

Mapfre, S.A. BME:MAP

FQ1 2021 Earnings Call Transcripts

Thursday, April 29, 2021 11:30 AM GMT

S&P Global Market Intelligence Estimates

	-FY 2021-			
	CONSENSUS	ACTUAL	ACTUAL	SURPRISE
EPS Normalized	0.23	NA	NA	NA
Revenue (mm)	20921.88	NA	NA	21572.19

Currency: EUR

Consensus as of Apr-30-2021 10:40 AM GMT

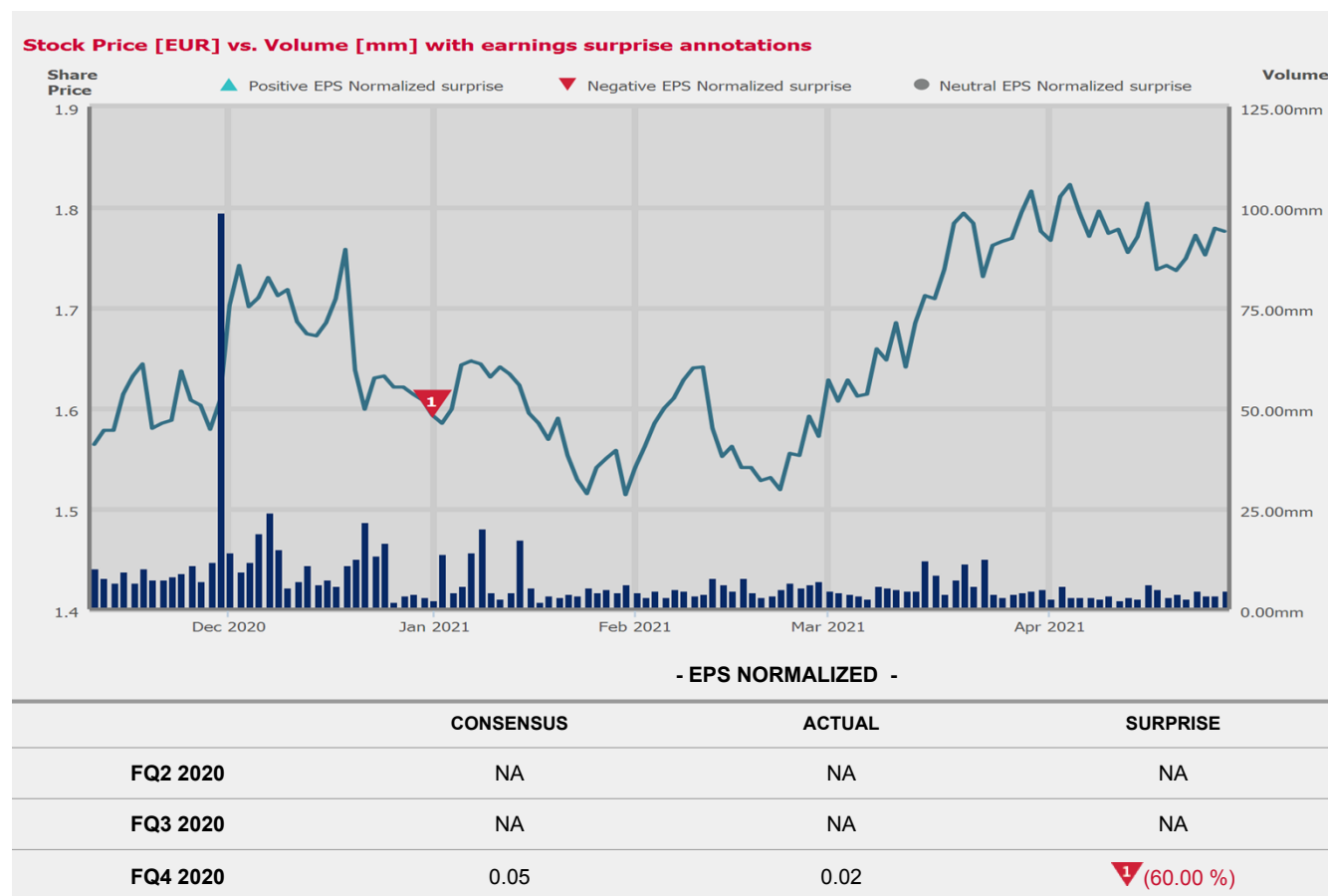


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Call Participants

EXECUTIVES

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations
Director

Fernando Mata Verdejo
Group CFO & Director

Presentation

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Good afternoon, everyone, and welcome to MAPFRE's results presentation for the first quarter of 2021. This is Felipe Navarro, Head of Investor Relations and Capital Markets. We have the pleasure of having here with us Fernando Mata, our CFO, who will walk us through the main figures and highlights of the quarter. Additional information can be found on our website, including the MD&A, the 2020 embedded value presentation as well as the usual spreadsheets.

At the end of the presentation, we will open up the Q&A session. [Operator Instructions] We'll try to answer all your questions as time allows. The IR team will be available afterwards to answer any pending questions.

Before we start the presentation, I would like to give you an update regarding MAPFRE's response to the pandemic. We have maintained our focus on the 3 main priorities: first, the health of our employees and collaborators. Second, business continuity, guaranteeing the commitment to our clients and shareholders. Third, our solvency and capital strength.

As the vaccination process continues, we have initiated a return to the office, always keeping in mind the highest health standards. Currently, around 89% of our employees in Spain and 39% in the United States are working on the premises. In Brazil, due to the negative development of the pandemic, 100% of the workforce are currently working remotely. We will continue adapting to the changes in conditions in every country.

Now let me turn the call over to our CFO, Fernando. The floor is yours.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Felipe, and thank you, everyone, for being here with us today. Hopefully, you and your families are coping well during the pandemic and staying safe and healthy.

First of all, I'm pleased to present the strong first quarter results that are confirming that we are on the right track to reach the guidance announced at our AGM. Top line performance is excellent, taking into account the impact of the pandemic on the macroeconomic situation as well as the drag from currency movements.

On the bottom line, Motor frequency is still below pre-pandemic levels and mitigating COVID-related claims. Pro forma has been especially strong in Iberia, where we are outperforming the market in key segments, while maintaining best-in-class technical performance in Non-Life.

In the United States, thanks to the reorganization that started several years ago. Underwriting results are strong, especially in the Northeast, although the top line is still reflecting this streamlining process.

The impact of COVID in Latin America is especially relevant with a strong increase in cases and mortality with further mobility restrictions. Furthermore, the vaccination process has been slower than expected in many countries. We've seen a higher level of Life Protection and Health claims across the region, especially Brazil, Mexico and Peru. Although in the latter, these claims were compensated by other positive effects.

Brazil is still benefiting from excellent top line performance in Agro, and there has been a change in trend in Motor with a return to growth in local currency. The Life Protection business is deeply affected by lower branch activity due to a semi-lockdown situation, which started in mid-March.

Since the onset of the pandemic, MAPFRE's strategy has managed headwinds from lower economic activity, mobility restrictions and currency movements. This quarter, MAPFRE is again delivering recurring and stable profitability metrics with limited impact from COVID.

I would like to comment that the group recently received approval from the Spanish supervisor for use of the longevity risk internal model, bringing the Solvency II ratio to around 193% at 2020 year-end.

Finally, we're happy to announce that the final dividend will be paid on May 24, 1 month earlier than other years, which is proof of our commitment with both institutional and retail shareholders, while injecting -- helping inject cash in the real economy.

Now I'll take you through the main figures of the first quarter. Constant exchange rates, premiums are up around 3.2%; with outstanding performance in Non-Life, up 3.5%; and Life premiums, up a little under 2%. In euros, they're down around 3% due to currency depreciation, mainly the Brazilian real as well as the U.S. dollar and the Turkish lira.

The group combined ratio is in line with the 2020 full year figures and stands at 94.3%, a 6-point decrease compared to the pre-pandemic first quarter of 2020 and below the 2021 target of 95%. I would also like to highlight the significant 1-point reduction in the expense ratio, thanks to the strict implementation of our cost contention plan.

Combined ratio for Insurance units remains low at 93.8%. And MAPFRE's net results amounts to over EUR 173 million, up over 36%, and in line with our guidance for adjusted net income for 2021 of EUR 700 million.

Assets under management are up around 0.2%, with the investment portfolio slightly down, but compensated by growth in pension and mutual funds.

Lastly, embedded value was down 0.5% to over EUR 7.8 billion, mainly due to the impact from currency depreciation in Latin America during the year. You can see the full disclosure of our embedded value at our website.

Please turn to the next slide. On this slide, I'll take you through the breakdown of the adjusted attributable result. First of all, due to the offsetting nature of the different COVID impacts at insurance operation, we have not considered this in the adjusted result as the final effect should be neutral. In addition, winter storms in Spain are not being considered extraordinary because they have been recurring for the last 3 years. Nevertheless, the Filomena snow storms in January has been one of the largest events in Spain with over 40,000 claims and a EUR 20 million net impact for the group. Regarding other NatCat claims, it has been a quiet quarter, fortunately, with nothing to report. As a reminder, last year, there was a EUR 54 million net impact from the earthquake in Puerto Rico.

Financial gains and losses are down over EUR 28 million due to a real estate gain on MAPFRE U.S.A last year with 14 -- approximately EUR 14 million net impact as well as lower gains on the actively managed portfolio as a result of our decision to accumulate gains this year, in line with our prudent approach. Excluding these impacts, the adjusted net result reached EUR 163.5 million, up over EUR 20 million.

Please turn to the next slide. On this slide, we show the main trends this quarter. Performance at the insurance unit is remarkable with a combined ratio below 94%. The main drivers of the improvement are technical measures implemented in previous years, mainly in Brazil and U.S.A. and lower Motor frequency from the pandemic.

In Iberia, premiums are up 3%, with excellent performance in Non-Life. Motor premiums are up over 1%, mainly due to a good contribution from renewals, along with a new business from Santander. The total number of vehicles insured increased by around 56,000 units year-to-date and up nearly 3% year-on-year. MAPFRE is outperforming the market in the most relevant lines, showing solid growth in Health, 8%; Condominiums, 5.5%; and Homeowners 3%. The attributable result is up 5%, contributing over EUR 108 million, with excellent technical performance reflected in a combined ratio of around 93%.

In Brazil, currency headwinds were relevant with average real exchange rates down 23%, while premiums are up 13% in local currency. The net result is down EUR 14.5 million as there's strong improvement in the combined ratio, now at 88%, was not able to compensate COVID claims, particularly in Life Protection and a reduction as well in financial income.

Premiums in LATAM South grew 3.9% in euros, offsetting currency effects. On the other hand, premiums in LATAM North are still down, mainly due to the depreciation of the Mexican peso. Local currency growth in both the regions was remarkable, with Colombia, up 29%; Chile, up 27%; Peru, up nearly 11%; and Mexico, over 8%. Combined ratios in both regions remained at good levels, with a slight deterioration in LATAM North, but is still at 93% due to COVID-related health claims.

Performance in North America was excellent with a 15% increase in the net result and a 5-point reduction in the combined ratio, now at 96.6%, mainly due to the earthquake in Puerto Rico that I already commented last year. The region shows remarkable stability with recurring profits after restructuring.

In Eurasia, premiums are down due to the nonrenewal of the dealership channel in Italy as well as the depreciation of the Turkish lira. All countries have contributed positively to results, except Italy, where expenses have to be adapted to the new business model.

At MAPFRE Re, premiums are also up, supported by positive pricing trends. The combined ratio was 95%, in line with previous quarters, with excellent performance, both in reinsurance and global risks.

And in the assistance business, results were up nearly EUR 10 million, and last year was strongly affected by travel cancellation claims. Volumes are down 46% as we continue with our streamlining process.

Please turn to the next slide. On this slide, I would like to comment on the Life business at insurance units. In Iberia, premiums are performing well despite the challenging market context, with Life Protection down only 1% and Life Savings down 2%, but in line with market growth in both segments. As I already mentioned, bank activity in Brazil has been hurt by the pandemic situation, which has taken its toll on Life Protection premiums, which are down 7% in local currency in the banking channel. Life Savings premiums are also down in Mexico and Panama.

Regarding results, performance in Iberia was stable despite lower business volumes and lower financial income. In Brazil, the result is down due to the COVID-related claims, lower financial income and currency depreciation.

This slide includes a full disclosure of the breakdown and variations of the investment portfolio and total assets under management. Spanish sovereign debt continues to be our largest exposure, now a little over EUR 12 billion (sic) [EUR 12 billion]; and Italian debt with around EUR 2.6 billion is the second largest. Both sovies are mainly allocated to immunized portfolios.

The fall in the investment portfolio is due to higher yields with the Spanish sovereign up over 35 basis points year-to-date. And pension and mutual funds have had strong performance, both due to market movements as well as positive net contributions of EUR 22 million in pension funds and EUR 98 million investment funds at the end of March. Please remember that these figures don't include Bankia MAPFRE Vida portfolios.

Please turn to the next slide. On the top left are the details of our euro area actively managed fixed income portfolios. Market value of these portfolios is around EUR 13 billion. The accounting yield is around 1.6% in Non-Life and 3.6% in Life, well above, I mean, the market yields.

Realized gains and losses in these portfolios were around EUR 7 million, down EUR 22 million compared to the previous year. As of right now, as I mentioned, we prefer to accumulate unrealized gains in order to compensate the falling value of fixed income portfolios.

On the bottom left, you can see the details of the fixed income portfolios in other main markets. Accounting yields in LATAM and also in the U.S. are still well above those in Europe. And we have even recently seen rising rates in some markets like Brazil, for example.

Please turn to the next slide. Shareholders' equity stood at EUR 8.3 billion, down around 3% during the year. The most relevant changes are a decrease in net unrealized gains on the available-for-sale portfolio with a EUR 271 million negative impact due to rising rates, which especially impacted the Spanish Non-Life business with a EUR 96 million impact: EUR 53 million in North America, U.S. and Puerto Rico; and around EUR 42 million in both Brazil and LATAM South.

On the other hand, the impact in the Spanish Life portfolio was very limited, EUR 13 million, and it was due to the high share of immunized portfolios. As you can see on the slide, unrealized gains are completely matched by shadow accounting adjustments in this portfolio -- immunized portfolio.

Currency conversion differences had a positive net impact of EUR 79 million during the quarter, mainly due to the 4% appreciation of the U.S. dollar, which offset the depreciation of emerging market currencies, especially the Brazilian real. The breakdown of currency conversions differences and also the sensitivity analysis are showed in the table on the right.

On the chart of the left, you can see the breakdown of the capital structure, which amounted to EUR 12.6 billion, of which over 2/3 is equity. Leverage is slightly up at 23.7%, but we are comfortably at this level, which supports our current financial needs.

On the right, you can see the Solvency II provisional figures for 2020 year-end. They are provisional because we had to report and also to be approved by the Board in mid-May, but -- which now reflect the approval for the longevity risk

internal model for the Spanish Life business. This brings the ratio to 193%, comfortably within our range, and keep in mind that we estimate a 6% uplift from the Bankia exit, assuming no change in eligible own funds. The final figures with a full disclosure will be released on May 20.

Please turn to the next slide. Embedded value was down 0.5% to over EUR 7.8 billion, mainly due to the impact from currency depreciation in Latin America during 2020. Embedded value attributable to the parent company is sub-7%. There was a positive contribution from new business during the year especially Life Protection. Furthermore, the Life Savings environment is still challenging due to the low interest and a lack of fiscal incentives, particularly in Spain. There was also a positive impact from the fall in risk-free rates.

On the right, you can see the sensitivity analysis. This year, we have included the impact from the exit of Bankia-related Life business, which will imply a reduction of EUR 715 million.

At this point, I would like to make a few comments on the current status of the bancassurance agreements with Bankia. As you are aware, we have communicated all developments in a timely manner. The process began in September of last year with the approval of the proposed banking merger of CaixaBank and Bankia, which was later approved at the AGM of both entities in December. After receiving all necessary regulatory approvals, the merger was finalized on March 26, being the trigger for the change of control of Bankia.

MAPFRE informed CaixaBank that the put options stipulated by contract for MAPFRE's 51% shareholding in Bankia MAPFRE Vida as well as termination of the agency contracts for both Life and Non-Life insurance distribution were effective March 31.

The change of control also triggered the established procedures to assess the compensation for the termination of the bancassurance agreements, defined as 120% of market value of MAPFRE Vida's 51% shareholding in Bankia MAPFRE Vida and the Non-Life insurance business, excluding the value of the insurance portfolio. Any results earned by Bankia MAPFRE Vida as of April 1 will correspond to CaixaBank.

Finally, the process of appointing an independent appraiser has been initiated in April. And as we mentioned, MAPFRE will inform the market of any new developments as they arise.

Before moving on the Q&A session, I would like to make a few closing remarks. First of all, in Iberia, growth is excellent, and we are outperforming the market in our main segments, while maintaining strong technical margins. Our leading position and strong brand recognition is helping us to come out of this crisis even stronger than before. Underwriting results are robust in the United States, especially in the Northeast region, and we continue making progress in the restructuring process.

In Latin America, the pandemic and economic outlook remain challenging, and we are monitoring this closely. The impact of COVID in Latin America has been especially relevant with a strong increase in cases and mortality with further mobility restrictions. The vaccination process has been slower than expected in many countries. A reduction in COVID-related losses and full economic recovery will depend on the speed of vaccination.

At MAPFRE Re, results have been robust, excellent. And both the reinsurance and global risk segments are on the right path to more normalized profitability levels, supported by tariff increases. We expect similar trends to continue in the second quarter, assuming no significant changes in the pandemic context, proving that MAPFRE is able to adapt to this constantly changing environment while delivering solid results.

Regarding our former bancassurance agreements with Bankia, right now, we're focused on completing the procedures and formalities of the exit process.

And finally, we continue to prove our strong commitment to shareholders reflected in the dividend payment that has been advanced from June to May, which is supported by a strong financial position. Thank you, and we'll now hand the call over to Felipe to begin the Q&A session.

Question and Answer

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Thank you very much, Fernando, for this thorough presentation. We'll start with the Q&A. The first question is coming from Andrew Sinclair from Bank of America Merrill Lynch and is related with Life and Health business that I have with COVID-related claims in Brazil and LATAM. And he's asking what was the cost of fees in the first quarter?

And Ivan Bokhmat from Barclays. What was the impact -- the COVID impact of EUR 109 million remain substantial in the first quarter '21, with most of it coming through the Life and Health business. Can you explain how long may that impact persist? And what are the key indicators on human trends as we expect?

There's also another question related with this topic, which is Paco Riquel from Alantra. Can you comment on the losses of the Life risk business in Brazil? And what shall we expect for the coming quarters in this segment and from Brazil overall?

Finally, Jonathan Denham from Morgan Stanley is asking what in LATAM offsets the Life Protection COVID losses? And do you expect this positive to continue in the second quarter? So there's a lot of interest on the situation in Latin America for the COVID-related losses. Fernando?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you very much, quite comprehensive, serious questions. First of all, we haven't disclosed the information of COVID losses by regions. We only have included in the financial report by line of business. But on the text, some of them, I'm going to get you to the page, but we have put by regions.

And the reason for this lack of disclosure, probably we'll increase information at June, but the thing is that some of the impacts are happening in some of the countries, in countries in which we're holding business with minority interest, particularly in Brazil. And since -- basically, the Banco do Brasil Seguros, as a listed company, haven't published results yet, it wouldn't be fair, I mean, just to disclose this information that they're affecting us as well in their accounts.

So for MAPFRE -- sorry, for Brasil, the information is on Page 24, and the impact of COVID-19 for this region, both -- mainly is Health and Life, but particularly, Life is EUR 33.6 million, Page 24. And it's for both. I mean the bancassurance channel and also MAPFRE channel.

For LATAM North, the disclosure is on Page 26. And in that case, the impact of COVID-19 is EUR 31.4 million. In case of LATAM North, it's affecting mainly Mexico and -- but also Health, particularly in the Dominican Republic. In that case, Health business, as you well know, there is a JV with BHD, it's a financial institution. So this -- and institution regulated. So we do not consider for -- I mean just to publicly -- to publish the impact.

And for LATAM Sur -- South, sorry, Spanish. On Page 28, in that case, the impact of COVID-19 is EUR 19.5 million. In that case, it's affecting both Health and Life business, but we're running Life business as well with our minority shareholders. So we will see. I know that this information is quite important for you and quite sensitive. But perhaps as of June, we'll be able to give you a full disclosure by line of business and also by regions or countries.

Regarding more question, I mean, it's extremely difficult to foresee what is going to -- how big is going to be the impact in the following quarters. We note that the Brazil, I mean, we've been hit in -- particularly in March in Brazil because of the lockdown measures and the amount of life losses. But April looks, I wouldn't say much better, but better. And we should expect, I mean, in most of the regions with different intensity and frequency sort of decrease in impact.

On the other hand, other line of business, particularly P&C, automobile as well, we should expect an increase, moderate increase in combined ratio and lower profitability, but moderate, I will reaffirm, moderate since lockdown measures are being lifted, and also there is an increase in mobility.

On the long run, for Non-Life, I will say that the 95% combined ratio that was given by our Chairman at the AGM, it was just in March, we feel comfortable with this guidance. Now it's a little bit lower, but there is a seasonal impact as well,

seasonal reason for this situation, particularly in automobile. And we believe that we will finish this year if there is no significant change in the pandemic below this 95%.

And in the rest of regions, Spain compared to Latin America looks more promising. I mean the pace of vaccination is increasing day by day. And hopefully, we will have a high percentage of the population fully vaccinated by summer. We've seen some increases in mobility, particularly in the big cities. I mean we are seeing traffic jams in Madrid, which is good. I mean because it means revamping of the economy, but it's extremely difficult to foresee what is going -- where we're going a phase in the future. I mean the -- I'm not sure this is the fourth or the fifth wave of the pandemic. But fortunately, I mean, April looks better and more promising. Any question, I mean, we haven't answered. I don't -- Felipe, please help me.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

And I think that we completed. We covered the main part of the questions related with the Life and Health business because the main interest was on the impact in Latin America. As you said, we are going to try to do some kind of disclosure on the regional results.

Fernando Mata Verdejo
Group CFO & Director

Okay. I promise, we'll try to do our best in order to increase our disclosure regarding COVID-19 by regions.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you. Thank you very much, Fernando. We move now to the -- to another topic, which is the Motor business. We have several questions, and I'm going to read them as I did on the previous one. So we can give a broad answer on the -- on all the topics.

The first one is coming from Paco Riquel from Alantra. It's -- and he's saying that Motor premiums in Spain rose by 1.3% gross, but the net premiums earned fell by 2.8%. Can you please explain the difference?

The next one is related -- is asked by Alex Evans at Crédit Suisse. You reported premium growth in Spain Motor at 1.3% versus a fall in the market of 1.8%. What is driving your outperformance here? Have you been more competitive on price in the quarter?

And Ivan Bokhmat on -- from Barclays is saying -- is asking about -- he's asking the following question. Spain Motor business increased number of insured vehicles by 2.9% year-on-year, suggesting that the market share, again. What do you think helped you most?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you. Thank you for the question, Felipe. I mean we're quite happy, I mean, with this premium growth in this first quarter. Probably in the next quarter, we'll see this catch-up of premiums earned. Basically, if you remember -- if I remember well, it was the third quarter when it was a significant drop in the average premiums because we started implementing discounts on individual basis to our best drivers in order to transfer part of this decrease in frequency to rates. And so we'll see probably in the next quarter, I mean, this catch-up in premiums earned.

Regarding the -- this increase in units, frankly, I mean, this quarter has been -- was extraordinary in terms of both distribution channels, bancassurance. I mean we had Bankia that came to an end at the end of March, and we had, as well, Santander. The net premiums for Santander exceeded EUR 10 million. I mean it's a big chunk of new business.

And also while the Red MAPFRE performed extraordinarily well during this period, I mean, the churn ratio is quite good, even lower than the standard periods, showing that what we mentioned that the brand recognition of MAPFRE is a must and is a plus in this moment.

Regarding the number of units equals -- parallels to increase of premiums and is a strong contribution from Banco Santander. And also there is a small increase as well in fee, not relevant. But we -- overall, I mean, we're quite happy. We are performing in the market in both premiums and units. And we see what we mentioned -- what I mentioned in the

past and during these hard times, the brand of MAPFRE, I mean, it weighs a lot. And when -- we've seen even NPS, Net Promoter Score, I mean, it's quite good for MAPFRE. And when we ask shoppers, and they say that the MAPFRE is a guarantee of solvency and good quality of services in these difficult moments.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Now we are going to move to some questions related with Bankia. Marina from JB Capital is asking, could you please elaborate more on the valuations you presented on the impact of the exit of the JV in Bankia? I don't think that we presented anything, but I mean, you will have -- be able to answer.

And there's another one related -- coming from Andrew Sinclair from Bank of America. And she is -- he is asking what is the carrying value for -- of both the Life and Non-Life entities of Bankia JV that is now set aside for the sale?

Fernando Mata Verdejo
Group CFO & Director

Yes. Marina, as Felipe said, as far as I know, and I'm the one who'd presented the numbers, and there is not any valuation published by MAPFRE regarding this potential transaction. Just -- it was just the other way. We mentioned in previous presentations back in September and due to the new merge presentation, I mean, it was some information regarding any potential valuation of the exit of the JVs.

But MAPFRE, from our side, we haven't published any valuation. Obviously, we are expecting, I mean, the -- as I mentioned, next step, we're working with Caixa is just to appoint an independent appraiser that they will assess -- he will assess the value of the business to be transferred and also the 20% penalty, I mean, for the change of control.

Regarding other information on the carrying value, Andrew, we do not publish. I mean we do not disclose this information. The financial report, the management discussion and analysis, on Page 5, there is a disclosure, the main metrics for Bankia MAPFRE Vida. In that case, those are the statutory -- let's say, the numbers from the statutory accounts. And from Bankia MAPFRE Vida, it's premiums, net results and net equity and also a balance sheet metrics for the full year 2020 and also for the first quarter. But we do not publish the carrying value of our business with Bankia.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Together linked -- always linked with the same topic, Andrew Sinclair from Bank of America is asking, just to get the latest update on the PC side. Has distribution of MAPFRE products now ceased? And what was -- and what renewal experience are you seeing so far for customers previously sourced through Bankia?

Fernando Mata Verdejo
Group CFO & Director

Well, this is a path that we worked before, Andrew. This is a very interesting question. And because we have terminated because -- it wasn't our wish, but we have terminated because of the circumstances and reasons of other bancassurance agreements. And let's say that MAPFRE is very well prepared.

It happened with -- originally, with BBVA with our coinsurance agreement to sell automobile, and also with Caixa, and then later with Duero. I mean we have a lot of power, I mean, ready to reinforce our retention procedures in order to keep the portfolio. This is a business that we paid, and we will retain in our books.

So far, I mean, as we are in an earlier stage. And even we do not have figures, I mean, for April. But let's say that we are quite positive. And so renewals for portfolio and portfolio means Non-Life policyholders till 31st of March will protect because it's our business.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you very much, Fernando. Marina from JB Capital is asking, where do you see your Solvency II at the end of the year? Is there an indicative impact that we should be factoring in going forward?

Fernando Mata Verdejo

Group CFO & Director

Thank you, Marina. We should expect Solvency II ratio to move between -- yes, my guess, is between 190% and 195%. The only, if you call, extraordinary, or let's say, recurring on a quarterly basis is the transitional effects for provisionals that is like a 1 point something, I don't remember, 1.5, I guess, that they -- we will book in the first quarter but -- and also, as you know, we published as well, I mean, the exit of Bankia will have a significant impact on Solvency II. We already know it, but only the exit or the reduction of the SCR will be like a 6 points uplift in the Solvency II ratio. But we have to know this before any speculation.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. To sum up, there's no negative impact that we are expecting on this.

Fernando Mata Verdejo
Group CFO & Director

No. No negative. I mean it will be positive in any case. But in this range between 190% and 195%, I will highlight that this has not included this 6-point uplift from Bankia.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you very much, Fernando. Alexander Evans, Alex Evans from Crédit Suisse, he's asking. Solvency II ratio is now back towards the middle of the -- the middle end of your range. I mean, in fact, it's right in the middle. Where -- do you view yourself an adequate level of capital at this current environment? Is there any need to hold more because of impacts like we have seen in LATAM this quarter?

Fernando Mata Verdejo
Group CFO & Director

We're quite comfortable in this range and the target -- is on the target. It's a framework of 200% with a 25 percentage points tolerance, higher -- lower and higher ends. We don't see any additional capital needs from Latin America, even some of the countries, particularly in Colombia, for instance, in which we have a reduction on business. We're holding quite, let's say, prudent solvency ratios.

And -- but let me say as well that -- which is key for us is keeping the current rate is -- at this level, at 8 plus. And let's say that we fixed the 200% Solvency II ratio based on maintaining, I mean, the current rate is for financial strength. And so far, let's say that we shouldn't expect any change in both as long as there is no change in the capital models of both rating agencies, I mean, Fitch and Standard and Poor's.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you very much, Fernando. Now we're going to move to the -- to MAPFRE Re, which had an outstanding quarter. I mean going back to a good profitability. The first one is coming from Paco Riquel from Alantra, and he is asking, can you update the business interruption losses for -- at MAPFRE Re?

Fernando Mata Verdejo
Group CFO & Director

Yes. We're publishing the financial report, Paco. There is just a 4% increase in the cost -- in the accumulated cost of the COVID-19 losses. And I mean, it's a negligible increase and is based on just an update of their provisions. Also, we have published as well the amount of provisions -- outstanding provisions as of March. If you see numbers, practically, there is no payment. So practically, it's the same, the COVID losses from last year and also this EUR 4 million increase.

And there is no any significant change. And we assume that there are losses, there are claims that they're going to last in our balance sheet for more than months. And there are a lot of different interpretations, and probably, some litigation as well, and we have to wait for some rulings as well. But so far, the good thing is that there is no any negative impact on both. I mean the valuation of the expectations of any negative one-off.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Okay. Another question related with MAPFRE Re coming from JB Capital from Marina. And she says that we had a solid set of results. Should you -- should we assume positive dynamics will continue for 2021? And even Alex Evans is asking what would be a fair run rate for a yearly NatCat losses? I mean it's mostly related with the activity of MAPFRE RE.

Fernando Mata Verdejo

Group CFO & Director

Yes. Thank you, Marina. The expression that, I mean, comes from my heart says MAPFRE Re finally. I mean some of you, you mentioned me that we need a quarter without any extraordinary, I mean, topic on MAPFRE Re finally, I mean, we had one. And this is the first quarter of 2021.

And the solid performance is based on -- of, let's say, stricter underwriting processes. We're retaining less risk on global risk, so less exposure. And also -- and as you know, the market is hardening, particularly in the insurance on those geographies that were affected by cat losses, NatCat losses. I will mention, obviously, Puerto Rico, but as well the U.S. and also Japan in the past.

So let's say that the -- let's keep our finger crossed. MAPFRE Re will keep this performance across the regions and also across the line of business. And hopefully, I mean, we have a very good return to a stable profitability for this unit.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Good. That's our hope, of course. There's a comment -- or Paz Ojeda is asking us from Banco de Sabadell. She is asking us to do some comments on the performance of the Northeast region that seems a little bit -- for her, a little bit weak, but with strong deterioration in the combined ratio. What is related of -- is this related to one-offs?

Fernando Mata Verdejo

Group CFO & Director

Let's say -- thank you. Thank you, Paz. Let's say that North America, I mean, the different interpretation. I mean, first, on top line, on premiums, we're not satisfied. There are both effects. I mean first is currencies, but the second is the lack of new business and, practically, Northeast has been in a lockdown permanent situation. There is no new cat loss on the -- in this territory. So let's say that our premiums have been hard per the situation.

On the combined ratio, I wouldn't say that. I mean we're happy. I mean, let's say, it's a very good number, a very good ratio. And if you compare, I mean, with recurring combined ratios as well for the last quarter of 2020, it's quite similar. And the only unit in which there is a difference and the seasonality explanation as well is Brazil, in which there is a slight increase in combined ratio, but the remaining units is quite similar. The first quarter is quite similar to the fourth and the third, and we should expect a similar trend for the second, at least, quarter of 2021.

I mentioned as well, and Felipe said this, that the first quarter 2020 you should consider as a peak on COVID quarter. So let's say, the comparison is not apples-to-apples, say, when we put the 2021 numbers and compare with the previous quarter.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Okay. We have a question coming from Alex Evans of Crédit Suisse. Have been any remittances back to the group in the quarter?

Fernando Mata Verdejo

Group CFO & Director

You mean dividends from subsidiaries?

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Coming from the dividend flow from subsidiaries, coming from back to the company, to the main company, I think that there was no declaration of main dividends in the first quarter, but the second quarter is acting as expected. So probably,

most part of -- not in the totality, the dividend that we are announcing and we are going to pay against 2020 financial year is going to be paid with dividend coming naturally from the rest of the group.

Fernando Mata Verdejo

Group CFO & Director

See, most of the dividend, we'll be paying in April this year -- this month, sorry, and also it's important to mention as well, we hedge U.S. dollar for the dividends coming from the U.S. And we booked a good profit as well. And well, let's say, we offset part of the loss.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

That -- we stabilized the profit from the U.S. and the change from the U.S. to the euro. Marina from JB Capital. She is asking, could you update us on the contract with Pemex in Mexico? How is it going? Is it being renewed?

Fernando Mata Verdejo

Group CFO & Director

Yes, this is a 2-year policy. Thank you, Marina. It expires in June, if I remember well. It will be the fourth time that we are attending -- we are -- guess that the -- I guess, we will participate in the tender. And also, we will be more than honored. Finally, I mean, we are the company that cover damages from Pemex. I mean it's a quite -- it will be the fourth renewal. I mean this is very important for MAPFRE. It gives us a lot of confidence, and also, let's say -- I mean, it's a good flagship policy, I mean, for MAPFRE in LATAM.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Okay. Good. There's a question coming from Jonathan Denham from Morgan Stanley. And he's asking about Linea Directa. I mean he's asking that if the listing of the company will change the competitive environment in Spain?

Fernando Mata Verdejo

Group CFO & Director

I don't expect, Jonathan, any change in the -- particularly in the Motor line business in Spain. I mean it's very good, I mean, to have rather than 2, 3 entities listed in the Spanish stock market. We're happy, I mean, having another peer, being public and also gives a lot of transparency as well to the market. But I don't see any change in the strategy coming from Linea Directa in that way.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Thank you very much, Fernando. We have now a question coming from Alex Evans of Crédit Suisse, and it's related with the Asistencia business. And he says, is it possible to give some details on the losses as a lot of companies are now reporting positive travel results from the lower rate -- sorry, lower travel, sorry?

Fernando Mata Verdejo

Group CFO & Director

Yes, there is a disclosure on the page I'm going through, Page 35. We disclosed losses by regions and also by coverage. Do you see -- you could see, I mean, out of this EUR 2 million net loss for the entire unit, EUR 5.4 million are coming from travel insurance. And I can say that most of them, EUR 3.7 million is in the chart, is coming from the U.K. and also France. And we practically, I mean, closed this business. So most of this is coming from the U.K.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Okay. Thank you very much, Fernando. Ivan from Barclays is asking that -- saying that the interim report also talks about other disposals. And with the portfolio in Chile, Industrial Re, Rastreator and Preminen, how substantial could these transactions be if completed to you on 2021 results?

Fernando Mata Verdejo

Group CFO & Director

Yes. Thank you, Ivan. They are minor disposals. Regarding MAPFRE -- but I can give you more information regarding this. Regarding Industrial Re, it's a small subsidiary, particularly with no activities. It's like a 35, if I remember well, total assets. So if there is a profit that -- we should expect a profit, but it will be extremely small.

Regarding Rastreator and Preminen, I mean, the 2 subsidiaries with business with Admiral. Let's say that in that case, we should expect a higher gain, and probably, we can get it, I mean, one of these days, I mean, anytime soon since we've been told by Admiral that it is practically coming to an end, I mean, discussions. And probably, we will see one of these days. It will be a little bit higher probably in the 2-digit area.

Regarding the order in Chile, Chile is the project that, I mean, probably is one of the project that is taking longer time. I mean, for MAPFRE M&A department, I guess it's more than 2 years. In that case, it's like EUR 115 million assets to be transferred to the potential buyer. And in that case, the result will be probably -- I mean, since the -- this is some unmatched annuities, and we don't like to have -- to hold it in our balance sheet, probably, we will report a small loss, but one single-digit loss in any case.

But all in all, I mean, those small transactions, we want to, let's say, improve our capital allocation, those are nonstrategic activities, and we will keep on this streamlining processes in order to have a better capital allocation. The one that will be important is, and we will focus on, is the Bankia exit, obviously.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Thank you very much, Fernando. Now we have a number of questions related with the impact of the COVID in the frequency in Motor and the Motor activities in the combined ratio. First one is coming from Ivan from Barclays, and he's asking Motor combined ratio across the business has improved by 2.4 percentage points in first quarter 2021 year-on-year, which appears reasonably low to the -- for the substantial drop in driving globally, including Spain and the U.S. As the world comes back to -- from the lockdown, what run rate do you expect for the remainder of the year?

Andrew Sinclair from Bank of America. He is asking, can you provide an update on the latest trends for Motor frequency benefits. How much do you allow it for your EUR 700 million of net income guidance for the year?

Marina Massuti from JB Capital. Could you please touch more on the claim ratios? Do you expect claim ratios in Non-Life to normalize? Do you expect the speed to be different across regions? How do you see the combined ratio for Motor evolving during the second half 2020?

And Alex Evans from Crédit Suisse. How would you categorize the net impact you have seen from lower mobility versus COVID losses in the quarter?

Fernando Mata Verdejo
Group CFO & Director

A lot of questions, and believe me, even in the best moment of my life, I will be able to answer in this -- these questions. I mean as I mentioned at the beginning of the Q&A, let's say that the increase of mobility and economic recovery will depend on the pace of vaccination, basically, across the regions. What we see is a sort of asymmetric trends, different countries, hopefully. I mean, particularly in the U.S., we've seen a nice bounce in recovery in the economy, and also we'll see as well in Spain. But in other countries, it's extremely difficult.

What I can say at the moment is that the -- with the information we have, and we stick to the 95% combined ratio for the Non-Life business, for the Non-Life lines that we published at the AGM. But what we should expect is sort of variation, fluctuation in trends across the regions and also across the line of business. And one quarter ago, I mean, nobody in MAPFRE expected a dramatic increase in Life Protection combined ratio as the one we published at this quarter.

On the other hand, I mean, combined ratio on other Non-Life line of business is performing quite well because of the lack of economy. Everybody wants to have a full recovery. And -- but we're going to see quarter-by-quarter is a sort of catch-up of activity, and also an increase of mobility. But so far, the longest scenario I can give you is just the 95% combined ratio for this year. Sorry about that.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Okay. Thank you very much, Fernando. I understand perfectly well. There is a question related to the emerging markets. Marina Massuti from JB Capital is asking how do you see the outlook evolving of the emerging markets, which have been heavily impacted by the pandemic?

Fernando Mata Verdejo

Group CFO & Director

Let's say that they're more promising that -- one quarter ago. And even today, I mean, there is a nice rebound as well this week by Brazilian real. It was the one that hit our top line, basically, our top line on net equity during this first quarter. But the most relevant, and as you know, is the Mexican peso, Colombian peso, Peruvian peso, and above them, the Brazilian real and the U.S. dollar.

As long as the U.S. dollar remains in a range between [120, 122], we're fine. But -- and also as you see as well in the -- I mean, there are not emerging countries, but this is the one that moves really the equity base for MAPFRE. And the real between this range of [6.4 and 6.7], we're fine as well. Other emerging countries' currencies such as Turkish lira doesn't have a significant event, a significant effect. And because after year-by-year depreciation, the base for devaluation or depreciation is much lower.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

We have a question related on the outlook. It's coming from Paco Riquel of -- from Alantra and Alex Evans from Crédit Suisse. They're asking on the same topic. If we annualize the first quarter net profit, you will fall short of the EUR 700 million of net profit target for 2021. And the Bankia joint venture will be deconsolidated from second quarter. Do you think that the target is challenging? And if not, what levels do you see to improve profits in the coming quarters?

Fernando Mata Verdejo

Group CFO & Director

Thank you, Paco, Alex. I said that we're happy with, let's say, with the current result for this quarter. As extraordinary, there is only EUR 10 million capital gains and with the normal peaks rotation, frankly. And we got plenty of league way to realize the story. We didn't do it, and we're not going to do it.

But let's say that why -- we're happy and we stick to the EUR 700 million net equity guidance for the entire year. Usually, the first quarter, I mean, is lower than average profit contribution quarter. As I mentioned, Gloria last year and this year, Filomena, we didn't consider extraordinary. I'm sure we're not going to have the same storm over Madrid in the second quarter, not in the third quarter.

And also, the third quarter usually is, by far, and historically is the best quarter in terms of profit contribution from MAPFRE. So I don't think it will be fair just to multiply it by -- for the recurring profit for the first quarter. So let's say that so far, and if there is nothing extraordinary, mainly from COVID, and we'll stick to the EUR 700 million recurring net profit for the entire year.

Regarding Bankia, you asked for the contribution. This is smaller than last year, I mean, the net contribution. And let's say that there was -- this profit from Bankia was already included in the EUR 700 million net income as a guidance.

Felipe Navarro López de Chicheri

Capital Markets & Investor Relations Director

Yes. Thank you very much, Fernando. That clarifies very much the situation. Ivan from Barclays is asking, when looking at the gross PC premiums, which were down 2.6% year-on-year in first quarter 2021, how much of that is lower exposure? And how much is lower price? Now that the economics are recovering and some regions are seeing inflationary pressure, how do you think about your ability to increase pricing?

Fernando Mata Verdejo

Group CFO & Director

As a general trend, we -- I don't have numbers, I mean, for each region, not for this -- for any country, Ivan. But let's say that we've seen an increase on number of risks, as I mentioned, particularly in Spain because of the -- our brand

recognition, also as well in some countries in Latin America. But on the other hand, there is a decrease in premiums and also in units in the U.S. and also in Italy because we decided to quit this car dealers distribution channel.

On average premium, let's say that we've seen a reduction, which is lower month-by-month in Spain, and was based on this strong effort to protect our portfolio. And in the remaining regions, particularly in the U.S., I mean, there is no changes in the tariffs, or let's say, there is no any change in the average premium. I mean the rest of countries, I don't see -- I don't remember any relevant. So let's say, most of the growth is coming from increase on risk number.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you very much. We have a question now related with the M&A activity coming from Paz Ojeda of Banco de Sabadell, he says, related with Italy activity. There have been a lot of M&A operations around Aviva and Allianz bancassurance, et cetera. Could MAPFRE consider at some point, this business as non-core, which is the Bank of Italy.

Fernando Mata Verdejo
Group CFO & Director

Thank you for the question, Paz. Regarding Italy, I mean, we focus on digital business. When -- we decided to quit the car dealerships is because we wanted to concentrate -- because it was a loss-making channel, obviously. First, it was an 80/20 decision, and we decided to focus on the digital channel. Obviously, we're selling as well, the digital business with wide brands as well in other countries, particularly in Germany, when we have agreements with some carmakers. And probably, we can do as well. I mean we will be quite active in looking for digital business growth in both countries. But I don't see, let's say, any standard bancassurance agreement because we have a digital business just in Italy.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

And no disposal of the...

Fernando Mata Verdejo
Group CFO & Director

And no, no disposal, absolutely.

Felipe Navarro López de Chicheri
Capital Markets & Investor Relations Director

Okay. Thank you very much. It seems that there are no more questions. So we come to the end of the meeting. Thank you very much. Thank you, Fernando. And before we close the call today and moving on to logistics, next Wednesday, the 5th, we will be hosting 2 group meetings during the afternoon. First, there will be a group in Spanish at 4:00 Madrid time, followed by another group in English at 5:15 Madrid time. Both meetings would last around 45 minutes.

And as we published and updated provisional Solvency II figures, applying the partial internal model as well as our 2020 embedded value disclosure, these meetings will be a good opportunity for any questions you may have on these -- on those topics. Please get in touch with our Investor Relations teams to confirm your attendance. You have the contact details in the presentation. And that's it. Thank you very much for your time, and please stay safe. Thank you.

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you. Thank you, everybody, for your presence. And as Felipe said, stay safe and healthy. Bye-bye.

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