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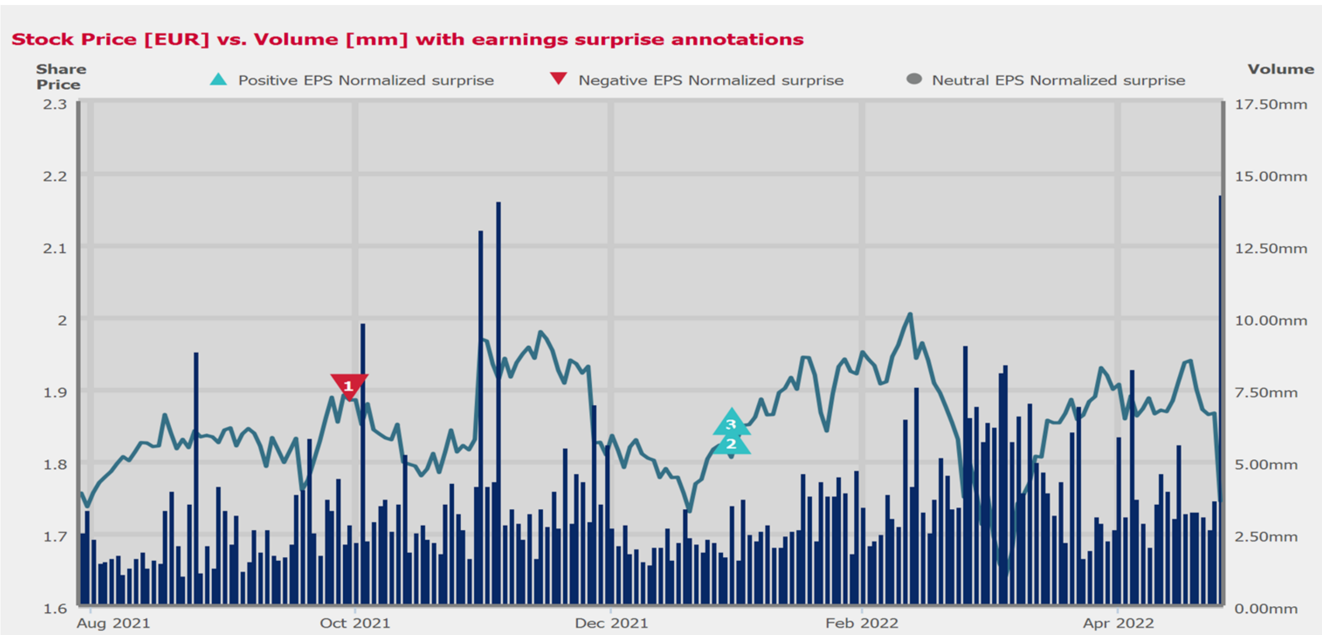
FQ1 2022 Earnings Call Transcripts

Thursday, April 28, 2022 3:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.07	NA	NA	NA	0.23	NA	NA	0.21
Revenue (mm)	5391.24	NA	NA	6357.63	21953.60	NA	NA	22579.10

Currency: EUR
Consensus as of Apr-29-2022 12:14 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.04	0.03	1 (25.00 %)
FQ4 2021	0.07	0.10	2 42.86 %

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Call Participants

EXECUTIVES

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

Fernando Mata Verdejo
Group CFO & Director

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Presentation

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

Good evening, everyone, and welcome to MAPFRE's results presentation for the first quarter 2022. This is Felipe Navarro, Head of Investor Relations and Capital Markets as well as Corporate Treasurer.

It is a pleasure to have here with us Fernando Mata, our CFO, who, as usual, will walk us through the main financial trends on the quarter. José Luis Jiménez, the Chief Investment Officer, will also be with us today to walk us through the investment portfolios.

At the end of the presentation, we will open up the Q&A session. We invite you to send us your questions using the Ask a Question link on the bottom of your screen. We'll try to answer all of them as time allows. All the IR team will be available to answer any pending questions as from tomorrow morning. Before I turn the call over to Fernando Mata, let me express all of MAPFRE's deepest sympathy to the Ukrainian people, those remaining in the country and those refugees that have fled the area.

There is no reason to justify the massive loss of human lives and destruction. It will take a lot of time to heal from this suffering and aftermath. We truly hope that a peaceful resolution to this terrible conflict is found as soon as possible. And now Fernando, the floor is yours.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Felipe, and good afternoon, everybody. Despite an extremely challenging start to the year, MAPFRE has closed the quarter with satisfactory results and resilient balance sheet supported by a very diversified business profile and strong financial position.

Pandemic situation is improving, but still needs to fully normalize mainly in Latin America. In addition, we are now facing the difficulties resulting from the geopolitical situation surrounding the invasion of Ukraine, which is aggravating already growing inflation, rising interest rates and is weakening the global growth outlook.

Growth has been exceptional across the business with tailwinds from currencies. We maintain a disciplined approach and are growing in profitable lines such as general P&C and Life protection.

Total premiums are up around 11%, and the insurance business has grown by 12%. In Spain, the business is growing despite the loss of the bank agreement last year. And MAPFRE RE has recorded a 17% increase and premiums in Brazil were up 35%, over 15% in local pay currency.

Profitability has been resilient overall, reaching a net result of EUR 155 million with an ROE of over 9%, with very different trends across business lines.

Profit contribution was strong from core operations and renewals were standing at MAPFRE RE -- has been -- there has been a reduction in COVID-related losses, especially in Life Protection in LATAM.

And this positive trend should continue to consolidate. On the other hand, Motor business profitability has been hindered by higher mobility levels and claims costs.

The performance at Iberia and MAPFRE RE has been pretty stable, with combined ratios of around 95% and 94%. Thanks to MAPFRE's highly diversified business profile, we are well prepared to handle this volatile and challenging environment.

We are benefiting from positive diversification at different levels. Geographically, MAPFRE's presence in Latin America is an asset right now as the region's economic outlook should be less impacted by current geopolitical turmoil.

Furthermore, MAPFRE has negligible exposure to Russia and Ukraine. Our business mix is allowing pressure in Motor, Health segments to be offset by improving trends in General P&C and Life Protection lines.

We have always boasted a multichannel approach, which is allowing us to compensate the loss of Bankia. We will continue to focus on core markets and exiting nonstrategic businesses.

During this quarter, we formalized the sale of business in Indonesia as well as completing the sale of InsureandGo in Australia. Regarding our financial profile, financial markets were extremely volatile. Interest rates have gone up sharply, while currency appreciation partially mitigated this effect.

Our solvency at year-end reached 206% and our sensitivities have improved. The issuance of the EUR 500 million carried out in April, will strengthen our solvency position. Lastly, the final dividend of EUR 0.085 will be paid May 31.

Now I will comment on some of the figures from the first quarter of the year. Premiums are up around 11% in euros, and at constant exchange rates growth was 7.5%, with strong trends in Non-Life. The average exchange rate for the U.S. dollar was up around 7% and the Brazilian real was up over 17%.

The combined ratio was around 98% with a 4-point increase in the loss ratio, driven by the pressure in Motor as well as some impact from the drought in Brazil, in the agricultural segment.

0.5 reduction in the expense ratio is noteworthy, reaching an excellent level of 27.5%. The attributable result reached nearly EUR 155 million with an ROE over 9%, 8.4% excluding the impacts of Bankia and other extraordinary charges booked at the end of 2021.

Shareholders' equity is down 5.5% on the year, mainly due to the reduction of unrealized capital gains during the -- due to the rising interest rates which was partially offset by currency appreciation.

The market consistent embedded value at the end of 2021 is down 8.6%, mainly due to the carve-out of Bankia operations. Excluding this impact, embedded value would have been up 0.6%. And as you can see, the amount attributable to the parent company remains fairly stable.

Even though this quarter, we have not had any major extraordinary events in order to be consistent, we have included this disclosure. There were no large NatCat claims during the quarter. Last year, we had a minor event, Filomena.

And this year, we had the drought in the Parana River, with a negative impact of approximately EUR 37 million, EUR 21 million in direct insurance and the remaining EUR 16 million in MAPFRE RE.

Regarding ASISTENCIA restructuring, the sale of InsureandGo in Australia had a EUR 4 million positive impact, which offset the EUR 3 million provision that was made for further reorganization and booked in the quarter.

Capital gains in the actively managed portfolio amounted to EUR 21 million, mainly coming from Iberia. A full disclosure of the different components of these items are included in the annex.

During the first quarter, insurance operations contributed over EUR 5.5 billion in premiums and nearly EUR 147 million in results. The result is down 19% in the quarter, mainly due to the lack of contribution from the Motor segment as well as weather-related events in Brazil.

I would like to highlight the positive performance in Iberia. Premiums are up over 2% with excellent growth in general P&C, health and life savings. Premiums are slightly down in Motor, while the market is up 1.6%.

The combined ratio is still a strong 95% and the net result was EUR 102 million, down only EUR 6 million after the Bankia exit. In Brazil, premiums were significantly up with healthy growth trends in Agro, Motor and Life Protection.

The attributable result was over EUR 11 million. We saw a strong improvement in Life Protection, but it was not able to offset the lackluster performance of the Motor business and the EUR 21 million impact of the already said droughts.

As a consequence, the combined ratio of over 104%. Currency and interest rates are both significantly up and helped offset these negative effects. Premiums in LATAM North and South grew over 25% in euros.

Local currency growth was solid in most segments, and it's worth mentioning Mexico up 18%, Peru up over 39%, Dominican Republic up 17% and Chile up 23%.

Overall, in both regions, the strong improvement in Life Protection profitability was offset by the pressure in Motor. Performance in North America continues to be affected by strong competition, growing mobility trends and increased severity.

Premiums are up nearly 19%, of which 12 points was contributed by the Century business that was transferred to MAPFRE USA from ASISTENCIA in the fourth quarter of 2021.

In Eurasia, premiums are down due to the nonrenewal of an important dealership distributor in Italy. And in Turkey, the strong fall in average exchange rates is still a drag on both business volumes and also results.

The inflationary environment obviously has also been a challenge. In Italy, the staff restructuring plan that we booked a provision last year is underway, but it will take some time to be fully implemented. And MAPFRE RE growth is supported by positive pricing trends. The combined ratio is 94%, and the net result was over EUR 36 million, with strong trends in both our reinsurance business and global risks. In ASISTENCIA, the streamlining effort is evident with volumes down over 59% and recording a modest profit in the quarter.

On this slide, I would like to comment on the Life business at the insurance units. In Iberia, premium performance ex-Bankia would have been up over 9%, thanks again to our captive agent network. In Brazil, local currency growth has been healthy. continuing with the trends showed last year, underpinned by positive tailwinds in the currency.

The Life result has significantly improved, more than doubling with a general improvement in LATAM and supported by the positive trends in Iberia, fueled by capital gains. The negative result in LATAM South mainly corresponds to Colombia runoff portfolios, their annuities runoff portfolios, due to the update of actuarial assumption for the full year.

We should expect this negative trend to level out during the year with increased financial income from the inflation-linked portfolio. On the right side, you can see the total COVID impact in LATAM in the quarter was just EUR 10 million, the lowest figure over the last 5 quarters. We should expect a better outlook in the region going forward.

I would like to comment on some Non-Life trends that have come up during this first quarter. We've seen high level of volatility in combined ratios in both directions. 2 lines of business have been negatively impacted, Auto and Health and Accident.

Inflation risk was already present in Health in 2021, we already commented that, and has accelerated significantly and expect to other lines as a result of the conflict in Ukraine. Additionally, a global economic slowdown will cause recovery from the pandemic to take longer than initially we expected.

General P&C is performing very well overall. The combined ratio in Iberia is below 89%, down 10 percentage points due to the excellent performance of personal and commercial lines. In Brazil, the impact of the drought has put some pressure on the combined ratio. But excluding this effect, it will be a stand at around between 70% and 80%.

In Motor, we've seen similar trends across all markets. The average premium is still reflecting the impact of the phaseout of the rebates from the pandemic. Additionally, covers are also being reduced as a result of the aging car fleet due to the lack of new car sales.

Regarding mobility, we've seen a similar mileage as pre-pandemic with an increase in average speed and higher use of cars during the weekend, which is leading to a higher severity. Cost of claims has also been affected by supply chain disruptions and inflation in spare parts, longer repair times and also a spike in secondhand car prices.

By market, in Spain, the fleet is stable in the first quarter based on a disciplined underwriting, [described in] Slide 4 in the average premium affected by reductions in coverage.

In the United States, the increase in premiums mainly comes from the Century transfer. Tariff increases of 3% have already been introduced where they were approved last year, and further increases have been requested.

In Brazil, the increase in the combined ratio is primarily caused by relevant increases in theft. Tariff increases have been introduced since the end of last year with double-digit increases. In the health segment, in general, there has been an increase in average claims cost from a higher number of thefts and general inflation, also with noting that policyholders are increasing the frequency of medical consultations in the current context.

By market in Iberia, the existing portfolio renewed health at the beginning of the year. So we will not have any rate increase until year-end, and we will focus on reducing expenses. In the Dominican Republic for health, the reduction in the combined ratio is driven by higher rates and lower claims.

Overall, we are monitoring the situation, and we'll continue adopting measures to the change in scenario, including further pricing actions and active provider and management. I'm going to hand the floor over to José Luis Jiménez.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Thank you, Fernando. On the next slide, you can see the assets under management for the balance sheet of the group, during the first quarter, have decreased by 2% as a result of market volatility due to a more incentive geopolitical context as well as the rate increase in most of the market.

Inflation finally is becoming an issue for financial markets. Spanish sovereign debt continued to be the largest exposure in our portfolio with EUR 11 billion. It is followed by Italian debt with EUR 2.8 billion. Please note that a large share of these positions are allocated to immunized portfolios.

The investment portfolio is slightly down, mainly due to the increase in yields, which have negatively affected sovereign debt market value. Both the Spanish and Italian referenced bonds are up over 85 basis points during the quarter, where the U.S. bond is also up over 80 basis points.

Equity markets are also down in the quarter due to the volatility experience as a consequence of the war in Ukraine. It is also worth mentioning that around 30% of equity and mutual funds are in actively managed portfolios.

The remainder is in portfolios where the development risk is borne by third parties. Pension funds are slightly down while mutual funds have gone up to 3% due to positive net subscriptions, thanks to our wealth business in Spain as well as mutual fund business in Brazil.

In the next slide, we comment on the investment portfolio on the fixed income side. And on the top are the details of our euro area actively managed fees income portfolios.

The market value of these portfolios is around EUR 12 billion. The largest move on the quarters were related to the investment of over EUR 280 million in inflation-linked bonds in Iberia and MAPFRE RE.

As a consequence, we observed a reduction in the accounted yield due to the accounting features of this investment. And for the reason we are presenting figures carrying out this part of the portfolio. This is an extra line on the table. As you can see, excluding these bonds, the accounting yield is slightly down, mainly due to durations that we have carried out during the last quarters.

As a reminder, the loan duration in Iberia and Non-Life is due to the [Brazil] portfolio. On the bottom, you can see the details of the fixed income portfolios in other market, which duration is slightly down and portfolio deals up in all markets and regions.

We tend to believe this trend will continue in the coming quarters as long as central banks put more emphasize in payment inflation threats. In terms of the investment strategy, uncertainty will continue high in financial markets in the medium term due to inflation, which is becoming a structural in many economies.

Interest rates are moving upwards, and third, to a lesser extent, the economic slowdown. During the first quarter of this year, we have ramped portfolios with a lower duration compared to benchmark.

This is in line with group investment strategy for 2022 in order to embrace a higher interest rate environment. This is more or less around 30% less than last year. We have increased our exposure to core and semi core bonds, sovereign bonds. Meanwhile, we have reduced our periphery exposure.

We have increased as well our exposure to linkers in order to protect the portfolio against inflation. During the quarter, we have reduced as well equity exposure and credit exposure. And we have sold all positions that could be potentially affected by the consequences of the Ukraine conflict.

As Fernando has said before, we have no exposure to this Russia or Ukraine, but we thought on possible on collateral efforts. I would like to comment on our approach to ForEx risk and inflation in some countries where inflation is higher than others. In the case of Argentina, more than 55% of the balance sheet is in hard currency and linkers. Meanwhile, 45% is in the short-term fixed income assets in order to protect it. In Venezuela, close to 70% is invested in U.S. treasuries. In Turkey, high currency and Turkish lira deposit with FX protection represent today more than 65% of our investment portfolio.

So as a kind of conclusion, looking forward, if the situation doesn't deteriorate further, we tend to believe in a more benign scenario in terms of interest rates and FX in which we could be profiting.

Fernando Mata Verdejo
Group CFO & Director

Thank you, José Luis. That was very comprehensive. Shareholders' equity stood at EUR 8 billion down in the quarter, over 5%, around EUR 460 million. Net unrealized gains on the available for sale portfolio were down EUR 626 million, mainly due to the increase in interest rates in the euro area and the United States.

The largest impact was in Iberia with EUR 335 million, followed by MAPFRE RE with EUR 109 million (sic) [EUR 104 million] and North America is down EUR 104 million. Currency commercial differences are up EUR 264 million on the back of a notable appreciation of the Brazilian real as well as the U.S. dollar.

On the right, you have the breakdown of currency conversion differences, annual movements and also the sensitivity -- the standard sensitivity analysis.

On the chart on the left, you can see the breakdown of the capital structure, which is slightly down in the quarter, amounting to over EUR 12 billion. As usual, equity is the largest component, representing over 3/4. Leverage at the end of the quarter is stable at 24% and within our risk appetite.

On the right, you can see Solvency II ratio of over 206% in December last year, which increased as a result of the Bankia transaction. In April, we successfully closed the issuance of our Tier 3 subordinated debt with the aim of further optimizing our debt position, taking advantage of favorable market conditions.

We issued EUR 500 million with a 2.875% fixed coupon. And it should not have an impact on leverage as we have reduced our syndicated credit facility by a similar amount. This issuance, as you know, is considered as capital for Solvency II purposes and should have a positive contribution of at least 10 points to our ratio.

Regarding sensitivities on the bottom right, you can see that they're relatively stable. The largest sensitivity is 50 basis points, corporate and sovereign spread widening. That will result in nearly 10 percentage point reduction in the ratio, although much lower compared to the 14% sensitivity last year.

Now I would like to comment on the new strategic targets for the current 3-year period announced at the AGM. As we mentioned, these figures could be affected by the current conflict in Ukraine as well as changes in the macro environment.

Before commenting on this, I would like to take a moment to express MAPFRE's solidarity and compassion with all the victims of the conflict, those that have been forced to leave their homes and those that are suffering from the terrible consequences of this war. And we mourn the terrible loss of life.

This invasion has brought enormous uncertainty to the current context, but be sure that we are acting quickly to protect the business and adapt our strategic plan where necessary, as we already did during the COVID crisis.

So far, most of the indicators of the strategic plan are moving on the right path with the exception of the combined ratio, which is affected by current uptick in inflation. We'll keep you updated with further information regularly.

To sum up, in this first quarter, MAPFRE continues to show strong growth and resilient results even in the current difficult context. MAPFRE geographical and business diversification continues to be one of our main strengths and allows us to mitigate negative trends in the Motor and Health lines.

Iberia and MAPFRE RE have once again shown a solid start to the year, strongly contributing to group results. Iberia has benefited from business diversification and MAPFRE RE good performance has been supported by the positive pricing environment and low impact from NatCat events.

LATAM premium volumes are noteworthy growing local currency with positive currency trends. Both U.S.A. and Brazil should improve their contribution to results supported by the measures taken to return to technical profitability in the Motor segment.

The financial strength of our balance sheet is robust. Shareholders' equity remains above EUR 8 billion, and the recent debt issuance provides us with great financial flexibility while strengthening our solvency ratio.

We continue committed to our transformation process, optimizing capital allocation and clearly focus on our core markets and channels. MAPFRE is strongly committed to implementing the new strategic plan, which is based on a business model that continues to prove resilient and allows us to adapt to the changing context.
However, we are aware that there is a lot of uncertainty in the current geopolitical and market context. And we will monitor and act to mitigate any potential impact on our business. Thank you very much for your attention. And now I will hand the floor over to Felipe to begin the Q&A session.

Question and Answer

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

Thank you very much, Fernando. Please let me remind you very briefly the details of this Q&A session. You can use the Q&A widget on the bottom edge of your screen to send your questions, and we will answer all your doubts as time allows. Given the time end of this quarter call, please try to submit your questions during the Q&A. The IR team will be pleased to answer any pending questions as of tomorrow morning.

And now let's start with the first question. The first question is coming from Farquhar Murray from Autonomous, and together with Carlos Peixoto from Caixa, they are interested in the same topic. And it is related with Motor. Please, could you outline the main pressure points that you are seeing in Motor? And in Spain, do you see an easing in pricing pressure?

Fernando Mata Verdejo
Group CFO & Director

Yes. Thank you, Farquhar, and thank you, Carlos. I already know that it was the first question. This is the main topic of today's presentation. Let me be a little bit longer regarding our current situation, well, rather than our, let's say, that the worldwide situation of the automobile. We're not living the best time for doing this sort of insurance.

Fortunately, MAPFRE has reduced exposed in critical countries. We started in Brazil many, many years ago. Also in U.S.A. with asset in different states, and also Turkey and, quite recently, Italy. Let's say that the we started a couple of years ago, introducing different discounts for policyholders due to the pandemic.

Obviously, it was in line with the market and across these geographies. We compare to Spain, we didn't know that bad. I mean, we're quite close to what the total industry did and the market for the 2 years, the average premium for automobile dropped for the total industry, 7 percentage points. And MAPFRE was a little bit higher. It was approximately between 7 and 8 depending on coverage.

Later we started the phaseout of the discounts, which is still currently underway, but it will take at least some months to be fully implemented in the standard income recognition. Let me say as well, and we discussed at the last year presentation, general inflation -- let's say, expected inflation for this year was well managed, is what we mentioned.

We had a quite wide range of collective bargaining agreements with different providers, tow trucks, preferred garage, and also with a labor agreement with our unions. So let's say that general inflation was included or somehow was accounted in the premium increases for 2022.

And let's say that some of these collective banking agreements that was set for 2022, they have a special agreement because at that point at the beginning of the year, it was some low inflation scenario, but it was already predicted at that point.

And there's some protecting clauses for the providers and the agreements could be updated in -- if a certain extraordinary situation could arise. Let me say that there is a big -- there is a pretty high threshold but in case of extraordinary high inflation or extraordinary increase in gas prices, this bargaining agreement should be renegotiated again. And probably it could happen during the second part of the year.

What happened during the first quarter, and it was an unexpected, at least for MAPFRE, let's say that there is a significant change in driving patterns. I mean, even assuming that the mileage is pretty similar to pre-pandemic, what we noticed with the GPS that has been set in some of our cars, mileage is pretty similar, but there is high speed. The average speed is a little bit higher.

And also drivers are driving -- are using the car more at the weekends with longer trips than in working days. I don't know, it's just the people are reluctant to take public transportation or whatever, but the reality is that there is a change in driving patterns.

This is leading to a certain increase in the loss ratio as well. We've noticed as well as sort of, we call it, after-loss inflation, means that once the loss has been reported. And due to -- I mean, MAPFRE is very well positioned to give the best quality of service at this moment.

But actually, what we're seeing is that there is a lack of spare parts in the surrounding area near the garages and is taking more time to get the spare parts ready to be repaired. So time is extended at the garages.

And usually, I mean, the time when we give the car back to the policyholders is a little bit longer. And also, we are noticing a significant increase. In some regard there is -- we blame inflation and due to the disruption in the supply chains. And it's also affecting the gas prices and other components.

More things. I mean, my opinion is that the market let's say, in different geographies is completely disrupted. We've seen headlines, for instance, in the U.S.A, probably you know, second-hand cars are more expensive than new cars. I haven't seen it before.

Quite recently, GEICO has stopped underwriting through call centers due to extremely high loss ratios in different states. Massachusetts is one of these. And in Spain, we recently read that secondhand car sales, 15 years and older, are being sold more than new cars. So that is leading to an aging or a fleet which is now 15 years old, is one of the -- by far, one of the oldest in Europe. So in this context, we analyze the different components of our combined ratio for Automobile.

First of all, we haven't introduced any significant change in our reserving policy. Rather than updating outstanding claims to the future inflation, means considering future payments, but there is not any release of prior year's provision and not any change in our reserving policy.

Assuming what we've mentioned, there is between 7 and 8 percentage point reduction in our average premium, we should blame practically 4 percentage point increase in the combined ratio to the reduction, obviously, in the income recognition and the side of premiums.

Regarding frequency, back to the other part of the combined ratio. Regarding the new driving patterns they are affecting. But overall, I will say that the frequency is quite similar or even a small lower, particularly in some geographies.

So let's say that the difference between -- the net difference of both combined ratios this year, previous year, the remaining difference, which is between 4 and 5 percentage points, we blame inflation as a general component of a low ratio just to complete this stereotype.

So what we're doing in order to fight and to solve this situation? Our -- there is no other solution rather than to adapt our premium tariffs to the current risk profile. So we've seen a significant increase of tariffs across geographies with different range. In Spain, 1 digit. In the U.S., we stopped, we introduced the 3% increase at the end of last year. But we are applying for further increases but has not been approved yet. But we should knock on the door twice. You know that Massachusetts currently is [leading time] elections and these decision are hard.

But we should assume that in the coming months, a further tariff increase should be approved. Tariff increases in Brazil are well above 10%, close to 20%. And the same in Latin America. And also another thing that they're neutralizing part of this inflation, as José Luis mentioned, we have a significant portion of our portfolio in inflation-linked securities in some of the regions.

So somehow, they will help us with this increase in financial income to neutralize part of the loss ratio. Other things I would like to comment on, as we mentioned, the average premium is slightly down in -- particularly in Spain this quarter.

MAPFRE has no appetite for growing for new business, for growing our units. Our units are pretty stable in Spain. And the -- as Luis mentioned, the current prices are easing, particularly in Spain since churn ratios, they should be more stable during the pandemic.

So this is basically the big picture. Sorry, to be that long and -- during this presentation, but I think it's better to have the full picture before going into details, any question will be welcome, obviously, but this is the big picture. A combined ratio ranging from 120% in Brazil to the lowest -- the only geography we've not seen any change is Germany.

And again, it's giving a very good surprise. Combined ratio stood at a wonderful 98% in Germany, quite stable compared to other geographies. That's basically my answer for it.

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

That was a very thorough answer. Thank you very much, Fernando. I think we can go very fast with the rest of the questions in Motor business because I mean the thing that you gave already a very comprehensive answer for all the questions.

There's another one coming from Farquhar Murray and Alessia Magni from Barclays. On the key Motor business, what level of claims inflation in -- MAPFRE is seeing? And how does it compare to tariff increases that you are pushing through to this -- so that part this quarter?

Fernando Mata Verdejo
Group CFO & Director

I already mentioned with the tariff increases that we're pushing in our premiums. Regarding on the expecting inflation, I mean, it's really, really hard. I mean, just to predict what is going to happen during the second part of the year.

But let's say, those markets, we will have flexibility to adapt the tariffs to the risk profile we'll do it. The United States is a completely different country and scenario, and we'll do their our best. That's all.

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

Okay. Thank you very much. There was an interesting question about frequency and gas and oil prices. Do we see any kind of linkage with the reduction in frequency and -- because of the high gas and oil prices? This Is coming from Alessia Magni from Barclays.

Fernando Mata Verdejo
Group CFO & Director

Sorry, Alessia. No. The answer is no, not in Spain nor in the U.S., perhaps in some Latin America countries could be. But in particular, in Madrid, we have a traffic -- particularly weakened. And this is the surprise. But so far, I mean, the policyholder, they're quite happy, I mean paying a lot of money, I mean, at the gas station.

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

Okay. There's another question coming from Paz Ojeda from Banco de Sabadell. Almost the reasons behind the severe deterioration of Motor claims ratio during behavior -- driving behavior, inflation, second car high sales, new cars lower coverage, seems to be rather structural. Are you contemplating more measures about tariff increases?

Fernando Mata Verdejo
Group CFO & Director

Yes, I forgot as well to discuss on cost control. And operations in Iberia is quite efficient. There is very few ranges for further enhancement. But we'll try. But particularly in the United States, we are redirecting more cars to our preferred garage network. That has been extremely efficient in Iberia, and we want to copy the same structure in other geographies.

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

Okay. Thank you very much, Fernando. Alex Evans from Credit Suisse and Carlos Piexoto from Caixia BPI have -- are interesting and are questioning about bringing questions about Brazilian Motor. You have been trying to return to Brazilian Motor to profitability since 2016. How are you going to achieve this in what is now and arguably much more challenging markets? Any concerns about the heightening of theft claims. What are your expectations?

Fernando Mata Verdejo
Group CFO & Director

Yes, thank you for the question. I mean, it's quite interesting question. It's true what you said and year-by-year, we said that we are implementing different measures in order to improve our ratio, our combined ratio in Brazil. We haven't found so far, I mean, the right button. And the reality is what we've done and that is limiting and reducing -- particularly reducing our exposure. In this country, MAPFRE used to be the second in the top 10 ranking in the automobile in Brazil.

Now currently, we are, I don't know sure, 6, 7, perhaps. And it's extremely competitive market. Only there is only one entity you know by heart, you know very well. And that is making a lot of money out of this business. But the remaining, I mean, we are in [abundance] with similar combined ratios. And the main differentiation is the [route and] channel. You know that it's been well controlled by [indiscernible] and independent agents. And the reality is there is a big premium leakage since the premium goes out from our actuarial techniques to the one where we price in the market.

And there is an important leakage at the end of the -- it's the last minute discount at the distribution channel. That's very difficult. But the reality is Brazil -- in Brazil, MAPFRE is not a relevant player in the auto. We would like to come back to this position, but only we'll be able to make money. Otherwise, we'll be happy with the current risk portfolio with the help of Banco de Brasil and exploring other -- growth in other areas such as general P&C, Life Protection and other less volatile line of business.

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

Okay. Thank you. Thank you very much, Fernando. There's a question coming from Alex Evans from Credit Suisse. Why are we not seeing the same level of deterioration in Motor loss ratios at peers if this is a market-based inflation?

Fernando Mata Verdejo
Group CFO & Director

Well, we've seen in other like Health. And unfortunately, we're not seeing in homeowners, not in condominiums. We usually say -- I mean, it's not a joke, and we say that the you can fix your building or your house twice in one year. And the reality is like the combined ratio, particularly loss ratio for those 2 lines of business that were extremely high during the pandemic.

I mean, homeowners, they were fully devoted and to fix their house. And actually, what is happening is there is a lower frequency of claims, particularly in homeowners and as I mentioned is, one of the good things of MAPFRE is the lines of business diversification.

And with General P&C lower than 90%, they're helping us to compensate our lines. [The real] expense as well dropped the combined ratio and from the high hundreds and during the pandemic and now is performing well.

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

Okay. Thank you very much, Fernando. Paz Ojeda from Banco de Sabadell. She's asking about the churn ratios in motor insurance in Spain.

Fernando Mata Verdejo
Group CFO & Director

So far no change, but quite stable. Quite stable.

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

Yes. And very good.

Fernando Mata Verdejo
Group CFO & Director

And very good as well. Very good.

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

Same Paz Ojeda on U.S.A. Could you please comment on the tariff increases that you have already made? And if there's more to come, bearing the strong competition that you are commenting?

Fernando Mata Verdejo
Group CFO & Director

Yes. We are in the process, and I mean, don't read my lead strongly. I mean, the -- at the beginning of the year, we announced that we were asking for an additional 3% increase on rates. And I wouldn't blame the current electoral time in the Massachusetts, but the reality is administration in general stops when this situation happens and -- but I know that there is a problem, everybody knows in Massachusetts and also in the U.S.

I mean, inflation for spare parts is well above close to 10%, close to the 20s. And there is an asymmetry between tariffs and claims. So in the end, I'm sure we're knocking on the door again, as I mentioned. And not sure, 100% sure. But my idea is -- my view is that we will get an additional 3-point percent that we're asking in the coming months. And -- because it's absolutely necessary, I mean to -- just to level out the current situation in Auto.

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

That would be very good news for us and for the rest of the business that [indiscernible] as well.

Fernando Mata Verdejo
Group CFO & Director

Absolutely. Absolutely.

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

Could you -- from Paz Ojeda as well. Could you elaborate on the reserve runoff in Motor insurance? Is there any reserve hike in any of the main countries, Spain, Brazil or the U.S.A.?

Fernando Mata Verdejo
Group CFO & Director

Well, as I mentioned, we're very prudent and we were doing just updating our outstanding claims, assuming that there will be a higher future payments due to the inflation. And also other components of the loss ratio, but nothing relevant. And in terms of sufficiency of reserves, it has been maintained quite stable during the quarter.

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

Thank you very much. Andrew Sinclair from Bank of America is asking for a clarification about the phase out that we were mentioning before. In the full year call, we said that discounts were already fully phased out. But now it sounds that they're -- we are saying that they're going to be phased out in the coming months. Could you please clarify?

Fernando Mata Verdejo
Group CFO & Director

Yes, that's correct, Andrew, you're right when you said that. Actually, what is happening is that approximately in the current context, any tariff increase, there is 3 components. This is the actual situation. 1/3 goes directly to price increase. Another 1/3 goes to a decrease in coverages, mainly due to the aging of our fleet. And the remaining 1/3 is what we call, it is the last minute discount at the end of the distribution channel.

And this is the one we want to get rid of. And -- because meanwhile, it's extremely difficult to increase tariffs, if there is 1/3 premium leakage in our distribution channel. It is the last minute discount. It's extremely difficult to control, but we are putting a lot of effort in order to neutralize and to come to 0, obviously, which is the last target, I mean, for this leakage.

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

Okay. Thank you very much. I mean -- and as well, we were mentioning at the end of the year that this premium leakage was going to be offset, but we need to announce with 2 months in advance to the clients that we are going to increase prices or that the premiums are going to be increase. So that is another fact that is adding to this.

I have a question now for José Luis. It is coming from Andrew Sinclair. And the question is what's your outlook for Iberia P&C investment income?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

I think we have a more positive outlook looking forward. First, if we leave behind negative interests in Europe, and markets are discounting right now, at least 2 hikes from now to the end of the year, I think we should profit for the sole time investment as well as with our liquidity position, something that we have not seen for some years.

Also, I think we are profiting as well from our alternative positions. I have to say they are performing extremely well in terms of income as well in terms of capital gains. And in terms of credit, which is probably one of the things that could create some constants looking forward in the market, because the spreads could increase as soon as the Central Bank decrease the market intervention.

As you already know, we have a lower exposure to corporate credit. But those credit that we are still holding our portfolio are quite solvent, and we have no doubt regarding them. So if I had to give a short response, I think we will see a more positive result in the coming quarters.

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

Thank you very much, José Luis. We have a question now coming from Andrew Sinclair about inflation, which is a key challenge. And he says that it doesn't -- hadn't peaked in Q1. I think that we saw in the month of -- at the end of March, an inflation close to 10% in Spain. So I think that it already peaked. Do you expect further deterioration on the combined ratios on Q2 and Q3 because of the inflation, Fernando?

Fernando Mata Verdejo
Group CFO & Director

Andrew, what we're seeing is a high volatility through the quarter. The peak was in February and then combined ratio was much better in March. So there is alternate relation between the reported claims every month and also the inflation. And probably because of various other components, as I mentioned, probably the time that the cars are in the garage or even other considerations. We do not expect any dramatic increase in inflation in the second and third quarter, assuming that there is no deterioration of the current macro scenario.

So my view and it's not written really in stone, but my view is that probably, we have reached the peak in February in this quarter. And in March, is performing better, has performing better. And so far, April looks better as well. I mean, the combined ratio is not the one we expected to have. But also, you have to consider that the first quarter, I mean, it's winter in Europe and the U.S. and also summer in Brazil. So it's the worst quarter of the year in order to losses in automobile and in other lines as well.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

If you allow me, Fernando, to add something I think that's the view of the European Central Bank, where they tend to believe that we will see a peak in inflation during this quarter and there is a much better outlook for the rest of the year because in the case of Europe, inflation is due to the increase in energy prices overall due to the conflict. So if the conflict tend to resolve, hopefully, in the coming quarters, we will see a decrease in inflation.

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

Thank you very much, Fernando, José Luis. Maksym Mishyn from JB Capital has a following question on the combined ratio: How much of increase in combined ratio in Motor was driven by frequency and how much by inflation? And specifically, Andrew Sinclair from Bank of America wants to know how much of your Brazil P&C loss ratio increase was attributable to NatCats versus higher inflation?

Fernando Mata Verdejo
Group CFO & Director

Well, the different components of the automobile, combined ratio, they were already discussed. And regarding the second question, in Brazil, I think I already mentioned at the presentation. For agricultural, I don't have the effect of the P&C...

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

Individualized.

Fernando Mata Verdejo
Group CFO & Director

Individualized. But for agricultural business, excluding NatCats, the combined ratio would we have been 70%. That's what we mentioned at the speech and we call you back and because we can do the maths and also give you just a net effect on the P&C, the total P&C line of business.

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

Thank you very much, Fernando. Paz Ojeda from Banco de Sabadell has a follow-on question on investments, José Luis. Stocks unrealized gains are on negative territory in almost every country. Could you comment if there is a risk on profit and loss impairments due to the cash deterioration in fixed income on a breach in equity impairment rules?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

No. I mean the quick answer is no. I think we have some margin of man error. We have not reached any level that makes -- set up a concern for us. And we tend to believe that all the stocks that we have in our portfolio have very good companies where we expect good results in the coming quarter. With the crisis and with Russia, you never know.

But I would like to believe that the worst is over and probably we will see -- we have started the results season. And also, we expect that the good results in most of the companies will give some support to the market. But obviously, the right answer to your question is no, we don't see any risk in this whole time.

Fernando Mata Verdejo
Group CFO & Director

If you allow me José Luís as well. I don't remember you mentioned in the presentation, but -- it's important to say that in the EUR 21 million net capital gain that we disclosed at the presentation, it includes EUR 10 million. Before it was EUR 8 million, EUR 10 million before taxes, of unrealized losses from fixed income portfolio that we got rid of. This is because there were securities and directly related to the Russia scenario. So let's say that the -- any -- perhaps deterioration on this fixed income we got rid of them during the first quarter.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Yes. That's true. I mean we've referred to in the prudent side, we could have many more capital gains during the quarter, but we prefer to clean up some bonds that probably with no warranty, but probably there is any kind of risk in the future. We prefer to have, as always, a quite solvent and robust balance sheet just in case.

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

Thank you very much, Fernando, José Luis. There's a question coming from Alessia Magni from Barclays. On inflation, the agreements you signed with garages last year should protect you from inflation in Iberia. So why do you see higher [claim] cost? Where -- what were the details of those agreements? And when do you renew them and in which terms?

Fernando Mata Verdejo
Group CFO & Director

Well, I guess most of the questions has been covered. I mean, I can give you any details of those agreements other that we already commented. I mean, that's part -- they're confidential, and they will affect, obviously, our competitive position. We renewed them, most of them on an annual basis, and that's basically what we discussed before.

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

Thank you very much, Fernando. Farquhar Murray from Autonomous has the following question on Russia: Just on a point of detail, please, could you outline and frame how large MAPFRE's exposures might be to aviation insurance and whether MAPFRE has any exposure to Russian losses through that?

Fernando Mata Verdejo
Group CFO & Director

Well, I don't have the certain number that MAPFRE, particularly in our global risk business is holding on the [aero Russian pooling], but we will get back to you and give you the right number. And regarding the loss of the Russian -- I guess you referred to -- I don't know if this is a reality or it's -- that there's been gossiping in the insurance industry that there is a big claim against some insurers regarding like 500 airplanes that they're being grounded in Russia has been taken by the government.

Obviously, those airplanes are being owned by private entities from the Western countries. And we discussed internally. And the answer is MAPFRE has no exposure to these potential claims, but in my view, it's a potential claim. But I don't know anything else. And -- but if any, MAPFRE has no exposure to this claim against some insurers.

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

Thank you for such a clear answer. Thank you very much. I have a question for you, José Luis, coming from Phil Ross from Mediobanca. Are you seeing any beneficial impact from higher rates in Life Savings sales?

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer

Yes. Maybe it's too soon to say because this is during the first quarter when we have seen increases interest rates on the full year, which is a very good horizon for savers is around 80 basis points, as I said before.

But it's going to take through the month to try to develop those products. What we have done during the last years has been a move as they happen with most of the industry from savers to investors. And I think that we have made that movement quite wisely because our business has grown consistently during the last 3 years. So despite -- we have higher rates, that's very good news for savers or for warranty products. But if not, we will continue with our mutual funds and pension funds who has performed extremely well.

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

Thank you very much, José Luis. There's a hope at the end of the tunnel here. So another question coming from Andrew Sinclair on the health business in Iberia, Fernando. Is the 105% combined ratio for Iberia a good guide for the rest of 2022 if price increases cannot be put through the until next year?

Fernando Mata Verdejo
Group CFO & Director

I don't think so, Andrew. I mean, as I mentioned...

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

Official target of 94%, 95% from a current 98%, what actions are you taking?

Fernando Mata Verdejo
Group CFO & Director

In the short run, very few. I'm not confident of just a dramatic change coming down from 98% to 94%. But in the long run, and so far, we haven't changed any of our 3-year strategic targets in the long run. And depending on the current macro scenario and also the duration of the invasion, and we probably will have a clearer view at the end of the second quarter.

We guess if everything comes to normality, in the short run, we will be able to hit, again, 95% combined ratio. That's my view.

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

Thank you. Thank you very much. I don't see any further questions on the screen. So maybe we should finish this meeting today. Thank you very much, Fernando. Thank you very much, José Luis. And please remember that you can contact Investor Relations team as from tomorrow, if you have any doubts about the results released today. Thank you for your attention, and have a nice evening.

Fernando Mata Verdejo
Group CFO & Director

Thank you very much for your presence. Felipe, perhaps we can announce that initially, we said that probably the Investor Day will be held on June 30, the second quarter day presentation. But so far, our intention is to cancel this preliminary date of holding the Investor Day in June 30.

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

Okay. Thank you. Thank you very much. That's normal. I mean, after all, the situation is not very more clear now than it was in the past. So thank you very much, Fernando. Thank you very much, José Luis, and have a really nice evening.

Fernando Mata Verdejo
Group CFO & Director

Thank you. Bye-bye.

José Luís Jiménez Guajardo-Fajardo
Group Chief Investment Officer
Thank you. Bye-bye.