
- No significant impacts of COVID-19 on development of business operations in Q1
- Substantial losses in capital investments

Frankfurt/Main, May 14, 2020 – DFV Deutsche Familienversicherung AG ("DFV", "Deutsche Familienversicherung"), a rapidly growing, leading digital insurance company in Europe, exceeded its growth targets in the first quarter of 2020 in spite of COVID-19. The COVID-19 pandemic did not have any substantial impacts on the development of the company's business operations up to that point in time.

"Our sales performance certainly is impressive, even in COVID-19 times. Online sales were up by as much as 27% in the first quarter. Since April, however, we have noticed a slight decline in online demand for insurance policies, especially on Google and Bing. At this time we cannot assess with any degree of certainty what the market environment will look like in three months," comments Dr. Stefan Knoll, CEO and founder of Deutsche Familienversicherung.

New business in Q1 2020 better than planned

The volume of new business reached 27,718 policies in the first quarter, exceeding expectations. The company had planned to write 25,000 new contracts for the first quarter. Compared to the corresponding period of the previous year the number of new contracts declined by 7.8% (Q1 2019: 30,049 new contracts). It has to be considered though, that business in the first quarter of 2019 had benefited from the highly positive impact of the new 'HenkelCareflex' policies. These comprised 9,000 units of total new policies written in the first quarter of 2019. Excluding these contracts, the sales performance in the first quarter of 2020 regarding new contracts was up by 31.7% year-on-year. At the same time, business development indicates that the achievement of the ambitious sales target of 100,000 new contracts per annum by the time of the IPO is increasingly being affirmed.

In the first quarter of 2020 the volume of new business in the property insurance segment increased substantially (Q1 2020: 7,031 units, Q1 2019: 1,004 units). A decisive factor in this regard was the ongoing successful marketing of animal health insurance introduced in 2019 and revised third-party insurance policies. The total newly generated premium volume came to EUR 8.6 million (Q1 2019: EUR 10.3 million).

As at March 31, 2020, property insurance in terms of unit numbers already accounted for approx. 25% of the total new business (December 31, 2019: 10%) and for some 21% measured in terms of premium volume (December 31, 2019: 8%). As a result, DFV succeeded in continuing its diversification strategy with the aim of achieving an appropriate portfolio mix of property and health insurance policies. Due to the politically induced 'lockdown' of the economy, the management team has observed a decline in the second half of March in the number of search queries on Google and Bing not initiated by the Deutsche Familienversicherung. In addition, sales of travel health insurance policies collapsed completely due to the worldwide travel warnings.

Premiums written up by 31.2%

As a result of the successful new business, the total insurance portfolio at the end of the first quarter of 2020 was up by 2.9%, to around 529 thousand policies (December 31, 2019: approx. 514 thousand policies written). This includes some 41,852 policies in the electronic insurance business that is no longer part of DFV's core business, an inventory that is undergoing liquidation (run-off). Excluding these technical insurance policies, total policies in the company's core business were up by approx. 3.6%. Existing premiums written increased by 7.0% as at March 31, 2020, to EUR 108.3 million (December 31, 2019: EUR 101.2 million).

Gross premiums written were up substantially by 31.2% in the first three months year-on-year, to reach EUR 26.4 million. This increase reflects the robust growth in the supplementary health insurance segment, up by 31.0% to EUR 24.6 million, as well as in the property insurance segment, which includes the new animal health insurance policies, with an increase in gross premiums written by 33.4%, to EUR 1.8 million.

Dynamic growth driven by sales, IT and recruiting measures

Deutsche Familienversicherung once again invested substantially in sales in the first quarter of 2020. Sales expenses amounted to EUR 8.3 million but were down by 2.4% compared to the same year quarter a year earlier (Q1 2019: EUR 8.5 million). Due to sales expenditure and a certain non-recurring effect, for the first three months of 2020 the combined ratio (of claims to expenses) amounted to 122.9% (Q1 2019: 95.4%). For the year 2019 as a whole, this key ratio came to 102.6%. The increase resulted from the one-off effect of a non-linear but expected allocation to the actual reserves in long-term care. The reason for the allocation is a premium adjustment in the long-term care portfolio and the start of the contract at Henkel CareFlex on January 1 of a year. Further reasons for the higher combined ratio are higher IT, personnel and claims costs in comparison with the previous year. So the claims ratio increased to 62.4 % (full year 2019: 60.5%; Q1 2019: 50.1%). Accordingly, the target in the combined ratio of 95% to 110% is maintained.

Further enormous growth potential is generated by the care industry solution “CareflexChemie” agreed in November last year, under which Deutsche Familienversicherung (in cooperation with R+V Krankenversicherung and Barmenia Krankenversicherung) now offers nation and industry-wide, employer-funded tariff-based supplementary care insurance for employees of the chemical industry for the first time. The current financial year and the first three months have already been shaped by the ongoing preparations for the planned launch in July 2021, reflected in a corresponding impact on the operating result. In addition, further progress was made in outsourcing the IT infrastructure, while internal resources and capacities were further extended by IT Development.

In order to prepare for the forthcoming growth with adequate personnel resources, in February 2020 Deutsche Familienversicherung initiated a nationwide recruiting offensive to sign up 55 new employees, particularly in the IT Development, Finance and Customer Service divisions. With the aid of a modern multi-channel campaign and an attractive incentive model providing for suitable candidates to receive up to EUR 6,500 on reaching certain stages of recruitment, DFV already won 29 new employees in the first three months of this year. Despite the ongoing COVID-19 pandemic, Deutsche Familienversicherung is highly confident of its ability to upsize its workforce to around 175 employees via this campaign by the end of the current financial year. The savings in relation to conventional recruiting measures are estimated at approx. EUR 0.35 million.

Dr. Stefan Knoll: ***“We’re thrilled to see that the current recruiting campaign remains highly successful in preparation for the forthcoming growth anticipated. Job applicants are likewise banking on crisis-resistant companies at this time.”***

Result adversely impacted by capital market developments

Group EBIT declined to EUR -5.6 million after the first three months (Q1 2019: EUR -1.0 million). This includes the planned costs due to the expected one-off effect (EUR -2.8 million) in long-term care insurance and an unplanned, realised loss of EUR 2.8 million in the investment area as a result of the collapse of the global investment markets due to the COVID 19 crisis. The underwriting result fell to EUR -1.8 million (Q1 2019: EUR 0.6 million). The result after taxes came to EUR -3.8 million (Q1 2019: EUR -0.2 million). The solvency ratio of Deutsche Familienversicherung declined to 206% in the first quarter due to reference date factors (December 31, 2019: 264%). In addition to the high capital expenditure to achieve the significant business growth, this decline is attributable above all to the higher market risks caused by the COVID-19 situation, lower market values of capital investments made and to the yield structure curve correction carried out by the European Insurance and Occupational Pensions Authority (Europäische Aufsichtsbehörde für das Versicherungswesen, EIOPA). However, the ratio continues to significantly exceed the regulatory requirements, remaining at a very solid level. As a matter of principle, we apply conservative approaches when calculating the solvency ratio under Solvency II. With a view to premium adjustments that have been implemented or are at least becoming apparent across the entire health insurance industry, we also must be able to react more flexibly to changes in the general environment. By accepting interest rate adjustments in the case of premium adjustments, we expect a reduction of solvency requirements and a corresponding noticeable increase of our solvency ratio, which is already at a high level of 206%. Thus, in the medium term, the Solvency II ratio of DFV will be above the already communicated target corridor of 180 – 220%.

Outlook 2020

Whether it will be possible to further maintain the annual target set for new business after the close of the second quarter will depend on the extent to which restrictions are eased in tourism and on the revival of the economy. Despite the existing uncertainties, DFV nevertheless affirms its sales targets for the time being. In the year 2020 as a whole, the company plans to generate 100,000 new policies, to raise the volume of existing policies by EUR 25 to 30 million and to increase gross premiums written by at least 30%.

The result in the current financial year will continue to be affected by high growth investments in further extending the policy portfolio, expenditure on increasing digitization and the establishment and extension of new distribution channels and the organization. In this regard, the preparations for the care industry solution Careflex will have a particular impact. Accordingly, DFV anticipates a pre-tax loss (EBIT) of EUR 9 to 11 million for fiscal 2020. Based on a linear progression of these ambitious targets, Deutsche Familienversicherung expects to compensate the planned losses of 2020 in the year 2021 despite the high investments being made to foster growth.

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