S&P Global
Market Intelligence

Mapfre, S.A. BME:MAP

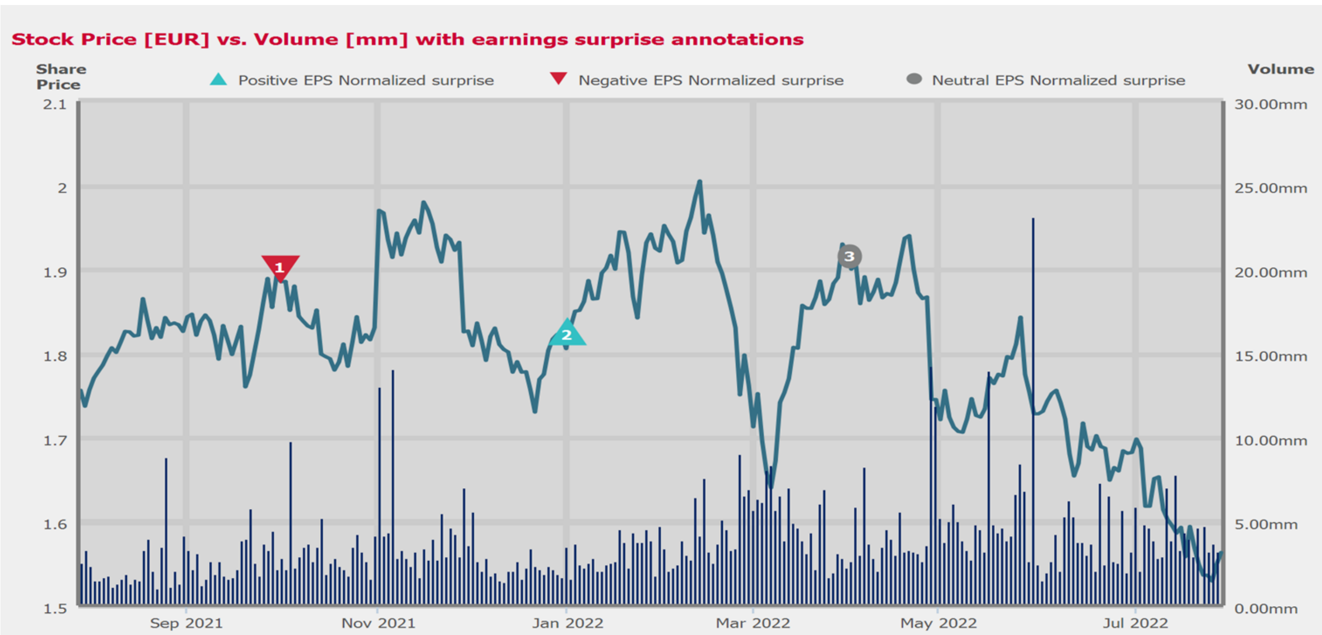
FQ2 2022 Earnings Call Transcripts

Thursday, July 28, 2022 9:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.05	NA	NA	0.04	0.22	NA
Revenue (mm)	6417.08	NA	NA	5746.80	23397.90	NA

Currency: EUR
Consensus as of Jul-28-2022 12:27 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.04	0.03	1 (25.00 %)
FQ4 2021	0.07	0.10	2 42.86 %
FQ1 2022	0.05	0.05	3 0.00 %

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Call Participants

EXECUTIVES

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Fernando Mata Verdejo
Group CFO & Director

Presentation

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Good morning, everyone and welcome to MAPFRE Results Presentation for the Second Quarter 2022. This is Felipe Navarro, Head of Investor Relations and Capital Markets and Corporate Treasurer.

It is a pleasure to have here with us, our group CFO, Fernando Mata, who, as usual, will walk us through the main trends of the quarter. At the end of the presentation, we will open up the Q&A session. We invite you to send us your questions using the Ask a Question link on the bottom of your screen. We will try to answer all of them as time allows, and the IR team will be available to answer any pending questions after the call. As a reminder the replay of this webcast will be available shortly after the call.

And now I would like to turn the conference over to Fernando. Fernando?

Fernando Mata Verdejo
Group CFO & Director

Thank you, Felipe. Good morning, everyone. Before going into the details, I would like to start with a few introductory remarks. Despite an extremely challenging start to the year, MAPFRE has closed the first half with satisfactory results, supported by a very diversified business profile and a strong financial position.

We continue to implement our current strategic plan and targets remain valid. Some initiatives have been delayed or adapted to the current context. The combined ratio target could be more challenging versus today. There is no evidence of not being able to reach profitability and dividend targets.

Growth on a like for like basis has been excellent in core markets. Spain, Brazil and reinsurance as well as growth in LATAM and currency movements have boosted these figures. We maintain a disciplined approach and are growing in profitable lines such as General P&C and Life Protection. We're focused on organic growth on our M&A strategy. As always, it is extremely prudent.

The market environment isn't easy, as difficulties from the geopolitical situation surrounding the invasion of Ukraine persist, continuing to aggravate already growing inflation, rising interest rates and weakening the global growth outlook. Nevertheless, profitability has been robust, reaching a net result of nearly EUR 338 million with an ROE of over 9%. We are benefiting from a high level of diversification with very different trends across business lines. Profit contribution was strong from core operations and direct exposure to the Ukraine conflict is negligible. But our technical results in General P&C and Life Protection are helping mitigate ongoing pressure in Motor and Health with a solid contribution from financial income in many markets.

Furthermore, we've seen the benefits of the restructuring processes implemented in recent years, which are already in the final stages in many countries. The continuous streamlining of the assistance business is coming to an end with the recent disposals in Turkey and the Middle East. And these efforts are reflected in ASISTENCIA as a positive contribution to results this year. Finally, the complete exit from Indonesia and Philippines for both direct operations and ASISTENCIA is imminent, pending only local authorizations.

I would like to spend some time commenting on the Motor business. This segment is currently experiencing several headwinds and it is extremely exposed to inflation and higher mobility. There are also other trends that are putting pressure on claims costs, changes in driving patterns, spare parts inflation and supply chain disruptions, which are leading to longer repair times.

We have quickly defined and executed profitability initiatives across all regions, focusing on 3 main drivers. First, tight increases both on new business and renewals. Second, cost contention, both internal and external claims cost. We are actively managing spare parts and trying to speed up repair, thanks to our preferred garage network and tow trucks. And in third place, even stricter underwriting measures and selling business in a specific portfolio segment. This measure will take time to fit the bottom line, especially in the case of tariff increases, and it could take several quarters to convert to a sustainable model combined ratio.

Finally, MAPFRE continues to boast a very strong solvency position, a high level of financial flexibility. The Solvency II ratio was 205% as of March 2022. And the tier 3 bond that we issued in April, it should boost its position by over 10 percentage points, mitigating the fall in shareholders equity.

We are very well positioned to weather the current environment even with the high volatility in financial markets. We maintain high levels of liquidity and a prudent approach to investments with a modest credit risk while lowering the duration of our portfolios.

Now I will comment on some of the figures from the first half of the year. Premiums are up 7.3% in euros. We eliminated the impacts from currency movements, which added 4.9 points to growth; a large multiyear policy issued in Mexico last year, which took away 4.5 points from growth; and the exit of a bank EBITDA which took away 0.8 points. Premiums would have been up 7.7% with the strong trends in Non-Life.

Regarding the positive currency trends, the most relevant were the U.S. dollar up around 11%, and the Brazilian real up over 18%. There were high single digit and even double-digit appreciations in other Latin American currencies.

The combined ratio was 98.3% with a 5-point increase in the loss ratio, driven by the pressure in Motor, and also reflects the drought that took place in Brazil and Paraguay. The 2-point reduction in the expense ratio is worthy, reaching an excellent level of 27%. This is supported by very strict cost controls in all areas. The pressure on combined ratio was partially mitigated by the improvement in financial income, which was up EUR 54 million on the period in Non-Life. The attributable result reached nearly EUR 338 million with an ROI of 9.2%; 8.4%, excluding the impacts for Bankia and other extraordinary charges booked at the end of 2021.

Shareholders equity is down around 10% on the period, 4.6% in the quarter and over EUR 6.6 billion, mainly due to the reduction of unrealized capital gains due to rising interest rates, which was partially offset by currency appreciation. We have also disclosed on this slide the main extraordinary items. The non-operating impacts include the restructuring of assistant business operations. And regarding operating impacts, there was negative development over the Parana River drought claim reported during the first quarter, which is now at EUR 88 million net loss for the group, EUR 51 million of this is at the reinsurance unit and the remaining EUR 37 million is at insurance units. By country, EUR 28 million corresponds to Brazil, and EUR 9 million to Paraguay.

Financial gains and losses were slightly up on the year but they're still at modest levels. We expect a high level of gains for the second half, mainly from real estate transactions, a building in Bilbao and the JV with Munich Re that they should be formalized by year end.

The line, Other, for 2022 includes an impact in Spain due to tax relief for realized gains and dividends for certain qualifying equity investments. And the tax credit that was recognized in Peru after the merger of the Life and Non-Life units. Full disclosure of the different components of these items are included in the annex at the end of this presentation.

During the first half the year, insurance operations contributed over EUR 10.5 billion in premiums and over EUR 320 million in results. I would like again to highlight the resilient performance in Iberia. Premiums have been slightly down mainly due to the exit of the Bankia business with Non-Life premiums up over 3% with a strong performance in General P&C and Health. The combined ratio is up 1 point to 97% due to the pressure in Motor with a ratio of 100%. The net result was over EUR 180 million with positive trends in other Non-Life segments, helping mitigate the pressure in Motor.

Portugal boasts excellent Motor and Non-Life combined ratios, together with a spectacular premium growth figures. The sale premiums were significantly up with healthy growth trends in Agro, Motor and Life Protection. The attributable result was over EUR 44 million, up over 20%. The strong improvement in Life Protection and high financial income have mitigated the pressure in Motor and also the impact from the drought. The overall combined ratio was at an excellent 94% with recent trends in General P&C in the second quarter, including the Agro segment and also slight improvement in Motor. Currency appreciation has also been a positive driver.

Premiums in LATAM North were up 28% when adjusting for the multiyear policy, and LATAM South grew 26% in euros. Local currency growth was solid in most segments and is worth mentioning Mexico up 20%, excluding the multiyear policy. Peru up over 20%, Dominican Republic up 15%, and Chile up 36%. Overall, in both regions, the strong improvements in Life Protection profitability was offset by the pressure in Motor.

The combined ratio in LATAM North is at a good 96.5% while in LATAM South there is more pressure from inflation at 103.5%. Now the results were up in both regions and in LATAM South extraordinary tax impacts in Peru offset the impact from the drought in Paraguay. Premiums in North America are up nearly 24%, of which 10 points were contributed by the Century business, transferred from ASISTENCIA at the end of 2021.

Performance continues to be affected by rigid tariff regulation, growing mobility trends and increased severity. The 3% Motor tariff increases at the beginning of the year are complemented by the 3.2% increase that was recently approved and is being implemented in July. On the other hand, there is an excellent performance in homeowners.

In Eurasia, premiums are down due to the non-renewal of an important dealership distributor in Italy. In this country, the staff restructuring plan is underway, but savings will take some time to come through P&L.

Performance in Germany and Malta has been good in both countries and in line with expectations. In Turkey, the currency still a drag on both business volumes and results and the inflationary environments has also been a challenge. The group has decided not to consider Turkey as a hyperinflationary economy as of June due to the negligible effects of the restatement of the accounts and other considerations. We will continue to closely monitor the development of inflation during the second half of the year.

In MAPFRE RE, premium growth is supported by positive pricing trends and U.S. dollar appreciation. The combined ratio is 96.4%, which was strong considering the impact from the Parana drought in the second quarter, with a net result of nearly EUR 71 million. In assistance, the streamlining effort is evident with volumes down almost 58%. The sales of operations during this year had a net impact of EUR 1 million on the results. Excluding these, the unit will have been at breakeven.

I would like to comment in more detail what we're seeing in the Motor segment. There is pressure in Motor across all regions with a few exceptions, particularly in Puerto Rico, in Peru, and also Portugal. Anyway, on this slide I will focus only on our main markets.

We have acted quickly to execute our Motor profitability plan across all regions. As you can see on the slide, the fleet is basically stable during the period, only up by a little over 100,000 units and our growth appetite will depend on the profitability outlook for this segment in the future.

In Iberia, rate increases for new business were implemented in the fourth quarter of 2021 while increases on renewals are being gradually implemented through the year to convert with a current inflation. Average premiums are now relatively stable during 2022 after several years of declines. We're still seeing a reduction in coverages and other underwriting measures are implemented to maintain the churn ratio stable.

On the spend side, we continue with a very strict cost contention for both internal and external claims costs, including spare parts and provided network agreements. We are increasing the number of preferred garages and redirecting clients as much as possible to our network.

In Brazil, there have been multiple tariffs increases, but more will be needed, obviously to catch up with growing inflation. On the underwriting side, we have also been canceling non-performing brokers focused on higher risk portfolios, such as commercial trucks and buses with vehicles insured in this segment down over 20% year-on-year.

In the U.S., we were very quick to increase tariffs ahead of most of our peers in Massachusetts, and have already put through 2 3% increases during 2022 with an additional rate hike planned for the second half of the year, obviously subject to authorization from the regulator.

We also implemented measures on the cost side, increasing adjusters on payroll and redirecting more clients to preferred repair shops. We're planning stricter underwriting policy and further aligning commissions to portfolio performance. These measures will help bring the Motor combined ratio down to sustainable levels, although it will still take some times while maintaining the fleet stable and best in class service levels for our clients.

On this slide, I would like to comment on the Life business at insurance units. In Iberia, premiums were down 12%, growth ex-Bankia was down 3%. The Life result has significantly improved, more than doubling with a general improvement in LATAM supported by lower COVID impact. On the right you can see that the total COVID impact in LATAM in the quarter was just EUR 5 million, only half of the impact we saw during the first quarter. We should expect a better outlook in the region going forward.

Assets under management have decreased by 8% as a result of market movements, both due to the uncertain geopolitical context, as well as to rate increases in most of markets.

Spanish sovereign debt continues to be the largest exposure in our portfolio with nearly EUR 10 billion, followed by Italian debt with EUR 2.6 billion. Please remember that a large share of these positions are allocated to immunize the portfolios.

During the first half of Spanish govies are up 186 basis points, while the Italian bonds are up over 200 basis points, and the USD notes are also up 150 basis points. Equity markets are also down due to tension from the Ukraine war. Finally, regarding third party assets under management, both the pension and mutual funds are down mainly due to market movements.

On the top are the details of our euro actively managed fixed income portfolios which have a market value of around EUR 11 billion. The largest move this year was related to the investment of nearly EUR 350 million in inflation linked bonds in Iberia and MAPFRE RE. As a consequence, we observed a reduction in their accounting yield due to the features of those investments. And for this reason, we present figures carving out this part of our portfolio. Obviously, this position have outperformed plain vanilla bonds during the period.

As you can see, excluding these bonds, the accounting deals slightly up with duration down by 2 years in Iberia. As a reminder, the loan duration in Iberia Non-Life is due to the very expensive portfolio and excluding this the duration would be around 3.68 years.

The portfolio in LATAM also includes approximately EUR 1.7 billion of fixed income securities linked to inflation or floaters linked to central bank rates, which represent a lever over 40% of fixed income portfolio in the region. On the bottom you can see the details of the fixed income portfolios in other markets with duration slightly down and portfolio deals are in all markets and regions. This trend should continue in coming quarters as long as central banks put more emphasis in taming inflation threats. And as we mentioned before, we have already seen an over EUR 50 million increase in Non-Life financial income year-on-year.

Shareholders equity stood at EUR 7.6 billion, which represents a 10% decrease during the period. Net unrealized gains on the available-for-sale portfolio were down EUR 1.3 billion, mainly due to the increase in interest rates in the euro area and the United States. The largest impact was in Iberia, down EUR 336 million, followed by MAPFRE RE with EUR 215 million fall, and in North America net unrealized gains are EUR 209 million lower.

Currency conversion differences on the other hand are up over EUR 400 million years on the back of notable appreciation of the U.S. dollar as well as the Brazilian real. On the right, you have the usual breakdown of currency conversion differences, annual movements and also the sensitivity analysis.

On the chart on the left, you can see the breakdown of the capital structure, which is slightly down during the period, amounting to EUR 11.9 billion, which is mainly equity. Leverage is 24.6% with debt levels stable and within our risk appetite.

The increase in the ratio is transitory, mainly due to lower shareholders' equity resulting from the interest rate environment. In fact, the reduction in debt during this period is EUR 167 million. The company has an excess of liquidity as a result of the termination of the agreement with Bankia last year and the issue of Tier 3 subordinated debt in April this year. This excess liquidity will be used to cover the group's operating needs and could be deployed where necessary.

On the right, you can see a Solvency II ratio of over 205% as of March, stable compared to December 2021, and the Tier 3 debt will further boost the position by around 10 points.

To sum up, MAPFRE has reported satisfactory results. Geographical and business diversification continues to be key to compensate negative trends in the Motor ahead of lines. Despite a very challenging market context, growth is robust and profitability has been resilient in core operations. MAPFRE RE continues to contribute to results despite a large NatCat impact during the first half of the year and should continue to benefit from an improving pricing environment.

LATAM premium volumes are not worthy growing in local currency with positive trends and profitability is boosted by lower COVID losses and higher interest rates. Regarding the Motor segment, there is a profitability plan in place across all geographies, and these measures should help the combined ratio converts to more sustainable levels, especially in Iberia, Brazil and the USA. Despite the complex and uncertain environment, MAPFRE continues to implement its 3-year strategic plan. This is the road map the company needs to be able to move forward in terms of growth and profitability. It is flexible enough to allow each initiative to be adapted to the change in environment when necessary.

Regarding financial objectives, both the aspirational targets and the general framework are still valid. The combined ratio of 94% to 95% will be challenging in the current context and could be subject to revision in coming quarters, depending on inflation. On the other hand, there are several other tailwinds that will help meeting the 9% to 10% ROE target, such as a very strong premium growth and improving financial results and the positive currency impact. Excellent solvency and capital levels will also support the 50% minimum payout target. And consequently, we see at the moment no evidence of any potential risk that could affect the sustainable dividend. Finally, transformation and ESG targets remain fully valid. Corporate social responsibility is deeply rooted in MAPFRE's DNA, and our social commitment is always fully reaffirmed. Thank you very much for your attention, and I will now hand the floor over to Felipe to begin the Q&A.

Question and Answer

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thanks, Fernando. As I'm sure you already are familiar with the Q&A session process. Just let me very quickly remind you that you can use the Q&A tool on the bottom of your screen and send your questions. And we will try to clarify all your doubts as time allows.

Now let's start with the first question. Michele Ballatore from KBW is asking, "How do you see the cash remittances to the holding this year? I'm more interested in the divisions outside Spain."

Every cash remittance's coming from our subsidiaries outside from Spain are on track and on budget, and there is nothing that is considered as not normal for the moment. We are considering this as very regular. Fernando?

Fernando Mata Verdejo
Group CFO & Director

Thank you, Felipe. As you may imagine, I mean, there is a lot of cash, particularly in Spain. I mean your question is outside Spain, but we reported in our Solvency II ratio well above 500% in Life, in MAPFRE Life. So in any case, there is a wonderful cushion buffer in MAPFRE EBITDA, just in any case to cover any particular [hindrance] we can face in other emerging countries.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Next question coming from Maksym Mishyn from JB Capital. "What kind of impact do you expect from the fires in Southern Europe?"

Fernando Mata Verdejo
Group CFO & Director

Well, so far, we only have an exposure in Spain. We do not run any particular exposure in Italy nor in Germany. And from the reinsurance side so far, there is no good news. In Spain, as you know, there are wildfires across the country. We do not cover agricultural business, not a forester business because they're covered by usually -- normally by Agroseguro, which is a Spanish pool. But their exposure that they're calling next to some area, that has been exposed too far. So far, it's like 70 exposure that has been affected. The amount is not that important. And so far, we're treating these particular claims such as recurrent damage claim for Spain.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. Now we go for the group of questions related with Motor business. And we have Carlos Peixoto from Caixa.

Carlos Peixoto from Caixa asks about Spanish Motor business. "How do you see the tariffs and combined ratio evolving in coming quarters?"

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Carlos. We are now experiencing the best moment for Motor insurance, particularly in Spain. This is a difficult situation and mostly due to a combination of both, I mean, inflation and also lower tariffs that we implemented during the pandemic in 2020 and 2021. I guess it's an entire industry problem. But probably MAPFRE -- but since our rebates and discounts were higher than our peers, probably we had to face a different problem or let's say, a higher tension in our Motor business. But in any case, we're applying continuous efforts to mitigate this inflation situation in claims cost. And this auto plan has been implemented through the flattening loss ratios in the medium run. Also, and we mentioned in the past, the direct network, what we call the last-minute discounts to protect the portfolio, which is our main target are being replaced by reductions in covers that will over time, obviously reduce as well the loss ratio.

Meanwhile, strong cost control, I mean it's bearing fruit. You see 2% reduction in the spend ratio compared to last year. And also, we renew agreements. We provided our provider network and also the collective bargaining agreements with our payroll as well with increases below general inflation, will help us to reduce the expense ratio. Until all these measures are fruitful, we will count on other income sources that will help compensate the situation in the medium term, particularly financial income, as we mentioned in this presentation and also in the press presentation. This is a significant increase across regions in our net financial income, particularly for Non-Life. It's like a EUR 50 million increase compared to last year, which represents approximately 20% increase.

So also, our deals are increasing, and we are even more optimistic for the second part of the year since our investment will be higher rates as well. So that's basically Spain. I mean tough moment, implemented a plan in order to come back to profitability, but it takes some quarters.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando, for such a thorough answer. Andrew Sinclair from Bank of America wants to know when we expect to see peak combined ratio in America before it starts improving again?

Fernando Mata Verdejo
Group CFO & Director

Well, that's extremely difficult question. Andrew, I mean, we're happier with the 2 rate increases that has been already implemented during this year. We should file with a regulator for an additional rate increase in the second half of the year. Demand has not been defined yet, but we tried to catch up with inflation.

When we compare with peers, we got a lower severity change. But in general, the frequency is pretty similar. So let's say that we are facing a tough moment, particularly in the U.S. with the rate increase regulated. And working meanwhile, I mean on reduction of cost and expenses, trying to redirect repairs to our network. I mean currently, it's like between 40% and 45% of the car crashes are currently directed to our network, and we should achieve a minimum of 75%. We're implementing as well as a sort of internal adjusters in order to reduce expenses and be more efficient as well. In consequence, it will take some quarters, and we focus on cost and increases of tariffs, but it's not that automatic like in Europe or particularly other countries. So I will say that we'll have to wait to 2023 to have a better outlook.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Alessia Magni asked as well from Barclays. She wants to know when the combined ratio in Iberia will improve? I mean that was the main question from Andrew, that you made a thorough analysis on all the countries.

Fernando Mata Verdejo
Group CFO & Director

Our combined ratio in Iberia, I don't think it's that bad, particularly since we had tailwinds for General P&C. I mean it stands at 90%. I mean, this is a fantastic combined ratio. On the other hand, I mean, particularly euro is 100%. And so that's what I said that the current 94% to 95% for the entire group combined ratio is a little bit challenging. The total for MAPFRE Iberia is in the low 98%. We should see in coming quarters -- and coming quarters don't mean in 2 quarters, probably in 4, 5 quarters -- we have to aim to a reduction in combined ratio to achieve probably 96% -- between 96% and 97% will be in the medium term and more sustainable levels. But in the long run, I mean, to be lower than 96%, which was, by the way, the combined ratio that we stood at the pre-pandemic period.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Excellent answer. Thank you very much, Fernando. Paz Ojeda is concerned about the competition in Spain from Banco de Sabadell. She wants to know how confident we are on our capacity to increase tariffs in Motor, bearing in mind that the strong competition of the lower purchasing power in households due to the inflation.

Fernando Mata Verdejo
Group CFO & Director

You're right, Paz. But we had to separate I mean the current auto market in Spain. I mean particularly MAPFRE, we have to protect and to preserve our portfolio. I mean we have 6 million cars and so we have to be extremely prudent in increases, particularly in renewals. So we are applying slight increases month by month in order to protect the number of units stable. There are other peers that they're focused on tariffs. I mean the main marketing tool for them in order to protect the fleet is to get new business. I mean, they are focused on new business. It's not MAPFRE situation. I mean, we increased dramatically. I mean, and you can see on the price aggregators, our new business tariffs. We do not have any appetite to growth while seeing these combined ratios. And we will wait to increase our exposure in Motor to see a better outlook, I mean, for this business.

So let's say, 2 different peers. I mean those that are focused on pricing. I mean they had to have in the marketing tools in order to keep the flow of new business in their accounts. Otherwise, I mean, they will lose part of the business. MAPFRE has to focus on renewals portfolio. I mean this is our core business, and we have to protect from our peers. That's basically the strategy that we mentioned in the past. And we will focus on the coming quarters.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Just as a clarification, Andrew Sinclair is asking when the peak of the combined ratio was going to happen in Iberia, more than in America. I think that you answered that to...

Fernando Mata Verdejo
Group CFO & Director

In Iberia, that's difficult. We've seen the last 2 months, June and May, they were -- correct me if I'm wrong, Felipe, but they were more promising and with a sort of flattening end of particularly the severity. But we'll see. I mean I don't try to tell you this particular quarter. I mean we had to wait and see how the outlook looks during the second part of the year, frankly.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Maksym Mishyn from JB Capital. He is asking something related with the driving patterns. He is asking, "Do you see any change in mobility trends from the higher gas prices?"

Fernando Mata Verdejo
Group CFO & Director

Not yet. I mean, the first conclusion is that the people are driving less, but what we're seeing, particularly in Spain, because in the U.S. it's a completely different driving pattern. In Spain, we are driving longer during the weekends, with longer distances as well. And perhaps, we're using more public transportation during working days, particularly in the cities. But so far, I mean, in general, I mean, we're coming out from a really difficult period, which was the pandemic and also the lockdown at homes. And people -- my view is people are driving. I mean -- and this trend, we will see quite stable at least in summer.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Yes, it's quite surprising, yes, but I mean, it's happening. Thank you very much, Fernando. Maksym is also asking about any headwinds on the solvency for second half 2022?

Fernando Mata Verdejo
Group CFO & Director

No, we haven't seen any particular headwinds for Solvency II, just the other way.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

We should publish our figures for the solvency in mid of August.

Fernando Mata Verdejo
Group CFO & Director

Mid of August.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

So we'll have any more information there. Alessia Magni from Barclays is asking, "On Brazil, what are the main drivers for the positive developments on the first half 2022?"

Fernando Mata Verdejo
Group CFO & Director

Well, increase of rates, it was across the board and also a reduction of some loss-making portfolios, as I mentioned, buses and trucks. We're talking about Brazil Motor.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Brazil, but not only Motor.

Fernando Mata Verdejo
Group CFO & Director

Not only Motor. I mean, in Motor, it was a reduction in combined ratio. It was promising as well. But the main driver for the increase of profitability in the country was a significant reduction in combined ratio for Agro business in the second quarter and also a better performance of General P&C as well.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Carlos Peixoto from Caixa is asking now for the Brazilian Motor combined ratio that improved in a very substantial way on the second quarter versus first quarter 2022. I think it was a slight 1%. "What drove it? And what are the expectation of the motor combined ratio evolution in Brazil to the second half 2022?"

Fernando Mata Verdejo
Group CFO & Director

Current combined ratio stands at 120%, correct me if I'm wrong, Felipe. This is not sustainable, is 100% sure. And we should see reductions in this combined ratio in the second half of the year based on the reduction of units and also the increase of tariffs. And that's basically the main drivers for an improvement in combined ratio. But what we mentioned in the past is that the non-run rate combined ratio for Brazil, that should be 100%. It will take, as I mentioned, several quarters, I mean, to hit it.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Thank you very much, Fernando. Elvis Anoma from Credit Suisse. He's interested in the Homeowners business. He's asking about the Homeowners combined ratio. "Can you please give some color on how it's developing and expected to evolve after this first half?"

Fernando Mata Verdejo
Group CFO & Director

Yes, that's a very good question, Elvis. Let's say that 2022 is just the opposite of what happened during the pandemic years, 2020 and 2021, in which was an increase of frequency, particularly home repairs. We were locked up and probably we repaired everything we had to in our homes and also the condominiums. What we've seen in 2022 is an automatic increase of rates based on the increase of values, which is something automatic across all geographies and also a reduction of frequency. We know that this is not sustainable and combined ratio is lower than 90%. It should convert into the low 90s, but it will take some quarters as well.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

One particular question coming from Paz Ojeda from Banco de Sabadell is about the rocketing energy prices that are already causing business interruption in some plants of industrial companies. And she's asking if this is covered by insurance policies, the business interruption for lack of energy?

Fernando Mata Verdejo
Group CFO & Director

I don't think so. I'm not sure about this. Let me look into these proper questions, and then we will come back to you.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Usually, there's a need of any material damage in order to have any cover on the business interruption. And this was the main reason why the COVID claims were not considered.

Fernando Mata Verdejo
Group CFO & Director

My first reaction is no, but let me be 100% sure and we will get back to you just in case. There is not 100% answer for this.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Michele Ballatore from KBW. "What kind of reinvestment rate do you see in the medium term considering the rising yields?"

Fernando Mata Verdejo
Group CFO & Director

Well, as I mentioned, we reported a 50% increase for the group for non-Life business, very, very positive, is based on lower duration. I mean, we did it at the right time with lower exposure as well on equities and also credit risk. And we've been opportunistic. It's like EUR 1.7 billion on fixed income securities linked to inflation of the Central Bank rates. So let's say that our exposure in LATAM is very well protected and there is a positive interest return since the -- particularly in LATAM, the deals are higher than inflation. Nowhere it has happened in Spain and nor in Europe. But what we've done in the past in order to have a quite prudent portfolio is bearing fruit during this first half of the year. In that case, we are pretty optimistic as well for the second half of the year since reinvestment will be higher rates. And also, we have a very, very prudent portfolio and is giving fruit. That's my conclusion.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. I have a couple of questions now related with the taxes of the group. I'm going to read both of them.

Carlos Peixoto from Caixa asks, "Could you provide more color with the EUR 17 million positive impact in the exemption regime for gains qualified share dividends belonging to financial investment portfolio? Is this a one-off or should this have an implication on the profit and loss taxed in the future, reducing the effective tax rate?" And Paz Ojeda is asking similar questions related with the tax rate that was low in the second quarter 2022 standalone. "Can you elaborate and give us some guidance on the rest of the year?"

Fernando Mata Verdejo
Group CFO & Director

Yes, it's a very difficult and complicated tax system, correct me if I'm wrong and give me help. Probably you remember, Carlos -- and also the question was from Paz -- that due to the sale of the shares. At that point, we look into the different tax regimes that they were applying to this transaction. At that point, we realized that there is some capital gains and losses for some eligible equity investments. The threshold to be eligible was investment over EUR 20 million. So there are very, very few entities in Spain with individual, say, positions on equities higher than this amount. So probably it's unknown just for this reason. And at that point, it was February 2022. We looked back at the transactions made for the last 3 years -- 5 years, sorry, Felipe has corrected me, and we filed with the tax authority, complementary tax returns to correct those capital gains and losses for eligible tax over EUR 20 million that would -- they were made during the last 5 years. This is basically the net results for the fiscal group comprising all the Spanish entities. Doesn't apply to companies abroad. And let's say that the 95% is -- should be considered as a one-off transaction, and that's why we consider as an extraordinary. There are very few investments higher than EUR 20 million in our current portfolio because we have rotated a lot of our equity portfolio. But it could be some tax exception, very, very marginal in the future.

I mean the phaseout of these tax regimes ends, I guess, in 2025. So probably we don't see any important impact, significant impact in our accounts for additional, say, capital gains or losses with this tax exemption. Any correction Felipe?

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

No, no, that was very, very well explained. So we look for this movement until the 2025. Okay, next question is coming from Charles Graham from Bloomberg. "Can you talk about the pricing trends, particularly in Motor by region after iteration of the second quarter combined ratios? How much is the issue rise in claims frequency? How much evidence is there already on increased claims cost?"

Fernando Mata Verdejo
Group CFO & Director

Well, we already commented most of the regions, but I will give you just a wrap-up in Spain for renewals. Slight increases on a monthly basis in order to catch up with inflation for renewals, a significant increase in order to limit our appetite for growth. In Brazil, increases across lines and some loss-making portfolios cancellation, particularly trucks and buses. In USA, tariffs hikes are regulated. So already implemented 2 3% increases and another waiting for the second half of the year.

Regarding frequency, practically, we are at the same level at pre-pandemic periods. And regarding severity, close to the inflation, the CPI by regions, I guess, in Spain, similar -- a little bit lower. I mean the CPI in Spain is 8%, our cost inflation is a little bit lower and the same in U.S. and also Brazil.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

We could consider that the CPI is bringing some figures for inflation that are not considered in our internal inflation. Thank you very much, Fernando. We have another question coming from Maksym Mishyn from JB Capital. "Do you think that tough motor market can push more consolidation in Spain? Would you consider inorganic growth?"

That's a good question on the M&A side.

Fernando Mata Verdejo
Group CFO & Director

Well I mean, it's an easy one. I mean we do not have any appetite for organic growth, neither for inorganic. Even inorganic is more difficult. We don't know the technical basis of the current portfolio of other entities. So I don't see any further consolidation of Auto business particularly in Spain.

Felipe Navarro López de Chicheri
Head of Capital Markets & Investor Relations and Treasurer

Okay. Thank you very much, Fernando. I think that there are no more questions. So we should be finishing here. We have received some questions through the platform that we feel that we have answered all of them through the Q&A. If further clarification is necessary, do not hesitate to contact us later.

We remind you that tomorrow at 11:30 Central European time, we are holding a virtual group meeting with analysts and investors. You should have received -- already received the invitation. If you haven't signed up yet or never received the details, please send an e-mail to the IR team, and we'll get the information to you. And please remember that you can contact the Investor Relations team at any time if you have any doubts about the results released today.

Thank you very much for your attention today and happy, happy summer holidays for all of you. Thank you, Fernando.

Fernando Mata Verdejo

Group CFO & Director
Yes, thank you for your presence again and for those that are taking holidays, well-deserved holidays. I hope you enjoy the most. Thank you.