

Mapfre, S.A. BME:MAP

FQ1 2016 Earnings Call Transcripts

Tuesday, May 03, 2016 10:30 AM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	0.24	0.27
Revenue (mm)	5485.00	6112.90	▲ 11.45	22100.84	23197.33

Currency: EUR

Consensus as of Apr-28-2016 8:47 AM GMT



Call Participants

EXECUTIVES

Esteban Tejera Montalvo

*Former First Vice Chairman,
Director General and Non
Executive Chairman of Mapfre Re*

Fernando Mata Verdejo

Executive Director

Natalia Arana

Unknown Executive

Presentation

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Good morning, ladies and gentlemen. Welcome to MAPFRE's results for the first quarter of 2016. As usual, I'll give an overview of the results and the main business developments. And later, Mrs. Natalia Núñez will explain the financials with greater detail. And today, Mr. Mata, Chief of Strategy, will accompany us for the Q&A session. We will answer the questions that have been submitted at the end of the presentation. But if any further questions arise during the call, please send in to the specified e-mail address, and we will answer them if time permits.

Let's now turn to Slide #3. MAPFRE's Non-Life business continues growing in 2016 with positive developments in EMEA, Iberia, MAPFRE RE and North America, where Life premiums has still been affected by the depreciation of the Brazilian real and the low interest rate environment. The Non-Life combined ratio has fallen by 2% points to 96.8%, in line with MAPFRE's profitable growth strategy. The improvements in technical management in Iberia and in North America had contributed to this reduction as well as a lower level of extraordinary weather-related claims in Massachusetts compared to 2015.

Total income has fallen by 3.4% due to a decline in financial income, mainly as a result of the depreciation of the Venezuelan bolivar and the Brazilian real. If you remember during the first quarter of 2015, we have had the official Venezuelan bolivar exchange rate of VEF 12 for \$1. Now the situation is totally different according to the depreciation we have made in the year with this currency. Resilient premium income and improvement in technical margin has allowed MAPFRE RE to achieve an attributable result of -- to MAPFRE to achieve an attributable result of nearly EUR 192 million despite the more normalized level of financial income.

Managed savings have increased by 4% year-to-date, reflecting the strong performance of fixed income markets during the quarter and the strength of MAPFRE's Agents' channel. Lastly, MAPFRE maintains a strong solvency position. Preliminary Solvency II figures as at December 31, 2015, confirm MAPFRE's financial strength with the ratio at 190%, which is supported by a high-quality capital raise with 92% in Tier 1 capital.

Please turn to the next slide. Here, as you can see, the recovery of the Spanish market has been relevant to the results. Both Life and Non-Life premiums are benefiting from these tailwinds as well as the strength of the MAPFRE's commercial network. The technical financial result in Iberia has increased by over 14%, thanks to improvements in technical management, which is noteworthy, given the complicated market conditions and low interest rate environment. Excluding the profits from CatalunyaCaixa in 2015, the net result would have grown 22% in this region. A turnaround at MAPFRE U.S.A. is also boasting results. The management measures introduced last year as well as lower weather-related claims have brought the business back to profitability, while at the same time, we are seeing robust local currency growth due to the consolidation of the expansion plan and an already strong position in Massachusetts.

As you already know, the macroeconomic situation in Brazil remains challenging. The depreciation of the Brazilian real throughout 2015 is impacting results, although it is worth mentioning that the real has recovered over 6% during 2016 with respect to the year-end 2015. The economic slowdown is affecting business volumes, mainly in Life due to a reduction in lending and is squeezing margins. Non-Life premiums continue growing in local currency, thanks to the recovery of the agro business. It is also worth noting the strong performance of financial income in Brazil in local currency due to the higher interest rate environment.

On Slide 5, we will take a look at our Solvency II figures in more detail. MAPFRE's 190% Solvency II ratio is based on a high-quality capital structure of over EUR 8 billion in eligible own funds of which 92% is unrestricted Tier 1 capital and the remaining 8% is grandfathered subordinated debt. Excluding the use of transitional measures for technical provisions and matching adjustment, MAPFRE would still have an excellent solvency position of 171% and 189%, respectively.

On the next slide, we will take a look at the breakdown of our Solvency II eligible own funds. Taking into consideration the Solvency II standard formula parameter, IFRS equity would be EUR 8,849 million. In order to obtain eligible own funds, several valuations adjustments are applied mainly including EUR 2,658 million reduction of intangible assets as well as the revaluation of assets and liabilities. These adjustments bring eligible own funds to EUR 8,078 million.

On the next slide, we will take a look at the breakdown of risk by category. In line with the nature of our business, underwriting the market risks are MAPFRE's main risks. As you can see, the benefits of the diversification of our business and balance sheet are significant. The total solvency capital requirement is EUR 4,253 million, which reflects further adjustments, including the capital requirement for the third-party equivalent countries: U.S.A., Brazil and Mexico.

Let's take a look at the sensitivity analysis for the MAPFRE Solvency II ratio on Slide #8. As you can see, the limited sensitivities to a change in the ultimate forward rate and moves in interest rates in equity markets are results of MAPFRE's prudent business mix, assets allocation and ALM strategy.

Going to Slide #9. As you know, the AGM approved a final dividend of EUR 0.07 per share against the 2015 results. This dividend will be paid on the 24th of June. So the total amount of dividends paid against 2015 amounts to EUR 400.3 million. This dividend implies a dividend yield at current market prices well above 5.5%.

On Slide 10, we will take a look at the breakdown of premiums and results by region. As you can see, MAPFRE shows a very well-balanced geographic mix. Since then up to 2015, the most relevant variations in premium distributions are as follows: a 6.5 percentage point increase in Iberia due to the recovery in Spain; and a 3.1 percentage point increase in EMEA, thanks to the integration of the direct businesses in Germany and Italy; we have seen a 5.9 percentage point fall in Brazil, mainly explained by the depreciation of the real.

With regards to attributable results, the most notable changes include the return to profitability in North America, a strong performance in Iberia that, as we mentioned before, has had a 22% increase in the net result, excluding the profits from CatalunyaCaixa. LATAM North has also had a good quarter with an 11.8% increase in net results. And finally, profit at MAPFRE RE has increased by over 5%, reaching 23% of the group's profits. We have had extraordinary losses in EMEA due to negative runoffs in ASISTENCIA as well as several large corporate claims of GLOBAL RISKS due to 2 big losses in Germany and U.K. And finally in APAC, results have been affected by the Taiwan earthquake.

Now Mrs. Núñez will explain these figures in greater depth.

Natalia Arana

Thank you, Esteban, and good morning, everyone. Please, let's move on to Slide 12 to take a look at Non-Life account. On a yearly basis, Non-Life premiums have grown at a healthy 2% and we are seeing the following trends. Growth in EMEA, thanks to the successful consolidation of the direct business in Italy and Germany as well as tariff volume increases in Turkey.

In Iberia, we have seen increase in production in most lines of business, led by a 7.7% growth rate in health insurance, a 10.5% increase in multi-peril lines and the recovery in motor. Premiums have increased also at MAPFRE RE, mainly explained by timing differences in issuance for several large contracts. And GLOBAL RISKS is contributing positively to premiums in Iberia, EMEA and Brazil. These positive trends offset the declines in LATAM South, Brazil and LATAM North.

As we mentioned before, premiums in LATAM South have been heavily affected by the application of an implicit exchange rate in Venezuela that has impacted all lines of business, including MAPFRE ASISTENCIA and GLOBAL RISKS. In Brazil, Non-Life premiums are growing by 7% in local currency, driven mainly by agro insurance, which has offset the decrease in motor. However, the depreciation of the Brazilian real is still leading to a contraction in euros. Finally, issuance has fallen in Mexico, especially in health, industrial risk and motor segments. The combined ratio improved from 98.8% to 96.8% for reasons we will now discuss on Slide 15.

The loss ratio improved 1.1 percentage point versus the previous year in large part due to the absence of extraordinary weather-related claims on the East Coast of the U.S.A. The measures introduced last year, including tariff increases and improvements in underwriting, are also boosting results. In Iberia, the focus on technical management, including portfolio cleansing, among other measures, have also supported this reduction. These improvements have helped to offset the deterioration in Brazil, which is linked to the economic environment and the effects of heavy rains in the first quarter of the year, as well as losses in EMEA. These losses stemmed from the several large industrial claims at GLOBAL RISKS and negative runoffs at ASISTENCIA. Nevertheless, the insurance unit in Turkey has performed very well in comparison to the first quarter of 2015. It's also worth mentioning the impact from the Taiwan earthquake on the results at GLOBAL RISKS in APAC.

Please, let's move now to the slide, the next one, to discuss the expense ratio. The expense ratio has fallen by 0.9 percentage points, thanks to higher commissions from ceded reinsurance in the U.S.A., reductions in the motor and industrial risk segments in Brazil, improvement in the already high efficiency levels in Iberia, decreases in Mexico in motor, industrial risk and health segments. These improvements offset the deterioration in motor and health lines in Colombia and the uptick at MAPFRE RE due to a change in the portfolio mix.

Please, let's turn to Slide 17 to take a look at financial income. Net financial income and other nontechnical income fell by close to EUR 85 million year-on-year. The largest drivers of this fall include the application of an implicit exchange rate in Venezuela, lower realization gains in Iberia in comparison with the first quarter of 2015 and the amortization of investments in IT applications. Financial income in Brazil has proven resilient, thanks to the high interest rate environment.

On the following slide, we will look at the figures for the Life business. In terms of business volumes, premiums are still contracting in the Life business, although at a slower rate than those seen in 2015. We are seeing a return to growth in Iberia, where premiums have increased by 3.6%, thanks to the pickup in sales in the Agents' network. The Life business in Malta also continues to perform very well. In Brazil, premiums have fallen 11% in local currency due to lower sales of risk products linked to loans and have been additionally impacted by the depreciation of the real.

Regarding results, there is a fall of 18%, mainly due to the declines in Brazil and Malta. In Brazil, lower volumes and negative evolution of claims in the Life-Protection segment and the depreciation of the real have put pressure on our results, whereas in Malta, net financial income has declined due to the poor performance in financial markets during the first quarter of 2016 compared to the previous year. This fall have been partially offset by the improvement of the underwriting result in this country.

Please, let's turn to Slide 21 to see the result of other business activities. Just as a reminder, the result of other business activities includes the activities of the holding companies of MAPFRE S.A., MAPFRE AMÉRICA and MAPFRE INTERNACIONAL as well as the group's noninsurance activities undertaken by subsidiaries. The EUR 7.7 million decline in the result is explained by a fall in net operating revenues and expenses due to lower activity in the quarter, the impact of negative runoffs from unprofitable contracts in EMEA at MAPFRE ASISTENCIA and the impairment of a real estate investment.

On Slide 23, we will look at the main drivers of the consolidated result. The year-on-year contraction in gross profit has been due to 2 main causes: one, the reduction in the Non-Life financial result, which has been affected by the application of an implicit exchange rate in Venezuela as well as lower realization gains in Iberia; and two, the decline in the result of the Life business in Brazil and Malta as explained earlier in the presentation. These impacts were mitigated by the strong improvement in the Non-Life underwriting result. There has also been a growth in the effective tax rate due to increasing the corporate taxes in Brazil as well as a change in the tax regime in Colombia last year. The result attributable to minorities has fallen significantly, driven by the depreciation of the real. As we have mentioned earlier, this year's results do not include those from discontinued operations, which were EUR 21.3 million in 2015, mainly from CatalunyaCaixa. Excluding this impact, net profit would have increased by 6%.

On Slide 25 and the next one, we will take a look at the main variations in equity on the balance sheet year-to-date. The good performance of global financial markets during the quarter, especially fixed income, have led to an increase in the value of the financial investment portfolio. These movements were

partially offset by shadow accounting. Also the 4.4% depreciation of the U.S. dollar was partially offset by the 6.2% appreciation of the Brazilian real during the quarter.

For the time being, this is all from my side. I will now hand back the call to Mr. Tejera to start with the Q&A session.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Thank you, Natalia. Now we will answer the questions that most of you have sent us throughout the morning. If any other issues arise during the Q&A session, please send us an e-mail, and we will be happy to respond if time permits.

Question and Answer

Unknown Executive

Thank you, Mr. Tejera. The first set of question is with regards to the evolution of the business in Brazil. Silvia Rigol at BBVA, Niccolo Dalla Palma at Exane BNP and Andrew Sinclair at Bank of America Merrill Lynch ask about the worsening of the combined ratio. Is it due to the macro environment? Or is it related to weather? Is it recurring?

Natalia Arana

The worsening of combined ratio affects mainly to motor business and to mass-market multi-peril line. In the motor segment, claims ratio has deteriorated in the first quarter of 2016 due to a pickup of frequency in theft as a consequence of the economic crisis in the country, which has led to an increase of delinquency and fraud. In mass multi-peril line, claims ratio was affected by heavy rains in the first quarter of the year, together with an increasing frequency.

Unknown Executive

Thank you, Mrs. Núñez. Silvia Rigol and Andrew Sinclair also ask about the evolution of premiums and pricing in Non-Life. Is the falling autos in local currency also recurring? What do you expect for financial year 2016?

Natalia Arana

In Brazil, Non-Life premiums fall 18.1% in euros with a growth of 7% in local currency. The lower level of growth compared to previous quarters is due to a decrease in issuance in motor. In this way, motor insurance is affected by a contraction in number of new car sales and the strong competition. For us, it's important to say on that sense that MAPFRE in this environment of price war is not playing this war. And we are focused, as we have said before, in profitable growth. Perhaps this is one of the reasons of this decrease in the motor segment.

Unknown Executive

Andrew Sinclair and Paz Ojeda sent the following questions about the Life business in Brazil. Firstly, back premiums seemed to drop materially in local terms. What was the local currency move in premiums? How much of the drop in premiums was linked to a fall in borrowing in Brazil? What can you say about the outlook for Brazilian Life? What's the reason for the decrease in the underwriting and financial result?

Natalia Arana

Okay. Life premiums from MAPFRE Brazil have decreased 32.3% in euros, 11% in local currency. This is due to the difficult economic environment in the country. In this way, Life premiums distributed by Banco do Brasil suffered a contraction, stemming from lower amount of loans granted to bank customers. However, Life premiums distributed by MAPFRE's network have a growth of 15% in local currency. The Life underwriting result decreased as a consequence of the contraction of premiums issuance and the negative evolution of the claims in the quarter, also because the macroeconomic environment.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

In any case, I would like to underline that this effect of this first quarter is due mainly to a decline in the lending activity in Banco do Brasil due to the current turmoil that it's suffering now, the Brazilian economy. In any case, in terms of the results, there is also a -- when you compare with the figures of the first quarter of 2015, the evolution of the financial market is important to remark also due to the fact that the part of our financial investment there have an impact in the profit and loss accounting due to the accounting there of the portfolio.

Unknown Executive

Thank you, Mr. Tejera. Concerning MAPFRE U.S.A., Niccolo Dalla Palma from Exane BNP Paribas asks the following questions on the U.S.A. 102% combined ratio in a quarter, that was light in natural catastrophes looks like? I'm disappointed on the line profitability. Any one-off factors this time?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

No. Exactly what these figures have more in the line that it would be -- the most important thing here is that the situation is totally different in Massachusetts and outside Massachusetts. The improvement in the loss ratio is due to lower losses mainly in Massachusetts, in Connecticut, in New York and Florida. The combined ratio of our business in Massachusetts is below 100%, which means that the core business of MAPFRE in the U.S.A. is consistently performing very well. Outside of Massachusetts, the combined ratio is very high due to growth. We are growing in several states and growing is not cost-free. There is a new business penalty that has strong impact on the ratios. But we are -- we believe that in key states, such as California, Rhode Island, New Jersey, New York and Connecticut, we had already achieved a sufficient scale to turn them into profit-generating centers very soon.

Unknown Executive

Andrew Sinclair from Bank of America Merrill Lynch asks the following questions. Massachusetts had a very benign weather, yet the U.S. business still delivered a negative technical result. Under what circumstances could this business deliver a positive technical result?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

As I mentioned before in Massachusetts, this has a combined ratio that is below 100% and is performing well. The combined ratio of the U.S.A. is affected by the expansion plan. In Massachusetts, the reality is that after raising tariffs, changing in the underwriting conditions, we are now in a situation where the business is profitable and the combined ratio is, as I mentioned, in a normal path. Related to the expansion, clearly this expansion has to be funded, in this case, with internally generated capital. Our core business in Massachusetts is managing the operation [indiscernible]. When entering any new market initially, there is a pickup in the cost base. But over time, as the operations mature, there should be an improvement in profitability. We are paying a new business penalty that is hurting our ratios. But the most important thing is that now we have changed the structure of the management in the U.S.A. We have now 4 regional management teams that are monitoring, especially -- specifically each region. And we can monitor growth and profitability, and we are able to manage how we want to grow according to the results in each of these regions. And we can, as I say to you before, monitor these growth in terms of profitability for the future.

Unknown Executive

Thank you, Mr. Tejera. Would you consider this to have been a normal winter or better-than-normal winter for Massachusetts?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

When we compare this winter with the previous one, it's a very good one. But it's a more normal winter. It's in the range of the normality. Last year was very, very cold and very, very bad year.

Unknown Executive

What year-on-year price increase have been put through Massachusetts?

Natalia Arana

In personal auto, we've been almost flat. In homeowner, as we said last year, we increased close to 9%. We have seen this year a strong competitive environment in personal autos in the state of Massachusetts. There is not a price war as such, but players' pressure rates by maintaining or reducing tariffs on the

last quarter of the year. But our position there is comfortable. In terms of portfolio mix in Massachusetts, 75% of our portfolio is auto and 16% homeowner. In auto, we have market share of 25% and 13% in homeowner.

Unknown Executive

Thank you, Mrs. Núñez. With regards to the assistance business, Niccolo Dalla Palma at Exane BNP Paribas had a following question. What caused again the bad performance of ASISTENCIA? You said at full year results that you had fixed the issue.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, we are still seeing the negative runoffs of MAPFRE ASISTENCIA mainly in France. As we mentioned in the fourth quarter of the last year, we have been canceling nonprofitable contracts. Canceling these type of products requires reduction in the structure, which takes time to implement, especially in countries where the workforce is more difficult to remove than in other countries. This portfolio cleansing process was well underway at the end of the 2015. And the largest economic impact was felt in the fourth quarter of 2015 and the first quarter of this year. What is important to keep in mind is that premiums have been resilient and we will return to profitability soon in ASISTENCIA as a result of the measures taken. There have been also a negative effect from exchange rate depreciation, most -- not only in Venezuela but also in Brazil and in Colombia.

Unknown Executive

Paz Ojeda at JB Capital Markets had the following question. When do you expect results at MAPFRE ASISTENCIA to improve?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, even this year will be a difficult one for MAPFRE ASISTENCIA. The worse has passed. And I think that we will see, given the year, a year that will be not in profits but putting the base amount for profitable growth in the coming years.

Unknown Executive

Concerning the business in Spain, Niccolo Dalla Palma from Exane BNP Paribas asks the following questions. Regarding margins in Spain, your loss ratio in motor improved slightly 2 percentage points while that of your peers, Línea Directa and Catalana, deteriorated close to 2 percentage points. How can you explain the difference? Did you release any provisions in the first quarter? And what can you say about the Baremo impact so far?

Natalia Arana

The tariff -- I can say that we have applied some measures in Spain. These measures, as we said, what we have said before is the reduction in fleets. Also we have adequate tariffs. Right now, there is a sufficiency of tariffs in Spain during 2015 and so far this year. In addition, as I said before, cleansing of the portfolio in specifically in fleets, combined with the benign weather, better underwriting and claims handling, have improved the profitability of this business. I can tell you there is no release of any provision during the first quarter. MAPFRE is effectively managing its portfolio of business and is focusing on profitability. Regarding the Baremo, we haven't seen any impact -- almost any impact during the first quarter. What we have seen is a slight increase in frequency, but the severity coming from Baremo, we haven't seen that in this first quarter yet.

Unknown Executive

Regarding prices in Spain, your average premium in motor is at 2.3%. Can you boost this up further in the second and third quarters? Or would you increase prices by this amount for the next 2 or 3 years?

Natalia Arana

As I've said before, MAPFRE is focusing on profitability, better underwriting result. We have mentioned in the past that this year, we would be raising tariffs in order to offset the impacts of Baremo. Therefore, you should expect this effect to continue during the rest of the year. I think that with respect to the next 2 or 3 years, it's too early to indicate.

Unknown Executive

Silvia Rigol at BBVA asks the following questions. Regarding motor in Spain, is the improvement in the combined ratio recurrent? Are you witnessing rate of frequency? How much markets are you willing to lose in order to maintain the combined ratio?

Natalia Arana

We would certainly hope this ratio to be recurrent. As I have said before, MAPFRE is focusing on profitability and better underwriting results. The cleansing of the portfolio, specifically in fleets, the benign weather and better underwriting and claims handling have improved the profitability of this business. This is the most remarkable feature of the combined ratio in this first quarter in Spain. This is for the part that MAPFRE has to do with in terms of the external factors, frequency continues to rise. And this is backed up by the information coming from ICEA. From the year-end, it has increased about 2.1%. And regarding market share losses, we don't target specific market share, only profitability, as we have said before. However, what has tended to happen in the past is that when the market competitor is focused on grabbing market share through aggressive pricing, MAPFRE tends to lose market share, only to win it back when the competition abates and pricing becomes more rational. Also there is another factor during the first quarter that the fleets have -- for some competitors, have a big impact in their accounts. So we will -- there is kind of a [indiscernible] during the first quarter. We will have to wait still half of the year to see if this tendency continues.

Unknown Executive

Thank you, Mrs. Núñez. With respect to the Life business in Spain, sales through the Bankia channel continue to fall. What measures are you going to adopt?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, the declining banking channel is due to lower production in the single and regular premiums due to the focus on protection products, which have higher margin. In this environment of the very low interest rate, it's not worth it to launch products, saving products in the banking channel. And we're acting according to that. And as you can see on Page 47 of our presentation, there is an increase in the Bankia channel in Life-Protection of 7.7%. And in accident premiums, you have an increase of 22.7%. In any case, we are designing new products to be launched even in the saving banks in the coming months in the Bankia channel.

Unknown Executive

Thank you, Mr. Tejera. Andrew Sinclair from Bank of America Merrill Lynch asks the following question regarding Iberia Non-Life. What level of [indiscernible] was in Iberia Non-Life in the first quarter?

Natalia Arana

Again, what I can tell you is that the improvement in the underwriting result is due to the focusing on profitability and better underwriting results. This is the main feature and the main effect for this improvement in the combined ratio.

Unknown Executive

And what level of price increases were put through?

Natalia Arana

What we are doing, I have mentioned before, is to allow tariffs to be sufficient. And as you know, the excellence in tariffication and underwriting of MAPFRE is to adapt to the new situation. With this new situation, it's the new Baremo and the increasing frequency because of the improvement of the economy. And we will adapt. We are adapting our tariffs and we are making them sufficient.

Unknown Executive

Thank you, Mrs. Núñez. What claims inflation has been seen? And how much of this was attributable to the new Baremo?

Natalia Arana

Okay, frequency continues to rise. As I said before, in terms of the information coming from ICEA, this was increasing by 2.1%. In respect of Baremo, it has had a negligible impact on the result thus far.

Unknown Executive

Paz Ojeda from JB Capital asks the following questions. Regarding motor in Spain, the combined ratio of around 95%, is this sustainable? Or are there one-off events driving this? Could you give an outlook for the coming quarters? The expected increases in average tariffs for the year was around 6%. Do you see room to raise this?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, as Natalia mentioned before, MAPFRE is focusing on profitability and better underwriting results. We have been cleansing the portfolio, specifically in fleets, combined with -- this combined with very good weather and better underwriting and claims handling have improved the profitability of our business. These levels are more in the normal level that we have and we will have in the future even if we can expect during the next quarter and possibly in the next 2 quarters, more impact coming from the Baremo. But as I always mention before, the establishment of the Baremo, the Baremo is a good thing and the new structure of Baremo improves the losses in the small -- in the accidents that are not big accidents but is more accidents that were a source of fraud in the past. So we can wait in the long term an improvement. Even in the short term, we can see some peaks of the loss ratio in motor insurance. According to that, we will have [indiscernible].

Unknown Executive

The next set of question is regarding Solvency II. Niccolo Dalla Palma at Exane BNP Paribas asks would you like to know the following? Can you explain the drivers of the move from Solvency II ratio of 170% to 190%? And can you remind us which countries are now included on an equivalence basis?

Fernando Mata Verdejo

Executive Director

This is Fernando Mata. Thank you for your question. That's right. A different combination of factors explaining this increase. First is the change in methodology. In previous year, we have a whole consolidation of operations. And in 2015, basically due to the equivalent regime, it's a full consolidation for operations in the European Union and those relevant in LATAM and Turkey as well. For the remainder, we applied the equivalent regime. That means Brazil, the U.S.A. and Mexico. And the second factor to remark as well is a new interpretation, a new policy that was published by the Spanish supervisor in order to give instructions to apply transitionals on technical provisions. And the new are ones are -- or they give us an additional credit.

Unknown Executive

Thank you, Mr. Mata. Andrew Sinclair at Bank of America Merrill Lynch has a few questions regarding Solvency II. Firstly, the 190% ratio is materially above the around 170% stated at financial year 2015. Is this difference due to transitionals now being included? Or is it something else? And secondly, where is transitional relief being taken? Transitionals seem greater than what have been expected.

Fernando Mata Verdejo

Executive Director

Because as we said then, there are several reasons. First, we said equivalent regime and second is transitionals. I forgot as well another one, which is the change in the group. Because in previous year, we had CatalunyaCaixa, which was a joint venture, 50-50, operating in Life in Spain. And in 2015, we have the new Direct Line operations in Germany and Italy that are operating Non-Life. And transitional rules, in general, they apply on technical reserves in Life portfolio in Spain. And the change in the ratio is mainly due to the inclusion of the equivalent regime, as I mentioned.

Unknown Executive

Is there another model optimization that you can do?

Fernando Mata Verdejo

Executive Director

Yes, as we mentioned several times, MAPFRE is working on internal models for the last 10 years. And the numbers on the metrics are being used only for internal purposes. We're working as well on new USP parameters as well that are only used for internal models. We want to understand better the results from the internal models before applying authorization in order to have those in place. We're pretty happy with the standard formula nowadays.

Unknown Executive

And how much of this diversification benefit is international diversification versus within-country diversification?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

More of the effect is coming from international diversification. But also the diversification between the different business is important. The most important is that in Spain, our business is focused and is also in other countries in personal lines with very good track results and very low volatility. But diversification obviously is important.

Unknown Executive

Raymond Tam [ph] at Crédit Suisse had the following questions. What are the transitional measures applied at MAPFRE in terms of the technical provisions? Is this the deduction approach?

Fernando Mata Verdejo

Executive Director

Yes, it is the transition on technical provision for business in Spain but only for those business transacted to margin adjustment.

Unknown Executive

Thank you, Mr. Mata. And does MAPFRE apply transitional measures in terms of capital charges for equities?

Fernando Mata Verdejo

Executive Director

I guess, but the results were not relevant.

Unknown Executive

And what about transitional measures around reporting deadlines?

Fernando Mata Verdejo

Executive Director

We will report those transitional efforts according with the deadlines, included in the legislation.

Unknown Executive

Is there a specific part of the business which applies the margin adjustment? Or is it widely used across the group?

Fernando Mata Verdejo

Executive Director

Well, the margin adjustment only applies in certain portfolios in Spain. And for the remainder of Life portfolios, we apply a volatility adjustment. And in Non-Life, it's not relevant.

Unknown Executive

And finally, does MAPFRE apply the volatility adjustment as well?

Fernando Mata Verdejo

Executive Director

That's [indiscernible] mainly on Life business portfolios, but those -- the margin adjustment used in Non-Life is not relevant, as I mentioned.

Unknown Executive

Thank you, Mr. Mata. The next set of question is concerning the business in Spain. Carlos Peixoto from BPI asks the following questions. MAPFRE España divisions were reclassified, companies, home insurers and others disappeared into multi-peril and other personal lines and commercial insurance. Why did you decide to make this change?

Natalia Arana

Carlos, this change was due mainly to the merger of MAPFRE FAMILIAR and MAPFRE EMPRESAS to create MAPFRE España. These 2 companies have been fully integrated. Therefore, it's not possible to replicate the exact same information we previously published. That's why we have given you the figures for 2015 to have like-for-like numbers. The main difference between the new disclosure and the previous one is mainly property insurance which is not -- is now included in multi-peril and other personal lines. Last year, others included mainly condominium insurance. This year, multi-peril includes home, condominium and commercial property insurance. This is the main difference. But anyway, if you need any further assistance, we can give you more color on that if you call us through the Investor Relations team.

Unknown Executive

Thank you, Mrs. Núñez. What is behind the restatement of the motor insurance division data in the first quarter of 2015? What changes have been made in the consolidation parameter?

Natalia Arana

The thing is that this year, we are presenting the information for the entire business managed by MAPFRE España, which includes Spain and Portugal. Last year, we presented only the information from motor in Spain. But as you can imagine, the main bulk of the business comes from Spain, is mainly Spain. There are slight differences. That's why we have given you the figure for 2015 in order for you to compare.

Unknown Executive

I noticed a 1% drop in the number of [indiscernible] vehicles in Spain. Is this related with pricing discipline? What drove the improvement in the combined ratio?

Natalia Arana

This is due mainly to the cleansing of the portfolio, principally in fleets, as we have mentioned, which at the same time has had the effect of improving the profitability of the business.

Unknown Executive

Thank you, Mrs. Núñez. What are your expectations on the evolution of motor premiums in Spain and on the combined ratio?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, I think that premiums will continue to perform well, given that the tariff increases we are [indiscernible] through. In addition, the cleansing of the portfolio especially -- specifically in fleets, combined with what are the better underwriting and claims handling, should continue to improve in the profitability of the business. As I mentioned, in respect of Baremo, so far, this has had a negligible impact on the result thus far. But in the near future, we must wait to see for the next couple of quarters.

Unknown Executive

Thank you, Mr. Tejera. Paz Ojeda at JB Capital sends the following questions about Mexico. What's the reason for the falling premiums in local currency? Do you see risk of a worsening environment for the business?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, in Life business, premium volume at the first quarter of 2015 included Life-Protection corporate policy arranged via multiyear contract that hasn't been renewed in 2016. In Non-Life in this quarter, premiums decreased in health, industrial risk and motor segments, due specifically to actions undertaken especially in collective policies in motor and in health in order to keep the profitability.

Unknown Executive

Carlos Peixoto at BPI sends the following question on Brazil. What are your expectations on evolution of the agriculture insurance business in Brazil?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, the evolution of the agricultural business in Brazil is very tied to the evolution of the subsidies of the government for the farmers in order to buy premiums. As we noticed last year, at that time, there was no -- this kind of subsidies and this year. And these kind of subsidies were replaced in the second half of 2015. So these figures are according to that. Due to the fact that these are working again, we play a role of leaders in this market in Brazil.

Unknown Executive

The next question is from Raymond Tam [ph] at Crédit Suisse. Will MAPFRE be providing its embedded value report for 2015?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

We will provide the [indiscernible] and embedded value in the next quarter presentation.

Unknown Executive

Michael Huttner from JPMorgan has asked, could management explain how the incentive plan has changed and how closely it matches your 2018 strategic plan targets?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

As always, once the 3-year plan, strategic plan was approved, all the incentives within the company have been arranged with this new plan and has been calculated to all the levels of the organization.

Unknown Executive

Thank you, Mr. Tejera. Paz Ojeda from JB Capital asks the following question regarding the business in Germany. Could you explain the poor performance of Germany? Year-on-year, pretax profit stands at minus 10.2% -- minus EUR 10.2 million. What has happened?

Natalia Arana

This is a good question because the presentation can give you a different idea about the consolidation of the direct business in Germany. The consolidation of the direct business in Germany is contributing to the improvement in the result of Germany. But the problem is that there has been some negative deviations in the country during the quarter arising from lower risks. Premiums in the recently consolidated insurance unit are performing very well with a better combined ratio than expected. However, we are going through an integration process and we can suffer from integration cost that may lag the real performance of the company throughout the year. But until now, it's performing very well.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

In any case, as Natalia mentioned, the negative figure is coming from a big loss in an industrial plant in GLOBAL RISKS.

Unknown Executive

The next question is from Carlos Peixoto at BPI. Should we expect financial income to remain under pressure over coming quarters?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Financial income in the first quarter is a more normalized level due to a lower level of realized gains. In any case, last year, we had a lot of the realized gains in Spain. You can see the details at the end of the presentation. On Page 69, you can see the net realization gains breakdown by different kind of business. Last year, in the first quarter, we've had EUR 72.9 million. And this year, we are having EUR 34.4 million. And this would kind of reflect what happened last year. In any case, although we are seeing lower investment deals in the Spanish portfolio, deals in Brazil are still at a high level due to the interest rate environment. And the strong decrease in the financial result is driven mainly by the currency movements, mainly the depreciation of the Venezuelan bolivar as well as the Brazilian real, which is affecting the year-on-year comparison. And also in Malta last year, we've had an extraordinary gain that is not included this year.

Unknown Executive

Thank you, Mr. Tejera. Carlos Peixoto at BPI asks the following questions. Should we expect that EUR 0.14 dividend pressure to come as reference for 2016 and its payout?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

We are not giving this kind of guidance. It's very early in the year. And in any case, we are not giving this kind of -- what we have said is that our policy is having a payout higher than 50%.

Unknown Executive

And what is your outlook for MAPFRE U.S.A.?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, I mentioned before that our operation in Massachusetts is solid and mature and we are confident that the levels of profitability will level off across all states after achieving our growth objectives outside

Massachusetts. In this sense, we have launched a battery of profitability measures outside Massachusetts, which will definitely have a positive impact in the medium term. New measures has been implemented from angles of the business, rate increases, and overall prices improvement actions, agency management, underwriting controls and new product features. According to our plan, we are not considering a new state entry until late 2017. And then we will be in a better position to determine if an additional entry makes sense or even if we have to reduce our presence in one of the states we have presence already.

Unknown Executive

Regarding Brazil, Paz Ojeda sends the following question. Taking into account the deteriorating economic environment, could it be a risk of a further deterioration in the combined ratio? What kind of measure is MAPFRE taking to protect the profitability of the business?

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Well, first of all, I would like to send a message of calm because what is happening now in Brazil is not -- there is an environment with a lot of uncertainty. There are people that are not asking new money for acquiring new cars or new houses. And this has had immediate impact. The message from MAPFRE is that we will continue as always in keeping our business under control in terms of profitability, even if we had to witness a period of the low increase in premium income or even a decrease. But I think that the operation in Brazil is very solid. We are now entering in price wars. And I think that the deterioration of the loss ratio is due to the weather conditions, especially heavy rains in parts of the country, will be offset during the year. Well, thank you, Marta [ph], for helping us...

Unknown Executive

There are a couple more questions. Farquhar Murray at Autonomous would like to know the following regarding Solvency II. Please, can we just confirm that there is no international diversification benefit related to Brazil on the U.S., given this come under the equivalence framework?

Fernando Mata Verdejo

Executive Director

Yes, that's correct. We can confirm that there is no international diversification benefit. So we don't get any credit from diversity of the U.S. and Mexico operations.

Unknown Executive

Thank you, Mr. Mata. Niccolo Dalla Palma at Exane asks why is the margin adjustment benefit only 1%? Wasn't this a very important feature for the Spanish Life market?

Fernando Mata Verdejo

Executive Director

Well, the 1% benefit is over the volatility adjustment. We thought that it was important to disclose the margin adjustment because it's not been seeing the light, particularly for the Spanish market.

Unknown Executive

Carlos Peixoto at BPI has another question regarding MAPFRE ASISTENCIA. Can you please elaborate on the USD 54.5 million provision at MAPFRE ASISTENCIA? What was behind it?

Natalia Arana

Carlos, I understand that you refer to the figures that we've already said at the end of the year. These losses were reported in full year 2015 figures and other losses related to the identification of nonprofitable contracts we have already discussed. A large part of these losses were located in France. But there was also some pressure on results coming from Brazil, North America and LATAM South. But this, we have been discussing in the full year results.

Unknown Executive

There are no more questions.

Esteban Tejera Montalvo

Former First Vice Chairman, Director General and Non Executive Chairman of Mapfre Re

Thank you, Marta [ph]. Well, thank you for attending our presentation and hope that we will see you again in 3 months. Thank you. Bye.

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