Mapfre, S.A. BME:MAP

FH1 2019 Earnings Call Transcripts

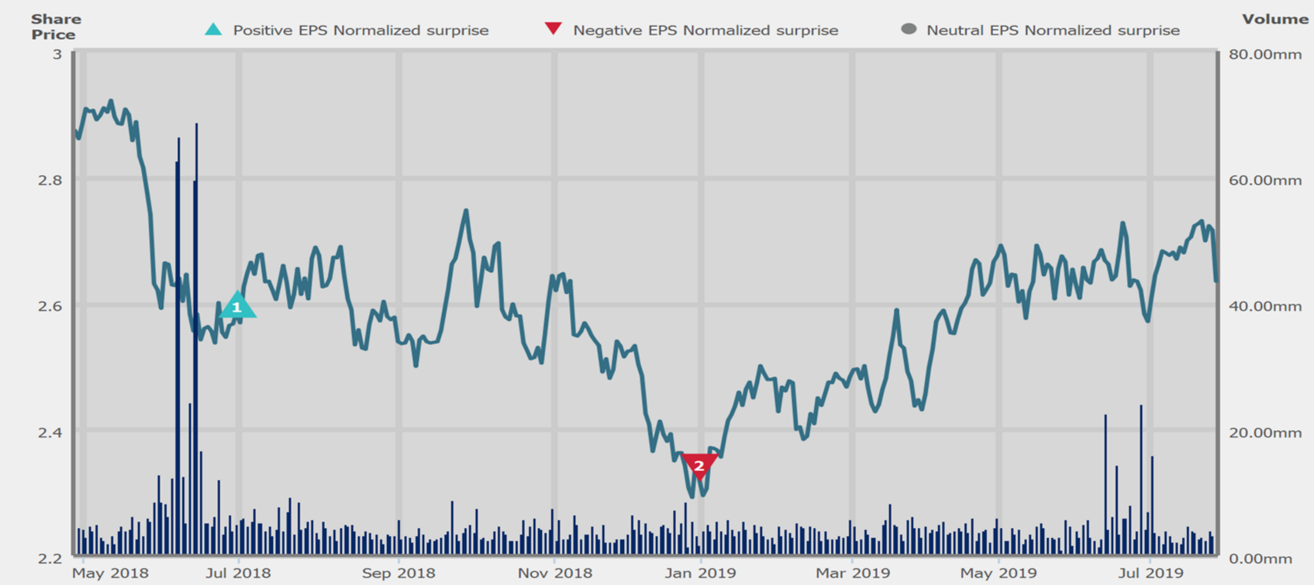
Thursday, July 25, 2019 11:00 AM GMT

S&P Global Market Intelligence Estimates

	-FH2 2018-			-FH1 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.10	0.08	▼(20.00 %)	-	0.25	0.28
Revenue (mm)	-	-	-	12224.00	22845.93	23623.33

Currency: EUR
Consensus as of Jul-22-2019 10:41 AM GMT

Stock Price [EUR] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FH1 2018	0.12	0.13	▲8.33 %
FH2 2018	0.10	0.08	▼(20.00 %)

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Call Participants

EXECUTIVES

Fernando Mata Verdejo
Group CFO & Director

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

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

Presentation

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

Good afternoon and welcome to MAPFRE's results presentation for the first half of 2019. This is Natalia Núñez, Head of Investor Relations. First of all, I would like to give a warm welcome to our CFO, Fernando Mata. As in previous quarters, he will take us through the main year-to-date figures and trends. And it is also a pleasure to have here with us today, José Luis Jiménez, our Chief Investment Officer, to discuss our investment portfolio and answer all the questions you may have regarding this topic.

Allow me to remind you that you can send questions to Investor Relation e-mail address, and we will try to answer them during the Q&A session if time permits. If there are any pending issues after that, the IR team will be delighted to attend them.

And now let me hand the call over to Fernando.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Natalia. Hello, everyone. Welcome to the presentation of our half year results. As always, it is a pleasure to be here with you. We are now 6 months into our 3-year strategic plan. And as you can see, the numbers are very positive, fruit of the transformation that we are implementing and aligned with this strategic plan.

Looking at the key figures for the quarter. Revenue is up almost 7%, mainly due to the rise in premiums and higher financial income, stemming from the value in financial markets. Overall, premiums are up nearly 5% with similar growth rates in Life and Non-Life. Constant exchange rates, there is little variation. Our combined ratio has improved 150 basis points and is now under our target of 96%. The net result of almost EUR 375 million has fallen 2.9%, mainly as a result of lower financial gains, together with a weaker performance in Life that we will cover later.

Shareholders' equity is up 10.6%, mainly as a result of the fall in interest rates as well as currency appreciation. The ROE, excluding the 2018 goodwill write-downs will have been almost 8%. And the Solvency II ratio stood at around 189% at the close of March, the first quarter, quite stable compared to the previous period.

On the next slide, we'll take a look at the key figures by unit. On the right side, you can see the KPIs 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 232 million net result and solid underlying performance, especially in Non-Life.

Second, there were strong improvements in Brazil, up EUR 19 million; and in North America, up EUR 41 million, resulting from an improved underlying performance as well as an absence of negative extraordinary items.

Third, LATAM North and South were also strong contributors to results, which is reflected in the low and improving combined ratios. Fourth, MAPFRE RE, which comprises traditional reinsurance and the GLOBAL RISKS business, contributed EUR 85 million despite a large industrial claim and the impact of the drought in Brazil.

Lastly, Eurasia and ASISTENCIA continued facing profitability challenges in Turkey and the United Kingdom, respectively. We expect this trend to change over the coming quarters. In ASISTENCIA, the majority of countries are making profit, and the losses are concentrated in the U.K. travel assistance business, where measures are already being taken.

Regarding premiums, growth is very strong in Iberia and LATAM North, the latter fueled by a large multi-year contract we will comment on later. In addition, appreciation of the U.S. dollar and some Latin

American currencies have also supported premium growth, while the Brazilian real is still a drag on premiums but to a much lesser extent than last year.

On Slide 4, we will look at the adjusted attributable result. I will comment on the extraordinary drivers of the result. As a reminder, last year, the U.S. was impacted by severe winter weather. It didn't happen fortunately this year. There were a few large claims affecting MAPFRE RE that we will discuss later, but they have not been considered extraordinary.

The reorganization of our U.S. operations has had a positive net impact of EUR 4.5 million in 2019, driven by a net financial gain from an investment portfolio existing at the time of the Commerce acquisition, which was partially offset by operational restructuring costs. Realized financial gains decreased by almost EUR 23 million in our actively managed portfolio, and the transactions made were exclusively in equity.

Despite the current rally in bond markets, we didn't realize gains in this period to protect our [campaign zero]. And regarding real estate, we have not completed any transactions despite having some units available for sale.

The adjusted attributable result, excluding all these impacts, is down by around EUR 11 million, largely driven by the fall in the Life result, which we will discuss on the next slide.

Iberia is performing well, maintaining the same positive trend. As you well know, in Spain, we are expecting a new regulation, updating life actuarial table for longevity by year-end. And as we did with Baremo, we have been gradually pre-provisioning for this effect over the last few quarters, starting last year. At the end of June, we have already expensed over 80% of the cost based on our estimate of EUR 56 million before taxes and minorities.

The fall in Brazil is explained by the nonrecurring reversal of a provision in 2018 in the bancassurance channel, which had a EUR 109 million positive impact on the gross results and EUR 50 million after tax and minorities. There has also been an increase in acquisition expenses this year in the bancassurance channel in order to boost sales.

The fall in LATAM North is due to higher claims and large corporate life protection policies in Mexico. In LATAM South, there were negative adjustments in Colombia, affecting annuity runoff portfolios as a result of updating long-term financial assumptions as well as lower extraordinary results in Peru compared to same period last year.

And finally, MAPFRE RE realized gains are slightly down, and there has also been a negative impact from some annuity contracts in Latin America.

Please turn to the next slide. On the left, you can see the breakdown of the capital structure with amounting to EUR 13.2 billion. Our credit metrics remained quite strong. We leveraged around 23%, affected by acquisitions financing as well as transitory funding of subsidiaries. Leverage should go back down to target levels over the course of the year. Interest coverage is around 20x earnings before interest and tax. And on the next slide, we'll take a look at our equity position.

Shareholders' equity is up 10.6%, over EUR 8.8 billion. The main reasons behind these improvements are: first, EUR 707 million increase of unrealized gains on available-for-sale portfolio, net of shadow accounting. The change is based on the strong 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 50 million positive impact during the year. And finally, the decrease of EUR 262 million corresponds to the dividend paid in June.

I will now hand the floor over to José Luis, and we will take a look at the investment portfolio.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Okay. Thank you, Fernando, and good afternoon to everyone. On this slide, I think it's #8, you can see on the right-hand side the assets under management, which are up by 7.8% driven by: first, improvements in the financial markets after the important correction at the end of 2018; second, FX; and third, the consolidation in March of Banco Mare Nostrum bancassurance operations; and fourth and last, the value of real estate increased due to the application of IFRS 16, which was already reflected in the first quarter of the year.

The background of the investment portfolio is on the left. Asset allocation has been relatively stable through the year, and exposure to government and corporate debt remains mostly unchanged. The largest exposure correspond to the Spanish sovereign debt with EUR 18 billion and Italian debt with EUR 2.7 billion. As we have mentioned in the past, the majority of these investment are in [muni-sized] portfolios.

Our cash position is up to EUR 2.4 billion and include short-term investment and temporary cash balances. Exposure to equity and mutual fund has gone up slightly, thanks to the positive recovery in the financial markets. The strong rally on financial -- in the financial markets is also reflected in our assets under management, which are up nearly 8% year-on-year.

On the bottom right hand on the slide, you can see the unrealized gains on our actively managed portfolios in MAPFRE RE and Iberia. At the end of June, there were over 42 million from equity and mutual funds and EUR 324 million from fixed income investments.

On the next slide, we will look at our actively managed investment portfolios. First, I would like to comment on our actively managed portfolios. Yields are still quite high, around 2% in Non-Life and 3.7% in Life, well above market yields. Nevertheless, the downward trend continued deteriorating our financial income. We partially neutralized this effort by a slight increase in duration and allocating part of reinvestment to alternative assets, something that we plan to increase in the future.

Duration has gone down as we sold GLOBAL RISKS asset portfolio last year as part of the business reorganization, and proceeds has been gradually reinvested through the year. Realized gains in the euro area reached nearly EUR 50 million during the first half of the year, over EUR 30 million less than the previous one.

Asset sales continued to be selective as we expect the positive trends in markets to continue, and we prefer to protect the recurring deal of our fixed income portfolio. Analyzing the recurring financial income in Non-Life, we can see that geographic diversification is playing an important role. Duration increases has contributed to enhance our fixed income portfolio yield, especially in Latin America.

In Brazil, market deals has begun to increase and our accounting yield is even slightly up since the start of the year. In the Rest of Latin America, we are actually seeing an increase in portfolio yields over 50 basis points.

In North America, the accounting yield has been stable since the start of the year, around 3%, despite the strong fall in rates. And duration is around 5 years, which offer us some protection with the rise and fall in yields. In Eurasia, we have seen a very limited decrease, around 10 basis points.

And now I will hand over to Fernando again.

Fernando Mata Verdejo
Group CFO & Director

Thank you, José Luis, very comprehensive speech. Please turn to the next slide, where we will begin a breakdown by business, starting with Iberia.

In Spain, premium performance has been excellent. We are outperforming the market in our main line of business, both in Life and Non-Life. In Motor, premiums are up 2.3% with positive developments, both in retail and in fleets. General P&C growth was mostly driven by homeowners and condominiums, helping to offset the fall in commercial lines.

Sales campaigns in both agent and bancassurance channels drove the Life business. It is also important to keep in mind that we rolled a large group policy in the first Q 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. We've seen rise in claims costs, first in property damage mainly and slightly rising frequency trends in full coverage products but both in line with our expectations.

In General P&C, we have seen a nearly 3 percentage points improvement, thanks to Homeowners, Condominiums and General Liability segments. The improved result in Portugal with a strong reduction in the combined ratio is also worth highlighting.

Let's take a look now at Brazil. Premiums grew almost 2%, over 5.6% growth in local currency, especially in the Life Protection, Agricultural and multi-risk segments. There was a fall in motor premiums as a result of selective underwriting guidelines.

The attributable result amounting to almost EUR 49 million, up nearly EUR 19 million compared to last year. The largest profit contributor was General P&C, driven by improved underlying technical performance now that the operations are fully normalized.

Losses in Motor are slightly down with a 7 percentage point reduction in combined ratio, thanks to stricter claims management and new pricing tools. Overall, the new business model has greater technical control and discipline, and we are [not] on track to meet our 105% Motor combined ratio target for year-end.

Financial income is up, mainly in the Life business due to opportunistic realized gains mainly during the first quarter as well as resilient portfolio deals. Regarding Life Protection, variations were discussed at the beginning of this presentation.

Finally, the negative impact of the depreciation in the Brazilian real and average exchange rates has been less than in previous quarters.

In LATAM North, I would first like to highlight the extraordinary combined ratio, which stands at 93.1% with a more positive currency scenario. Excluding the multi-year PEMEX policy, Mexico has strong premium growth of almost 15% in the Motor, Health and Life segments. Motor combined ratio went down over 7 percentage points to below 94%, thanks to tariff and risk selection measures. General insurance has also seen an improvement in results.

Regarding Central America, Panama experienced an increase in the loss ratio in Motor, General P&C and Health, practically all lines of business. But the new appointed CEO, started last year, is implementing technical measures, including tariff increases to correct this trend.

Honduras continues to have excellent recurring results with the combined ratio below 86%, while El Salvador is also performing well. Dominican Republic saw strong local currency growth in premiums and receiving combined ratio under 87%.

Please turn to next slide where we're seeing LATAM South with an extraordinary combined ratio standing at 95.7%. With the exception of the Argentine peso, there were already strong local currency trends across the region and tailwinds from currencies. In Peru, premiums were up 8.6% in local currency with a strong technical performance, reducing the combined ratio by 3 percentage points, driven by Motor and Health and Accident.

In Colombia, there was a reduction in the combined ratio set by -- offset by negative adjustments in the annuity runoff portfolios as a result of the -- of updating long-term financial assumptions, mainly the minimum wage already discussed in previous presentations. Financial performance improved mainly as a result of the increase of the market value of the trade-in portfolio.

Chile saw local currency growth of 16%. There was a higher combined ratio in Motor as well as an uptick in General P&C due to storms in the central region of the country, offset by strong improvements in Health and Accident. Argentina saw a decline in premiums driven by currency depreciation. There was also an increase in the combined ratio in General P&C and Motor.

Let's move to North America. The appreciation of the average dollar exchange rates has positively impacted both premiums and results. Premiums are down almost 8.5% in local currency as a result of the exit from 5 states in 2018 as well as from underwriting measures. Underlying results have improved in the U.S., especially in personal Motor, with a 3-point improvement in combined ratio.

We are reducing our exposure in those areas where we aren't profitable. We have stopped commercial line renewals this quarter, the second quarter, in all states but Massachusetts. And we are also working on improving client segmentation in several regions, including California, to attract and retain the clients we truly want.

Outside of the Northeast, in Western region, states like Washington and Oregon have improved significantly, as you can see on this chart. Results are also benefiting from lower weather-related losses as well as the exit of the 5 states last year already discussed.

As I said, 2019 results all saw a benefit from the EUR 4.5 million net positive adjustment, which comprises, first, EUR 19.2 million net financial income arising from equities and high-yield bonds that existed before MAPFRE's acquisitions of Commerce. We sold equities for a gain while we booked a provision for the bonds.

Second, up EUR 14.7 million extraordinary expense related to business restructuring. Half of this amount corresponds to the write-off of assets, including accounts receivable as well as layoffs, which were the consequence of our exit plan. The other half corresponds to a provision. It's a general provision to cover any potential runoff from Commercial lines outside of Massachusetts that we had stopped renewals. Finally, positive premiums and profitability trends continue in Puerto Rico after the 2 hurricanes that hit the islands a couple of years ago.

Please turn to next slide. In Germany, premium trends continued to be positive with an improving attributable result and resilient combined ratio. In Turkey, first of all, average exchange rates for the lira are down 22%, and premium growth in local currency was up around 10% as we continue reducing our MTPL exposures.

The attributable loss reached EUR 3 million at June compared to a nearly EUR 9 million net profit last year. The loss is mainly due to MAPFRE's participation in the high-risk MTPL pool, which had a negative impact of EUR 4.6 million. This pool is compulsory and losses are allocated in proportion to the entities and market shares.

Italy experienced strong premium performance, driven by the dealership channel and a strong improvement in the combined ratio, down 4 percentage points. As we announced last quarter, we are working on the process of transforming our Italian entity into our VERTI Spain branch under EU regulations. The transformation will allow us to optimize capital and reduce costs. So far, we're happy, the plan is moving forward according to schedule.

Please turn to the next slide to discuss MAPFRE RE. Premiums are benefiting from currency movements, especially the U.S. dollar. MAPFRE RE has an excellent combined ratio of 94.5%. It is up on the year as a result of, first, a large industrial claim that we already commented in the first quarter amounting to almost EUR 20 million, of which 12 million comes from GLOBAL RISKS.

Second, the loss from the Brazilian drought amounting to nearly EUR 12 million pretax net of reinsurance. And last, net earned premiums, which are down, resulting from a different distribution of earned premium accruals with more weight in the second half of the year. The impacts will be neutral for the full year.

The Life business is down year-on-year, mainly due to some annuity contracts in Latin America affected by the update on long-term financial assumptions, which we already explained in the earlier slides for that business. And finally, financial gains are down EUR 4 million to EUR 14.8 million.

Please move to the next page. Solvency II figures as of March 31 continued to reaffirm MAPFRE's solvency position. The 189% Solvency II ratio is based on a high-quality capital structure of EUR 8.8 billion in eligible own funds, of which 87% is on restricted Tier 1 capital and the remaining 13% is Tier 2.

The ratio in March is quite similar to the year-end. But even so, on the right, you have a breakdown of the variation of the different components of our eligible own funds. Also, more detailed information regarding the solvency figures can be found in our financial report. Also, you can find the information for embedded value for 2018 in our new financial documentation center on our website.

Please turn to the next slide for closing remarks. We're clearly seeing a turnaround in both the U.S. and Brazil. We expect the improvements to gain momentum throughout the year, and both operations are on the right path to meet our targets.

In Iberia, both premium and profitability performance have been excellent and are in line with our expectations, even in a very competitive market environment. MAPFRE RE has had resilient results and will continue to be an important contributor to our earnings.

Growth trends are good in LATAM North and South and profitability trends continued to improve with combined ratios consistently below 96%. Regarding Turkey, we're carefully monitoring profitability, where our outlook for the second half of the year is slightly better. MAPFRE continues to boast an excellent financial position. We expect leverage and solvency ratios to converge to targets.

All in all, we consider the first half results to be a very good start to meet the group objectives set in the new strategic plan.
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 very much, Fernando. So we are going to start now with the Q&A and with the questions, we have received from you. We are trying to group them by topics. We will do our best.

Okay. The first topic is about Brazil. Ivan Bokhmat at Barclays, Andrew Sinclair at Bank of America, Alfredo Alonso at BBVA, Michael Huttner at JPMorgan and Sofía at CaixaBank have the following question, "Brazil already performs at a low combined ratio of 91.6%, considerably below the 96% hurdle outlined in the strategy. What went better than your assumptions here? And what level should we consider sustainable for 2019, 2020?"

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, everybody. First of all, this is the first half of the year of 3 years that -- in plan. I mean it's too early to reach a general conclusion. I mean we're happy, as I said, both Brazil and also U.S.A. We'll discuss later, for sure. I think there will be questions coming. And -- but we're very happy with Brazil.

And also, as a reminder, the targets we set are for a medium and long-term basis. The Non-Life combined ratio should be in 2021, lower than 96%. And for Motor, the combined ratio last year was more or less 115%. And what I said in different presentations is the underlying should be between 110%, 111% more or less.

Target for 2019 is 105%; for 2020, 103%; and for 2021 is 100%, 1 percentage point improvement from expenses and the rest is reduction of loss ratio. What we're doing, we're more focused on medium and long-term results rather than on a quarter result, which could be affected by also the transitory efforts, but the target for 2019 remains at 105%.

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

Okay. Thank you very much. Next question from Andrew Sinclair is, why were minority interests so high for Brazil in Q2 given better P&C profitability? Where do you have greater ownership and lower Life profitability?

Fernando Mata Verdejo
Group CFO & Director

Yes. Auto is where we have the greatest share. It's 100% MAPFRE. The bancassurance channel with a joint venture, with the JV we have with Banco do Brazil also includes AgroInsurance, which is Non-Life, where we have a 25% share. Plus, if you recall in the first quarter of the year, Agro was affected by a drought in Brazil. By the way, the same drought that since affected MAPFRE RE during the second quarter. I mean this is basically the explanation for the question.

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

Okay. Thank you. Also, Andrew Sinclair has the following question. Should the new lower level of expenses for Brazil P&C in Q2 be seen as a reasonable rate?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Andrew. We're working on reducing costs in Brazil. If you see the low ratio, I mean it's fine in the majority of the Latin America countries, but the spend ratio is pretty high and it's mainly due to the acquisition expenses that in Latin America are consistently higher than in Europe in mature -- on obviously mature countries like the U.S.

We're doing a lot of things and -- but as I said before, I mean we're focused on the medium and long term, and we're looking forward to the next quarters. We're still working on reducing expenses, but it is still too early to reach any conclusions.

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

Okay. Great. Now we are moving to balance sheet and investment portfolio. Ivan Bokhmat at Barclays has the following question. 2Q '19 realized gains continue to track below last year's result and below full year indication of a stable result. Could you share your views on the tactical asset allocation and timing for portfolio sales, particularly considering a strong increase in unrealized gains?

Fernando Mata Verdejo
Group CFO & Director

Yes. Yes, you're right, Ivan. We're below, let's say, our '18 realized gains. But let's say that the -- no, MAPFRE, I mean the entire sector and the entire financial institution, we're navigating choppy waters during the first half of the year. I wouldn't say that I am 100% happy. I mean I would rather see -- we'll be happier, I mean, looking at numbers higher. But the reality, we should be quite satisfied according to the current scenario that we realized almost EUR 35 million in financial gains, mainly in equity.

We're confident, I mean, that we could achieve for the entire year, I mean, the same level of realized gains that we achieved last year. I mean our balance sheet has enough volume of unrealized gains, particularly in equity, I mean, to meet the targets or meet the average.

And also, on real estate, as I said during the press presentation, we have over, I guess, 4, 5 relevant units in the market currently available for sale. We haven't agreed any transactions so far. But they're good opportunities, and 1 is in Spain, another in Europe and there are 2, 3 relevant and 1 as well in Latin America.

All in all, we, at the current situation, we're confident enough that we will achieve. If there is no extraordinary events that we cannot anticipate at the moment, what we do not expect, that we will able to achieve the similar level of realized gains that the -- we did last year. But by the way, I mean we're talking about the number which is more or less is EUR 100 million, comprising both real estate and financial investment.

And I said as well, the fixed income portfolio remains untouched. We want to protect our recurring financial income from fixed income. I mean the curve is going -- is down quite clearly. And we want to protect our investment portfolio, which, by the way, we consider it quite privileged.

I don't know if you want to add José Luis but this is the, more or less, I mean, the overview regarding capital gains.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Yes, absolutely. Well, I think we are on the same page. And we have probably lower equity capital gains, but it depends on the markets. So probably, right now, we are much better positioned, and we hope this trend will continue from now until the end of the year. But on the fees income side, we prefer to keep what we have on our booking yields because probably, we see that we have a low interest scenario for longer. So the low for longer is our main big case.

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

Okay. Thank you, José Luis. I guess that and this one is also for you. Ivan Bokhmat at Barclays and Farquhar Murray at Autonomous have both asked about the drivers of the increase in duration to 8 years in the actively managed Non-Life portfolio.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Basically, I would say this is due to our current market conditions. We decided to increase slightly the duration. And so far, I think it was the right decision. But those also you should keep in mind that we have the burial business in the Non-Life portfolio, which is, roughly speaking, less than 20% of the total portfolio on the fixed income side. So when we increase from time to time the duration on the burial portfolio, this slightly affects the total duration.

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

Okay. Thank you very much, José Luis. Next one is, what guidance can you give for investment income in each of your key regions given recent bond yield moves? Paz Ojeda at Banco de Sabadell would also like to know what your investment strategy is given the low interest rate outlook for Europe and Brazil.

Fernando Mata Verdejo
Group CFO & Director

Yes. I'll go for the first one. Sorry about that, but we don't give any guidance regarding future expectations on our financial returns. Sorry about that. Second question is for you, José?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Yes. So how we are going to deal with the low interest rates environment in Europe and in Brazil. Well, I would say, in Europe, we are real active in doing a lot of the income operations. As I said before, our basis scenario is low for longer. And probably, we will continue to see a low interest rate for at least 1 or 2 years more.

So we try to keep -- as said by Fernando before, we try to keep the high yield that we have in most of our securities on the portfolio. But on the other hand, we are starting to diversify. We also pointed out on Investor Day, there are different drivers.

One is the fee-based business where we expect, as I said before, 8% growth on the asset management side. I think this is a good business as they happen as well with Life on the unit-linked side. So the fee-based business will continue to grow. And on the other hand, we are starting to diversify more and more our investment portfolio to alternative because probably, this is a thing that we have to do. We have a low exposure broadly speaking, 0.6%, and this is due to grow on the coming years. So we have margin [indiscernible] in order to fight in this low interest rates environment.

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

Talking about alternative assets, also Rahul Parekh at JPMorgan wants to know if there are any specific targets for alternative assets.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Well, in terms of the philosophy, I would say we are extremely prudent and cautious in the way we manage money. So most of it will go to real estate. You probably know that we have launched several funds with different partners in co-investment philosophy. We will continue with that trend. So far, I would say, so good. That has worked extremely well, and we will continue with that.

On the other hand, we will do a little bit on private equity and private debt. But mostly, it would be real estate. It's a kind of one proxy. And probably, this is a way to continue with another EUR 400 million that has been approved by the Board. So in this scenario, we will move from 0 2 years ago to EUR 1 billion in the coming years. And this is a source to increase yield in one hand and in the other hand, to try to diversify more our assets within the portfolio.

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

Okay. Thank you very much, José Luis. Now we are moving to North America. And Andrew Sinclair, Merrill Lynch, has this question. After a positive technical result in Q1, what led to a negative technical result in Q2, which tends to be a lighter quarter?

Fernando Mata Verdejo
Group CFO & Director

Yes. Andrew, thank you. Your question, I mean, is quite clear. And basically, the answer is the restructuring costs that we have accrued in the second quarter at MAPFRE U.S.A. As a result, half of the cost of our exiting states and also the general provision of -- amounting approximately EUR 8 million after tax to cover any potential runoff from the Commercial lines outside of Massachusetts that we stopped renewals at the second quarter. So both -- I mean the -- both effects are a relevant impact in our combined ratio. And I estimate, yes, the -- right now, in a percentage point perhaps maybe for North America, roughly talking.

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

Okay. Thank you. Next question is about Solvency II. Farquhar Murray at Autonomous would like to know the following regarding solvency. Interest rates were down in Q1 '19, and I will have expected that to support the Solvency II ratio. Please, could you explain the flat outcome? And looking to second quarter of '19, is it fair to assume the tighter Spanish sovereign spreads will have been supported to the ratio?

Fernando Mata Verdejo
Group CFO & Director

Yes. Fortunately, I mean there is a sort of symmetry in the effect of lower interest rates, and that is affecting both, I mean, the eligible capital. And also, I mean we have more net equity under IFRS. But we have as well a change in the value of both.

And the increase in interest rates in the first quarter, and it is one of the main drivers is like 7.4 percentage points uplift in net equity. But there is also -- are reflected in the liability side with more or less 5% decrease in the other changes in the [sustainability] of liabilities due obviously to lower discount rates that we applied to estimate the liabilities.

Also, the improvement in the Spanish service in the second quarter of the year, we supported -- will be supported to the ratio. But again, the solvency ratio is made up of several moving parts, I mean not only the Spanish service.

As a conclusion, we have a very strong solvency position, as you have seen, over the last few years, and we tend to move in the upper part of our target range. And we have buffers, such as the partial model and also [EBITDA] profits for Life that are not accounted for yet. And also, additional buffers that we needed, we put in the formula.

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

Okay. Thank you, Fernando. I guess it also answers the question coming from Sofía Barallat that it was regarding solvency. Could you elaborate on the changes in this country still in first Q? And should we expect more impact of this short -- during to -- second quarter or third quarter given recent yields evolution?

Fernando Mata Verdejo

Group CFO & Director

Well, if there is any change in the third quarter, we expect a short -- symmetric effects in both in IFRS and also in the best estimate of liabilities. So we do not expect any relevant change in our Solvency II ratio for the remaining part of the year.

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

Okay. Now we have questions regarding MAPFRE RE. Ivan Bokhmat at Barclays and Michael Huttner at JPMorgan ask about the Life result for MAPFRE RE, which was affected by negative impact from annuity contracts in Latin America. Can you provide a more -- a bit more details? Is that group or several business? Will there be any recurring impact looking forward?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Ivan and Michael, and you're right. I mean we've seen, let's say, a temporary lack of profitability in Life, both in direct business and also in reinsurance. In our case of direct, which is Colombia, let's say, it's sort of structural. There is a lack of matching ALM in between assets and liabilities.

In case of reinsurance, the decrease in the profitability in Latin America is the main effect, but there is still a decrease in profitability in Europe, which is not very big. But the main effect is in Colombia, which is external business and then coming from MAPFRE subsidiary and also in Peru. I do not expect those effects to be recurring and hope the Life business to come back to healthy levels, probably at the end of this year.

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

Great. Thank you. And with regard to reinsurance and GLOBAL RISKS, Alfredo Alonso at BBVA would like us to provide a breakdown, the one-off issues -- of the one-off issues in the quarter. Are there signs of deterioration overall?

Fernando Mata Verdejo
Group CFO & Director

Yes. First, I mean the GLOBAL RISKS business, I mean it's pretty competitive globally. I mean it's not affecting MAPFRE exclusively. I mean it's affecting the entire globe. And the first half of performance of our reinsurance business, in general, has been excellent. Results were affected by lower level of realized gains and that we expect to catch up in the second part of the year. And also a large industrial claim that we already reported in the first quarter. In Asia, it was a fire in a plant, in a power plant and -- affecting both GLOBAL RISKS and also the traditional reinsurance business.

Also, in the second quarter, we had the Brazilian drought that impacted our insurance second quarter results and our direct business first quarter results in Brazil. The fall in Life business results, I already discussed, I guess, is the -- you already know, is the application of one conservative long-term hypothesis on Life annuity contracts in Lat Am. Basically, it's the difference between inflation rates and also the minimum wage.

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

Okay. Thank you. Next set of questions are regarding Iberia business. Ivan Bokhmat at Barclays, Michael Huttner at JPMorgan, Alfredo Alonso at BBVA and Sofía Barallat have the following question regarding the worsening of Iberia combined ratio. What were the drivers for that? And how does this affect your outlook for the year?

Fernando Mata Verdejo
Group CFO & Director

Yes. Let's say that the -- where MAPFRE is reporting in Iberia regarding Non-Life is something that we expected and also we discussed in previous presentation. Automobile combined ratio was extremely low. I mean it was something that the -- we knew some quarters ago that the -- it wasn't sustainable in the long run. And that -- let's say that the current combined ratio in Auto, I mean, is in line with our expectation. It should be between 92% and 94%. This is the long-run sustainable combined ratio.

And also, in the past, what we had is a pretty high combined ratio in Homeowners, Condominiums and also in third-party liability, in third party in General P&C. And what we've seen is, during this first half of the year, is an increase in Motor combined ratio and a relevant reduction in other lines business. Particularly in Homeowners is a reduction of 2 point -- 25 percentage points and in Homeowners is, from -- I got the numbers over here, is -- last year was 95%. Currently, it's 92.6%.

In Condominium, it's even higher. The reductions from 94.3% is to 89%, lower than 90%. And in General, third-party liability, the reduction is quite significant as well from 95% combined ratio last year to 83%. So there is significant reductions that help MAPFRE to offset the -- a slight increase in automobile combined ratio.

Regarding the outlook, we should expect the 3 relevant lines to be in this level. I mean combined ratio for Condominiums and Homeowner is being lower than 95%. And as I said, for Motor, in a range between 92% and 94%.

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

Thank you very much, Fernando. Also, Paco Riquel at Alantra and Paz Ojeda at Sabadell ask about the updating of mortality tables.

Fernando Mata Verdejo
Group CFO & Director

Yes, Paco...

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

[indiscernible] potential new provisioning needs for up to EUR 2 billion in the Spanish insurance sector, resulting from the update in the life expectancy tables. Can you please comment on this and if we should expect any impact at all from MAPFRE?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Paco and Paz. This is a question that arose at the press presentation [definitely we] a couple of hours ago and we discussed that. I'm more than happy, I mean, just to comment with you our view. I do know MAPFRE is actively participating in -- at a technical level in the meetings, conversations between UNESPA, which is the Spanish national association of insurance, and the DGS, which is the Dirección General de Seguros, the supervisory body.

We feel that the proposals made by UNESPA, together with what -- it was based on our report made by one -- the larger insurer, and I'm not going to say the name now. And it's a solid starting point but will be -- my view is that -- our view is that we should be quite careful to avoid unnecessary adjustments, unnecessary buffers since -- the insurance company in Spain and in the globe. We got buffers everywhere, I mean, in the balance sheet, in the Solvency II, but -- and also in the actuarial longevity tables.

Even -- what we did at the press presentation, we disclosed the numbers that we have -- our best estimation of the impact on Life provisions, currently is EUR 56 million before taxes and minorities without any buffer. And so far, as of June, we booked like 82%, I think -- I don't remember if I said 82% or 83%, but more or less, 83% of this effect is already expensed and booked in our financial statements as of June.

For MAPFRE, this is an ongoing process. It's business as usual. What we've done -- what we're doing with this update of the longevity actuarial tables is to anticipate our financial statements to the new regulation. And since many, many quarters ago, we're starting provisioning, little by little, this effect because we consider that the -- I mean it's fair and it's the normal thing. I mean just to have your provision according to the most recent biometrical assumptions.

I don't know what they do in the rest of the sector. For MAPFRE, we're very prudent. The same we did for the Baremo some years ago, we're doing with the actuarial annuity tables. That's my view on -- this is our opinion that we disclosed in the press presentation.

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

Thank you, Fernando. Second question from Paco Riquel. Can you update on any potential interest that you may have regarding Caser?

Fernando Mata Verdejo
Group CFO & Director

As -- I'm going to repeat the same I said at the press presentation. We didn't get any answer from the letter sent by MAPFRE. And I said that at the press presentation, for the first quarter, this process for MAPFRE is over. No additional comment, please.

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

Okay. Thank you. Andrew Sinclair from Bank of America Merrill Lynch asks about Iberia P&C. Was there anything exceptional or one-off losses or reserve releases during the second quarter that we should be aware of?

Fernando Mata Verdejo
Group CFO & Director

No, there's nothing insignificant. The sufficiency that we're holding now at the -- in our P&C reserves as of June is quite similar to last year. There is no relevant changes. And there are minor changes in -- perhaps in some line of business, some reclassification between lines. But overall, there is no changes on the level of sufficiency.

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

Okay. Thank you. Now the next question is regarding ASISTENCIA. Rahul Parekh from JPMorgan got the following question. He just wanted to understand the development at MAPFRE ASISTENCIA in first half 2019 versus first half 2018. Thank you.

Fernando Mata Verdejo
Group CFO & Director

Yes. No, you didn't miss anything. The only thing I discussed is that the net loss of the MAPFRE ASISTENCIA is practically equal to the losses coming from the U.K., which is travel assistance. Fortunately, I mean all the changes implemented in this unit are giving fruit, and the majority of the countries are in breakeven or even giving us more profit. And also, we haven't found the right button to fix the U.K. business and travel assistance. We have a full dedicated team. I know that you will get the right answers and is the only unit in country that is still in the [indiscernible] and that's it.

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

Okay. Thank you very much. The next question is regarding Brazil. Michael Huttner at JPMorgan has the following question. On Slide 4 of the presentation, for first half 2018 comparative, you did not adjust for Brazil Life accounting one-off gain? Why not?

Fernando Mata Verdejo
Group CFO & Director

Yes. We didn't adjust last year at the presentation, but we discussed at that point, we -- even we gave you the information in order to do your own estimation of the adjusted net result. Some of you analysts and investor, they want to do your own adjusted net result. Obviously, the -- last year, they were both -- [affects one in] Life and Non-Life and also on [indiscernible]. But we consider it's clear. I mean just to put the net adjustment result as we did -- as we've done during this quarter.

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

Okay, there is one more question from Paz Ojeda of Banco de Sabadell regarding Brazil. What are the drivers in order to reach ROE target of 12%?

Fernando Mata Verdejo
Group CFO & Director

The main driver should be an improvement in net income, but it's quite clear. I mean it has been a good start for the 3-year strategic plan. And we expect, I said this as well as the press presentation, we expect good news to come for the remaining quarters from Brazil.

The team is working together, I mean, with the same level of commitment. And once that -- the operation is fully normalized, there is one leadership only, particularly in Non-Life business that last year was, let's say, a shared decision between managers from the Banco do Brasil and also from MAPFRE. Now it's completely different.

And let's say that the outlook, our view is much better. So let's say that the main improvement will come from net income. We shouldn't expect any relevant change on the equity base -- on the capital base in Brazil.

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

Okay. Thank you. Next question is regarding investments. Paco Riquel at Alantra has another question regarding this. The interest rate cycle has turned for the worse. Can you comment what assumptions had you considered in your strategic plan and how could it impact your financial income? Any new mitigating measure that you may consider?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Okay. Thanks, Paco. As you say, unfortunately, we had already contemplated the fall in interest rates in the assumptions of our strategic plan. We hope for the best, but we plan for the worst. And also, as Fernando has said several times, we are putting more focus on the technical side rather than on the investment side.

It is true that in terms of the mitigation measures, we had the alternative [diversification] with the first EUR 400 million and now another EUR 400 million in a very cautious way, as I said before, in partnerships with big players. And we expect to get something between 4% and 8% in this type of asset class.

The other mitigating measure is to try to grow even more on the asset management side or what you call the fee-based business, which basically is about mutual funds, pension funds, unit links, which is an area where we are really, really committed to grow in the coming quarters and years.

And also, it is true that the low interest rate is not good news in the U.S. and in Europe. But in the other hand, you also should bear in mind that this is extremely good news for emerging markets, where we have, I would say, our highest [pusher]. So if they continue low, probably the economic activity in these markets will continue rising as well.

Fernando Mata Verdejo

Group CFO & Director

If I may add something, Paco, I mean we're not concerned regarding the fall of interest rates. We're really concerned with the improvement we can apply in our operations in order to reduce our combined ratio. And fortunately, I mean there -- what we're reporting from the majority of the countries, particularly in Lat Am, is relevant reductions in combined ratio. And just the reduction in Mexico in automobile or just the combined ratio we're reporting in Central America and also in Colombia, in Peru, I mean, just this reduction is big enough and able to offset any reduction in yield. So we have to focus on what we can change in our operations rather than external factors affecting financial markets.

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

Okay. Thank you, Fernando. Now we have a question regarding North America. Paco Riquel at Alantra asks, can you update on the U.S. restructuring plan and whether you are considering to exit from further states?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Yes, Paco. In that case, there is no -- really, in fact, there is no press release, but what we've done is stop renewals for Commercial lines, both Auto and also for property in all the states but Massachusetts. It's like a -- it's a relevant reduction. Let me tell you that in last year, it was like a USD 44 million of Commercial lines outside Massachusetts. And this is basically the restructuring business plan that we are -- implemented.

Other states, we said at the Investor Day that, if any, we will unveil after the summer. I don't see -- I mean the -- that we will leave any additional states in the short run. Where we had to focus is on the -- in the cancellation of the nonrenewal of the Commercial lines and trying to reduce our expenses in order to match -- or to get a lower combined ratio.

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

Okay. Thank you. Thank you. And now also regarding North America, Alfredo Alonso from BBVA asks, what are your expectations in the financial results in this unit?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

I think in terms of the investment portfolio, in the U.S., I think it's quite a strong portfolio, quite solvent. I think the fees income part of the portfolio is great with a 5-year duration. So we will keep -- we will try to keep the yield as much as possible.

But on the other hand, we have started as well to diversify the portfolio. So we are starting to doing more alternative because we have a lot of space with -- most levels is traditional securities. And I think this year, we started to increase alternatives. So we are looking for next Wednesday and see what the effect has to say. But we think that the portfolio is well prepared for our lower interest rates in the coming years.

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

Okay. Thank you very much, José Luis. Last question from Alfredo Alonso at BBVA, I think we have already answered, is regarding the Life business. The profit performance of the Life unit in the quarter, we have already mentioned about Brazil, Brazil performance. And the increase in provisions, we have mentioned several times that you cannot consider separately provisions and financial income. So you can look to both together in order to know -- to see what's the evolution of the trend in the Life business. So provisions plus financial income. If you need further explanation, we are open to later on.

Fernando Mata Verdejo

Group CFO & Director

Yes, Alfredo, just a very short comment. I mean the main change in Life was the -- was due to the cancellation of the provision in Brazil last year. Life results are quite stable and particularly in Spain. And you just see the numbers are quite positive or quite stable. And even the update of the actuarial tables, I mean we haven't seen a change in the profit contribution from MAPFRE VIDA. So let's say that the -- we're quite happy. I mean the level of Life contribution in terms of profit is very good. And also Malta is performing very well. And the only variation could affect MAPFRE are from small countries on small operations, particularly in LATAM. Smaller, no, smaller than Spain. Sorry.

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

Thank you, Fernando. That's all coming from the Q&A. So I guess this is the end now.

Fernando Mata Verdejo
Group CFO & Director

Okay. Thank you, everybody, and thank you for -- I mean it has been a long presentation. A lot of the speech was -- I think it was the longest. Hopefully, I mean the -- I guess that the explanation will help you, I mean, to understand -- to better understand our business. And we wish you, all of you, a great summer and vacation. And see you for the presentation of the third quarter results. Bye-bye.

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