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FQ1 2015 Earnings Call Transcripts

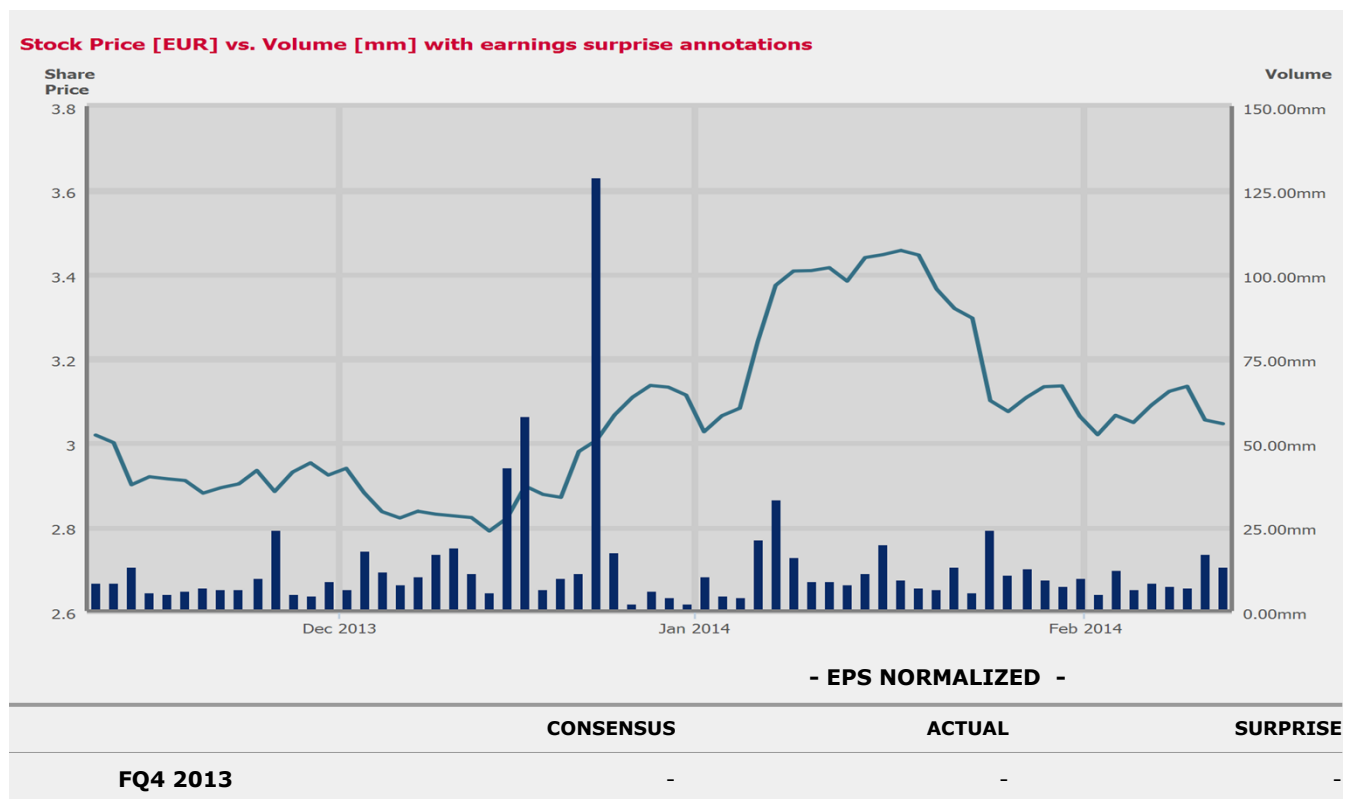
Tuesday, May 05, 2015 11:00 AM GMT

S&P Capital IQ Estimates

	-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.06	0.29	0.32
Revenue (mm)	5278.00	21982.40	23335.58

Currency: EUR

Consensus as of May-05-2015 9:15 AM GMT



Call Participants

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Luigi Lubelli

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Presentation

Esteban Tejera Montalvo

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

Good morning, ladies and gentlemen. Welcome to the presentation of MAPFRE's results for the first quarter 2015. As usual, I'll give an overview of the results in the main business developments and later, Mr. Lubelli will explain the financials in greater detail and present the European embedded value figures for 2014. We'll be happy to take your questions at the end.

Please, let's now turn to Slide 3. MAPFRE continued to grow in the first quarter of 2015 in most business lines and countries. Funds under management also grew very well by nearly 13%, especially in Spain. We must take into account that these figures introduce the first-time consolidation of Aseval value and LAIETANA and the exit from CatalunyaCaixa. As you know, we reached an agreement with CatalunyaCaixa in order to sell our shareholding in the joint venture we shared previously. This agreement will be in place after the approvals from the authorities, I suppose, in the December [ph] month. And the price was EUR 606 million.

The combined ratio was affected by the claims caused by the snowstorms in Massachusetts, which have a negative impact on the quarterly results. This was partly compensated by the good performance of the Life business and the investment results.

Then let's go to Slide #4. Here we have the highlights of the results. As you can see, we experienced growth in the Spanish Non-Life business that confirmed the change in trends we already told you about in February. The low interest rate environment is driving customer savings towards mutual investment funds, which grew very well, although, at the same time, is causing a decrease in Life insurance. Of note, growth continues to be strong, especially in Latin America, and is now boosted by exchange rates.

We took advantage of the favorable valuation of our asset portfolio and booked EUR 73 million of realized gains. Excluding the impact of the snowstorms in the U.S., the combined ratio was 96.2%, a result inline with the experience and objectives and targets of MAPFRE.

Equity growth was affected by the decision to opt for the SIMADI exchange rate in Venezuela. Otherwise, it would have been significant, thanks to the favorable asset values and exchange rate. Our leverage and liquidity positions remain very comfortable.

On Slide 5, you can see the breakdown of premiums and profits by region, which experienced a large valuation compared to 2014. The combination of a strong growth abroad together with the depreciation of the euro and the contraction of Life sales in Spain led our domestic market to make up only 1/3 of the total premium figure. All over the regions, MAPFRE RE still is very solid growth, which was the goal in North and South America. On the contrary, the impact of the snowstorms in the U.S. and the realization gains we made that Iberia had an abnormally large share of profits, which is now around 50% gain. And I'd note that most regions displays good profit growth and most especially notable in Brazil in LatAm South and MAPFRE RE.

On Slide 6, you can see -- is a reminder that at the previous AGM celebrated on the 13th of March, our Chief Executive adopted MAPFRE's main strategic goals for the coming years. And we'll report it then. There is a summary of this. We remain with our key strategic objectives that have the sustainable shareholder value creation, growing business diversification, multichannel distribution and the thinking of improvement in efficiency in our structures.

On the next slide, you can see how MAPFRE is reaching its targets in terms of the commitment with the payout, which is at 50% of our profits, and the growing dividends paid in 2014. In fact, as you can see on Page 8, we will be paying EUR 0.08 per share on the 18th of June according to the demand of the Board of Directors. So the total dividend amount paid would have reached 7.7% and this figure distributed against the result of 2013.

As usual, I now hand the call to Mr. Lubelli, who will comment our financial in more detail.

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Luigi Lubelli

Thank you, Esteban. Good afternoon to all those following us on this conference call today. Please let's move to Slide 11, where we see the consolidated income statement.

As Mr. Tejera just said, business development was good, except Life in Spain, which is suffering from the low interest rate environment and whose fall we are making up for with a strong rise in mutual and pension fund sales. Premiums went up nearly 13% in Non-Life. While in the Life business, if we exclude Spain, we saw increases of around 8% in Latin America, 13% in MAPFRE RE and 60%, 6-0 percent, in Malta. Of the total fall you see in Life premiums, 5 percentage points came from the de-consolidation of the business coming from CatalunyaCaixa. If we exclude the snowstorms that was already said, the combined ratio stood at 96.2%, which is broadly inline with the group's historical performance.

In the Life account, we also had a good technical result -- especially good technical result in Brazilian Life. Financial income was strong and included, as Mr. Tejera also said, EUR 73 million in realized pretax gains.

Taxes went up slightly due to a comparatively greater weight of profits in Brazil, but the variation is minimal.

On Slide 12, we have the Non-Life results. The first quarter premium insurance figures are always larger as the full year business for lines, such as commercial, health and burial, is issued in this quarter. This makes them not comparable with the figures for the fourth quarter of 2014. However, they are comparable to the figures for the same period of the previous year, and we do see underlying -- significant underlying growth.

As I already mentioned, and we will see in greater detail, the loss ratio was higher as were the realized capital gains.

On Slide 13, we cover the premiums development in the quarter. We find the main drivers of premium growth in Spain, where we had a very good performance in health insurance in group business. We did -- we do show a contraction in home insurance, but that's actually due to the reclassification of the discontinued operation of the CatalunyaCaixa business, because otherwise, homeowners would have grown 2.5%.

Premiums growth was also good in terms of contribution in North America, especially in home insurance in the United States, health insurance in Puerto Rico and specialty risk in MAPFRE ASISTENCIA. We also had good performance in Mexico in several lines and in global risk in LatAm North. And in LatAm South, we had generalized growth in many countries, in Peru, Venezuela and Chile. The growth -- the organic growth in these lines in this quarter was compounded by the strength of the U.S. dollar, which was especially strongly felt in North America, MAPFRE ASISTENCIA, MAPFRE RE and MAPFRE GLOBAL RISKS.

On Slide 14, we have the loss ratio. As Mr. Tejera said, basically the loss ratio went up because of the snowstorms in the U.S.A. If you exclude them, the figure is basically flat year-on-year because we had improvements in LatAm North and LatAm South that offset the impact of higher severity and frequency elsewhere.

On Slide 15, we find the expense ratio. Here we have an increase over the previous year. And in essence, this was due to larger acquisition costs. So that was the main reason. And that was found in several countries in LatAm South, LatAm North and in Spain. That was offset by improvements in Brazil, Peru and MAPFRE RE, but the net was a positive increase of 0.7 percentage points.

Financial income, shown on Slide 16, for the Non-Life account, increased. We had several elements of a significant nature. Interest rates went up a lot in Brazil, and the increase in rate was also compounded by the depreciation of the euro, which makes the revenue and financial income from other countries higher.

We had larger realization gains. We have about twice as much as the previous year. So compared to the first quarter of last year, we have about EUR 30 million more. And of course, we have growing business volumes.

On Slide 17, we have the Life account in summary. It is clear by now that we had a weaker insurance in Spain. However, that wasn't the case in other countries where we had growth, as I already mentioned. We have, as we already mentioned as well, a significant improvement in the underwriting result in Brazil and strong financial income in Brazil and EMEA. Clearly, these figures are affected by the reclassification of CatalunyaCaixa as a discontinued activity.

As I said, the main driver of the variation in premiums was the contraction in Iberia. That basically explains everything in the consolidated movement. Why? The low interest rate environment -- especially low interest rate environment makes it -- makes the traditional Life product relatively unattractive to customers who are preferring to opt for mutual funds, pension funds, the linked business, which, as a matter of fact, is doing especially well.

A year ago, we also had a one-off transaction with a corporate customer of EUR 75 million, which was not repeated this year. We also have the de-consolidation or reclassification of CatalunyaCaixa Vida's business, which a year ago contributed EUR 103 million. As I said, if you adjust for this one, the actual contraction in the Life premiums is 5 percentage points lower. And then we have EUR 23 million for the business of Aseval and LAIETANA, which has been concluded this year. The -- sorry, the contraction in Spain was offset to some extent by the increases in Brazil, Mexico and Malta.

On Slide 19, we have the technical financial result. This went up mainly, thanks to the positive impact of the increase in interest rates and the better technical result in Brazil as well as positive mark-to-market in Malta. We also had EUR 16 million of realized capital gains compared to 0 a year ago.

On Slide 20, we find the other business activities, whose variations are explained on Slide 21. Last year, we had gains from the cancellation of liabilities in Iberia. And this year, we have something which we already saw at the close of 2014, which is the replacement of service contracts, which are accounted for here with insurance policies at MAPFRE ASISTENCIA. These are the 2 main reasons for the fall in operating revenues and expenses.

Financial income and other items conversely go up. And that's basically larger financial income, lower costs and a lower amount of impairments.

On Slide 22, we have the bottom line, which should be clear by now. We've reviewed its main drivers so far, but I will go over them again on Slide 23.

We have a pretax result, which includes several elements: the decline in the underwriting result in Non-Life, mainly driven by the United States; good performance of the Life business, especially in Brazil and Malta; a larger impact of the inflation adjustments in Venezuela; the reclassification of CatalunyaCaixa, which means that its profit is below this line; and larger investment realization gains.

The minority interest go faster, and that's the main reason for which you see a growing pretax profit and a decreasing net profit. And that's simply because the results growth was faster -- comparatively faster at those subsidiaries in which we have minorities, especially Brazil, I would say.

Slide 24, we have the balance sheet. Several variations here. You will find 2 new lines here, which is assets held for sale, and those relate to CatalunyaCaixa's insurance businesses. Aside from that, we have an increase compared to last year and the same period of the previous year. And the explanation should be clear by now. We have growing business volumes. Clearly, the market value of investment assets, especially in Spain, has gone up considerably, and the fact that the euro has depreciated against the main currencies, especially the U.S. dollar, clearly flatters [ph] the comparison year-on-year and quarter-on-quarter.

We find on Slide 25 the variation in equity. Shareholders' equity has grown EUR 186 million since the end of 2014, while total equity, including minorities, is up around EUR 100 million over the same period.

What were the main drivers? We see them on Slide 26. As I said, we have a strong increase in the value of the investment portfolio, which, as usual, was largely offset by shadow accounting. The U.S. dollar contributed a lot to the increase in equity, and it was capable of offsetting the impact of the Brazilian real

and the SIMADI exchange rate in Venezuela. Just the exchange rate in Venezuela accounted for an impact of EUR 266 million.

The distribution of results is basically the dividends. And then the other changes in equity mainly includes the restatement of Venezuela's financial accounts for inflation.

As Mr. Tejera said before, we also are presenting you the embedded value figures. So I'll give everyone a few seconds to switch documents.

Okay. So I hope you have had time to change documents. I'm now on Slide 3 of the embedded value presentations.

Overall, our embedded value in 2014 grew slightly over 15%. We had positive impacts of a significant decrease in the year, which have a downward shift really in the yield curve used for discounting; lower tax rates in Spain; and also, we had larger new business volumes. If you'll remember, 2014 was a very good year. The market value of the portfolio also helped. And we added to the scope of consolidation the businesses coming from Aseval and LAIETANA. We also see that the present value of the new business sold grew significantly. And that reflected larger sales in Bancassurance, once again helped with the -- by the new agreement with Bankia, which also refers to those 2 companies, Bancaja and LAIETANA. And we also had a good performance of Life protection in the Bancassurance channel and in asset management sales. This has driven up the increase in the value added by these businesses, which again was compounded by the reduction in the discounts and tax rates.

On Slide 4, we see the European embedded value components and their variation. The ANAV went up because of the strong increase in our realized gains as well as inclusion of Aseval and LAIETANA. The present value of the In-Force business grew, reflecting once again these businesses but also new business added to the book and lower discounts and tax rates. The cost of capital also shows an increase given that it is equal to the present value of the annual capital costs, which discounted as the lower rates go up. And it also reflects the fact that business volumes were larger. And finally, the time value financial options and guarantees went up, obviously driven by the fall in interest rates, which makes them more valuable.

On Slide 5, we have a breakdown of EEV by lines and channels, which really have a positive impact on the Life business by the inclusion of Aseval and LAIETANA, which contributed EUR 81 million. If we exclude that, they would have grown 8%, reflecting larger new business volumes and lower discounts and tax rates.

In the agents' channel, the Life business benefited from comparatively larger sales of protection products as well as the good performance of the bank channel, which was boosted by the agreements with Bankia.

The present value of the In-Force of the mutual funds fell, reflecting larger acquisition expenses. While in the pension funds, it decreased due to a reduction in management fees. This also explains the comparatively slower growth of the value of In-Force in the agents' channel, where a larger share of these funds are sold.

The cost of capital grew faster than the value of In-Force in the funds business due to the significant increase in their business volume and the increase in their net asset value, thanks to the improvement of financial markets.

On Slide 6, as usual, we show you what share of the value of In-Force is attributable to MAPFRE, MAPFRE VIDA in this case. This grows 7% year-on-year compared to a 16% increase in the Bancassurance channel. Of course, this is explained by the inclusion of Aseval and LAIETANA where we have minorities.

On Slide 7, we have the usual roll forward. Compared to the previous year, that is, if we take the figures shown here and one by one we compare them to the figures that we gave you a year ago, we see a much smaller impact of changes in the model and assumptions; no meaningful differences in expected returns, meaning that the figure is basically the same this year and the previous one; a larger value added by new business; a larger positive deviation of actual value from expectations; a larger cost of options; and of course, the addition of the Aseval and LAIETANA businesses. All in all, this leads to an increase of 4.2

percentage points in the return on embedded value. And the net of slightly larger dividend payments explains the EUR 428 million increase in the European embedded value.

By type of movement on Slide 8, we begin to explain the main variations. I will not read through all of them. Net-net, the main driver was the reduction in the discount rate, and the lower discount and tax rates had a significant impact, which more than fully offset other negative movements.

On Slide 9, we have other variations. The increases in market value of financial investments was one of the 2 main drivers of the increase in embedded value before additions. The other one, we can see on Slide #10, and it was the value added by new business.

We see a slight reduction in margin, which was basically coming from the funds business, higher distribution expenses and lower margins in pension funds. And aside from that, we can see clearly that the new business value went up, thanks to larger margins in the agents' network, who had greater weight of Life protection; strong increase in new business volume in pension plan -- in pension funds and mutual funds; and, once again, lower discounts and tax rates.

So lastly, we find the sensitivities. Here we are very consistent. Nothing -- aside from the size of the sensitivities, there are no changes in the structure of them. As usual, both the value of In-Force and the value of new -- added by new business are especially sensitive to variations in interest rates and in the lapse rate.

For the whole portfolio, we also give the sensitivity to default rate, which is basically very much close to the figure for the previous year and continues to be the single largest sensitivity item.

And with this, we'll conclude on my side, and I'll hand the call back to Mr. Tejera for the Q&A

Esteban Tejera Montalvo

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

Thank you, Luigi. And Joanne, now we are ready [ph] of your questions. Thanks.

Question and Answer

Operator

[Operator Instructions] First question comes from Federico Salerno from MainFirst.

Federico Salerno

MainFirst Bank AG, Research Division

A couple of questions from my side. The first one is on Brazil. I think growth in the top-line is a bit below what you were hoping to achieve, your guidance, the last quarter for top-line growth, still in the double digits, if I'm right. Can you say what's going on in here? Any particular with regards to agriculture insurance? That's the first question. The second one is on Spain. I think trends in retail were also a bit disappointing considering that EMPRESAS is instead doing very well with the fall in the combined ratio. What's the outlook at MAPFRE FAMILIAR, please? And then lastly, a request. I found the slide on adjusted results before and after ForEx quite useful. If you could continue providing those. I didn't see it. Maybe I'm wrong, but that would be good.

Esteban Tejera Montalvo

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

Don't we have the ForEx variations?

Unknown Executive

ForEx?

Luigi Lubelli

The variation? I think we do. In the -- which ForEx account are you referring to, Federico?

Federico Salerno

MainFirst Bank AG, Research Division

I think you used that slide in the beginning with the net income and the revenue per...

Luigi Lubelli

Oh, I see, I see. I see, I see.

Federico Salerno

MainFirst Bank AG, Research Division

Maybe I didn't see it, but...

Luigi Lubelli

Yes, yes. It's not there -- well, basically, we did not give it. In terms of premiums, the variation is really not material, adjusting for that. It would be more material in results, you're right, because in results, the -- one of the strongest impacting items is the loss in the United States, and that's clearly inflated by the appreciation of the U.S. dollar. I suspect that -- I don't have the figure right here, but the variation in profit will be close to flat if we were to put it at constant exchange rates, possibly. The second one, below-expectations growth in Brazil. Now let me see. In Brazil, we have -- one element is that for the moment, there is uncertainty over the SAFI [ph] last year. You saw -- we saw a strong increase in agricultural insurance, and that was due to the fact that the government was subsidizing the purchase of that product. This year, it is not yet clear what the government will do about that, and that's the reason for which, let's say, the buyers were a bit uncertain. If we exclude that, I think we have growth of around 5% in motor and 5% in Life, which, considering the market environment, is okay. And it also is impacted by the depreciation in exchange rate of the real. Oh, sorry, yes, the retail figure in FAMILIAR. Yes, sorry. Well, look, it depends. I think an important figure -- and thanks for bringing that up because people are seeing

that motor insurance in Spain in MAPFRE only grows 0.1%. That, in reality, is not the true underlying figure because that figure is affected by the reclassification of the business of CatalunyaCaixa. If you adjust for that, if you take the business away in both years, the underlying motor business is growing 0.4%, which is broadly inline with Spain. Spain is growing 0.5%. So actually, we are -- we do not repeat with the performance in motor insurance. In health, we're doing very well. And in household, once again, if you adjust for CatalunyaCaixa, we will be growing 2.5%, which we also find a good result. So overall, we think that the retail Non-Life is doing reasonably well. And in retail Life, I already explained the reasons for which we contracted. And that would answer your question, Federico.

Federico Salerno

MainFirst Bank AG, Research Division

Sorry, yes. Just on this point, what's the main reason for the deterioration in the combined ratio, though?

Luigi Lubelli

Combined ratio in FAMILIAR, a big one is the burial business. The burial business is classified as Non-Life, but it does perform as a Life business. It's a term Life business. And so it has to be -- every year, the Spanish supervisor requires us to update the discount rate of their liabilities. So this year, discount rate, for obvious reasons, fell a lot, which inflates the size of the liabilities and means that their increase in their liabilities has to go through as a greater loss experience. That's really the single biggest item, the variation of the loss ratio of MAPFRE FAMILIAR. And then there is frequency in motor also. But the -- if you actually make a few numbers and you compare in euro amounts the losses by line, we have in the statistical appendix on Slide, we'll tell you, 43, the figures for Spain. If you look at the euro amount, you will see that the -- by far, the main driver was burial.

Federico Salerno

MainFirst Bank AG, Research Division

Okay. So it should be a one-off to some extent?

Luigi Lubelli

Yes. Last year, we had a very similar development in the first quarter. That's because basically all that's related with this line of business happens in the first quarter of the year.

Operator

Next question comes from Niccolo Dalla Palma from Exane BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

My first question is on the CatalunyaCaixa deal. Could you confirm whether it's correct to estimate a P&L gain for Q2 of around EUR 200 million before tax? And very importantly, will you include this in your base for the 50% payout? Or will it be treated as exceptional? Then my second question, that is if we go back to Brazil again a second. In terms of the -- especially the Life result is exceptionally strong, and it seems to be coming also from the financial result. Could you say if there's anything at all that is nonrecurring in here or if the current level of financial results on a quarterly basis is what we can extrapolate? Then thirdly, going back to the motor in Spain. Sorry to ask this question, but it -- given that the government did propose a draft law for a new Baremo to go through, I would just be curious to know what's your view on the probability that it actually gets approved by Parliament before the closing of the Parliament for general elections, because I think there's a timing issue here. There's just 2, 3 months to actually transform it and enact to a law. And the press mentioned some upward revisions of the cost of terms of 35%, 50% for death and heavy rains [ph]. Maybe you can comment around this. Then very last topic, M&A. I know you don't -- generally don't comment on this, but RSA is considering its disposal -- a disposal of its unit in LatAm. Maybe you can already at least say whether this is not at all fitting your business because of the business mix or whether this will go on the list of assets that you would at least take a look at and then consider prices, et cetera.

Luigi Lubelli

The -- thanks for asking this question because I imagine it will be popular and gives us an opportunity to discuss it. We only could give the amount of -- the total amount of the sale because what we will actually book as a gain will depend on the net asset value of the companies at the moment of closure of the transactions -- the transaction. So it is a bit difficult now for us to anticipate when this closing will take place. We somehow "estimate" or "hope" that it will be third, fourth quarter this year, but it's contingent on the administrative authorizations that are necessary to close the transaction. So -- because otherwise, we wouldn't have given these unrealized capital gains. As they -- I mean, you can certainly look at our accounts. In our accounts, you have information, accounts at the closing of 2014, about the net asset values of the companies, about their realistic realization value, they are all in the footnotes, and goodwill, equity and the lot. But please bear in mind that these companies are alive. So they are moving and their equity will be moving until the moment of closure. As a matter of fact, we have booked EUR 21 million of profits from these companies in this quarter alone. So bear this in mind. I think you will be able to get a fair idea of what that net asset value was at the end of year. But unfortunately, that's as much as I can say on this one.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay. But just to be clear, so all the profit that accrues between here and the closing, you actually take that -- you actually keep that? There's no adjustment in the final price for this?

Luigi Lubelli

Well, it goes part in the calculation. The calculation is really complex. We take into account profits, we take into account also dividends that are paid to shareholders. So it's a combination of everything. It's difficult to tell you precisely everything that comes out. But as I say, this is -- unfortunately, this is as much as we can say at this stage.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay. And in terms of including it in the payout -- whatever the gain will be, will it be a special payout?

Luigi Lubelli

It will be a realized gain, yes. It would be realized gain on sale, yes.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

But would you then use that also to -- when you decide your 50% payout of the dividend at the end of the year, will that included? Or because of its exceptional form, will it be kept aside?

Luigi Lubelli

It will form part of...

Esteban Tejera Montalvo

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

It will form part of the results of the year, and so we will take into account.

Luigi Lubelli

Yes. And by...

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay, very clear.

Luigi Lubelli

So nothing nonrecurring in Brazil Life. Interest rates have gone up. You have to bear in mind that interest rates have gone up a lot and this business grew a lot a year ago. And the underwriting results of the Life business was actually very, very good. So actually, if you crunch a few numbers in the accounts, you will see that the underlying technical result is going up very strongly. Just bear in mind that this is a term Life business, so we don't savings. So it actually went very well. Your question on Baremo, yes, there is a reasonable likelihood for Baremo to be approved before the chambers are dissolved for the elections. So yes, there is a chance that, that will happen. Does that answer your question on Baremo?

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Yes, it does.

Luigi Lubelli

And regarding M&A, I know we don't normally comment. Not terribly interested would be the short answer to your question on M&A.

Operator

Next question comes from Juan Canovas from Fidentiis.

Juan Canovas

I have a couple of questions. The first one, on CatalunyaCaixa, could you give us the embedded value without the impact of CatalunyaCaixa or how much that accounted in the embedded value? And then on the Spanish combined ratio in FAMILIAR, is there -- any element of Baremo reserving there or not yet? And also, I don't know whether you could comment on the performance of VERTI, how it affects the motor combined ratio. And finally, in the U.S., I know there were some exceptional storms. But, I mean, is -- are you going to change your policy in terms of reinsuring that business? Are you thinking of adopting some excess cost reinsurance to protect you against a future recurrence of such events?

Luigi Lubelli

All right, Juan. So the -- let's see. Once again, we have not disclosed the EEV of CatalunyaCaixa in the EEV presentation. Once again, using the annual report, you will find the -- in the footnotes information about the realizable value of the Life business of this company which, not strictly being the embedded value, is very much in the vicinity of. So it should help you get an idea of that. The Spanish motor combined ratio, you asked whether there was Baremo. We already talked about this in the full year results for 2013 and 2014. I mean, this is not as much of a science. We -- every time we set the reserves, we clearly have been trying to anticipate because we have Life claims and we have been trying to anticipate what the impact of the forthcoming Baremo on them would be if and when it were approved. So we have tried to reserve our claims bearing that in mind as close as possible. So the answer is to the extent possible, yes, we have factored Baremo in the reserves for the combined ratio. But clearly, it was our guess. It wasn't the actual figure coming out of the law once it's approved. Also, bear in mind that Baremo will not be coming into force on the very day of the approval of the law. There's going to be a period. So I don't know exactly, but it should be, at the least, at the beginning of 2016 at the earliest, I would think. So between that moment and 2016, what might happen is that the judges will try to stretch compensation awarded under the existing Baremo to the extent possible closer to the future Baremo, but they will not be able to apply Baremo until it actually comes into force. We cannot give you figures about VERTI because they are not disclosed. I mean, VERTI is a business we are very happy about, but it's not a terribly large business. The premiums of VERTI are EUR 16 million, I think, now at the first quarter, right?

Esteban Tejera Montalvo

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

Yes.

Luigi Lubelli

CA [ph] 17 million. So imagine whatever combined ratio in that, it doesn't impact very much the combined ratio of MAPFRE at large. It's true that VERTI does have an impact because it's an advertising-intensive company so that the -- it spends a lot compared to the rest of MAPFRE advertising. But relative to the big scheme of things of MAPFRE, it's not terribly large yet. Regarding the U.S., I wonder if you have...

Esteban Tejera Montalvo

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

Yes. Regarding the U.S., we have several measures that have been implemented. In terms of reinsurance, we have changed our policy on car insurance. But unfortunately, we have an agreement for 3 years and it's coming to an end just at the end of this year. In any case, the condition for the new agreement will include the impact of the losses we have suffered during this quarter. The losses of this quarter were special in the sense that more than having a special event that was very severe, we have suffered a continuity of snowstorms and snowdrops naught [ph] that accumulated within -- more than 13 years -- 13 days continually, which involves difficulties in terms of considering these as a catastrophic event in a reinsurance contract. In any case, reinsurance is one of the measures, but the main measures should come and they are coming from the side of increasing tariffs and increasing deductibles. And we are very happy in this way.

Luigi Lubelli

And whether the diversification of [indiscernible] was involved.

Esteban Tejera Montalvo

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

And obviously, as we said and as you know, we are involved in a policy of diversifying our premium, claims and exposure to other parts of the country through commercial agreements with a bare amount of new channels.

Operator

Next question comes from Silvia Rigol from BBVA.

Silvia Rigol

BBVA Research SA

My -- I had 2 questions, if I may. The first is regarding the Life business in Spain. What is the reason for the strong decrease in terms of margins, technical and financial margins of the provisions? And my second question is regarding your investment portfolio. Could you give us more color on that? And what is your duration of the portfolio versus the last quarter of 2014?

Luigi Lubelli

I have to say that your line is a bit disturbed. If I understood well, your first question is about the fall in Life margins, it's correct, in Spain? Silvia? Silvia?

Silvia Rigol

BBVA Research SA

Yes, it's correct.

Luigi Lubelli

Yes. I was -- because your line comes a bit disturbed. Your first question was about Life margins in Spain and why they are falling?

Silvia Rigol

BBVA Research SA

Yes. Yes.

Luigi Lubelli

Exactly what are you referring to? With -- what part of the accounts are you referring to?

Silvia Rigol

BBVA Research SA

Yes, the math, the -- can you help me?

Luigi Lubelli

Yes, in what way? Or how did you come to that conclusion? What part of the accounts are you referring to?

Silvia Rigol

BBVA Research SA

Yes, I am dividing the technical and financial results of the technical provisions. And it's 0.6%. That compare with 1.3% in the first quarter of 2014.

Luigi Lubelli

You're taking Slides 45 and 46, right?

Silvia Rigol

BBVA Research SA

Yes.

Luigi Lubelli

Okay. Well, there you have several elements. A big one there is the fact that you have -- CatalunyaCaixa has been discontinued. So its profit, which was in that technical and financial result, is out. So that does have an impact in terms of the results. You also have a change, which we just talked about, in the embedded value figures of the acquisition expenses, especially through the Bankia channel. So that also has an impact on the technical and financial results. Anything else? I think these are the main reasons which caused that action. That does -- does that answer your question? Would that explain the variation to you? Those are 2 big elements in the technical and financial results year-on-year.

Silvia Rigol

BBVA Research SA

Yes, thank you.

Luigi Lubelli

And then -- okay. And then your last -- your next question was the duration of the portfolio, correct?

Silvia Rigol

BBVA Research SA

Yes.

Luigi Lubelli

Yes. I -- in Life?

Silvia Rigol

BBVA Research SA

Yes, please. Net of Life.

Luigi Lubelli

I think we have the exact figure. But it doesn't change that much in a quarter. It was around 7 years in the Life business. So it must have remained around that level. That wouldn't change much in a quarter.

Operator

Next question comes from Rahul Parekh from JPMorgan.

Rahul A. Parekh

JP Morgan Chase & Co, Research Division

My first question is in MAPFRE FAMILIAR. Are we -- due to the worsening loss ratios, are we looking at more reinsurance there? And secondly, on Brazil, MAPFRE Brazil is down on premiums, especially in Life. So is it due to pricing? Or is it somewhat a trend?

Luigi Lubelli

So let me just -- if you could just please repeat the first question on FAMILIAR? Your question, your [indiscernible] was?

Rahul A. Parekh

JP Morgan Chase & Co, Research Division

So my question was that on MAPFRE FAMILIAR, the -- especially motor and home, the loss ratios are increasing. So are we looking at more reinsurance there to -- as a safety measure?

Luigi Lubelli

Okay. Look, reinsurance, we don't really buy to a large extent in the FAMILIAR business. The FAMILIAR business is a very large MAP portfolio. You're talking about in excess of 6 million cars and about 2.5 million homes insured by MAPFRE FAMILIAR. So the very diversification of the portfolio takes care of itself. We do have reinsurance, but for very extreme events on both cases and in the case of household insurance, we also have a public scheme in Spain called Consortium [ph], which covers several natural and man-made disasters. The increases in the loss ratio, I would say in this case more than the combined, are coming from frequency, especially in motor. And we will go about them by tariff increases, by adjusting tariffs upwards in order to make up for that. But reinsurance is not really a meaningful means of correcting that in the retail business in Spain. Does that answer your question?

Rahul A. Parekh

JP Morgan Chase & Co, Research Division

Yes.

Luigi Lubelli

Okay. And your next question was?

Rahul A. Parekh

JP Morgan Chase & Co, Research Division

So my next question was that MAPFRE Brazil is down on premiums. So is it due to pricing issues there?

Luigi Lubelli

Pricing issues. There is some pricing pressure in motor. There is, let's say, a contracting business volume in the market at large because of price pressure. That would be the only one. The other lines were more or less okay. And so, say, in agricultural insurance, the fall in demand is mainly due to uncertainty other than pricing. And in Life, it was a weaker quarter. However, Life is a business, -- term Life, the one we sell, is a business with a -- still a reasonably good outlook, especially in the bank channel.

Operator

Next question comes from Avinash Singh from Nomura.

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Two questions. First one is on your U.S. snowstorm losses. Would not it had been better if you had communicated to the market about a rough estimate of these losses given just how big the losses were? And related to this, when you say your expense ratio had gone up mainly due to increasing equities and costs in LatAm, is this increase in costs an ongoing trend or just a one-off issue? And the second question would be on Venezuela, is that inflation-related adjustments. I mean, what is your expectation for like how long this is going to continue?

Luigi Lubelli

Okay, fine. So the first one. We might have given that. But the fact is, as you appreciate the -- they take some lead timing. So having given an indication to the market earlier on, it could have been an estimate. But really, you have to -- and I'm sure you know. During the entire quarter, people report claims to the company. So we rather prefer to report what we actually accounted for during the quarter rather than an early estimate in order to guide the market. I mean, it's all right to debate which one we would like. We prefer to go in a more accounting way. Acquisition expenses. I wouldn't write home about that. It's just mainly driven by the business mix. We had a different business mix with different acquisition expenses, which were on the higher side. It does fluctuate. And in this quarter, it was comparatively higher but just because of the products we sold. Your last question was, please, regarding Venezuela, the inflation adjustment. Inflation adjustment, with -- as long we're there, we'll continue to reflect in the accounts. Clearly, as you will appreciate, the exposure now is greatly diminished to Venezuela because of the exchange rate that we have decided to apply. But there's a portion...

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Yes, a follow-up on that Venezuela. As you said, as long as you are there. So my question was partly to do with that. I mean, considering this kind of the size of inflation-related adjustments and comparing it with the portfolio size in your entire group, I mean, is it a threat to be in Venezuela, I mean, because these inflation-related adjustments had eroded quite a bit of profit for last couple of years?

Luigi Lubelli

I mean, the -- let's see. If I understood it well, you're asking us why Spain and Venezuela. That's your question basically?

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Yes, I mean, Venezuela has a rather profit-eroding market, especially in this high inflation. So that is my question, yes.

Luigi Lubelli

Well, it's -- I suppose everybody has their point-of-view on this. I mean, MAPFRE is a company whose trademark is being the leading player in Venezuela, and we've gone through several bad instances in the past in Venezuela and other countries for a variety of reasons. I mean, fluctuations and volatility is a fact of life if you decide to operate in Venezuela. I mean, our company -- this is a translation element. Our company continues to be one of the leading players in that country. It continues to be a very well-working business, very well managed with a strong franchise. And for the moment, I mean, that's our reason for staying there. We'll continue to be committed to Venezuela and the country itself. It's only -- the fact is that now, the value in euros of that present in Venezuela is very greatly diminished compared to the past.

Esteban Tejera Montalvo

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

The -- I would add that the decision we have to make about the top-line in this exchange rate of SIMADI instead of the SICAD is due to the fact that we consider that it's more close to reality than SICAD. But in any case, the reality is changing every day, and we are in a position now where introducing this change up to VEF 193 instead of VEF 12 is more transparent and reduce their risk for the future. But we will continue working in Venezuela. We are there for more than -- near 30 years, and the kind of the business we do, insurance for particular, is doing well in terms of -- for our business. It's not the case in terms of the exchange rate, and it's -- it was reflected in the decision. But I think that we're managing the exchange rate. They are very volatile when the market is operating, which was not the case in the last months. So we will continue working in Venezuela, and reflecting this exchange rate in our accounting here is a way to reflect the volatile environment that the exchange rates reflects.

Luigi Lubelli

Have we answered your question, Avinash?

Avinash Singh

Nomura Securities Co. Ltd., Research Division

Yes, very much.

Operator

[Operator Instructions] Next question comes from Mike van Wegen from Bank of America Merrill Lynch.

Michael van Wegen

BofA Merrill Lynch, Research Division

It's Mike van Wegen, Bank of America Merrill Lynch. Two questions. First of all, coming back on the technical results for the Life business in Spain. Taking into account the de-consolidation of CatalunyaCaixa, it seems that the impact from the acquisition cost and the lower fees that you flag as the main reason for the quarter is around EUR 50 million to EUR 60 million. That to me is the only reason for the difference in the technical result apart from the de-consolidation of CatalunyaCaixa. It seems very high if I look at the impact on a full year basis that you flag in the embedded value disclosure. Is that impact correct or -- of EUR 50 million to EUR 60 million purely on the quarter for the acquisition cost? And what are other factors potentially affecting that? A second question is the expense ratio in motor in Spain. It's up almost a full percentage point. What's behind that? And to what extent is that sustainable?

Luigi Lubelli

Thank you for your questions, Mike. I think there's a common answer to both. And surprisingly, it might be. But we do have an issue in this industry that it's very difficult to extrapolate from a quarter a trend. In any given quarter, you have several items that are not necessarily an indication of what the rest of the year. And the first quarter is still a poor indicator of what the rest of the year will be like. The -- in the Life side, it might be surprising. I mean, if you de-consolidate a company, basically there are all sorts of accounting items that move, and that does have an impact. Really, this is a an unusual quarter, let's say. So they -- once you take a company out of your accounts, there's many movements that go through there, and that can have an impact which may have it diverge a bit more than another quarter. Then the other one, as we said, is the distribution expenses. And frankly, I mean, as big tickets of the Life account that I can think of with the information I have, there's nothing more of a significant nature. So I'm afraid that's what I would -- what we can tell you about the technical result of the Life account. In Non-Life, I know that's a variation. The only thing I could think of that certainly we do have an element, as I said, of the countries in which we had a larger acquisition expenses, we had Spain as well. And that was also due to the fact -- to the business mix. And also, do not forget that we -- also in the Non-Life account, we have the impact of the CatalunyaCaixa de-consolidation. It wasn't as large a business, but it was large enough to make a difference in the growth of the household business, which, for instance, would be growing 2.5% instead of contracting because of that one. So it does also have an impact in this quarter on the expense ratio. So as I say, 1% variation in the expense ratio in Non-Life, we regularly have on a quarter-by-quarter basis. It's something that happens.

Michael van Wegen

BofA Merrill Lynch, Research Division

Okay. Maybe one quick follow-up, if I may, on the Life technical result. The EUR 50 million to EUR 60 million impact from the acquisition cost, by the sounds of your answer, you might not fully recognize that number. What would you think is the impact on a quarterly basis on the Spanish Life technical result from the higher commissions and the lower fee income on mutual funds and pension plans?

Luigi Lubelli

I'm afraid I don't have that figure. I mean, that's not part of the disclosure. I wouldn't have that figure for you on the exact impact of the mutual funds. I mean, they -- it's clearly -- it clearly was an impact on the embedded value, but we did not actually disclose the specific amount. From our perspective, clearly what matters is that they are selling very well. But the -- that precise figure, I don't have on public disclosure to give you.

Esteban Tejera Montalvo

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

In any case, I would like to add that there is a -- when we have a decrease of this size in the savings Life products, the main decrease is in the single premiums. And this will change the views in the composition of the expenses that [indiscernible].

Luigi Lubelli

Was that clear, Mike?

Michael van Wegen

BofA Merrill Lynch, Research Division

Yes.

Operator

Next question comes from Javier Echanove from Santander.

Javier Echanove

Grupo Santander, Research Division

Just have one, and it's related to motor business in Spain. You've mentioned, talking about the deterioration in the loss ratio, that you're planning to offset that or counteract that with an increase in tariffs. This is something you also said when commenting on the fourth quarter results of 2014. I was wondering if you could give us little bit more details on that, whether you're already doing it, when do you plan to do it, whether you think the competitive environment in the industry in Spain right now would really allow for that and whether other companies are doing it or not doing it. A general idea of how feasible increase in tariffs is or not.

Esteban Tejera Montalvo

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

Well, the situation in the sector in motor insurance in Spain is now that the frequency is growing, as expected, the average cost and the severity is not growing. And the sector as a whole, in fact in a more prudent way in terms of it, is not decreasing tariffs. And MAPFRE has an approach to underwriting results and qualification that includes increasing tariffs when necessary. And now we are in the process of increasing tariffs in some parts of our portfolio and introducing some positions in the nonprofit entities. And this is one thing we are doing, as MAPFRE usually does. In any case, the figures for this quarter and the other quarters have seasonally been a volatile piece and very important, in my opinion, from the point of view of frequency. The weather conditions have been back, but there is also the impact of the holiday season, of Christmas and New Year. This year, we were especially affected with the -- for the increase of the frequency due to the number of days that people really took up holidays. I think that these tendency

on the frequency will be more stable in the next quarters. And in any case, we will see the increase in income, the fee income coming in from this adjusting of tariffs we will have to make in the -- we make.

Operator

There are no more questions. Thank you.

Esteban Tejera Montalvo

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

Okay. Thank you, all of you, for being with us in our presentation of results. And I hope to see you again in the next quarter presentation. Thank you. Bye.

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