

Mapfre, S.A. BME:MAP

FQ3 2013 Earnings Call Transcripts

Wednesday, October 30, 2013 4:15 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-	-FQ3 2013-		-FY 2013-	-FY 2014-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	-	-	-	0.30	0.32
Revenue (mm)	4699.00	5703.00	▼ (16.23 %)	21373.92	22371.34

Currency: EUR

Consensus as of Oct-30-2013 2:45 PM GMT



Call Participants

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CEO of International Insurance &
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Esteban Tejera Montalvo

*Former First Vice Chairman,
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Luigi Lubelli

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Presentation

Esteban Tejera Montalvo

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

Thank you. Good afternoon, ladies and gentlemen. Welcome to MAPFRE's Results Presentation for the first 9 months of 2013. As usual, I'll give an overview of the results and the main business development, and later, Mr. Lubelli will explain the financials in greater detail.

Today, I would like to start my introduction, talking about the new restructure that just today the Board of Directors has approved to adopt a reorganization of MAPFRE's 2 strategic challenges that we have to call [ph] in the near future. The change will facilitate the company moving forward which is globalization related. And we will try to approach the organization through our real geographical presence and improve in the skills of the corporation to back and support the activities of our subsidiaries all over the world.

You will have the new chart in just a few minutes. And as you can see, they have the stronger position of the main corporate areas of the group in order to help and back and supervise closer the activity of our insurance companies all over the world.

We have changed also the geographical approach. And now, we will have 3 big areas of activity for direct insurance. One will be Iberia, that includes Spain and Portugal; LatAm with 3 different regions and the concept of region will be very important in order to provide support to its subsidiaries including in each of the region, for an approach that, I think, will be closer than before. That will be in North LatAm, that we will be placed in Mexico. The South LatAm will place the head of the division in [indiscernible] in Brazil. Obviously, we will be placing in São Paulo. In international venues, we create different regions, one for Europe, Middle East and Africa. Other for North America, and other for Asia and Pacific. They will be in the first for Europe in Madrid, and the second in Boston and the third in Shanghai.

As you can see and we will explain, this new approach to improve our efficiency will be set up during the next months to have all organization in place in the first quarter of 2014.

Now as usual, I will start my presentation of the results of the 9 months. As you can see on Page 3, you can see some changes in the growth [ph] compared to the first half. Revenues and premium remain basically unvaried compared to 2012. And this is due primarily to the compression of the Life assurance services in Spain, and this is important to underline the appreciation in the euro. And big part of the growth in Latin America in the international business, which was offset by the evolution of the foreign currencies given this third quarter, as we will explain in more in depth.

[indiscernible] which grew in line with premiums and [indiscernible] accelerate their growth in relative terms, thanks once again to the Life accounts, whose technical financial results improved considerably, as well as through our smaller share of minorities. Equity per share increased very strongly in the third quarter of 2012. This was due to the fall of the interest rates in Latvia [ph]. This has caused yearly growth rate to fall to a 9% in June to 3.2% in this September.

In reality, the shareholders' equity increased EUR 136 million in the quarter. The other figures [indiscernible] assets under management maintained a sustained pace of growth compared to June, increases as likely as more due to the falling business volumes in Spain and through the impact of exchange rates, as I mentioned before, on the Latin American business. The combined ratio continues to be excellent, and the ROE remains in the region of 9%. The solvency margin remains one of the strongest in Europe.

Please move to the next slide. As I said before, the appreciation of the euro has been contributing slight cut -- a strong impact on growth. Adjusting for it, the underlying business continues to do well. Now, Life premium growth is driven by MAPFRE AMERICA due to organic growth in [indiscernible] and reclassification of business lines from the life account, by MAPFRE ASISTENCIA, MAPFRE INTERNACIONAL and MAPFRE RE. EEV business made up for the fall in demand in Spain, and the combined ratio remains stable at an excellent level.

Such a fall in demand is the main explanation for the contraction in Life premiums. We have truly bright spot to remain in the foreign regions, which once adjusted for the transfer and exchange rates, is growing at a rate of 10%. The technical result of Life account improved considerably, especially in Spain, but also in Latin America, which is getting most of the negative impact from rates in Europe and negative in mark-to-market in Latin America.

Underlying profit growth is driven by the improved technical result in the Life account. The absence of the write-downs, lower cascade rates, and more share of the minorities which make up for the negative impact of the exchange rates. Shareholders' equity grew EUR 200 million in the year despite the very negative impact of the exchange rates.

On the Slide #4, you can see how -- #5, excuse me, you can see how the different foreign currencies have depreciated against the euro. We exclude the Mexican peso, all of our main currencies appreciated more or less strongly. Especially damaging was the depreciation of the Brazilian real, which fell almost 28% year-on-year.

We consider this effect in constant exchange rates, MAPFRE is growing nearly 6% in premiums and over 9% profits.

Please move to Slide #6. Recovering results fell, there's been a series of developments. The falling demand have combined ratios in Spain with the aid of better improved demand in the motor business with a relative losses in Spain, especially in homeowners in other countries like USA and Mexico and Argentina also. The appreciation of the euro and lower recovery financial income contributed to an increase in interest rates in Europe and the USA. Compared to June, however, we see that the contraction has helped, thanks to the improvement in the technical financial results, what we like account and the right result in the United States and has more share of minorities.

And I think it wasn't there in June, is the impact of the regulatory change in the calculation of technical results in Argentina for an amount of EUR 12.6 million.

We move to the next slide, on Page 7. We have reflected here the impact of selling of the shareholding that was owned by Bankia. As we said in, different locations, the market saw strongest than we've foreseen, and in the stake, it was placed in the market very quickly and the consequences for the shareholders today has been quite positive. As you can see, the stock has become much more liquid and it has outperformed the market. Our relationship with Bankia remains excellent and business relations should go on as usual.

On Slide 8, you can see in the investment we have done, an undertaking in Indonesia. The group ABDA, were the key figures shown in Slide 8, is the largest Non-life insurance company in the country with a market share of 2.5%, and [indiscernible] is small in terms of quantity, could be interesting from the point of view of quality, in terms of the improving of our knowledge of this market, and these are the opportunities out to them with possibilities of this growing economy where the insurance penetration is very low and the company is specialized in Motor insurance and health insurance that are our specialties. So it's our way of have a knowledge in-depth of this market. And this was considered by our management.

On the Slide #9, we present to you the agreement and approval of the Board of Directors that has resolved to pay an interim dividend against the 2013 results of EUR 0.05 per share. Thus, the total dividend of EUR 0.12 per share is paid in the year amounts EUR 370 million, and this in terms of the interim dividend that we have paid last year of EUR 0.01.

And [indiscernible] Mr. Lubelli?

Luigi Lubelli

Thank you, Esteban. Good afternoon everyone on the line, and thanks for being here with us. Let's move on to Slide 11, where we have the breakdown of premiums and insurance results by origin. Compared to June, we see no change in the underlying trends, which saw yet a further increase in the weight of the business activities abroad. The contribution to premiums went up 4 percentage points to 71%, and the contribution to profit adjusting for nonrecurring items rose over 5 percentage points. So the increase in

contribution to profit is factored into the increase in contribution to premiums and in which 53.1%, as I say, adjusting for nonrecurring.

Compared to the previous quarter, we see a fall in the contribution to premiums from the Spanish business due to a lower insurance volume, primarily in the commercial business, which normally experiences a lower volume of sales in the third quarter and in the Life business, in which sales efforts were concentrated on mutual fund sales.

We also see a fall in the weight of the foreign Life business, which is due to the reclassification of the Brazilian burial business into the Non-life account.

On Slide 12, we have the information by business area. Here we see that Spain recorded a contraction in both premiums and profits of the previous year, reflecting a lower insurance volume. In the quarter, the premium contraction was amplified by an expression in low-volume in the Life business. The profit contribution on both the yearly and the quarterly basis fell due to a higher loss ratio and was without affiliate companies. Brazil continues its upward trend driven by larger business volumes and a harder market. Its contribution to profits, which grew until the first half, decreased in the third quarter due to an increase in the loss ratio. The appreciation of the euro has, as Mr. Tejera just explained, had a material impact on the growth of both premiums and profits.

The contribution to premiums of the other Latin American countries fell because, as you know, we sold 2 subsidiaries in Argentina, and we internally transferred the Puerto Rican business to MAPFRE INTERNACIONAL. If we adjust for that, premiums grew 9%. Profit contribution is up year-on-year, thanks to better performance of the Life business and realization gains on the sales of [indiscernible] assets. The Non-life ratio work and in the third quarter due to regulatory changes in Argentina, Mr. Tejera just talked about that, and to whatever related losses we had from hurricane.

MAPFRE RE raised its contribution to premium, thanks to business growth, part of which came from the group companies. Its contribution to profits decreased slightly both on a quarterly and a yearly basis and the consequence of catastrophe claims, which were partially offset by larger financial income primarily in the Life account.

MAPFRE USA improved its contribution to premium growth, thanks to larger sales volumes and tariff hikes. Its contribution to profit on a yearly basis is falling due to weather-related claims, which it did in the first half. However, the third quarter was clearly better, and that improves the comparison if we look to the June figures. The contribution of MAPFRE GLOBAL RISKS to premiums is slightly lower. On a yearly basis, that reflects the spinoff of the credit business into Solunion. And on the quarterly basis, it was slightly [ph] the impact of the U.S. dollar depreciation.

The contribution to profits goes up, mainly thanks so much to the combined ratio and the EUR 30 million gains recognized upon the creation of Solunion. This year, MAPFRE ASISTENCIA is the second-largest contributor to premiums growth, thanks to both organic business development and to an acquisition that was carried out precisely in the third quarter of last year. The contribution to profit goes up, thanks to a better combined ratio.

The other line increases materially year-on-year, and that is due to the transfer of the Puerto Rican business, which is now classified there, very strong growth in Turkey and very good Life sales in Malta.

On Slide #13, we have the Non-life account. If we compare -- look at Spain compared to the first half, the following premiums is broadly in line. There's no material changes, and that reflects primarily the marketwide contraction, especially in motor business, which however performed better on the quarterly basis, as well as seasonally lower sales in commercial insurance in the third quarter.

A higher loss ratio, along with a lower net premium variance figure led to a decreasing underwriting results. The combined ratio remains nonetheless at the exceptional low levels and benefits from a reduction in the absolute amount of expenses, which, in my opinion, is a remarkable achievement.

Brazil is growing, thanks to a series of reasons. There's organic growth happening in the market, and on a quarterly basis, we have a reclassification of the burial business, which was in the Life account previously.

The underwriting results were improved not over year-on-year, but thanks in part to the reclassification, I just mentioned, but to the hardening [ph], as well to a decrease in expense ratio. On a quarterly basis, we see a worsening in the combined ratio, which was due to higher losses in Motor insurance and to the reclassification of the burial business, which has a lower loss ratio and a higher expense ratio.

Apparently, MAPFRE AMÉRICA's numbers in the business falls, but that is due to the sale of the Argentinian subsidiaries, the transfer of the Puerto Rican business and the appreciation of the euro. So just for that, the premium increased 10% and that's basically thanks to growth in all countries -- in most countries. The underwriting results on a quarterly basis deteriorated due to the regulatory change in Argentina, we already talked about, and weather-related losses.

Premiums growth at MAPFRE RE reflects the formalization of insurance operations with the group companies, even excluding that, they are growing 3%. The combined ratio increased in the quarter due to larger profit-sharing component and capital losses.

MAPFRE U.S.A. is benefiting from larger sales and tariff hikes. If we compare to euro, it seems that the pace of growth fell, but actually in dollars, it went up further from 4.3 to 4.8 from the ground. The loss ratio increased because of weather-related change in the first half but was much better in the third quarter.

As I said, MAPFRE GLOBAL RISKS premiums fell, reflecting the spinoff of the credit business into Solunion and the depreciation of the U.S. dollar, which, however, has a positive impact on the combined ratio, which also benefits from lower frequency.

And finally, we have MAPFRE ASISTENCIA, which recorded organic growth in Europe and Asia and the positive impact on the development of its US business. The combined ratio improved, reflecting here too the impact of exchange rates on technical reserves, which was negative in 2012 and is positive this year.

Further on the Life account, most of its drivers have already been covered. If you look compared to June, the like-for-like premiums growth slowed down, once again, as we already said a few times, due to the impact of the appreciation of the euro. As well as to the fact that the acquisition of the company called Century done after ASISTENCIA took place precisely in the third quarter of 2012. And from now onwards, we'll have a less beneficial effect on the year-on-year growth comparison.

The secondary result [ph] shows a contraction. As of June, it showed an increase, and that is due to a comparable effect. In the third quarter of 2012, the combined ratio fell. In this year, in the third quarter, the combined ratio has gone up. The financial income includes realization gains of about EUR 102 million, of which, EUR 22 million came from the sale of the headquarter in Istanbul, and EUR 13 million from the recognition of the fair value of the assets transferred to Solunion. Last year, as you know, we had nearly EUR 140 million of write-downs, so the comparison clearly is flattering year-on-year.

If we exclude these elements, the reduction is significant, and that's basically due to the fact that yields are much lower, which seem otherwise virtually positive development. Brazil also has mark-to-market adjustments, which were positive a year ago and are negative this year.

And lastly, we have gains of EUR 50 million in dollar-denominated assets in Venezuela.

Slide 15, we have the Life account. In Spain, we've had, in the quarter, a significant falling premiums, that possibly one of the most striking development to view and that is due to the fact that marketwide sales of Life insurance have fallen considerably in this quarter, and that is basically driven by the fact that consumers are tending to put their money rather into mutual funds than in Life insurance. That's basically a marketwide effect. And as a matter of fact, our sales of mutual funds are doing especially really well in the year.

We also had, in the third quarter of 2012, large sales of corporate life insurance, about EUR 350 million, which was not repeated this year. The technical financial results improves considerably. Q2 last year, we had write-downs. This year, we don't, and we also have a better loss experience.

Brazil should be clear by now. It's falling due to the reclassification of some liens. Excluding this, they continue to fall, but it's only due to the depreciation of real. At constant exchange rates, the growth would've been 7%.

The technical financial results decreases due to the reclassification, to the negative mark-to-market adjustments and depreciation of the euro. The rest of MAPFRE AMÉRICA's Life business shows a strong development. And in the technical financial results, it also includes a gain of EUR 18 million in Panama in 2012 and real estate gains of EUR 7 million this year.

The premiums of MAPFRE RE decreased due to lower sales. The technical financial results reflects a worse loss experience, which to a large extent, is offset by larger financial income.

Finally, Middlesea is having quite a good year with a good development in Life-Savings and mark-to-market gains.

I will skip the Life account, because basically, there is no more I should follow [ph] you on. On Slide 17, we have the other activities, very much in line with what we saw in the first half. We have the growth of 7 business at MAPFRE ASISTENCIA because of the relation from Funespana. We have a larger interest payments in that, we had -- we have realized capital gains -- capital losses of EUR 2 million last year, that was very much larger, and we also have appropriation of reserves for the impairment of property assets, which, however, about half of what they were a year ago.

On Slide 18, we have the bottom line. Pretax profits are growing maybe in line with the first half, small slow down obviously by now explained by the depreciation of the euro. In the third quarter of 2012, we saw an increasing profit growth. So on a year-on-year comparison, that is depressing growth. But if you look at the actual amounts gained in the quarter, it's pretty much comparable with what we have gained in the previous quarters. We have a prominent tax rate year-on-year, reflecting a comparatively larger weight of derivation gains, which are usually tax on lower rates.

Minorities outgrow net profits due to comparatively softer profit growth and [indiscernible] Middlesea. However, if you compare to the first half and a quarterly basis, the impact is smaller because of depreciation of the euro and its impact on the profits in Brazil.

This concludes the P&L discussion. On Slide 19, we have the balance sheet. When you compare to the previous quarter, that shareholder equity grows, and minorities fall, and this is once again due to the impact of depreciation of the euro, which affects particularly the minorities and the specialty minorities in Brazil. That fell marginally about EUR 30 million less than we had in June. The rest of the movements, which like the depreciation of the euro, the recovery in the financial markets, which was very strong in at least in Spain, and that's basically it.

Finally, on Slide 20, we have the movement in equity. Compared to June, this should be now coming to the surprise of none. We have a large increase in the value of investments available for sale. And surprisingly, everyone knows how the Spanish premium [ph] has performed, and that has created EUR 280 million of unrealized gains, of which, about 70% were absorbed by shadow accounting as also thanks to the euro.

On the negative side, we have the strong appreciation of the euro, especially against the U.S. dollar and the real. This cost us EUR 250 million in the quarter, and it's causing actually EUR 0.5 billion in the year.

On the next pages, we have totally negative impact of EUR 160 million. Net of profits credited, and these are paid in the quarter and this translates into a quarterly fall of about EUR 50 million.

That is now all of my side, and I'll give back the conversation to Mr. Tejera for the Q&A session.

Esteban Tejera Montalvo

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

Thank you, Luigi. Well, you have now all the [indiscernible] and we can start the questions session and the line for you.

Question and Answer

Luigi Lubelli

Do we have any questions?

Operator

[Operator Instructions] First question comes from Atanasio Pantarrotas from Kepler Cheuvreux.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

I have 4 questions. First of all, on dividend, the dividend -- the interim dividend was increased compared to the past year. However, if we look at the past -- previous years, in which you paid -- normally paid \$0.07, still \$0.02 below? And I wonder if this could be seen as a message to keep the payout ratio at the lower level compared to the past years or if you expect it to rise the final dividend in spring 2014? Second question, if we look at the chart regarding the Non-life financial income, it seems that excluding the ForEx factor revised gain mark-to-market bonds, the ordinary financial income declined by some 25%, 9 months 2013 compared to 2012. I see that the Spanish bonds yield is harsh compared to the past year. However, it seems that your Non-life ratio looks very short to see this tough decline in the ordinary income. And so I wonder if we can expect some further decrease, material decrease in the next quarters due to the lower interest rates. Third question regards to the motor business in Spain. I saw that the motor claim frequency increased something in H1 for the whole market. And I just wonder if you see some increase in the motor frequency, given also some pickup in economy in your domestic market. Final question, tax rate. You explained that the tax rate was a bit lower compared to the past year due to the realized gain. I just wonder if you can give us a guidance for a tax rate in the next future, if we can assume 29%, 30% or whatever.

Esteban Tejera Montalvo

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

Hi, Atanasio. The first question on dividend, well, it's true that the dividend ratio is at \$0.05. Well, I was just telling that the dividend had been approved today, we have dividend of \$0.05. That's true that is lower than the \$0.07 of 2 years ago [indiscernible]. This is in line with the acquisition of the [indiscernible] paying to actually mutual shareholders and the improved demands in the region is improving. But we prefer to wait until the end of this year to determine the final dividend. And so these return to normal will be more clear on the final dividend. So this is a dividend that in terms of interim dividend is 25% more than last year. And obviously, the bulk of the dividend is in the final dividend. We must wait until the end of the year to know exactly how the figures of the results [indiscernible] there's no intention to decrease in dividends obviously. We are showing an increase in the interim dividend, but we must wait until the end of the year to know exactly the final figure.

Luigi Lubelli

Okay. Regarding your question on the financial income for the Non-life account, I already talked about that, but then, we have several elements. It may surprise you, but the fact is the interest rates are lower, and those are especially in Spain, the volume of business is smaller. So the combination of the 2 -- I mean, the amount of the reserve invested, that's what I mean, it's smaller with lower interest rates, so financial income goes down. And then as we already said, we have a negative mark-to-market adjustments in Brazil. So the combination of both is what actually explains the falling financial income. I wonder if this answers your question, Atanasio.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Yes, my calculation of mine was 26 exactly, was made after excluding the contribution of realized gains or losses.

Luigi Lubelli

Exactly, you're right.

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

And the impact on mark-to-market. I mean, do you have any figure regarding the duration of your Non-life business just to draw our conclusions for your future income?

Luigi Lubelli

It's more or less 5, the duration, the modified duration on the Non-life account. We do not have frequency figures for the motor business in Spain in the third quarter as yet. As an indirect guidance, we have the fact that gasoline consumption is going up in the third quarter. So people are using their cars more. It's a very rough proxy to frequency but doesn't necessarily mean that when we actually get the final figures it's going to be like that. And finally, the tax rate -- I'm afraid it's very difficult to give you guidance. Also you have to appreciate the fact that tax rate, this is something we repeat consistently. Really when we are capable of making a more accurate calculation, it's only with the year-end accounts. With the -- on a quarterly basis, we make an estimate. I mean, it's relatively easy. We have most of our profits in Spain at about 30%, and then we have a growing contribution in Brazil, which is at 40%. But yes, it tends to be around 30%. Have we answered your questions, Atanasio?

Atanasio Pantarrotas

Kepler Cheuvreux, Research Division

Very clear.

Operator

Next question comes from Maciej Wasilewicz from Morgan Stanley.

Maciej Wasilewicz

Morgan Stanley, Research Division

It's Maciej from Morgan Stanley. I have 2 actually. The first question is I know the acquisition you made today or announced today of the Indonesian business is actually very small, so it's not a big game changer in and of itself. I was wondering if you could articulate more broadly what your policy is towards M&A in the U.S. and in Asia? I think statements have been made over the last couple of years, I was wondering if you can bring them altogether and tell us, what is your attitude? What is your policy and appetite for growing through inorganically in those regions? The second question I have is, Luigi, you mentioned that the mutual funds shift was a bit of a surprise in the quarter. And certainly, that, to me, is a little bit of a surprise. I'm wondering, what has changed there? What is driving the consumers into mutual funds away from insurance? I understand there's not a lot of incentive to buy an insurance policy over a mutual fund policy in Spain, is my understanding. But perhaps if you could tell me why is it that they've been more successful now than in the past?

Luigi Lubelli

Sorry. In terms of our investment in Indonesia, I'd say, that this is nonbusiness, it's not a dramatic change on our investment policy. We continue to have the focus in Latin America, USA, and Turkey, but we want to know the development in emerging markets and the possibilities of the growth in the future is remarkable. And this is a long-term approach. That's why we have upgrade our minority stake, and these allow us to know the market more in depth. And we have a presence in these markets through our subsidiaries of MAPFRE ASISTENCIA and MAPFRE RE, and we have our presence in [indiscernible] insurance in Philippines from [indiscernible] time. But in these markets, [indiscernible] a market, and having the opportunity to have a small presence there to look in the market and the evolution of the market implies knowing that this market in our long-term approach to be [indiscernible]. And this is also -- if you look tomorrow and one day, I don't know if this is being delivered already, the organizational chart that we include now, we have -- this is more region of Asia and Pacific that includes mainly our

activities in the MAPFRE ASISTENCIA and MAPFRE RE and other small amounts [ph] in this area. Just to have a knowledge of the market. In general, we haven't changed our strategy of merging acquisitions, and we continue basically with a focus in organic growth in markets with our presence. In any case, in these markets where we have a presence, as you know very well, we always look into a specific opportunities that could be complementary of our presence in these markets. But this implies mainly organic growth in the near future.

Antonio Huertas Mejías

Chairman of the Board, CEO and CEO of International Insurance & Global Business

Regarding to your other question, Maciej, plainly the driver of mutual funds demand is greed. In the sense that finally, the stock market in Spain is up, and now people feel more confident about putting their money into equity mutual funds, especially there's a category of products which is normally very demanded in Spain which is guaranteed mutual funds. So mutual funds somehow linked to the performance of the equity markets with a guaranteed floor. And so that is what is moving the demand.

Operator

Next question comes from Vinit Malhotra from Goldman Sachs.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Just one thing. On the Brazilian combined ratio, I distinctly remember, we were talking about a low 90s as a kind of a sustainable level. And I just wanted to understand that the kind of higher number we've seen, maybe around 97 in third quarter, and is it due to the -- is it largely driven by the motor competition worsening which you alluded to? Is it some -- and maybe there's also some reclassification effects, but I understand they're very small and is it also something on the currency? So if you can just clarify the Brazilian combined ratio, that will be very good -- very useful. And similar combined ratio, second question is on Spanish commercial, which had one of the slightly higher combined ratios in recent quarters. Is it just volatile claims or some large claim there? Or is it just the growth that hasn't been there, and now it's the effect of recession is catching up. So that's the second question. And lastly, I think you did already comment, but I just wanted to clarify again, what was the rationale for not restoring the interim dividend back to the original or last 5-year or 4-year run rate? Because the amount saved is not that material, so I was just wondering, if you could just reclarify that.

Luigi Lubelli

Vinit, so first, Brazil. The reasons are the transfer of the burial insurance business in the quarter, which was for the full year amount since the beginning of January, and this is in line with a higher expense ratio and the lower loss ratio. But overall, it was above the average of the pre-existing business. So transferring the burial business into the Non-life account has somehow structurally raised the combined ratio, though the combined ratio remains well below the 100%. And secondly, indeed, what we saw in the Brazilian markets on a quarterly basis, in the third quarter was an increased level of competition on prices and also an increase in the loss experience. So that affected the movement on the quarterly basis. I wonder if this answers your question.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Yes, so just to clarify, the 0.3 percentage points on slide, I think, Slide 29, is that for the year or for the 9 months or for the third quarter only?

Luigi Lubelli

That's the cumulative 9 months for burial.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Okay, so we don't know for the whole Brazil what the impact was from this reclassification? Is it one point or...

Luigi Lubelli

We'll look into this. We will answer to you this in detail off the call. We have to move [indiscernible] with the numbers, so we'll slow down the conversation now.

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

Okay, that's fine. We can discuss it later.

Luigi Lubelli

And on commercial, we have a few elements. Last year, in commercial insurance in Spain, we had a recovery from reinsurers of a large amount of a large claim. So that actually made the combined ratio in the same period of last year especially low. We have a year-on-year comparison which is unflattering. And then in this quarter, we had a large claim in marine insurance. So it was the combination of a large claim in this quarter, and an especially low combined ratio in the same quarter of the previous year. And when it comes to dividend, I think Mr. Tejera has already answered that. One thing I would like to add, and we said a year ago, it was precisely a year ago, when we announced the fact that MAPFRE, due to basically market conditions and an aid, which comes from the sales side, from a commercial side of assuaging concerns, which biased in commercial insurance. In insurance we're having because of the downgrading ratings and everything that came with that, which was precisely a year ago. The Board of Directors decided that they would retain comparatively more liquidity within the group precisely in order to reassure the buyers of protection from MAPFRE, or the buyers of cover in the case of conventional insurance. That situation has not really materially changed. And what we have tried to do is precisely, given this constraint, to make an effort in order to increase the remuneration to shareholders, within a framework of overall prudence, which we continue to think is warranted by the present environment. Does that answer your question?

Vinit Malhotra

Goldman Sachs Group Inc., Research Division

It does, it does.

Operator

Next question comes from Andreas Fernando (sic) [de Groot van Embden] from JPMorgan.

Andreas Evert Cornelis de Groot van Embden

JP Morgan Chase & Co, Research Division

I had a question on your Spanish motor business, actually, 2 questions there, one on rates. I've quickly calculated the average premium per policy, it seems to be declining around 2% in the third quarter. Would this be a fair reflection of the rate declines across your motor book? Or is there a mix of effect in there as well? And second question on Spanish motor is, could you comment on VERTI, your direct marketing operation? How is it going? What is the premium growth in that operation, and could you comment on the combined ratio?

Luigi Lubelli

Well, the figure I imagine you have calculated, the figure you calculated on the basis of the average figures, I mean, the falling rates, let's see. As of now, because of the economic conditions in the market, we only have an expectation of potential future improvement in the market. It is also true that on a quarterly basis, the performance of motor insurance in Spain was better than what we saw in the previous 2 quarters. But it really is too early to claim victory. The reality is that we have people buying cheaper covers. We continue to have -- even though the car sales are improving, we continue to have the lingering effect of the crisis, and that clearly, if you have smaller sales, then people saving on the cost of their

insurance, it does translate into a low average premium on the portfolio. We hope that this is what seems to be a disciplined market where economic recovery will improve next year. Before this conversation, we had a presentation to journalists, to the press, and Mr. Tejera there pointing out the fact that normally when we have an economic recovery, we also witness a recovery in insurance demand and insurance premiums. And so if in the first quarter of 2014, the economy recovers, we hope we will see that. But for the moment, the underlying trends remain the same. VERTI in terms of premiums, is up around 20% year-on-year, but the combined ratio figures are not disclosed in our accounts, so I cannot give you that one, I'm afraid.

Andreas Evert Cornelis de Groot van Embden

JP Morgan Chase & Co, Research Division

Okay. And what's the total premium volume number on VERTI? Could you disclose that? The euro million?

Luigi Lubelli

It's about 32, EUR 32 million. EUR 31.8 million to be precise.

Andreas Evert Cornelis de Groot van Embden

JP Morgan Chase & Co, Research Division

Okay, and do you have any target for where you want to grow that business towards? Because you've been rolling it out for, I think, a number of years now. Are you satisfied with the rollout? And what is your target in terms of premium volumes, say, on a 3-year horizon?

Esteban Tejera Montalvo

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

We gave out some targets when we launched the business. I mean, the business is growing clearly very fast compared to the market. So in that respect, we are happy to say that we are at kind of 1% [indiscernible]. No, but we have to consider that, when we check up [ph] exactly the economic conditions in Spain was totally different. So even if we have targets for this, we will have a review of these targets according to the evolution of the economic environment. In any case, this business is rolling faster than the traditional channels, and we [indiscernible] to world that we want it to have a presence in these markets. Presence is growing and according to a pattern that is convenient. Of the rate [indiscernible] we've done in 2007 and 2008 were higher than the real figures. But in any case, the environment was totally different. But in the fundamentals of the strategy is the growth of more than 20% is very good, and we are doing things very well even if we have to forecast it at the beginning, even bigger figures. Does that answer your question?

Andreas Evert Cornelis de Groot van Embden

JP Morgan Chase & Co, Research Division

Yes.

Luigi Lubelli

Just now taking, answering remaining question before we need to see the impact of better insurance in America on a cumulative 9 months basis is 0.5% -- in Brazil, I'm sorry. 0.5%.

Operator

Next question comes from Edward Williams [ph] from Capital Returns Management.

Unknown Analyst

I'm interested in any insight you may be able to offer regarding the current state of the Spanish surety market. As I understand the matter, the Spanish Supreme Court recently ruled against to safer [ph], effectively expanding coverage under certain residential housing bonds beyond that originally intended. And so I'm just wondering how big an inventory loss you estimate could result from the residential housing bonds issued before the housing crisis? And I'm aware that as of 2008 and 2009, MAPFRE had a

roughly 7% to 8% market share of the entire Spanish surety bond market, not necessarily the residential escrow type market share, but that share had been much larger around 2003. And so just wondering if you have any material exposure from either a primary or MAPFRE RE perspective, and your general thoughts on what's occurring on the ground.

Luigi Lubelli

Edward, actually, we were not exposed to that line of business, so we have no impact. That sentence impacts other companies, but does not have anything to do with MAPFRE. We do operate in surety, but this is a niche cooperative business, which we are not involved into. So it does not have any impact on us.

Unknown Analyst

Okay, excellent. And MAPFRE RE was not a reinsurer of any of the primary companies that were involved?

Luigi Lubelli

No, no, really. We did not have any impact on this.

Operator

Next question comes from Michael Klien from Nomura.

Michael Klien

Nomura Securities Co. Ltd., Research Division

I had 2 questions, if I may. Firstly, on the bancassurance agreements you have in Spain, could you maybe provide us with an update in terms of where we are with renegotiating those agreements? Should we maybe expect some news flow here very soon? And the second question would be on MAPFRE VIDA, I understand that the premium growth was mostly due to one of corporate transactions that you had in the same period last year. I guess -- could be just a quite lumpy business. Can we expect maybe some similar business again in the future quarters? And on an underlying basis, how is the domestic life market doing? What are you expecting in terms of growth if any at all in the Spanish market for this year and also for next year?

Esteban Tejera Montalvo

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

Michael, our negotiations with bancassurance partners, while the negotiation is with Bankia as you know very well. The questions and partners while the remuneration has done well. We have the information [indiscernible] with Bankia. Our Leon continues to work in part of the network and that we have on our own element, and this is working well according to the circumstances of the market, not totally the circumstances of the market several years ago. In this sense, we are talking about the possibility of improving our presence to get whole network of it in Bankia. Obviously, the conditions of Bankia in Spain are not the conditions they used to be, and these, we continue in the near future especially due to the part that -- it's part of the [indiscernible] and was sold as a complementary [indiscernible] selling to mortgage, and there is no market for mortgages now. In general, in the bancassurance continue into -- continuation at a very good pace, especially in Non-life. In the third quarter, we have to better sell in Non-life. And in the negotiations, we continue negotiating with Bankia, and I think that will lead to an agreement in the near future to respond our questions and the rest of the network, but only if the economic conditions are according to the new reality in the country and in the reality of the bancassurance [indiscernible] Spain that is totally different that it used to be, and I don't know if [indiscernible].

Luigi Lubelli

There's nothing to add on this one. With regard to your question on MAPFRE RE, whether it's lumpy. To begin with, the figures from the insurance of the [indiscernible] association for Life assurance in Spain as of September were minus 5.1% marketwide, so the whole Spanish market [ph]. And the technical reserves grew -- are growing 2.1% in January, but mind that, there is a significant component of the appreciation of the value of fixed income assets. If you adjust for that, actually, that should mean a

contraction. As we said before, people demanding mutual funds rather than insurance policy. This is always a lumpy business. This is a business, which does not, unlike in Non-life insurance, which does have a very strong correlation with economic growth, Life moves very much of its own accord and is especially driven by the marketing policies of the banking sector. So depending on what the banking sector pushes in terms of selling the instruments, at a given moment, Life will perform accordingly. So I'm afraid, it's not -- as far as MAPFRE RE is concerned, usually, the third quarter -- the last quarter, the fourth quarter is the most significant one, because there is when we collect most of the pension savings for the year. That's a traditional development in the Spanish market. So most of our sales, or a significant portion of them anyway, tends to be aimed at the last quarter of the year. But the market itself is lumpy and very difficult to forecast.

Michael Klien

Nomura Securities Co. Ltd., Research Division

And in terms of your last point that most of this comes though in Q4, are you seeing any trends that are worth mentioning so far?

Luigi Lubelli

I did not understand the first part of your question.

Michael Klien

Nomura Securities Co. Ltd., Research Division

You mentioned that on the Life side, there's a certain amount of seasonality, in particular Q4 for pension, this is quite important. So do you see any trends here?

Luigi Lubelli

Well, the fourth quarter has just begun, there's really not many trends I can speak of. That is what normally happens, but the quarter has just begun, and it wouldn't be public figures anyway.

Operator

Next question comes from Niccolo Dalla Palma from Exane BNP Paribas.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

So the first question is on the new structure. Just if you could explain us whether there's any implication in terms of legal structure as well, and therefore capital fungibility at all or will the legal structure stay exactly as it is? And secondly, just to clarify on the duration, you mentioned around 5 years. I had in mind something shorter, especially because of Spanish reserves, I expect them to be quite short duration because of the speed of settlement you have. So I thought Spain was around 2 to 3 years duration. So I guess, to get to 5 years, it means that the rest is very long. Just if you could clarify asset and liability duration. And also on MAPFRE FAMILIAR, we actually saw on a quarterly basis a lot of volatility in the recurring results, recurring financial income. So excluding the realized gains, we saw EUR 17 million in Q1, EUR 7 million in Q2 and EUR 35 million in Q3. Just trying to get your views on how to extrapolate what the kind of normal run rate is here for financial income for MAPFRE FAMILIAR. Third question is just a quickly technical one. On MAPFRE AMÉRICA, if you could explain us what the roughly EUR 20 million of non-technical result is there?

Esteban Tejera Montalvo

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

Okay, Niccolo, first part, let's say [indiscernible] you can see in the new structure, well, the situation is mainly improving our operation to deliver the top service and to gain synergies. From the point of view of initial operational restructuration mainly. It may imply in the future, in the near future, level of changes in the structure of the subsidiaries. And if this happened, this will be in order to improve our fungibility of capital and improve our approach to the business. But in the short-term, we are doing

this restructuring in order to facilitate our operations to have a more material [ph] interaction among the business, and clarifying the competencies in the approach to different markets and for our guided insurance companies in our Global business like ASISTENCIA or GLOBAL RISKS. This is the main driver in the new restructuring.

Luigi Lubelli

I mean, there's very little to add once again. But I would only -- in terms of capital fungibility, clearly, capital fungibility may impact at the level of subsidiary or grouping of subsidiaries of where capital is located. But regarding the group itself, the capital position on the group itself does not change on a consolidated basis. Obviously, the legal structure disappears. It may mean that money moves from one floor to another floor, but the actual money growth level does not change. And at the margin, we can improve the capitalization. Say, if we were to group companies into one single company, of course, the company will benefit from the diversification, but there would be most of the changes. I wouldn't think they matter from your standpoint. I take it that you are surprised by the duration of the Non-life business investment book. And you're right in your reading about the Spanish business, but MAPFRE doesn't only have a Spanish business. And actually, in the Spanish business itself it has a commercial business. And as you know, we have third-party liability in commercial insurance, which has a longer tail. We have reinsurance, which is a very significant book, which also has a longer tail. And accordingly, it's backed by longer bonds. So when we look at the growth at large, your intuitive understanding is actually diluted by the fact that we have also a longer tail business in the group. So in terms of the volatility of financial question, it is a very fair question, I actually thank you for asking that one because I think it helps clarifying the view for everyone. We said in the previous quarter that we actually had losses on equity accounting subsidiaries, and that actually depressed the financial income on a quarterly basis. By and large, you can take this one to be a normal quarter or normalized quarter. Clearly, we have some churn impact. The investments maturing in this quarter will be reinvested at the present rates, which clearly are much lower than they were when those loans we acquired. So at the margin, it will reduce further the financial income in the fourth quarter, but it's at the margin. This quarter is a reasonable guidance for MAPFRE FAMILIAR in terms of financial income.

Niccolo Cornelis Modesto Dalla-Palma

Exane BNP Paribas, Research Division

Okay, that's very clear. And on the MAPFRE AMÉRICA non-technical results, can you just remind me what that is?

Luigi Lubelli

On the non-technical results of MAPFRE AMÉRICA, well, we've got a few things. We had essentially realization gains in Venezuela. Those were -- it's about EUR 14 million, which are in the non-technical results of MAPFRE AMÉRICA.

Esteban Tejera Montalvo

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

We are reaching -- I don't know you have further questions, any last one, because we have to fly to London to speak to you tomorrow very early. If you have more questions, please -- last one, and we must finish.

Operator

There are no more questions. Thank you.

Esteban Tejera Montalvo

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

Thank you for being so cooperative with us, and as always, I come to meet you again -- we'll see you again in 3 months. And until then, thank you.

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