

Mapfre, S.A. BME:MAP

FQ3 2014 Earnings Call Transcripts

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S&P Capital IQ Estimates

	-FY 2014-	-FY 2015-
	CONSENSUS	CONSENSUS
EPS Normalized	0.29	0.32
Revenue (mm)	21835.39	23219.35

Currency: EUR

Consensus as of Oct-28-2014 7:24 AM GMT



Call Participants

EXECUTIVES

Esteban Tejera Montalvo

*Former First Vice Chairman,
Director General and Non
Executive Chairman of Mapfre Re*

Luigi Lubelli

Unknown Executive

ANALYSTS

Atanasio Pantarrotas

*Kepler Cheuvreux, Research
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*Nomura Securities Co. Ltd.,
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Federico Salerno

*MainFirst Bank AG, Research
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Presentation

Operator

[Audio Gap]

Chairman of the group, who will conduct the presentation. Please go ahead, sir.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Thank you. Good afternoon, ladies and gentlemen. Welcome to MAPFRE's Results Presentation for the First 9 Months of 2014. As usual, I'll give an overview of the results and the main business developments. And later, Mr. Lubelli will explain the financials in detail.

Please go to Slide #3. During the period, MAPFRE continued to grow, increasing its premiums 1.8% to EUR 16.9 billion, and the assets under management grew 13.6% to EUR 37.7 billion. The combined ratio remained excellent, with only a small 50 basis points year-on-year increase. The strong development of the Life business, together with larger financial income, made up for this as well for the negative impact from the economic situation in Venezuela, containing the decrease in attributable result to only 1.6 percentage points. Shareholders' equity per share increased strongly by almost 12%.

On Page 4, you have the highlights of the results. Business growth mainly stemming from sustained development in Brazil, recovery in insurance in Spain, which is very important to remark and consists in the change of the tendency [ph] not only for MAPFRE, but also for the sector as a whole, even if MAPFRE is leading this change of tendency [ph]. And we have registered also growth in the Reinsurance and Assistance businesses, along with positive impact of the appreciation of the U.S. dollar and other currencies.

The combined ratio remains at excellent levels, as I said before. We have significantly larger financial income, driven by the increase in the market value of the portfolio. And the equity has grown EUR 1,242 million since the year-end 2013 due to several factors: firstly, the results for the period; secondly, the positive mark-to-market adjustments; and thirdly, the appreciation of the Brazilian real, the Turkish lira and above all, the U.S. dollar. At constant exchange rates, the premiums would have grown 8.3% and the attributable results 3.7%.

On Slide 5, I would like to remark how there [ph] are signs of growth in the Spanish economy now. There is a growing evidence of that growth, since some kind of recovery that is supported by the GDP figures, but also by numerous other indicators, such as the sales of consumer goods, vehicles and real estate. The outcome of this business for the banking sector provided further evidence of the strength of the economy. In this environment, as in other times I have mentioned, we have the position in MAPFRE that will allow us to benefit of this.

If you look at Page 6. MAPFRE traditionally benefits from its traditionally proven approach to pricing. And during the period, we have reduced our average premium only by 9.4% in a period where the rates of the sector have declined, the average premium, by 19.2%. This obviously has a positive impact in our combined ratio and enhances our competitive position vis-à-vis our competitor to withstand any increases in the loss experience that's possible to occur in the near term due to the recovery of the economy.

As you can see on Page 7, MAPFRE has found itself in similar operating environments previously. And usually, when the economy starts growing again and frequency [ph] recovers, our competitors have to raise tariffs more than MAPFRE. Given that ours continues to be the strongest brand in Spain, that strengthens our competitive position, and we tend to outperform the market at times of economic growth. According to ICEA, the cooperative research institute for the insurance sector, in third quarter of this year, we have already added 30 basis points to our market share in motor insurance.

On Page 8, you can see how we are performing very well in the Brazilian market also. Our joint business with Banco do Brasil is strongly outperforming the market, and now we rank #1 in several lines and #2 in motor insurance, with a very, very remarkable [ph] market share in every rank.

As you know, MAPFRE -- we describe the operation on Page 9. MAPFRE has agreed to buy Direct Line's Italian and German businesses for a consideration of EUR 550 million. These companies fit well our targets because their profiles fit well with MAPFRE's diversification strategy, which includes in its goals the strategy on the business in Europe and in direct insurance. They are leaders in their respective markets and profitable. And they complement very well our sales [ph] and give us opportunities for improvements in both ways -- in 2 ways: in the operations we acquired through the deployment of our systems and expertise and especially, our expertise in online business; and in our businesses in other countries through the combination of our Internet platform with direct insurance systems.

On Page 10, you have the agreement of the Board of Directors that have resolved to pay an interim dividend against the 2014 results of EUR 0.06 per share. Therefore, the total dividend paid in the year amounts to EUR 0.14 per share, which means roughly more than 5% of the dividend yield during the year. In total, the outlay amounts to EUR 451 million.

Well, these are the highlights of the period, and I will now hand the call to Mr. Lubelli who will comment about our financials in detail.

Luigi Lubelli

Thank you, Esteban. Good afternoon, everyone, on the phone and on the line. Please, let's move to Slide #12. Here, we have the consolidated income statement. As we explained in the previous results release, we -- when talking about financials, we will be giving explanations both on the cumulative figures and on the variations on the third -- in the third quarter alone, third quarter of 2014.

If we compare with June, the consolidated figures I'm talking about, we can see in the Non-Life account a turnaround in premiums. Now we have positive growth. In the first and second quarter, we had small contractions. In comparative terms, we also have the best reading in the year in the technical result, and we see a strong rise in financial income, which was mainly driven by realization gains that came primarily from Spain. Also, in the last account, we see an acceleration in growth compared to June, while the -- I mean premiums growth, while the bottom line is developing broadly in line with what we saw in the first half. There's nothing really significant to report about other business activities, which are very much in line with the first half.

We see, as we saw then, the adjustment for inflation in Venezuela, which is clearly a large figure. It's EUR 67.9 million. But compared to June, it only increased EUR 12.5 million. So thanks to the better performance in the Non-Life account and this slower growth in the negative inflation adjustment in Venezuela, we can see that the growth of pretax profits accelerate compared to June when we had 8.7%. Now we have 13%. However, in the bottom line, we see a small 1.6% contraction, which is mostly due to a higher tax rate. Just as an observation, if we were to exclude the inflation adjustment, the profits would be basically flat at the same level as they were in 2013.

On Slide 13, we have the Non-Life account. And when comparing the variations in the cumulative figures of September against June, we have to bear in mind that this year, we saw exactly the reverse of what we saw in the third quarter of 2013. This year, we had premiums growth in Spain and a depreciation of the euro, while, last year, we saw exactly the opposite, an appreciation of the euro, which reduced the amount of premiums coming from abroad, and a contraction in Spain. So the combination of these movements magnifies the increase that we've seen in the third quarter of this year.

The greater detail on the Non-Life account on Slide 14. On a cumulative basis, we can see premiums growth, which comes from primarily Brazil, the assistance business and the recovery in the Spanish retail sales. This was enough to make up for a contraction that we are observing in the commercial insurance business, both in Spain and abroad, which is mainly due to a very intense competition in this line.

We see the loss ratio go up, on a cumulative basis I'm talking, due to a slight decrease in net premiums earned as well as higher frequency in Spain and Brazil, together with weather-related claims in the

U.S. We've had a few of them even in this quarter. These increases were made up to -- by a very large extent, by MAPFRE RE, which has, this year, a much lower amount of catastrophe losses. The expense ratio will be given [ph] on a cumulative basis, falls, thanks to lower acquisition expenses at MAPFRE AMERICA -- especially MAPFRE AMERICA, but also MAPFRE RE, which compensate the increases that we are experiencing in other companies, especially in Spain, which is due to a different recognition criteria for acquisition expenses and to changes in the business mix.

Quarter-on-quarter, if we compare the third to the second, we see that premiums fall, and this is mainly due to seasonality, which was especially pronounced in Spain in reinsurance. If you compare the figures in 2013, the third quarter of 2013 with the second quarter of 2013, you will see broadly similar variations. When we compare now this period with the same period of the previous year, we do see a significant increase of 4% in the premiums, which is basically moved by the same drivers as the cumulative figures, which, I will say, was Brazil, assistance and the recovery in Spain, plus the positive impact of the appreciation of foreign currencies.

The loss ratio in this quarter went up mainly due to hurricanes Odile and Ela and to weather- and household-related claims in the U.S. and some seasonality factor in MAPFRE EMPRESAS, which normally sees an increase in its loss ratio in the third quarter. These increases were partly offset by the improvements we saw in Brazil. And the expense ratio was broadly unvaried in the quarter.

On Slide 15, we have the financial income of the Non-Life account, which has a significant impact on the result of this account. We have a clearly larger realization gain, which were driven by a significant increase in the market value of investments. I imagine that doesn't surprise anyone. We had growth in business volumes, which made up for the falling rates in Western economies. And as you remember last year, we had negative mark-to-market adjustments in Brazil, in which the figure was around EUR 50 million, which had a negative impact on the accounts and which we no longer have this year.

Slide 16, we have the Life account, which shows a significant improvement over 2013, both when we look at it on a cumulative basis and also on a quarterly basis, and the reasons are on Slide 17. We can see that we have premiums growth, which is driven by strong performance of the bancassurance businesses in both Brazil and Spain, especially Brazil, but Spain is significant this year. It's a quite a remarkable amount in terms of growth.

On a yearly basis, we have a significant contribution of the reinsurance business. As you know, reinsurance comes -- develops differently from the direct business. But given that we wrote significant new business in the year 2013, now in the year 2014, we are recognizing the premiums coming from that business. On a quarterly basis, we see a decrease, and that's because the sales volume in Brazil in the second quarter was exceptional and because of the seasonality in Spain, which applies to both the Life and Non-Life businesses.

It does not show up in premiums, but it is worth mentioning the very strong performance of the agent channel's asset-management business in Spain, which has a net inflow of EUR 205 million, which is over 4x the amount collected in the first 9 months of 2013. And of this EUR 205 million, EUR 67 million came in the third quarter alone. The technical financial results benefit from the very strong development in Brazil, which, of course, bearing into account the impact of minorities, now makes up more than 50% of the technical financial result of the Life account. The growth in funds under management, better technical results in Brazil and in reinsurance and realization gains of slightly above EUR 30 million in Spain.

As I said before, on Slide 18, there's not really anything to report about the other business activities. So I will move directly to Slide 19, where we have the bottom line. I already mentioned before the variations in the bottom line.

And on Slide 20, we have a more detailed description. We have a significant increase in pretax profit. That's coming from larger financial income and better technical results in the Life account, especially in Brazil and reinsurance, which, to a large extent, is offset by the inflation adjustment in Venezuela. As I said before, tax rate goes up. And that comes from many reasons, but clearly, the larger one of them, the one that has a greater impact is the growth of the Brazilian business, which, as you know, has a tax rate

of 40%. And the share of minority -- minorities goes up because profits are growing comparatively faster in Brazil and in the bancassurance subsidiaries in Spain.

The balance sheet is shown on Slide 21. The trends are very much the same as we saw in the first half. As you can see on Slide 22, we have total assets growing a solid, in my view, 12.5%, which is driven by business development. And business development was strongly compounded by the fall in southern European credit spreads and in this quarter -- specifically in the third quarter by the appreciation of several foreign currencies that are relevant for MAPFRE, chiefly among them, the U.S. dollar. The overall solvency is developing especially strongly. Year-on-year, shareholders' equity is up nearly EUR 1 billion. And that is decreasing EUR 175 million, so there's a material improvement on that front.

On Slide 23, we have the movement in equity, including minorities, which continued to increase and very much so in the third quarter and now exceeds by EUR 1.2 billion the figure for the end of 2013. The reasons are very much the same that we saw in June. They are on Slide 24. Of course, the profit growth. In addition to that, we have a strong and positive mark to market, especially on Spanish assets, even taking into account shadow accounting. And as I said before, we have the appreciation of the U.S. dollar, the Brazilian real and the Turkish lira. In this quarter, the positive impact of the dollar was especially [indiscernible].

On Slide 26, we have the information by region, profits and premiums. And in terms of premiums, year-on-year, there's basically no change. The figure is almost identical to -- except for a few figures past the comma in terms of breakdown of premiums. We do see, in terms of profits, a significant increase in the contribution of Brazil and MAPFRE RE. They both have gone from a contribution of around 11% last year to a contribution of over 13% this year. And they made up for the fall in LatAm South, which is negatively affected by Colombia and Chile, as well as for the contraction in MAPFRE U.S.A. If we compare quarter-on-quarter, the differences are minor as well. The most that changes compared to June is LatAm South, and I will be explaining shortly why.

On Slide 27, we have premiums for the regions on a cumulative and quarterly basis. On a cumulative basis, we have several drivers: the sustained development in Brazil; the growth in MAPFRE RE, especially in the Life business; the growth in LatAm North in general Life insurance; and in Iberia, we have the growth of retail Non-Life and Life. These positive developments make up for the fall in LatAm South, which is due to several reasons. There's a contraction of the Life business in Colombia. There's the impact of depreciation in several countries, which is especially strong in Argentina and Chile, and there is a decrease in Chile of the mortgage-related business.

If we look on a quarterly basis, we see that the volume of issuance has decreased significantly compared to the second quarter. And as I said before, there's a strong impact of seasonality in Iberia and RE. I have to say that, in Brazil, the growth was not as strong as it was in the second quarter, where it was exceptionally strong, but it continued both in Life and Non-Life. As you know, we changed the exchange rate for Venezuela in June. And as the year progresses, its impact is -- becomes greater, and that has had an impact on the development of the figures of LatAm South in this quarter. Internationally, these decreases were partly offset by the positive impact of exchange rates in the United States and Turkey as well as a very good development of business in assistance throughout the world, but especially in North America.

Lastly, we have the profit figures for the regional areas. On a cumulative basis, we see notable increases in Brazil and MAPFRE RE. In both cases, that is due to better technical results and larger financial income. We also do see a strong improvement in EMEA, thanks to a very significant increase at MAPFRE GLOBAL RISKS, which had a large claim in 2013 and no longer did so this year. This positive development made up, to a large extent, to the -- for the fall in profits in the United States, which is primarily due to weather-related claims; LatAm South, which has, this year, the impact of the Iquique earthquake and last year had extraordinary realization gains in Venezuela and Colombia, which magnify the fall in 2014; and to a much lesser extent, we have a decrease in Iberia, which is small enough [ph] in MAPFRE FAMILIAR and MAPFRE Portugal.

If we look quarter-on-quarter, we see there's a profit increase in MAPFRE RE, driven by larger financial income and EMEA, reflecting a better performance in Turkey and the assistance business. And they were

partly offset by a fall in LatAm South, which, in the second quarter, had large gains in Venezuela on dollar-denominated assets due to the change of exchange rate and no longer had so in the third quarter. And in the second quarter, LatAm South also benefited from reserve release in Peru. And lastly, in the case of Iberia, we saw a higher loss ratio in the commercial insurance and the assistance businesses.

As far as I'm concerned, this concludes my presentation. And I'll give back the call to Mr. Tejera for the Q&A session

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Thank you, Lui. Well, we are now available to answer any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Federico Salerno from MainFirst.

Federico Salerno

MainFirst Bank AG, Research Division

A couple of questions, please. On Venezuela, you touched upon it, I was wondering could you repeat what the exposure is and if you guys are preparing for a default from a business perspective. That's the first question. On a more cheerful topic, the dividend, is it reasonable to expect a similar increase for the full year dividend? What's the outlook here considering that shareholders' equity has gone up another EUR 500 million during the quarter? And then last point, where do you stand with regards to your discussions with BBVA on distribution via Catalunya Banc?

Luigi Lubelli

Federico, we would have to look into -- and actually, I'm trying to look into the annual report for the exposure of MAPFRE to Venezuela. In terms of the net equity, the exposure to Venezuela, it's not a large proportion of our total equity. But we will look into the figures to give you an answer. And Mr. Tejera will expand on that. In terms -- over the years, MAPFRE has received a significant amount of dividends from Venezuela, which somehow means that we have recovered a very significant proportion, if not more than what we have invested in this company, thanks to a very good performance. But I wonder if...

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Yes. Let me take -- well, first of all, this is a possible contingency in the future, but not a problem in the short term. But in any case, it is not my role to comment into forecasting of the future of the countries. But I would like to remark that we have an activity in Venezuela, like in other countries, that is mainly an activity of the insurance for particulars, and we have in there our business. And just in case of default, there probably could be the possibility of not getting dividends from the country for a period of time. It depends on the -- if it happens or not and then if it happens, for how long is the situation. From the point of view of its position that you asked, in -- we have [indiscernible] different countries during the more than 50 years that we are in Latin America, and our will is to stay there. So if we are able to maintain our activity and serving our policyholders in the country, we can wait for a period of time in order to get a dividend. We are not thinking about leaving Venezuela or another country in Latin America due to a political situation in the short term.

Luigi Lubelli

The net equity in Venezuela roughly at the end of September is around EUR 280 million equivalent.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

And the question about the dividend growth, it -- dividend income, the [indiscernible] dividend and the final figure for the year. Well, I think that the good news is that this is 20% higher than the interim dividend we paid a year ago. And this shows, in our view, the strength of the company from the point of view of solvency and the financials of the company. We need to wait until the end of the year to know exactly the final figure, and then the board will decide what will be the dividend. Our policy is to have a dividend that is robust [ph] from the point of view of the [indiscernible] we are dealing to our policyholders and according to the financial situation of the company. And both are very strong at this moment, but I can't give you more details about a decision that we'll be taking in 4 or 5x [ph]. You mentioned the BBVA agreement, well, at the time, we continue to work in the same way that we did before. BBVA has not communicated to us a decision, and we have to wait until the time they have a

decision on the continuity of the business or in the change of the partnership. So we are not considering this in the short term to change our policies of dividend or other material things.

Operator

Our next question comes from the line of Atanasio Pantarrotas from Kepler Cheuvreux.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

I have some questions. The first one is related to the expense ratio, which improved materially, especially in the Brazil business. You mentioned that it was due to the lower acquisition costs, and I wonder if this level could be considered sustainable or not also in the future. The second question is if you can provide us an outlook on the evolution of the Spanish motor business. The last data of the market continues to show a further decline of the premiums, so the further decline of agent premiums, as you mentioned in your slide also, and some pickup in claims equity, I guess, also due to the higher number of vehicles around and maybe an economy recovery. And I wonder if you think how long it could go on this competition and if you expect Baremo to have an impact on this in the next years. Final question, on harvesting. I saw that you have a material contribution from the last gain, especially in the third quarter, close to EUR 100 million just in the [ph] Life business. I wonder what is your investment strategy for the next quarter, so if you will continue to harvest and to sustain profit by realizing gain or you will be more cautious. Maybe do you believe in a prolonged low interest rate scenario?

Luigi Lubelli

Atanasio, the expense ratio in Brazil is simply due to a different mix. There's a greater mix of certain kinds of business coming from the bank network. And as you know, acquisition expenses, the fees that we pay depend on the type of product. The types of products that are being sold through the bank have comparatively lower commissions, and that is why the expense ratio has fallen. As you know, we don't give forecasts. I mean, to the extent that the development of sales at the bank continues at the pace we have been seeing, that should be some sort of a reference level. Yes, that is contingent on the volume of sales at the bank continuing to develop as they do. Perhaps on the Spanish motor business, we are a bit more optimistic than you are. It is true that the contraction of the market is 1.7%. It's also true that a year ago, it was 8% negative. So that clearly is a recovery in sales. The cumulative figure is the result of the figures of several quarters. Now as far as we can see and from anecdotal evidence from other companies operating in the market, we see that something similar is happening elsewhere. We have seen, especially in the second quarter, that -- and you will be able to note, is that if you look at the quarterly figures alone, there has been a small but very encouraging increase in sales in motor insurance. So we are seeing -- we believe it is a turning point. Frequency somehow comes from the same piece of answer. There is frequency because, as Mr. Tejera was highlighting, the economy is doing better. So simply, people are moving around more, and it is obvious that, that makes them more likely to have accidents or losses. So we are actually -- we believe what we are seeing, both the frequency and the premiums, are evidence of the fact that the economy is moving again. The impact of Baremo, we will know when Baremo is established. I mean, personally, and we at MAPFRE, we have always encouraged you not to get too carried away in terms of concerns by Baremo. Obviously -- or most likely, Baremo will mean that some kind of claims, which are in courts of law, will become more expensive. That is true. So in the short run, they can impact the loss ratio negatively. But at the same time, at least if you take a technical approach to underwriting, they should result in higher tariffs. The -- whenever similar changes happen in the past, they were followed by a season of tariff corrections, which eventually were positive for the business. Of course, we cannot guarantee that it will be the same this time, but there are reasons to believe that it is possible that this could happen again. In terms of harvesting, it's difficult to answer your question. At the end of the day, we do the -- we try to act in the best interest of our shareholders. And this was a -- our business is made of both technical and financial results. It was a good moment. And actually, we believe we did the right thing because only a few weeks after the closing of the quarter, things in the market were no longer as good as they used to be. So it's -- we think it was good to at least take part of that, and time will tell what will be possible in the future. As you know, in the Life business, the level of rates in MAPFRE is not that relevant because the business is fully matched. So that is really not an impact on the ongoing

business. On the Non-Life side, clearly, there will be less financial income, but at the same time, we have a good underwriting results that helps us out on that front. I wonder if you want to add anything.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

No. No, it's true that we saw seasonality -- seasonal good conditions on the market after the summer, and we took advantage of that. But as you know very well, our approach is very cautious in this area of investment, and there is some guidelines [ph]. So clearly, nothing more to add.

Operator

[Operator Instructions] Our next question comes from the line of Avinash Singh from Nomura.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

A few questions. The first one is now when financial markets are more stable and Spanish economy is recovering, can you please provide some sort of guidance for premium and bottom line for this year and the next? My second question related to the first one. So far this year, your reinsurance business is doing really great. Financial income had been also really good. So from where do you see a positive earning momentum that can come for the next year? And third question would be, if you can just provide some kind of color on your economic and rating capital post this recent acquisition where you are going to spend some EUR 550 million and then after this dividend -- interim dividend.

Unknown Executive

Avin, let's see. We -- just as a rule, MAPFRE long ago decided not to provide a forecast on premiums and profits, so we cannot give you figures. We can tell you -- however, we can help you out or illustrate, let's say, the trends that we are observing in our markets, in the markets where we operate. And if those trends continue, then you will be able to draw your conclusions alone. As we are saying, we do believe that things are developing much better in Spain, certainly, than they did a year ago, but I would go as far as to saying as they did in the first quarter of this year. We have a Spanish business that is performing materially better than it did a year ago. If you look at the performance relative to the market in motor insurance, we have been closing the gap quarter by quarter. We began in the first quarter of this year underperforming the market, and now we are in line with the market, actually slightly above the market because we are selling comparatively more. As a matter of fact, we have added, if I'm not wrong, 30 basis points to our market share in motor insurance this quarter alone in Spain. So if you look at Health, it's growing twice as fast as the market, if not more. Life, we're doing much better than the market as well. So clearly, Spain is, for one, in a long time, a bright spot in the MAPFRE business. And on the back of the improving economy in Spain, it's clearly something that looks poised to be a positive contributor to our development going forward. Another element which possibly people did not pay too much attention to but it's a numerical reality is the fact that we are along [ph] the U.S. dollar significantly. We closed the year with about EUR 2 billion equivalent net position in U.S. dollars. And clearly, the performance of the currency if -- and once again, that's your conclusion to draw, if the exchange rate continues developing the way it is now -- but you already are seeing the impact on our figures. These figures were closed at \$1.27, I believe, at the end of October, and we are at 20 -- \$1.25 now. So clearly, whatever gain there is on that front, it will be a positive one. So I would say those are main trends. The business, as you know, is developing reasonably well. I have to say that the business in LatAm South perhaps this year has been affected more than one would have expected. And next year we'll likely have a much smaller Venezuela, but it is also true that many countries that this year are very strongly affected in the southern part of Latin America possibly next year will not be as affected as they are this year, which would be also a positive addition. I wonder if these elements help you in answering your question.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Yes. Partly, I'm getting the sense. But I mean, the second part of that same question. Because your reinsurance business this year had been clearly very strong, your financial income has been strong so

far. So going into the next year, I mean, can you just provide some sort of a sweet spot that you see with the possibility of further, I mean, profit growth? Or other -- I mean, the further profit growth may even come from the cost savings. So which are those areas where we can expect the positive profit, earning momentum to continue?

Luigi Lubelli

Well, you know that our Chairman in the Annual General Meeting stated a very clear goal of reduction of expenses and of containing our combined ratio below 96%, and that is our goal. That goal is public, and the goal is a goal that is aimed at the year 2016. And we continue to work on that. So that remains, so certainly it will be a driver of profit improvement. I will also say that -- and I'm now remembering another place that this year is especially strongly affected and it is bearing on the results negatively of the United States because of the weather. So a return to normality in the United States would be felt on profits quite strongly.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Okay, got it. So that leaves with 1 more question, that is on your capital position in terms of rating and economic.

Luigi Lubelli

Yes. Well, firstly, the first answer to your question is that we have not acquired those companies yet, so they've not had any impact on our capital position. But whatever the case, if we were to crudely look at the economic capital, I would say that the increase in equity coming this year from profits, foreign exchange and appreciation of the market value of investments greatly outstrips the economic capital impact of this acquisition, if it had been already carried out.

Operator

[Operator Instructions] Our next question comes from the line of Federico Salerno from MainFirst.

Federico Salerno

MainFirst Bank AG, Research Division

On the U.S., which you mentioned, do you expect the cycle to get better beginning of next year? What's your outlook on that, if you have one?

Luigi Lubelli

Federico, really, this year, it's not actually a matter of cycle. If you look at the business itself, the business itself is doing -- for the size of the economy that we are talking about and for the economic situation, actually, the sales are doing pretty okay. We are growing at around 4%, and especially, we are growing at more than twice that rate outside of Massachusetts. So the business itself is all right. The issues have not come from the business. There's 2 main issues in the United States. One is that we've had, really, a big impact of all sorts of weather-related claims. We did so especially in the first quarter, but we also did in this one. And then there is one which, yes, is structural, it's the fact that this company now has a smaller investment portfolio than it did a year ago because we repaid on maturity, the bonds in December, which, of course, consumed cash. And then, as you know, the company paid a dividend of, I think, around \$100 million, \$150 million, which, of course, also reduced its investment portfolio. So that does have an impact because there's smaller amount invested and it is invested at lower rates. So that does have an impact on the performance of the U.S. company. But not the cycle, the business itself is actually all right.

Federico Salerno

MainFirst Bank AG, Research Division

So is it fair to say that the combined ratio you are expecting next year at MAPFRE INTERNACIONAL should be -- account for maybe below 100%?

Luigi Lubelli

.....
WWW.SPCAPITALIQ.COM

Well, astrology is not my ability, but the -- I have to say that, this year, the incidence of the weather-related claims is especially large. I'm calling up the figures. And you have a full 3 percentage points more in the loss ratio, which is a lot of money on this company. It's about EUR 30 million, which is almost precisely the decrease in the net results that we have in the year.

Operator

[Operator Instructions] There are no further questions.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, if there are no further questions, I would like to thank you for attending the conference call. And as always, I hope to speak to you again for the end of the year update. Thank you.

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