S&P Global
Market Intelligence

Mapfre, S.A. BME:MAP

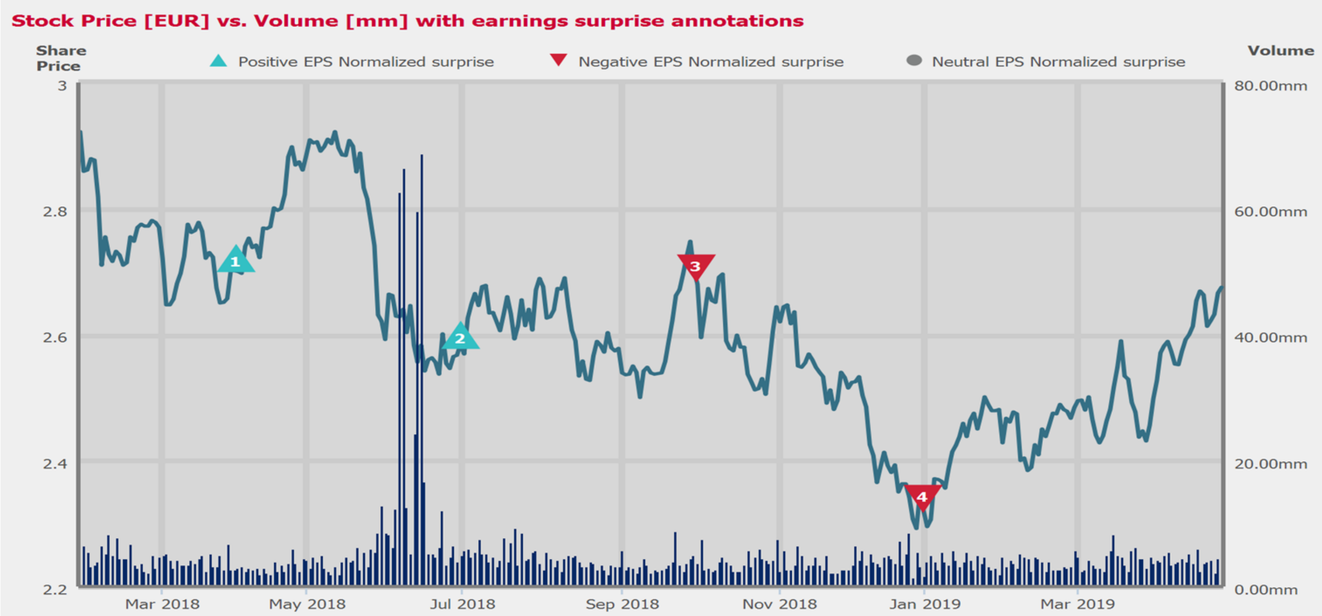
FQ1 2019 Earnings Call Transcripts

Tuesday, April 30, 2019 11:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-	-FQ1 2019-		-FY 2018-	-FY 2019-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	0.06	0.06	0.00	0.24	0.26
Revenue (mm)	5030.00	6352.50	0.73	22193.71	23090.79

Currency: EUR
Consensus as of Apr-30-2019 10:57 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.05	0.06	20.00 %
FQ2 2018	0.06	0.07	16.67 %
FQ3 2018	0.06	0.04	(33.33 %)
FQ4 2018	0.06	0.04	(33.33 %)

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Call Participants

EXECUTIVES

Fernando Mata Verdejo
Group CFO & Director

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Ramón Carrasco
Group Chief Risk Officer

Presentation

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Hello, everyone. This is Natalia Núñez, Head of Investor Relations. We would like to welcome you to MAPFRE's Result Presentation for the First Quarter of 2019.

Our CFO and member of the Board, Fernando Mata, will take you through the main trends and figures of the year, as in previous quarters. After him, on this occasion, we also have Ramón Carrasco, MAPFRE's CRO, here to discuss the Solvency II figures.

I would also like to mention that we have changed the structure of the presentation, and we hope it helps give you a more comprehensive view of performance by business units.

And also, today we have launched our new Financial Documentation Center on the corporate website. There, you can find the main, current and historical financial information.

Just as a reminder, during the Q&A, we will answer all the questions received at the Investor Relations e-mail address, and afterwards, the IR team will be available to answer any further questions you may have. With no further delay, let me hand the call over to Fernando.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Natalia. Hello, everyone, and welcome to the first quarter results presentation. As always, it's a pleasure to be here with you. This is the first quarter of the new 3-year strategic plan. And as you can see, the numbers are very positive, fruit of the transformation and the changes that we have implemented.

Looking at the key figures for the quarter, revenue is up almost 6%, mainly due to the rise of premiums and higher financial income, principally from the change in market value of some investments. Our premiums are up over 3%, nearly 4% at constant exchange rates. And Life premiums are up almost 14%, over 15% at constant exchange rates. Our combined ratio has improved 60 basis points and is now under our target of 96%. The net result of EUR 188 million has increased 0.6% despite the current low yield scenario.

Shareholders' equity is up 3.5% as a result of the improved stock markets and also the fall in interest rates as well as the currency appreciation.

The ROE, excluding the 2018 goodwill write-downs, would have been 8.3% and the Solvency II ratio, which our CRO will discuss later, stood at almost 190% at the close of December, basically as a result of the fall in IFRS net equity at 2018 year-end.

On the next slide, we'll take a look at the key figures by unit. On the right side, you can see the KPI's by region and business unit. Regarding attributable result, I would like to highlight, first, Iberia continues to be the largest profit contributor with close to EUR 120 million net result and solid underlying performance.

Second, there were strong improvements in Brazil, up EUR 10 million and in North America up EUR 17 million, and strong contributions from both LATAM North and LATAM South. This improvement in profitability in these 4 regions is also reflected in the low combined ratios.

Third, MAPFRE RE, which comprises a traditional reinsurance business and the global risk portfolio, contributed over EUR 50 million in this quarter despite a large industrial claim.

On fourth and last, ASISTENCIA continued facing profitability challenges in the U.K., which have impacted the net result by almost EUR 3 million. We expect this trend to change over the coming quarters.

Regarding premiums, growth is very strong thanks to excellent performance in Iberia, LATAM North and reinsurance.

In addition, appreciation of the U.S. dollar and some Latin American currencies has also supported premium growth in several markets, while the Brazilian real has still been a drag on premiums, but to a much lower extent than last year.

On Slide 4, we look at the adjusted attributable result. Despite lower realized gains, the adjusted attributable result has been stable this quarter thanks to more benign weather.

Regarding NatCat events, we were affected by several winter storms in the U.S., heavy rains in Brazil and wind storms in Malta. However, unfortunately, we do not consider impacts relevant and therefore, they had not been taken into account in this calculation.

On Slide 5, we look at the capital structure and credit metrics. On the left, you can see the breakdown of the capital structure, which amounted to EUR 12.6 billion. Our credit metrics remained quite strong with leverage around 24% affected by the BMN acquisitions, which had a total amount of around EUR 162 million. The remainder of the increase is mainly due to transitory funding of subsidiaries.

In April, we cashed in a EUR 55 million dividend from Brazil, taking advantage of the current real valuation, which will contribute to reducing leverage. We should go back down to target levels over the course of the year.

Interest coverage, located on the right, is around 20x earnings before interest and tax.

And finally, regarding our financial strength, our ratings continue to be affirmed by the main credit agencies. And in March, S&P confirmed the credit rating of MAPFRE and its subsidiaries with a positive outlook.

On the next slide, we will take a look at our equity position. Shareholders' equity is up 3.5% to close to EUR 8.3 billion. The main reasons behind this improvement are: first, an almost EUR 300 million increase of unrealized gains on available-for-sale portfolio. This change is based on improved stock markets in Europe and USA and also fall in interest rates in Europe.

Second, the appreciation of all main currencies with the exception of the Turkish lira, which has had a EUR 91 million positive impact during the quarter.

And finally, the decrease of EUR 262 million corresponds to the 2018 final dividend approved by the AGM.

On the next slide, we'll look at the investment portfolio. On the right, you can see that assets under management are up by 5%, driven by: first, improvements in stock market after important correction at the end of 2018; second, currency effects as we -- as I already mentioned; third, the consolidation in March of the BMN bancassurance acquisitions; and fourth and last, real estate increased as a result of the application of IFRS 16 regarding leases, which implies an increase of EUR 278 million in the value of real estate assets, mainly branches, outlets across Spain.

The breakdown of the investment portfolio is on the left. Asset allocation has been relatively stable throughout the year and exposure to government and corporate debt remains mostly unchanged. The large exposures correspond to Spanish sovereign debt with EUR 16.5 billion and Italian debt with EUR 2.8 billion. As we have mentioned in the past, the majority of these investments are in immunized portfolios.

Our cash position is up to EUR 3 billion and includes short-term investments and temporary cash balances. Exposure to equity and mutual funds has gone up slightly from stock market improvements.

In the next slide, we'll look at our actively managed investment portfolios. Our portfolio deals are still quite high, almost 2% in Non-Life and over 3.7% in Life, well above market deals. Nevertheless, the downward trend continues hurting financial income. We partially neutralized this effect by slightly increasing duration.

Realized gains in the euro area reached EUR 23 million during the quarter, almost EUR 12 million less than the previous year. Stock sales were quite selective during this quarter, and we expect the positive trends in equity markets to continue.

At the end of this quarter, the actively managed portfolios in Iberia and MAPFRE RE had unrealized net gains for EUR 37 million.

Please turn to the next slide, where we will begin a breakdown by business unit, starting with Iberia. Iberia is, again, MAPFRE's greatest contributor to group results. Premium performance has been excellent. Of the top 5 players in the Spanish insurance market, we had the highest rate of growth, and we are once again leader in Non-Life.

Motor premiums are up 2.6% with positive developments in Spain, both in Retail and in Fleets. Our average premium grew 0.2% while the market fell by the same amount.

General P&C growth was mostly driven by Homeowners, up 4.7%; and Condominiums, up 8.1%, helping to offset the fall in Commercial lines.

Sales campaigns in both bancassurance and Agent channels drove the Life business. It's also important to mention that we wrote a large group policy in the first quarter for EUR 45 million in the bancassurance channel.

Moving to results and combined ratio. Motor maintained an excellent ratio in a very competitive market environment. The improved result in Portugal with a strong reduction in the combined ratio is also worth highlighting. And profitability in Health and Accidents was affected by higher hospital costs. We expect the combined ratio to level off throughout the year. We are currently implementing measures in order to reduce hospital cost in the coming quarters.

Now, let's take a look now at Brazil. The impact of the depreciation of the Brazilian real on average exchange rates has negatively affected premiums and results. BB MAPFRE, where we hold 25% of the share capital and comprises Life and Agribusiness in the Banco do Brasil channel. There has been over 2% growth in local currency thanks to higher issuance, especially in the Life Protection segment with over 30% growth in local currency. These positive movements in Life were offset by weak issuance in AgroInsurance due to seasonality.

In MAPFRE Seguros, where we hold 100%, there was a fall in premiums as a result of selective underwriting measures implemented in both Motor and General P&C, including tariff increases. The attributable result of MAPFRE Seguros went up almost EUR 18 million driven by Motor business. The increased help offset the 21% fall at BB MAPFRE due to weather-related events affecting AgroInsurance.

The Motor combined ratio showed an outstanding drop of almost 10 points, standing at 104.4% thanks to several claims management measures.

Regarding financial income, we took advantage of the market context to opportunistically harvest gains during the quarter. Regarding ROE, please keep in mind that current figures are not representative. ROE figures are calculated with the last 4 quarters results and because of the rescrutiny of the Banco do Brasil agreement, neither the equity base nor the results have been homogeneous in the last year.

Now LATAM North. LATAM North is benefiting from tailwinds from currency movements across the region. Mexico has a strong premium growth in local currency, up 11% driven by Motor, especially in the dealership channel as well as strong performance in the Retail, Health and Life segments. Motor combined ratio went down almost 4 percentage points to 95.4% thanks both tariff and risk selection measures.

The Dominican Republic saw strong local currency growth in premiums, up 14% and resilient combined ratio under 93%.

Regarding Central America, Panama experienced an increase in the loss ratio in Motor, General P&C and Health. Technical measures have been implemented in the Motor and Health segments, including tariff increases in Health to correct claims experience.

Honduras continues to have excellent and recurring results with an outstanding combined ratio below 83% at the close of the quarter.

Now LATAM South. On this slide, we have the key information about this region. With the exception of the Argentine peso, there were overall strong local currency trends across the region and tailwinds from currencies.

In Peru, premiums were up 1% in local currency, and it had strong technical performance, reducing the combined ratio by 7 percentage points and increasing their ROE by 1.4 percentage points.

Colombia had local currency growth of 6%, supported by a large corporate policy. There was a strong reduction in the combined ratio, offset by negative adjustments in the annuities runoff portfolios, as a result, basically, of updating local -- long-term financial assumptions, mainly the minimum wage.

Chile saw local currency growth of 19%, including the effect of a large corporate policy. There was improvements in the combined ratio in Motor, offset by an uptick in General P&C.

Argentina saw a decline in premiums driven by the fall in average exchange rates, minus 50% approximately. And there was also an increase in the combined ratio in industrial risk and Motor.

Let's move to North America. The appreciation of average dollar exchange rates, up 8.5%, has positively impacted premiums and results. Premiums are down almost 10% in local currency in North America as a result of the exit from 5 states in 2018 and also underwriting measures applied in the non-Northeast states. The over EUR 17 million improvement in the attributable result and lower combined ratio is explained by, first of all, improvements in personal motor thanks to tariff increases, cancellation of a underperforming business and also the exit, already commented, from 5 states. And also, lower weather-related losses helped improve the Homeowners result and combined ratio.

Now Eurasia. There was a positive premium and combined ratio development in Germany with higher attributable result. The situation in Turkey, on the other hand, is very complicated.

There was strong depreciation of the Turkish lira, 22%, and premium growth in local currency was up 13% but below inflation. We continue applying the strictest underwriting guidelines in Motor to protect our performance. The attributable result is currently negative and the combined ratio has deteriorated driven by the impact of the MTPL tariff regulation, higher spare parts prices and other inflationary effects and currency depreciation.

MAPFRE's strategy remains quite conservative, as we prefer to stay away from cash flow underwriting and want to focus on underwriting discipline rather than issuing premiums just to get a return on high-yield investments as practiced by the way we've seen in some local peers.

Italy experienced a strong premium performance, driven by the dealership channel, and strong improvement in the combined ratio, down 3 percentage points. As we disclosed in our financial report, we started the transformation of our Italian business into a Verti Spain branch and the European Union relation. This transformation will allow us to improve our KPIs and also to optimize capital allocation.

The combined ratio increased in Malta as a result of weather conditions in February.

Let's move to MAPFRE RE. Regarding MAPFRE RE, in March 2019, administrative authorization was received to carry out the corporate restructuring of MAPFRE GLOBAL RISKS. So its reinsurance activity along with related assets and liabilities were transferred to MAPFRE RE.

Accounting effects were booked retroactively as of January 1, 2018. Premiums have benefited from currency movements, especially the U.S. dollar as well as the contribution from the new subsidiary operating in Vermont. The combined ratio was affected by a large industrial claim during the quarter, which had an approximately EUR 20 million pretax impact, of which EUR 12 million correspond to GLOBAL RISKS. Realized gains were down, as disclosed in -- on the slide.

Now our CRO, Ramón Carrasco, is going to discuss the Solvency II figures.

Ramón Carrasco
Group Chief Risk Officer

Thank you very much, Fernando. Solvency II figures, as at 31 December, 2018, confirm MAPFRE's strong solvency position. The 189.5% Solvency ratio is based on a high-quality capital structure of EUR 8.8 billion in -- eligible on France, of which 87% is unrestricted Tier 1 capital and the remaining 13% is subordinated debt. The increases in September Solvency II ratio was temporary as it included subordinated debt issuance order to finance the renewed agreement in Brazil, but not the cash outflow. The difference with the Solvency II position at December 2017 is mainly explained by the higher risks considered for the equivalent countries. The greater participation in Brazil and the inclusion of catastrophic risks and the regulation of U.S. cause an increase of the regulatory capital in these countries. The improvement in IFRS equity during 2019 will imply roughly a 5 percent point uplift in the Solvency II ratio.

On the following slide, you can see our sensitivity analysis. As you can see, the impact on the Solvency position from the various event is limited. Sensitivity are very much in line with last year, except equity, where we have refined the methodology. The greatest impact occurs when an increase of 50 basis points is considered in the Corporate and in all government bond spreads, in which case the ratio will stand at 179.2%. The rest of the information regarding Solvency II figures can be found in our financial report.

That's all from my side. I look forward to your questions during the Q&A, and I will now pass the floor back over to Fernando.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Ramon, and we'd like to finish with few closing remarks. This was the first quarter of the new 3-year strategic plan. We are very satisfied with these results, fruit of the transformational changes that are being implemented.

In Iberia, premiums and profitability trends continue to be excellent despite a very competitive market environment. Results have been resilient at the MAPFRE RE and they continue to be an important profit contributor.

In Brazil and North America, we've seen a clear turnaround in results thanks to the measures implemented, and we expect this momentum to continue throughout the year. The strong underwriting performance across all of Latin America is remarkable with stable combined ratios at 96% and even below in all 3 regions.

Regarding Turkey and Columbia, we are carefully monitoring results, but the impact of the group's performance is limited due to their size. And finally, we continue to have an exceptional solvency and leverage position, and we expect ratios to convert to targets throughout the year.
We hope the new layout of the presentation with greater detail by country and business unit gives you a clearer representation of the group positions and also operations. And now, I will hand the call back to Natalia to begin the Q&A session.

Question and Answer

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay, thank you, Fernando, we can start with the Q&A.

First question is regarding balance sheet and investment portfolio. It comes from Ivan Bokhmat from Barclays. First Q 2019 realized gains came below the full year '18 average. I recall you have mentioned gains should remain stable in the next 3-year period. Could that suggest potentially higher gains in the rest of the year, consistent with EUR 145 million, EUR 170 million level booked in 2017, 2018?

Fernando Mata Verdejo
Group CFO & Director

Thank you, Ivan. As we said, capital gains -- realized capital gains has been quite stable for the last, I will say, 2, 3 years. This first quarter is the bullish moment we expected. Remember last quarter, last year was horrible and with significant drop in the value of stocks. And this first quarter was superb. And we apply -- I mean, the trend is different and so we were quite selective selling some equities in order to produce some capital gains. But you're right, probably, we want to keep the same level of capital gains. So probably, we should increase, I mean, the pace of capital gains -- realized capital gains during the second quarter. We quite -- we're more optimistic. The outlook is much better. And also as well, EU will help us, I mean, real estate capital gains in order to achieve the same level. Currently, we had strong units in the market. We haven't done any transaction during the first quarter, but the units are there and the rotation of real estate units. We'll keep on doing the same last year, and we expect some realized gains to come up in the remaining quarters.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Next one is also from Ivan Bokhmat. And it's regarding the leverage level of 24%, appears slightly above the 22nd level due flat as comfortable during the Investor Day?

Fernando Mata Verdejo
Group CFO & Director

That's correct. Let's say that it was almost 1.5 increase in our leverage. And basically, the main driver for this increase is the BMN bancassurance acquisition. And -- but also it was some temporary funding of subsidiaries due to the different cash flow of dividends. And -- but what we expect for the year-end is to have an increasing leverage similar or equivalent to the consideration, the amount paid for acquisitions. Basically, this is our policy, and we will stick to this policy.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. Now we are going to talk about MAPFRE RE. The block -- this block of questions is regarding the reinsurance and GLOBAL RISKS businesses. Ivan Bokhmat, also at Barclays, has asked the following question. MAPFRE RE result was strong despite large industrial claim from GLOBAL RISKS business, with good premium growth and better combined ratio. Reinsurance rate seems to be hardening across regions, particularly in property business. Are you more optimistic now than in March?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you, Ivan, again. And as we said during -- at the Investor Day, what we have seen so far is some strengthening in the market, especially in those territories affected by large losses in last years, where we have seen prices picking up at least a bit. We should see medium-sized price increases in these affected areas. On the rates, a stable outcome should be expected. Our main renewals period are

January, but there is another renewal as well in June, April and June. And so far, nothing has happened. The makeups change our opinion. So far, everything is going well.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. There's another question regarding MAPFRE RE that comes from Michael Huttner in JPMorgan. Why is MAPFRE RE down so much when the combined ratio is just at 1%? And why are premiums down 10% but allocated capital up?

Fernando Mata Verdejo
Group CFO & Director

Thank you, Michael. The fall in line resulted in the reinsurance businesses due to lower end premiums in Non-Life, which are still reflecting, somehow, last year's fall in written premiums as well as the EUR 10 million less in realized gains. As I previously mentioned, we should retake, I mean, the pace of realizing gains, particularly for MAPFRE RE during the second quarter. Written premiums are growing over 10% this year and shareholders equity is up 7%. These figures reflect the incorporation of the GLOBAL RISKS businesses.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

So the premiums were up? Sorry, they...

Fernando Mata Verdejo
Group CFO & Director

They were.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Yes, the premiums were up 10%.

Fernando Mata Verdejo
Group CFO & Director

10%.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Not down.

Fernando Mata Verdejo
Group CFO & Director

Yes, the premiums region are growing over 10%, yes, sorry.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

The -- now we have questions regarding Iberia. Ivan Bokhmat of Barclays has asked, results in Iberia remain very strong, particularly on P&C technical result side with combined ratio in the lower end of the 92%, 94% range. You consider it sustainable? Is there any reason for us to think this trend should change over the coming 6 to 12 months?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you, Ivan, again. Yes, we're growing premiums over the market in both Life and Non-Life segments with excellent combined ratio within classic Motor at 90.6% and maintaining an over 5 percentage cap compared to the market. As we mentioned in past results presentation and also our Investors Day, we consider a more sustainable combined ratio for Motor of around 92%. Anyway, I mean, we're quite happy with current combined ratio that stands at the 90.6%. Regarding growth, economic activity in Spain should continue to stimulate the premium growth in the insurance business, especially Non-Life. And the -- and also, our excellent profitability level will allow us to select market share segments that we consider most interesting. That's what we are currently doing, particularly with Fleets, and we are selecting those low combined ratio expected Fleets. And so far, they're quite profitable. Regarding competition in Spain, let's say that the Motor segment is still very competitive. As you probably know, a couple of peers already published the results showing deterioration of combined ratio in both cases. That's the same for MAPFRE, but to a lesser extent in our case, just 30 percentage points. Competition is fierce, and they're advertising on TV practically every hour with lower prices and also free period of time for coverage and -- if you change your carrier. But we're keeping the same underwriting discipline. One of the examples is that the -- our average Motor premium is growing 20 percentage points while the market is dropping the same amount, 20 percentage points. So overall, I mean, let's say that the competition is still there in the market, but MAPFRE is quite strong. Our underwriting discipline is extremely stable, and we expect to keep the same trend in business and profit contribution for the remaining quarters.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Thank you. Thank you very much, Fernando. There's another question coming from Carlos Peixoto of Caixabank. And his question is regarding the increase in hospitalization cost witnessed this quarter in Iberia. Do you think that sustainable?

Fernando Mata Verdejo
Group CFO & Director

Well, what we've seen in the past is that the hospital cost were quite low and it was expected as sort of an increase like the one we've seen. But the -- our management have taken the measures we need in order to reduce this impact in our combined ratio we have, particularly trying to reduce the impact from this hospital cost. And obviously, I mean, you see that the combined ratio for this quarter is pretty high, quite similar as well to last year and is due to -- there are seasonality reasons behind this level. And we expect the combined ratio to reduce in the coming quarters.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Another question in Iberia. [Foreign Language] contribution this quarter, including their activity for the whole 3 months or have they been incorporated into your accounts at a later moment?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you, Carlos. I mean, there is a full disclosure of this transaction in the financial report. Let me summarize, in terms of premiums contribution, the contribution was quite small, like EUR 4 million, more or less, in terms of Life premiums. Regarding assets, there was an increase, it was an increase of almost EUR 330 million, approximately. And regarding our net equity -- let's say the other way, and regarding our goodwill, our intangibles, it was a EUR 55 million increase in intangibles due to the consolidation of these acquisitions in March.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Good. Thank you. Now we can move to Brazil. Ivan asks about that, in Brazil, minority deductions remain at a high level with larger share of the profits still going to your partner despite the last year's transaction on better performance in the Non-Life business. When do you expect a more pronounced improvement of the result attributable to MAPFRE?

Fernando Mata Verdejo

Group CFO & Director

Yes, Ivan, thank you. I mean it's going to be high deductions, even for the next years in terms of the noncontrolling interest because of the percentage held by Banco do Brasil is pretty high in BB MAPFRE, is 75%. So let's say that 3/4, 3/4 of the net result goes to Banco do Brasil. Anyway, I mean, there is a big -- a relevant increase in the MAPFRE Seguros profit contribution during this quarter, particularly in the business acquire. MAPFRE VIDA is reporting wonderful results. And also MAPFRE vehicles, which is the entity that we bought from Banco do Brasil and now is together with MAPFRE Seguros Gerais, is improving results compared to last year. So overall, I mean, we're quite happy, I mean, with the results. The share of minority will remain pretty high during the -- in the future because of the 75 shareholding of Banco do Brasil. And also, we're happy with the current outlook in Brazil. We're optimistic regarding the future. This is a country we know very well. And we convinced that the reform process that Bolsonaro is pushing for will be very positive for the economy and also the future of Brazil. I mean if they stop in the reforms, my guess is that we will have, again, volatility in macro metrics.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Good. Also, Andrew Sinclair would like to know if the Brazilian combined ratio that -- to meet the 2020, 2021 targets already. Is this sustainable? Are there any one-offs in here we should be aware of?

Fernando Mata Verdejo
Group CFO & Director

Thank you, Andrew. I mean it's just the first quarter, and there is still 3 years ahead in order to transform and convert MAPFRE Brazil operations into a quite profitable business. Obviously, I mean, there is a big reduction in combined ratio. We believe that we're doing the things in the proper way, but the -- just 1 quarter, I mean, it's too early to reach a final conclusion regarding, I mean, the pace of reduction in the future. We're pretty sure that we will see a consistent reduction in combined ratio year-by-year in order to meet targets that we published at the Investor Day. Regarding one-off adjustments, let's say that this quarter is an standard quarter in terms of premiums earned and losses, and there is no extraordinary items that could affect the combined ratio. The only thing that is not affecting the combined ratio is the financial income that are coming from realized gains on fixed income. It's not a big amount. It's been -- has been disclosed in our financial report. Combining both Banco do Brasil subsidiary and also MAPFRE Seguros, the net profit contribution is like EUR 3 million, and we realized these capital gains in quite good economic context. And also been opportunistically in order to cash some money to pay the dividend that we mentioned of EUR 55 million and cashed in according to the current Brazilian real currency exchange, which is very positive.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Great. Thank you. Also there is a question regarding Brazil Non-Life premiums that have been reduced. How far should we expect Brazil Non-Life premiums to reduce after a significant cut in Q1?

Fernando Mata Verdejo
Group CFO & Director

Yes. At the Investor Day, we set growth target for the traditional insurance business, 7% in Motor and 4% in Multirisk. Let me see, I'm reviewing the numbers for the 3-year period. Of course, it's natural in the short term to see a reduction due to the measures implemented to improve profitability. As we mentioned at the Investor Day, we're applying a significant reduction in some areas' account that are loss-making portfolios. And also there is increases of tariffs across the board. Obviously, these increases, they're causing a reduction in the number of policyholders. We expect this trend to turnaround in the next quarter or perhaps in the third quarter.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Caixabank-BPI asks, the Brazilian Auto combined ratio stands currently below the 105% target for the year. How much of this improvement was related to external factors, seasonality or weather? And how much was the result of the measures you have implemented? Should we expect a potential upgrade in the combined ratio guidance for the unit?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you, Carlos. I will answer first your last question. We shouldn't expect a potential upgrade in the combined ratio after just 1 week -- 1 quarter, sorry. Let's say that when we published, we set targets for a 3-year period and we are still at the first quarter, and we believe that those target, they are still valid. Regarding combined ratio increase -- sorry, the combined ratio improvement, last year, a lot of new measure were implemented in order to improve our claims management process. And this year, 2019, most of the measures implemented will be focused on underwriting and particularly tariffs. So let's say that the -- we should expect a better performance once the measures regarding underwriting will be fully implemented throughout this year.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. Now we can move to Eurasia. Ivan Bokhmat, Barclays, is asking what is your outlook for the Turkey business at the current moment. Should we expect continued losses in 2019 considering quick currency and macro outlook?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you -- it was Ivan, right? Well, as I explained at the presentation, the current market context in Turkey is quite complicated, and we are carefully monitoring the business. But Turkey -- we have to put Turkey in the group context. It's a medium-sized entity and it shouldn't represent a large share of the group's results in our equity. Well, we are implementing a defensive business model in Turkey. ROE is low, premium growth is low in local currency. And as we have made our car -- Motor portfolio more defensive lowering our units in Motor TPL, MTPL, in response to the 2017 tariff regulation. I can give you some figures. MTPL has fallen to 5.6% from over 11% at the beginning of 2017. And also what we're doing is adapting our cost structure to the new business volumes. What we're facing is claims -- is a sort of claims cost pressure as a result of higher inflation. As you know, over 75% of the spare parts are imported and nominated in euros. We're keeping part of our financial assets as well nominated in euros in order to hedge the situation, but inflation is affecting our results by over 25% of the minimum wage increase. MAPFRE has a lot of experience, so I give -- I can give you some comfort and proven track record in emerging and inflationary economies. We know the importance of cash flow in these economies. And despite the short-term volatility, we are pretty confident in the long-term outlook of our business in Turkey. Turkey is a strategic market and will remain as that for the coming years. And that's all. I mean Turkey is difficult, it's complicated, but we know what to do.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much, Fernando. I think that comprehensive answer covers also the one coming from Farquhar Murray at Autonomous. That was also regarding the Turkey market. Now we can move to LATAM South. We have also received some questions regarding Colombia. Farquhar Murray from Autonomous asks, please could you quantify the negative adjustments in Life annuity in LATAM South from the long-term assumption update?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Farquhar. We have not disclosed the exact figure, but in Colombia, the majority of losses have been run off annuity portfolios. Those are portfolios that we stopped renewals in 2014 and 2015, if I remember well. And as you can see, Non-Life performance has been quite good with a 4% reduction in the combined ratio. We do a lot of things in order to have a sort of a protection of -- in our Life portfolio and a lot of measures have been taken to reduce the impact of these run off portfolios. We have filed with the supervisory body an authorization in order to change our asset investment structure. Majority of the assets are -- due maturity are classified as a financial investment held to maturity. And this situation is, again, [proper] ALM policy. So part of the assets will be classified, probably in March, as assets available for sale with some capital gains we expect, and also an increase in yields from new bonds. And also we're going to mix our structure, reducing service and having corporate bonds in order to increase return from investments. There is also other measures, as you know, we got rid some of annuities in Latin America, the nonstrategic business. And if market opportunities arise, we could contemplate potential sales of these portfolio as well. Hopefully, we'll give you more color during the second -- at the second quarter presentation, when this change in the classification of assets will be completed and also the deal that we're getting for the new portfolio and also a better estimation of insurance liabilities.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you very much. Now we have almost the last set of questions and are taking different issues. And the first one is regarding solvency. What is solvency at after the 2 bancassurance deals? I think that Ramón Carrasco could help us with this one.

Ramón Carrasco
Group Chief Risk Officer

Yes, thank you, Natalia. Well, it's always difficult to have this impact. If we consider only the cash outflow, the percentage could be 2 percentage below what is currently the height, 189.5%. But of course, we need to consider future generation of our funds and the capital requirement that will include the business. It's very difficult to take into account this nowadays.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Thank you, Ramón. There is also another question I would like to take because we've been asked during this morning about this and I would like to take this opportunity to clarify regarding the -- it's the evolution of claims and financial income in the Life insurance business in Spain and Eurasia. Afterwards, Fernando could give us more color about this, what we can expect going forward. But I would like to tell you that to follow the evolution of the Life business and mainly saving businesses, you have to take into account, together, the movements in claims provisions and financial income. So the line you have to follow to track and to return this movement in Life is the total result of Life business. We have not changed the portfolio. It continues to be basically the same kind of product. During the last 3 quarters, we have seen kind of a stability in the results coming from Life in Iberia and also in Eurasia. In Eurasia, the portfolio comes from Malta. This is the -- and this portfolio is -- the asset reflects movement against the P&L account, but it basically -- the policyholders versus the main liabilities of the -- yes, the main liabilities for this portfolio. So I would like to give this idea that the Life business has to be tracked through the line coming -- results from Life business to get the claims and financial income. Because otherwise, there are a lot of volatility and there are a lot of movements that are counter-balanced, one with the other. So that's -- I hope this clarifies. Anyway, we can answer more specific questions afterwards.

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you, Carlos. Regarding moving forward, going forward, apart from Natalia -- what Natalia mentioned, there were a couple of, let's say, nonrecurring events in Life, particularly in Iberia. First is due to campaigns. There were a lot of new production in savings, particularly in Bankinter Portugal as well. And also it was a large policy for -- that was booked during the first quarter, that was booked in BANKINTER VIDA, that fuel, I mean, premium growth during the first quarter. Going forward, we shouldn't expect a similar premium growth in second quarter. I mean it was something extraordinary during the first quarter and the premium growth should be lower than the pace that we reported.

Natalia Núñez Arana

Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Thank you very much. Next question, I guess, this is the last one. Let me -- okay, next question is regarding -- it comes from Michael Huttner at JPMorgan. And the question is, why is the result down despite combined ratio better. Investment income in Non-Life is down from EUR 178 million to EUR 148 million. Why is it down so much? How long will this decline continue?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Michael. I mean this is -- we do not worry, I mean, but we are working on the fixed income portfolio in order to give a stable -- or at least to reduce the downward trend of accounting yield. In the financial report, there is a chart showing the evolution of the accounting yield. If you look at the numbers, it's like a 41 -- if I remember well, 41 percentage point decrease in deal for Non-Life. Non-Life comprises both Iberia and MAPFRE RE. The base for the financial income in Non-Life is approximately EUR 7 billion, so you multiply, it's approximately this EUR 30 million difference for this year compared to last year. The base is quite similar, there is a slight reduction because part of the maturities there -- we set aside some money for alternative investments. But in terms of accounting yields, you're right, there is a decrease. Regarding future pace, I mean, it is extremely difficult. We're taking opportunities according with changes in the yield curve and for instance, last quarter -- this quarter, we increased duration in order to have a better moment in order to increase positions in more profitable bonds. But the future pace, I mean, is difficult to foresee and -- but we're looking at this situation and monitoring, I mean, the current yield from bonds.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Thank you. Thank you very much. There is another one regarding effective tax rates. In first quarter 2019, effective tax rate was close to 30%. How close to normalize is that number? Were there any one-offs or we should assume a similar level in the rest of the year? This question come from Ivan Bokhmat at Barclays.

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Ivan. In terms of tax deduction, I mean, the quarter was a standard quarter and we should assume that the current level of 30% for corporate tax, the effective tax rate is the standard and should be similar, I mean, in coming quarters. Regarding the nominal tax rate for different regions and by far, the largest is in Brazil with 45% and as long as there is -- profits are increasing in Brazil, obviously, the effective tax rate should grow as well. But since business in Spain, they're growing as well and the tax rate in Spain is 25%, we should offset this increase in Brazil by a reduction in Spain.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. Perhaps to follow-up, and the question coming from Michael Huttner. Michael is asking about when will investment income stabilize. Because it has fell a lot in the first Q 2019. Fernando has been answer about this decrease in the first quarter, but going to more specific numbers, we can give you some hints because there are lower realized gains.

Fernando Mata Verdejo
Group CFO & Director

Yes, that's correct. I forget the situation is lower realized gains come, approximately EUR 30 million less, that's before taxes, mainly in MAPFRE RE. We should retake, I mean, the pace of realizing gains, capital gains in the second quarter. And the other reason for the decline is basically the recurring financial income that are coming from bonds and basically the decline is -- as I mentioned, is the decline in yields.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations

Okay. So thank you very much. There are no more questions. Thank you very much, everyone.

Fernando Mata Verdejo
Group CFO & Director

Thank you, everyone, for joining us. Today has been a quite good start for the year and we expect this trend to continue in the -- in coming quarters. For those of you in Spain, enjoy the long weekend, 5 days off. And for everyone else, let's have a good week. Thank you, again, and bye-bye.

Natalia Núñez Arana
Deputy Director Capital Markets & Head of Investor Relations
Thank you.