S&P Global
Market Intelligence

Mapfre, S.A. BME:MAP

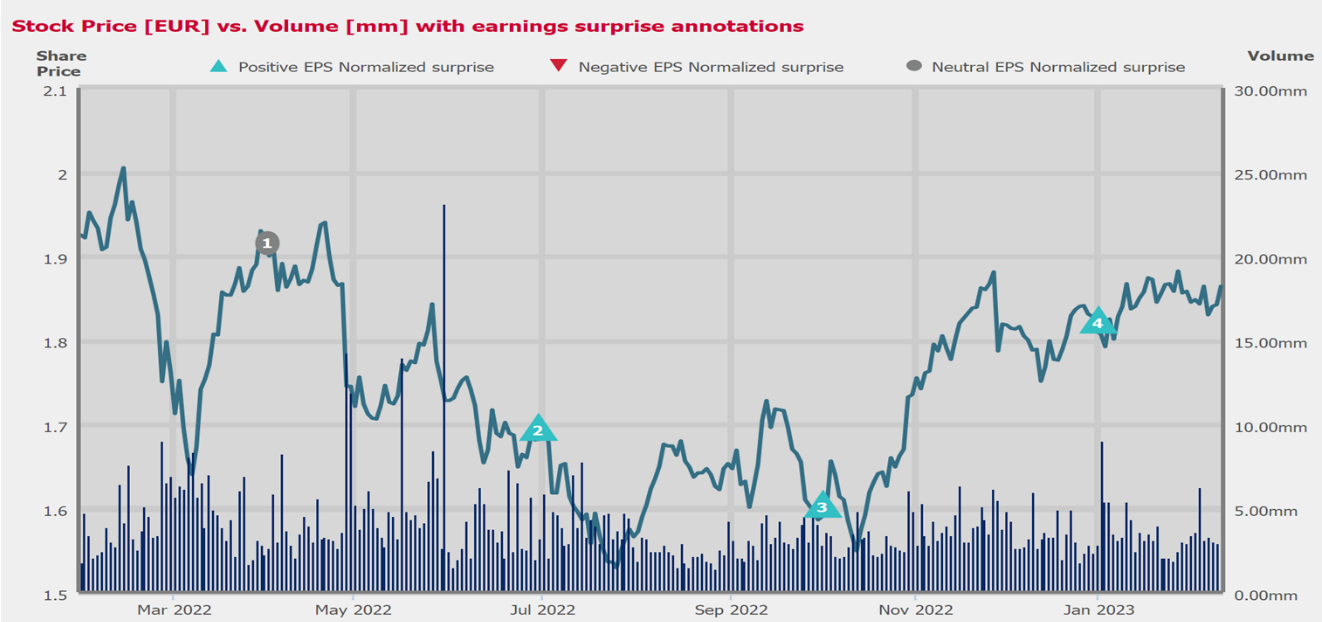
FY 2022 Earnings Call Transcripts

Thursday, February 9, 2023 11:30 AM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.04	0.05	▲25.00	0.21	0.21	●0.00	0.24
Revenue (mm)	6199.45	NA	NA	25113.70	NA	NA	27054.84

Currency: EUR
Consensus as of Feb-10-2023 7:21 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FY 2022	0.21	0.21	0.00 %

Table of Contents

Call Participants

EXECUTIVES

Antonio Huertas Mejias
Chairman & CEO

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

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

Fernando Mata Verdejo
Group CFO & Director

ANALYSTS

Francisco Riquel
Alantra Equities Sociedad de Valores, S.A., Research Division

Jose Tamayo

Maksym Mishyn
JB Capital Markets, Sociedad de Valores, S.A., Research Division

Maria del Paz Ojeda Fernandez
Banco de Sabadell. S.A., Research Division

Presentation

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

Good afternoon, everyone, and welcome to MAPFRE results presentation for the full year 2022. This is Felipe Navarro, Head of Investor Relations, Capital Markets and Corporate Treasurer. We want to welcome especially those who have joined us in person at MAPFRE Foundation's auditorium and also those who are linked through the connected online service. It's a pleasure to have Mr. Antonio Huertas here with us, MAPFRE's CEO. He will give us the key highlights of the year as well as a quick overview of performance during the first year of our 2022-2024 strategic plan on an updated outlook.

Although for detailed information regarding our strategic plan, you will have to wait for our next AGM to be held on March the 10th. The AGM agenda together with the full year disclosure and annual reports that have been published today are all available in our website. It is also a pleasure to introduce Fernando Mata, the Group CFO, who will walk us through the main financial trends; as well as Eduardo Perez de Lema, the CEO of MAPFRE RE, who will provide us with an overview of this business.

Before we start, let me explain some organizational details. Interpretation services are available both here and at home. So please feel free to choose the language that better suits you, either English or Spanish. As usual, at the end of presentation, we will open the Q&A. The questions can be made either in English or Spanish. [Operator Instructions] We will try to answer all questions as time allows. The IR team will be available for any pending questions after the call.

Now let me turn the call over to Antonio. Antonio the floor is yours.

Antonio Huertas Mejias
Chairman & CEO

Thank you, Felipe. Good morning, everyone, and thank for joining us today. I would like to start today expressing our deepest solidarity with the Turkish people. They are suffering a massive humanitarian tragedy with several earthquakes that have happened during the last few days. We don't have enough of words to express -- we know what we're feeling.

Turkey is a lovely country with extraordinary people, and now they are having a very painful situation. We have a relevant market position in Turkey, both insurance and reinsurance business. At this moment, it's not easy to make the valuation of the insured damages. But as far as we know, considering the large area affected and our market position there, we believe that we will see a medium sized event, which will not be very relevant in our yearly account, neither insurance nor reinsurance unit. Nevertheless, we have to be very prudent at this earlier stage. We will release more information as soon as we can, in a few weeks or even in our next AGM.

Now I'd like to start with a few introductory remarks. You already know with the figures released this morning, we have delivered very satisfactory results. Fernando and Eduardo will walk you through the details of the key figures later in the presentation. But I'd like to spend some time to highlight a few of our main KPIs.

First, about the growth. Growth was exceptionally strong. Premiums were up by almost by 9% on a like-for-like basis adjusting for changed rates and changes in perimeter. Despite the challenging market context, we have delivered a net result of EUR 642 million and an ROE of 8.2%. The combined ratio was 98% due to the pressure from motor throughout the year, although we saw a change in trend in most units in the fourth quarter.

Furthermore, I would like to highlight the efforts we have made to streamline and improve productivity. We closed 2021 with an expense ratio of 27.4%, down nearly 2 points during the year. Moreover, cash generation and dividends are strong at subsidiaries, with almost EUR 1 billion upstreamed during the year. On top of that, we brought solid capital position and financial flexibility. Our Solvency II ratio was 217% in September, boosted by the Tier 3 bond issued in April, which helped mitigate the fall in shareholder's equity. This fall was much lower than other European insurers in a highly volatile environment, thanks to diversification and a prudent investment approach. Available liquidity is high, which provides us with the flexibility to weather any potential uncertainty as well as take advantage of growth opportunities.

Finally, we are also proud to announce that the Board has proposed to the AGM a final dividend of EUR 0.085. Together with the EUR 0.06 paid in November, this brings the total dividend paid against the 2020 fiscal year to EUR 0.145 with a payout ratio of 70%. This is proof of the strength of our commitment to shareholders.

MAPFRE faced many challenges throughout 2022 and was able to weather the storm thanks to our solid business model and balance sheet. The impact from COVID claims, especially in LATAM, improved quarter-by-quarter and is now the business as usual. However, we are still facing other effects as we move out of the pandemic, including higher mobility and changes in driving patterns, which is -- are mainly impacting motor. There was already signs of rising inflation at the end of 2021, the outbreak of the Ukraine conflict together with supply chain disruption created the perfect storm for the motor business.

As central banks moved quickly to control the situation, we have seen a sharp increase in interest rates, market volatility, which has been an opportunity to improve the financial results, to reinvest at higher levels and to launch new more attractive lifesaving products. Unfortunately, there has been not quick solution to the Ukrainian conflict and it seems to be a standstill. Many uncertainties remain such as the risk of a big recession, China's reopening the supply of energy and raw materials, as well as political instability in many countries.

This challenging context has put pressure on margins in motor markets, which is especially hurting motor line coverage. However, as I have already mentioned, we have several competitive advantages, which, together with our strong balance sheet, have allowed us to manage well the situation.

MAPFRE's diversification is based on 3 pillars: geographical, by product and a resilient balance sheet. MAPFRE is also a global player and holds a leading position in most of our markets. We are currently the #1 global insurer, Spanish insurer. We are also the leader group in Latin America and we are among the top 10 groups in Europe by non-life premiums. MAPFRE is also consistently among the top 20 reinsurers worldwide. Our insurance product mix is quite diversified with the balance between life and non-life, personal and commercial lines and motor and non-motor. MAPFRE, including global risks, provides other reliable sources of income to the group.

Technical excellence is a priority for us, and we are not willing to write business at any price. Our disciplined approach has helped us to implement tariff increases successfully as well as execute ongoing portfolio and footprint pruning. Efficiency improvements have been supported by advances in transformation and innovation. Furthermore, after several years of restructuring and strengthening, our business is leaner than ever, which is key to compete in the current market. We continue creating value for our shareholders, delivering attractive dividends, while continuing to invest in business growth on the back of our financial strength and cash generation.

Our balance sheet has proven resilient despite market volatility. Diversification, a prudent investment strategy and asset and liability matching have been crucial. We have reached significant milestones in 2022. Premiums growth was quite spectacular with resilient trends in Spain. Performance also was exceptionally in Latin America, especially in Brazil. We are also seeing high double digit growth in reinsurance and global risks on the back of a supported pricing environment. Currency movements have also been a positive driver. Profit contribution from Iberia was strong, reaching EUR 375 million. In Spain, positive trends in other than motor lines helped to upset the pressure in motor.

The turnaround in Latin America has been excellent with profit reaching more than EUR 300 million, double than of last year. There has been a significant fall in COVID claims as well as a sharp increase in financial income. It's worth mentioning the EUR 144 million coming from Brazil with excellent performance, both in agro and life protection, while motor trends are improving little by little.

2022 was a costly NatCat year for reinsurance. However, thanks to MAPFRE's excellent diversification and prudent approach, this unit reported a net profit of EUR 140 million. The hard market is providing us with an excellent opportunity, which is why we increased capital here by EUR 250 million recently. Eduardo will give us more color on this later on.

Our product mix has been key in many markets and also technical performance in non-motor, including life helped to upset the margin pressure in motor. Underlying financial income is improving, especially in LATAM, boosted by rising rates and effective portfolio management. We have also made many important advances in our transformation process in 2022. We have achieved our main restructuring goals, streamlined footprint and leaner organization that will help us leverage future opportunities. We are now allocating capital to the most attractive business. MAPFRE's recent capital increase is an example of this.

With the sale of insurance units in the Philippines and Indonesia, the Russia region will now become strictly EMEA. In Italy, we executed the strategic plan in the second half of 2022, which should be a turning point. We have also completed several exits in the Asistencia business, which has been now launched as MAWDY, which is much leaner, stricter, focusing mainly in the most profitable segments. Most recently we announced the decision to reorganize LATAM, including Central America and the Dominican Republic within the LATAM region, while keeping Brazil and Mexico separate. This new structure should further improve efficiencies.

We're proud of this achievement, but we are aware that this is not enough. We will continue leveraging on the following profitability drivers. Firstly, the implementation of the initiatives is now our current strategic plan to keep moving the organization forward.

Secondly, improving motor profitability. Measures have already been implemented, including rate increases together with some cost containment and underwriting discipline. However, this will take time to fit throughout our profit and loss account.

In Brazil, portfolio re-pricing was carried out extremely quickly. We also canceled large portfolios of non-performing business. And as a result, we're already seeing the improvement in this country. In Spain, the combined ratio seems to have stabilized with some improvement in the fourth quarter. In the U.S. also due to the complexity of this market, it could take a little longer. Finally, we will be leveraging profitable growth opportunities. We would like to enlarge our bancassurance's channel and we will also continue growing the digital business, while providing technological solutions to the MAPFRE network.

I will now hand the floor over to Fernando to run through the main financials. Thank you.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Antonio, thank you, Felipe, and thank you everybody for joining us today. I mean it is great to see faces in real in this tense world and online world. Let's go to the key figures. Premiums are up nearly 11%. If we eliminate the impacts from foreign currency movements as well as other changes in the scope, premiums would have been nearly 9% with very strong trends in non-life. The most relevant average variations from currency were the U.S. dollar, up around 13%, and the Brazilian real, up over 18%. There were also double digit appreciations in many other Latin American currencies.

The combined ratio was 98%, with the loss ratio up over 2.4 points, mainly driven by the pressure in motor as well as NatCat events. The 27% expense ratio is not worth it and down around 2 points, and is supported by various strict cost controls and increase in top line and also the 2021 Iberia early retirement plan. The life protection combined ratio reached 83%, down over 11 points, back practically to pre-pandemic levels.

The pressure on combined ratio was partially mitigated by improving financial income. The non-life financial result was relatively stable, but when adjusting for realized gains, it was up by over EUR 120 million. The attributable result reached EUR 642 million with an ROE of over 8%. And excluding non-operating items, the adjusted ROE stands at 8.4%, stable compared to the previous year and comparable figures. Finally, shareholders equity is down around 14%, reaching EUR 7.3 billion.

As you saw in this slide, we explain the main extraordinary items. First of all, we would like to comment on the impact from hyperinflationary economies. We restated the financial statements of our subsidiary in Turkey for 2022 in September, and at that point, disclosing pre-tax figures. After adjusting for the fiscal impact, which we consider more correct, these adjustments reached EUR 40 million at year end for all the 3 hyperinflationary countries.

The EUR 18.5 million of other non-operative impacts include the sale and restructuring of assistance operation, as well as the sale of the insurance subsidiaries in Asia. Last year, you remember there was a EUR 63 million net gain from the termination of the Bankia agreement after restructuring costs.

Regarding operating impacts, during the year, the EUR 144 million for NatCat includes the drought in the Parana river region, with a total of EUR 113 million. The impact from Hurricane Fiona in Puerto Rico was EUR 31 million with some increase on the quarter basically on MAPFRE's accounts. Financial gains and losses are down by EUR 65 million. We were able to personally compensate the fall in financial investment with higher gains from -- in real estate transactions. We were also opportunistic at year end realizing capital gains in equity markets with positive impact of almost EUR 27 million. Finally, the line other for 2022 do not includes the tax impacts in Spain and Peru reported in previous quarters.

During 2022, insurance operations contributed over EUR 20.5 billion in premiums and over EUR 630 million in results. In Iberia, premiums are up 0.4% and 2.5% excluding Bankia. The combined ratio is down 1.3 points to 96.8%. We've seen positive trends in general P&C with a ratio under 94%, which are mitigating the pressure in motor. Iberia reported a net result of EUR 375 million, down EUR 165 million. As a reminder, last year contribution from Bankia including gains and restructuring was EUR 92 million.

In Brazil, premiums were up 45% driven by agro, motor and life protection. Brazil was the second largest contributor to net profit, reaching EUR 144 million, up over EUR 69 million. The overall combined ratio was excellent, under 87%, with very strong trends in agro. The improvements in life protection and financial income mitigated pressure in motor. And currency appreciation was also a positive driver.

Premiums in LATAM North were up nearly 24% when adjusting for the multi-year policy in Mexico. And LATAM South grew 23% in euros. Local currency growth was solid in most segments, and is worth mentioning Mexico up 8% on a like-for-like basis and

Peru 20%. The net result was EUR 46 million in LATAM North and over, it's very important, EUR 110 million in LATAM South, improving as a result of lower COVID claims and also higher financial income.

Premiums in North America are up nearly 25% supported by dollar appreciation. On a like-for-like basis, premium were relatively flat. Performance continued to be affected by tariff regulation, growing mobility trends and increased severity. There was also a EUR 20 million net loss from Hurricane Fiona affecting Puerto Rico.

In Eurasia, premiums are slightly down. Turkey is very affected by the hyperinflationary environment with premiums growing 20% and a net loss of EUR 48 million. In Assistance, the streamlining effort is evident with volumes down over 56%. We come to an end of our restructuring process, as the Chairman mentioned. And the unit reported a profit of EUR 7 million mainly due to these sales.

As Antonio mentioned, we have already executed motor profitability initiatives across all regions. These measures, especially pricing, take time to affect the bottom line. As you can see, the fleet is down by over 1 million vehicles year-to-date and this is partially explained by the sale of Indonesia and the Philippines, which contributed in the past over 700,000 units.

The reduction also reflects the cancellation of some loss making portfolios, as the Chairman said, Antonio, do not want to grow at any price. Premiums are up at group level with the strongest growth in Brazil, up 35%. Around half is explained by currency appreciation. However, double-digit tariff increases implemented over the last year are also fueling this growth. As you can see, insured units in Brazil are down 15% as a result of portfolio pruning, especially in trucks and buses.

In North America, premiums were up over 16%, with 12% as a result of currency movements. The 2022 tariff increases of 6% in total only partially phased in, and insured units were moderately up. As a reminder, total tariff increases, including the most recent filing which entered into effect on January 1st, this year, reached over 13%.

In Iberia, premiums are up 0.4% with insured vehicles relatively flat. Average premiums are stabilizing during 2022 after several years of declines. Trade increase and new business were implemented quite quickly, while increases on renewals were gradually implemented through the year to convert with current cost increases. This was accelerated in the second half of the year, but we are still seeing a reduction in coverage and other underwriting measures as well that are being implemented to maintain the portfolio stable. You remember it was one of the main targets for 2020 to keep the portfolio stable.

The group's combined ratio was up 1.4 points in the fourth quarter, reaching 107.8%, but with different trends by region. Iberia performance improved almost 1 point from Q3 to Q4, reaching 101.3%. Brazil continued improving to around 109%. And in North America, it reached 118% in the fourth quarter. It's a really tough number, but is in line with the market. The combined ratio could be near its peak as the 2023 tariff increases will still need some time to pass through the P&L and be fully earned.

On this slide, I would like to comment on the Life business. In Iberia, premiums were down 9%. This reflects the exit from Bankia last year. And including this impact, premiums would have been down around 1%. In Brazil, the life protection business is showing healthy growth, up 30%, boosted by the significant appreciation of the real and also the commercial power of our partner. The Life results has more than doubled due to the lower COVID impact in LATAM and also the strong financial income. In that case as well, I would like to name Colombia, which was very significant.

On the right, you can see that the total COVID impact in LATAM in the quarter was just EUR 2 million. In 2023, we do not expect to consider COVID-19 claims as extraordinary, so we're going to practically stop the disclosure of this claim.

I will now hand the floor over to Eduardo.

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Thank you very much, Fernando. And as always, it's a pleasure to be -- have the opportunity to update you on the developments of MAPFRE RE, particularly now that we are very confident about the future of the company and the market. Let me start with a review of the final figures of 2022. We have been seeing very strong premium growth in 2022 of over 15%, with all segments that we control growing nicely. And of course, we had some tailwind coming from exchange rates at the beginning of the year, especially. But we also benefited from already hardening market in the last 18 months for the reinsurance business, which allowed us to grow the portfolio profitably.

Additionally, global risk maintained a very positive pricing momentum and was able to build on the existing portfolio, but also saw increases in some insurance and premiums driven by inflation. The result was slightly down compared to the previous year, mainly affected by lower realized investment gains and again, a very large loss burden that materially exceeded the large loss budget that we have.

In spite of that, we were able to improve the combined ratio to 96.8%, which shows the quality and diversification of our reinsurance portfolio and the first signs of improved pricing momentum. On the MAPFRE global risk portfolio, we managed to keep a very good combined ratio of 90%. As already announced, we identified this moment as a good timing to reinforce the capital position, allowing us to take advantage of hardening markets. But also giving us additional flexibility to structure our retrocession protections more efficiently, given the current market environment.

So that brings me to the next slide where I want to update you on our January renewals outcome and our outlook. As anticipated, the January renewals were extremely complex, but also late with big uncertainties during the whole process. After a very long period of underperformance and increased large loss activity across the world, we saw accelerated change in the market that had positive implications across all lines of business in geographies. Unlike other markets, the changes have been very widespread and not only affecting pricing, but also structure and scope of coverage and treaties.

Even in that environment and with limitations and capacity for business exposed to natural perils and some specialty lines, if terms and conditions were adequate, the reinsurance industry has responded and provided the required coverage to the clients. For MAPFRE RE, the outcome of this in all is very positive. Firstly, we reinforced our market profile by being proactively one of the few markets -- a few reinsurers that were providing quotes to the market and solution of viable reinsurance structures to obtain coverage. MAPFRE has shown great commitment to its reinsurance business and clients and also through our capital increase.

Secondly, the quality and expected margin of the portfolio is substantially improved, both through program and portfolio restructuring that complements very substantial risk-adjusted price increases. For example, we estimate that the risk-adjusted price increase on our catastrophe portfolio to be in excess of 35% after this renewal. In terms of nominal premium, the price increases offset the planned nonrenewal of very substantial blocks of certain high-volume proportional transactions, we presented much lower margins, allocating additional risk capital to better remunerated transactions.

Thirdly, we were successful in obtaining retrocession support based on our very long-term oriented strategic risk management policy, where we have designed production structures and partnerships in order to be sustainable across market cycles. In this environment, our outlook is very positive. The firm market is to remain in place for the upcoming renewal periods, and we count with a good capital position, market profile and very well-defined risk appetite of sizing this market momentum.

So in that regard, finally, we want to inform you that we -- with the growth in renewals in hard market, we have increased our large loss budget to be in the range of EUR 300 million to EUR 400 million for 2023. With this, now I hand the floor over to Fernando again and to forward to the questions later.

Fernando Mata Verdejo
Group CFO & Director

Thank you, Eduardo. Now I will continue with the asset disclosure. The uncertain geopolitical and macroeconomic context, and monetary policy obviously has affected the value of our investment portfolio as well as the pension and mutual funds, bringing assets under management down by over 9%, you got at the bottom of the slide. Rate increases have been significant across regions, mainly Spain, Italy, but also in the U.S. Spanish sovereign debt continues to be the largest exposure in our portfolio with nearly EUR 9 billion, a larger share of these positions are, as you know, allocated to immunized portfolios, reducing our exposure to higher rates.

Now I would like to go over the breakdown of our EUR 27 million fixed income portfolio. On the top are the details -- sorry. Now on the top are the details of our euro area actively managed fixed income portfolios, which have a market value of around EUR 10.5 billion. On the bottom are the details of the fixed income portfolios in other main markets with a total value of around EUR 5 billion. And the larger share of the remaining EUR 11.5 billion are life portfolios in Spain with sometime of ALM policy. The largest move in this year was a strong reduction in duration as well as the investment of around EUR 350 million in inflation-linked bonds in Iberia and MAPFRE RE. Having out these loans, continues higher in the main euro area portfolios, as you can see on the right.

On the bottom, you can see the details of the fixed income portfolios in other markets with duration also significantly down and portfolio yields up in all markets and regions. The increases have been noteworthy across LATAM with more than EUR 1.8 billion invested in previous quarters in bonds with yields linked to inflation of Central Bank rates.

Our guidance is that these trends should continue in coming quarters as long as inflation remains high. And as we mentioned before, we have already seen an over EUR 120 million increase in underlying non-life financial income. Shareholders' equity stood at EUR 7.3 billion, down 14%. Net unrealized gains on the available for sale portfolio were down EUR 1.7 billion, mainly due to the increase in interest rates. The largest impact was in Iberia, down nearly EUR 1 billion, of which around half corresponds to the Iberia expense portfolio with a modified duration of around 18%.

North America and MAPFRE RE also had strong falls around EUR 270 million each. On the other hand, currency conversion differences are up over EUR 340 million on the back of the appreciation of the U.S. dollar as well as the Brazilian real and other related Latin America currencies.

On the left, you can see the breakdown of the capital structure, which is down to EUR 11.3 billion, mainly due to the fall in the shareholders' equity. Total debt is down EUR 157 million, reaching EUR 2.9 billion. During the year, remember, we issued EUR 500 million of Tier 3 debt reducing consequently the credit facility. Leverage is now 26%, sorry, exceeding the upper limit of our reference framework by 1% as a result of the decrease in equity. We expect the ratio to convert to our range. And if not, actions could be taken as there is an excess of lower cash. On the right, you can see a Solvency II of nearly 217% as of September. This is up over 10 points during the year, largely due to the Tier 3 debt. The fully loaded ratio was also pretty strong at 27%.

Now let's talk about cash flow upstreaming in MAPFRE Group, which was almost EUR 1 billion. This is the record, and we review our past, but this is -- I guess, is the largest, by far, in 2022. As you can see, Spain is the most important contributor due to the extraordinary dividends coming from the Bankia assurance agreement termination. The reduction of MAPFRE RE dividend is consistent which we already mentioned capital increase to improve its Solvency II ratio and also finance organic growth.

Going forward, the group should continue lowering its dependence on upstreaming from Spanish entities as other units such as Brazil, LATAM and MAPFRE RE gained importance on the total share. And regarding outflow, EUR 447 million were used to pay 2022 calendar year dividends and EUR 250 million to MAPFRE risk capital increase and around EUR 150 million allocated to cover overhead payments and also interest expense.

Okay. Let's go with the topic of the year. We will like to give you an update on the IFRS 17 and 9 approach. With the entry in force of the new IFRS as of January 1st, MAPFRE Group will be subject to 2 different levels of regulation and accounting standards at least for the medium and term. So local insurance supervisors will continue to request local accounting standards, while the Spanish Securities and Exchange Commission will require IFRS on a consolidated level as well the Malta supervisor since Malta is a listed company in this market.

This duality of accounting standards will have no impact on strategy, management of operations and cash generations. We should expect accounting standards, I mentioned, to convert in medium term. Meanwhile, for group management purposes, business performance analysis will be carried out on both under local accounting and under IFRS with periodic reconciliation of main KPIs. Therefore, MAPFRE will report IFRS figures at a consolidated level twice a year, in line with the current regulation. But in parallel, as we discussed in previous quarters, we call activity report, management report, whatever name you can put with KPIs for subsidiaries under local accounting will be made public on a quarterly basis. Hence, the first financial accounts under the new IFRS will be for half year 2023 figures.

As we already mentioned in previous presentation, we are not expecting any major impacts at restructuring. Shareholders' equity should be broadly stable with changes in specific line items offsetting one another. Regarding CSM, contractual service margin, we expect this to reflect the economic value of our in-force insurance business, which we've been reporting for many years through the embedded value calculation, which follows by the way, a very similar methodology. Group earnings power should be similar at transaction as a large share of our business, around 70%, will be measured under the PAA.

We should expect improved disclosure and visibility on profit recognition for life and burial business, which will be measured under BBA. Regarding IFRS 9, there will be a change in the accounting treatment of some investment is one of the options chosen by MAPFRE. Mutual funds will be classified as fair value with all changes now through P&L, including unrealized gains. So both realized and realized gains, they will go through P&L. In addition, listed equity investments will be classified. This is an option for MAPFRE as fair value through OCI. In that case, with no impact from realized gains in P&L. So we will have realized gains under accounting standards and not unrealized gains on P&L under IFRS 9. Finally, solvency, dividends, cash generation, capital management, our guess is that they will remain unchanged.

Now I will hand the floor back to Antonio.

Antonio Huertas Mejias
Chairman & CEO

Yes. Fernando, thank you very much. Before we go into the Q&A session, I would like to make a few more remarks. Despite the extremely challenging market environment, we continue to implement 2022-'24 strategic plan, while adapting the current context, I would like to give you a quick update on our progress during the first year. You have seen premium growth, solvency ratio and payout targets have performed very well so far. However, as we have mentioned in other quarters, the combined ratio target is more challenging given the current context it's been heavily impacted by inflation. The ROE target at year-end was below expectations, but should converge on the target. So for leverage, we have also slightly exceeded the reference framework of 23%, 25% due to the sharp fall in our equity base. But we expect it to gradually converge within our tolerance band.

If needed, we have a strong liquidity at the group level and could use it to reduce leverage. But this is not necessarily at this short moment. Regarding ESG targets, we are on the way to achieving the plus or minus 1% general pay gap about 2024, and we have already exceeded the objective of having 90% of our investment portfolio rated according to the ESG criteria.

Here, you can see our updated aspirational target for 2023 to 2024, which have been just affected -- approved by the Board of Directors. It is worth mentioning that the regional ones was led before. The war in Ukraine, which led to unexpected high energy prices, weak real household income growth, following confidence and tighter financial conditions.

Our targets, as you can see, remain valid, except from the ones inside the white boxes, one of which is premium growth is more positive and the other the non-life combined ratio is being slightly relaxed. We expect premiums to grow on average between 5% to 6% during the 2 remaining year of the plan. The combined ratio target has been increased to 96% since we strongly believe the new target better reflects the current inflationary and high interest rate environment. All in all, we remain committed to our strategic plan, and we believe that it is the road map the company needs to move forward in terms of growth and profitability.

We do believe that 2022 has been a good year for MAPFRE with a robust growth and resilient profitability, while we continue executing our strategic plan. Looking forward, diversification we'll continue to set us apart from our peers in this challenging market. Regarding our main business, we can assure that Iberia, we will continue to be an important contributor to profitability. Positive trends in Latin America will consolidate LATAM's important contribution to the group's premium growth and results.

MAPFRE RE also will continue being an important driver for the group's bottom line. During the presentation, we have shared with you the details of MAPFRE RE's promising outlook. Moreover, mature profitability initiatives as already therein results and should actually improve margins in the coming quarters. In addition to that, our new streamlined organization and footprint will be the foundation for the future achievements of the strategic plan.
Finally, our excellent solvency ratio and capital rate, together with a strong generation with the current cash generation will continue to support our dividend policy, improving our long-term commitment to shareholders. Thank you for your attention. I now hand the floor over to Felipe to begin the Q&A session.

Question and Answer

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

Please let me remind you briefly the details of the Q&A session. Those who are here in person can raise your hand, and we'll give you the floor. We can be asked to you to introduce yourselves before asking the questions. For those of you who are home or in the office, you can use the platform. It is possible to ask questions both in Spanish or English, at your convenience. Don't forget to use interpretation service at your disposal, so you don't miss any details.

And now let's start with the first question. And I have already some coming from the platform. Carlos Peixoto, is asking a question regarding the Spanish life business, considering the rising interest rates in the yields. And the fact that deposit remuneration has not picked up materially. Do you see the opportunity to grow in this segment, competing with the banks?

Antonio Huertas Mejias
Chairman & CEO

I would like to start answering this question. It's true, Carlos, is more difficult to us to compete in the new market environment with no big bank agreements now. So in this environment, we are continuing doing the same thing, creating more establishing new agreements with smaller banks and other organizations. And we also are preparing our own network it newer sales in order to be ready with the right licenses that they needed to sell this life business.

Taking into account that the current internal raise environment is very positive for insurers, even we are ahead of bank industry, we are doing our best efforts to have better products and more distribution, higher distribution to reach these goals. Nevertheless, we know that we are weak selling life products. But now it's clear the opportunity to sell more saving products in the Spanish market.

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

Thank you very much Antonio. Carlos Peixoto as well has a few questions regarding Spanish non-life business. First one is vetted with P&C -- General P&C combined ratio that was posting a strong improvement in the fourth quarter of 2022. He is asking, what is your expectation for the evolution of the combined ratio across the main business segments? And another one related with motor, what is your expectation of the Baremo update impacts?

Fernando Mata Verdejo
Group CFO & Director

Yes, I'll take it. Thank you, Carlos. The fourth quarter was pretty mild in terms of severe weather. I mean it was quite good, I mean, in both -- I mean also in the U.S., but also in Spain. So we're seeing a significant reduction on frequency. But also, as we mentioned as well, most of the general insurance for homeowners and also for condominiums, there is an update of rates due to the increase of value of the underlying assets is pretty clear. So let's say, at the end of the year, particularly the increase of rates that starting January 1st was fully air. So let's say there's an increase in earned premiums and also lower frequency.

Expectations broadly speaking, I mean, 88% on general insurance, a combined ratio should be not sustainable in the future. But neither 106% on combined ratio, so what we mentioned as well is both lines of business should convert in more sustainable ratios, probably the fall between 90% and 95% and the second between 95% and 96%. Regarding more expectation on the Baremo update impacts we already mentioned, there is no other way that transferred into rates, the current increase on Baremo, which, by the way, a percent of the 8%, as I mentioned, it is linked to the increase on pensions for 90%. So the increase in pension is 85, 8.5%, so probably for Baremo would be 8%.

And as we mentioned for MAPFRE, this is a net effect in the loss ratio of approximately 2 percentage points. So there is no other way. We did it as well with the first implementation of the Baremo, and we've done as well in previous and current permanent updates of the Baremo and I guess the industry in general in Spain is very well adaptive very well familiar to transfer this increases to the rates.

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

Thank you very much, Fernando. I think that we have a question coming from the audience here.

Francisco Riquel
Alantra Equities Sociedad de Valores, S.A., Research Division

Francisco Riquel from Alantra. First question regarding reinsurance. I wonder if you can give us more color on the capital injection, how you plan to allocate this EUR 250 million by region, by business, what type of risk? Also you can give us some guidance on the revenue growth expected for '23, the average tariff that we should expect and also volumes. You mentioned that you plan to have lower margin businesses as well, what was the net in terms of volumes. And also impact in combined ratio you had applied this risk-adjusted tariffs retroactively to 2022 with the same frequency of claims, what type of impact in the combined ratio?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Well, thank you for the questions. If I forget what you tell me. But in general, well, the allocation of the capital has been across the portfolio. One of the key advantages that we have is to have a balanced and diversified portfolio. So we haven't yet allocated to one business line or one expectation. It's to develop the overall portfolio. And if we see what we have done during renewal, it's pretty consistent where we have been growing across the portfolio. So I think from a risk profile point of view, you shouldn't expect any change in that, and it's just growing of the portfolio.

In terms of allocation, there are 2 main parts that we have used. One of them is growing the business that we have and growing not necessarily in premium terms because depending on structures that we have changed, premium-wise, we probably will grow less than margin-wise, but -- and exposure was, but that's one thing. And the other part is by increasing our retentions. We were entering into a pretty hard retrocession and reinsurance market and what we decided is certain structures and certain levels of coverage that we were buying before, we are retaining them and using that capital because from a risk reward point of view, it was more efficient than buying certain structures, and we are keeping a bit more of the business net.

Exact impact on how the price increases will impact on combined ratio is very difficult because the combined ratio there is one -- a part of that is pretty volatile, which is the large loss burden that we have increased the allocation of that. And also capital increase has helped out in that direction. But on a normal year, we would expect to have a combined ratio that should be below 95%. That's a target that we need to have in this environment. And then how much below or higher will depend on how the large loss activity will work during the year. And that will be coming from a combination of price increase and part of the price is also commission reduction of proportional treaties. So it's a mix that is pretty complex to work around.

Premium growth will be lower than price increases for sure because we have restructured treaties. And when we talk about risk-adjusted price increases, that is not immediately transferable into premiums because as we did on our -- as I mentioned, we did on our own sessions, there are certain parts of the programs that you wouldn't buy anymore. Our clients do the same thing. So they would move up the retention levels, which put us more remote from the risk. So frequency probably will be lower in terms of large losses in the -- or some of the frequency losses we will skip them in the future. But premium-wise, we don't expect it. I can tell you what we have grown on the non-group business.

Non-life overall has been 3.8% in January, but this is not the whole picture because we have grown a lot in the last renewal period. There is a group business coming in. There is a large business segments. So probably, we will go. But as a reference, this is the growth that we obtained in premiums in margins, we expect that much more improvement.

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

Thank you very much, Eduardo. Carlos Peixoto is asking about the MAPFRE dividends policy. He is asking for an update on this?

Antonio Huertas Mejias
Chairman & CEO

Yes. Carlos, we have shown a clear commitment with our shareholders, establishing a stable policy of dividend. Having the current level of results, that we have overcome the minimum level of payout from 50 to 60 or 70 this year many times. And we think that we should very prudent. We have analyzed this topic, obviously, many times in the board, and we have already discussed about the possibility that MAPFRE has to increase its dividend. Saying that, we know that with the current level of results, we should be approved, but we are now positive about the upcoming improvement of our results in the next 2-3 years. So if we are able to achieve our goals in terms of results, we think that we both change our dividend increasing. We are able to share both objectives being closer to the 50% of payout at the same time, maintaining our policy of having stable, but at the same time, increase the level of dividends if we are able to increase this level of profit.

So in conclusion, we would like to increase the dividend, but we have to reinforce our results, which is very, very possible taking into account the current development of the group, for sure, improvements coming from motor insurance in the next 2-3 years, next 2 years mainly. And the diversification that MAPFRE is showing in terms of having profits coming from different lines. This is the --

Fernando Mata Verdejo
Group CFO & Director

And always in cash, if I can.

Antonio Huertas Mejias
Chairman & CEO

Always in cash.

Fernando Mata Verdejo
Group CFO & Director

Always in cash and no buyback, sorry about that, but the further question regarding this, no buybacks, sorry about that.

Antonio Huertas Mejias
Chairman & CEO

We would like to reduce the yield of the dividend, having a higher market cap. But we know that it depends on us, and we have to do our best to improve our results.

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

Thank you very much, Antonio. We have some questions from the floor. Maksym?

Maksym Mishyn
JB Capital Markets, Sociedad de Valores, S.A., Research Division

Maksym Mishyn from JB Capital. I have a couple of questions. The first one is on your ROE target. Even though you expect a higher combined ratio, you reiterate the 9% to 10% ROE target, and I was wondering what's the reason behind this, whether it's financial income that you're more optimistic about? And the second is on Iberian Motor. I was wondering if price increases, how do they affect your customer portfolio? Have you noticed an increase in churn rates? And also your target for 2022 has been keeping the portfolio stable? What's the target for 2023?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

I will go first to the second, and if you want to complement as well. The main target for MAPFRE Iberia was to keep, as you mentioned, the fleet stable. And practically the same, it was like 1,000 growth. And basically, what we reduce is a new business. We were extremely -- as I mentioned, we extremely increase I mean rates on new business. And practically the new business that was in the new portfolio was those coming from MAPFRE Santander. So let's say that we should be -- you should be more optimistic. We guess that it's important to keep the fleet stable. We made a mistake during the previous crisis, we lost 700,000 units. We protected margin, but we lost the fleet.

And within a minimum number of vehicles in order to see a substantial increase in our P&L, that's pretty clear. Let's say that so far, I mean, everybody like to report lower combined ratio this year, frankly. I mean, let's say that perhaps we a little bit lazy forgive me say lazy in transferring prices into our renewal. I'd say, due to -- we didn't know what -- quite sure how persistent inflation would be. But actually, I mean, it's quite easy to say that we didn't do well and probably we have reacted in the second half of the year and also for this year. We manage it, obviously, increase of rates for renewals is based on an individual basis and with the tools, artificial intelligence that we have. This is to optimize retention, obviously, and with rate increases.

So far, churn ratio is quite stable, fortunately. And we're going to keep the same pace, I mean, for 2023. Regarding ROE target, we made the numbers. Obviously, we did the math and believe me it's really difficult to forecast the evolution of rates and also the currencies in a 2-year period, it's the remaining period. And but considering our current non-life, excluding burial expenses are current duration between 3 and 4 years and for non-life. And since the bounce was -- we came from approximately EUR 800 million unrealized gains on our fixed income portfolio, and the bounce was to 900 loss, so approximately 17.

So let's say, assuming [indiscernible] -- I mean, rates remain stable and with a duration between 3 and 4, we should be able to increase our base capital, appreciate only EUR 900 million, which is the current unrealized loss on fixed income. It means a big push on our net equity.

On the other hand, we should expect a drop -- or an increase in the negative differences from conversions from currencies. The number that we are expecting is like between -- it's like a 1.14 [indiscernible], which is the forward of the U.S. dollar for 2 years. The remaining currencies are linked to the dollar, we should expect approximately between EUR 150 million to EUR 200 million drop in our capital base from currency differences with a 50% minimum payout and also an increased earnings, we should do in the max, obviously, we expect in 2 years net income -- sorry, net equity much higher than the current figure and in a range between EUR 2.8 billion, EUR 2.5 billion more or less.

So let's say that with an increased earnings and also a moderate increase in the capital base. We believe the numbers we made is that we will achieve the target of ROE.

Antonio Huertas Mejias
Chairman & CEO

Yes. I would like to add something about the combined ratio. We are convinced that we are living the worst case scenario in motor insurance in the world, the whole world. So we have taken many measures which have been implemented in the last 12 months in all the markets. And we have to be very optimistic waiting for the improvement of the combined ratio. Taking into account that one single point reduction point of mature combined ratio can have EUR 40 million, EUR 50 million to the profit loss account, it's a huge opportunity to improve the combined ratio.

So we do believe what we are doing to improve the line. So it's -- we have seen probably the peak of inflation rate. So with the changes in tariffs with the implementation of many new guidelines underwriting, canceling nonperforming portfolios in Brazil and Spain and also applying the new tariff increase in the U.S. all are going to add more positive effects on the combined ratio and for that raison also in the ROE.

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

Thank you very much. I think that was a very complete answer on the ROE. Carlos Peixoto was asking as well from the ROE, I think that is been on guidance for 2023. We give the guidance for the 2 years, not for the year. So we go for the next question, which is related with the Brazil's combined ratio. How do you see the evolution on the 2023?

Antonio Huertas Mejias
Chairman & CEO

We strongly believe that Brazil is one of the main support of our good combined ratio. Because you know it has been for many years, an excellent business in Agro, not in motor especially, but it's not -- in the past, it hasn't been -- motor hasn't been probably in the general combined ratio for MAPFRE coming from Brazil. So it's -- if we are if we are taking advantage of the measures we have already implemented in Brazil. We can get a sustainable combined ratio below 90% in Brazil every year, we think that it helps a lot to maintain our corporate combined ratio goal.

In Brazil and Spain and also in the U.S., but we are not pretty optimistic in the U.S. the last few months, we need to wait a little bit more. We think that we are playing the margin in Brazil and in Spain to lower this combined ratio. So in Brazil, it's very important. But with the information we have, we know that we are improving the combine ratio. It's a promising ratio in the last few months, and the trend is very positive.

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

Thank you very much, Antonio. I have another question coming from the platform. This one coming from Alessia Magni of Barclays. She's asking about the revised combined ratio target, which is quite ambitious, considering the current combined ratio level. How do you plan to achieve it? What measures are you undertaking?

Fernando Mata Verdejo
Group CFO & Director

Well, my guess is that it's not that ambitious. The thing is the current combined rate is pretty high. And also, there is a significant gap between lines of business. I've got many, many years in this industry, and I haven't seen in my life from 88 in general insurance and 106. I mean 18 points of combined ratio in 2 different lines. I mean it's amazing.

So let's say, that both lines should converge. And fortunately, we've seen a significant reduction on life protection and also another wind should help MAPFRE from financial income. As we mentioned in last year, we practically catch up with 100 basis points, I mean, in our accounting yield. And there's a significant gap between the current accounting yield and also the market yields. Provided these rates remain flat, I mean we will be able to catch up probably in -- I wouldn't say a number, but a big number in terms of financial income.

So let's say that the combined ratio, my view is there is very few room for additional expense reduction. I mean we're working on it, but our structure is pretty lean. But we have to work on rates, obviously, and also we should expect as well in terms of the macro situation is -- perhaps, let's say, that the inflation linked to the disruption in the supply chain practically over, I mean, so we're not going to see -- let's keep our fingers crossed. And also probably we will see a reduction in mobility in the current scenario in gas prices and also mile recession mile or deep, whatever. But probably we see a lower mobility as well.

We'll give the same -- the stricter underwriting guidelines on the other lines. So that's we should forecast. I mean 96 sustainable combined ratio has been a very good guidance because it's coming from the past and that that's the guidance that we had. And this is the combined ratio we should focus on.

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

Thank you very much, Fernando. We have a question coming from the attendants.

Jose Tamayo

Jose Tamayo from USA. Again, on the motor portfolio, trying to -- I mean, 100 basis points, EUR 40 million, EUR 50 million, I mean, the operating leverage is quite relevant. So in order to understand your assumptions, how long does it take to depreciate the total portfolio? I don't know if in different regions is different or not. What do you expect from inflation in terms of the maintenance repaying expenses? At the end of the process, what is going to be the price increases that you are going to have, I don't know if it is something strategic, and you can't by region, in order to understand your optimistic assumption and do our own model?

And finally, a strategic, you're telling on the Page #4, that you are having a more cautious approach in businesses. Where do you expect -- I mean where you are having limited risk appetite? What are the businesses or regions that you do consider that they are -- that you have to apply a more cashless approach and way?

Antonio Huertas Mejias
Chairman & CEO

Let me say something about the repurchasing policy in MAPFRE. It's not -- as you already said, it's not a common policy. We can't apply the same criteria comparing the 3 main markets, Brazil, Massachusetts and Spain Motor, there are -- there is a common situation with a similar approach but with different conclusions in terms of -- and different procedures to change the situation in the U.S. In Massachusetts, we have applied for changing the tariffs in -- during the last year. And we are analyzing in total was 6.5% increase in motor in Massachusetts last year. But we have started the year with a new increase of 6.5% since 1st of January. And we are starting a new analysis to submit to the supervisor, a new increase by July. So it's a dynamic process.

In Brazil, we are we are applying increases at any time trying to balance better our portfolio doing at the same time, many, many changes in our underwriting processes. So it's very similar with Spain. But in Spain, we don't depend of nonperformance -- one single nonperformance channel. We have a multichannel approach. And traditionally, the business coming from our tight agents, this business is more profitable, and we have more chance to apply the right prices.

It doesn't mean to increase automatically the price. We are doing frequent analysis trying to compensate. Part of our portfolio are going to have higher price and other -- applying bonus [indiscernible], we are reducing prices. So it's a combination. It's not possible to say what a common percentage we are applying, but we know that we are doing the process trying to maintain the solvency at the same time the sufficiency of the tariff business.

Fernando Mata Verdejo
Group CFO & Director

I'm sorry, but I guess that the guidance is not that ambitious now. I mean we've done it is pretty realistic with assumptions. I mean, they're pretty conservative as well. Let's say that the financial income should fuel, I mean, quite good in a quite good model. I mean, the financial -- the net results, the earnings. That's pretty clear. And also back to the combined ratio, in general, let's say that the 83% probably for life protection is not sustainable. Probably we're going to see an increase. I mean in some regions. General insurance, I mentioned as well, but we frankly believe that we're going to see the results of our restructuring in auto because we saw in Brazil, we're going to see in Spain, the combined ratio in Spain is flattened.

And also the hard market by far is the U.S., that they will take some quarters to have the rate increase fully earned. But the financial income will give us a big push and frankly. Obviously, I mean, we haven't stated well I mean the year with the earthquake in this February in Turkey. But this is business as usual. This is a midsized event that we had, had many during the year. And unfortunately, there is a significant increase in rates as well in MAPFRE RE, and they will help us to compensate any cat event. That's my view.

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

Sorry, there was some questions that were related with this statement about applying a cautious approach in business where we have limited risk appetite. What are you thinking about this business which are lines?

Fernando Mata Verdejo
Group CFO & Director

We refer to the footprint and some line of business that didn't perform well. Obviously, we are reevaluating our position, particularly helping some small countries or small portfolios, obviously, not the Dominican Republic, which is key. Also, we, as do not -- we used to be one of the largest auto carrier, but they will reduce our exposure in -- fortunately in Italy, also in Turkey. Also in Brazil, we reduced our exposure in commercial auto, buses and trucks, as I mentioned, we reduced our exposure as well in the U.S.

So let's say we focus on profitable line of business, then it could be a situation that up and down that could part our combined ratio, but we focus on those lines that we know how to manage. And in the end, I mean, in the long run, we should that we can make money otherwise, I mean, it doesn't make sense.

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

I have a couple of quick questions with the earthquake in Turkey. I know it's quite early to give some kind of -- any kind of deep information about this. Carlos Peixoto is asking about what are the expected impacts from the earthquake in Turkey. And Thomas Bateman from Berenberg is asking, first of all, what we understand by a midsized event in MAPFRE in terms of euro medians and with a minimum and the maximum? And if there will be any reinsurance protection or claims for the earthquakes in Turkey?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Yes. I can do that one. Well, first of all, the focus of everyone in Turkey right now is not about claims. It's about many other things that has come much earlier than that. So we don't have any actual information. And as of yesterday, we haven't any single claim in Turkey because people are doing something different than filing claims. So right now, whatever we say about any cost is pure speculation. It's -- there is nothing there. And particularly in earthquakes, it's very difficult because we see that there are many collapse buildings. But on an earthquake, there is many other damages that are not collapsed in buildings, so structural damage. So it's very difficult to assess.

Generally speaking, what we say is a highly populated region. And Turkey is one of the biggest exposure for MAPFRE. And it's one of the biggest exposures to many other reinsurers and insurance groups. There are many subsidiaries of other insurance groups in the country. So it's an area of large exposures, no doubt, and this is a relatively big event. Having said that, right now, to provide any figures, we could say it can go from 1 to 1,000, and that's what modeling firms are saying right now. And that doesn't give you any color of.

When we say that we expect the medium-sized event from that, there are 2 parts of that. First, the local company, the retention is relatively low. They are very well protected by their reinsurer. So there, the retention is within -- so it will unbalance the company at all. They are very well protected. And the loss in MAPFRE will concentrate in MAPFRE RE, and that will be coming from our group reinsurance and from our non-group reinsurance. It's a meaningful market for us. And when we say this is a medium-sized event for us, it's within our budget of large losses. We don't know how much it will bite into that budget, but it will be -- it will take some part of this large loss budget. But we know that every year, we will have cat losses.

So I don't know if it will by 10%, 15% or whatever the amount of that cat budget, but it will be within that, knowing that the exposures that are there. It's something that we will be able to swallow. And if we don't have many of these kind of events, it's within the budget of MAPFRE RE and the group. And of course, there is reinsurance protection for Turkey in MAPFRE, both for our insurance portfolio and for our reinsurance portfolio is a high exposure zone and there is reinsurance for that. If we will get into a loss level that will go into external reinsurance, I don't know. It's -- again, it's a pure speculation.

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

Thank you very much, and thank you for to give some kind of details at this moment of the claim because I think it's -- for the moment, we are concentrated in other aspects of the other features of the claim.

Antonio Huertas Mejias
Chairman & CEO

And telling when you're going to be cautious.

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

Yes, yes, we need to.

Antonio Huertas Mejias
Chairman & CEO

Absolutely.

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

We need to.

Carlos Peixoto is asking what kind of impact should we be expecting from the implementation of the IFRS 17 and 9 on solvency ratios, if any? I think that...

Antonio Huertas Mejias
Chairman & CEO

Yes. Thank you, Carlos. Just a summary. I mean Solvency II ratio, we should expect any significant change, as I mentioned. So other changes will be mainly on the way we presented income and expenses and the income generation in general, but not affecting Solvency II ratios. That's my view.

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

Okay. Thank you very much. Any questions from the audience? Yes.

Maria del Paz Ojeda Fernandez
Banco de Sabadell. S.A., Research Division

This is Maria Paz Ojeda from Banco de Sabadell. I have just one question on U.S.A. sorry if you have already answered that because I was late. It's regarding the deterioration in the fourth quarter, we have seen because the combined ratio was up like 8 percentage points. Inflation was down, economy and car sales was up. So I don't know if there is an increase in reserve just there.

And then you mentioned that the combined ratio there is near its peak, but it's not still there. So what should we expect from that sense in, I would say, in the first half of the year maybe could go up to 120 or more? And just on a long-term view or I'm just regarding the motor insurance business not only in North America but also in Spain. I would say that the behavior is changing because we are just going to a car as a service where insurance is -- has a lower importance in the, let's say, in the behavior of buying a car. So there are more business from corporates, from the ELD, the consumer finance companies. And this is lower margins from -- for insurance company. How do you see that? And what are your view and your -- the measure that you could implement? Bear in mind the high common ratio you have already in motor.

Fernando Mata Verdejo

Group CFO & Director

I cover the U.S. if you don't mine, Antonio. Yes, we saw a significant deterioration of the combined ratio in the fourth quarter. There is no any -- no changes on the way we're reserving path. I think we probably -- we have incorporated part of the inflation in our unpaid claims that's pretty sure. We have to blame something. I will say that the premiums are not fully earned. As you remember, the first rate increase was January 1st and July. And then the second -- the third was in 2023. So let's say, we have the peak of inflation fed. But on the hand, on the premiums, they were from previous years.

In any case, and we compare with the market, Antonio mentioned, we are a little bit lower than the average market. And also assuming that Massachusetts is really tough and competitive market. And but in any case, we think we're doing what we've had to do, it's difficult to increase rates, but we're working quite closely with the commission and reinsurance. And probably, it will take longer than we expected, and we had to wait probably more than 2, 3 quarters. And we mentioned at the end of 2023, probably we had to see a little bit more time in order to see the operation to be on a turnaround point.

The conclusion will be a little bit better than average, that's important. Regarding the changing behavior, obviously, I mean, the automobile business is extremely competitive because of pricing and also because of different conditions and also the role of renting leasing entities and also you main new behavioral drivers behave changing the drive behavior. But we've been prepared. Antonio, we're working quite close. I mean, with every one of the different players that they're active in this market. And the thing is we had to adapt our business model to the new reality, that's prettily margin will be lower, obviously, but we got power, which is our MAPFRE network in Spain.

Believe it or not, I mean, the number of visits is quite stable. People are using MAPFRE outlets to get information also to buy and also on online, Antonio mentioned as well, and MAPFRE is #1 in online underwriting for both, I mean, Verti and also MAPFRE brand.

So the conclusion, I mean, we had to adapt to the new reality in the coming scenarios, and that's the only way. I mean we have to do lower margin, obviously, more technology, more artificial intelligence, more better service in order to make a difference from our peers, but auto is a key business for MAPFRE, and we're going to run this business for the future, not doubt.

Antonio Huertas Mejias
Chairman & CEO

Yes, without correcting you, Fernando, I can say that we have -- instead of -- we have to adapt -- that we are adapting actually our business model. We are working heavily in the new trends of market pricing, trying to lower our spend ratio and to create more room for sales with different level of expenses. We think it's true. Motors our main line, more than 30% of our portfolio is motor insurance. So we have -- we are very positive at all with the line because we think that we have many solutions to serve different kinds of customers and different level of kind of distributors also.

It's a very -- it has been a very profitable business in Spain and many countries. We can't deny that. And it's true that we have to adapt our brands to the current environment, working with -- on the digital side, but also trying to reduce the non-efficient processes inside the business. In America, in South America, also in the U.S., there is still in normal situation, they have still lower claims ratio than in Europe. And in Europe, having this higher level of place, we have made a lot of money during the last few years. So it's a different approach depending on the market, and we have to work -- we have to work more on the new trends. And also at the same time, we need to diversify it better.

During the last 3 years, before 2022, we lost a huge amount of money with life provision, with burial expenses, with health, and we made a lot of money coming from motor business. Now we are leaving the different process. It's the consequence of the diversification. In this case, the positive consequence of the diversification because we are losing -- in our global accounts, we are losing money in motor, not in Spain, not in many markets, in some of them, U.S. and Brazil. But at the same time, we are having a very positive result from life protection from life protection, from commercial lines, from other -- so our business model has been improving as -- so resilient. And we have to diversify better. Motor is not the only way to make money for MAPFRE.

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

Thank you very much. That was a very clear message. I have a very specific question coming from both Alessia Magni and Thomas Bateman, is related with the LATAM south. They are asking, if we should expect the financial result to rise strongly in 2023, like it was done in 2022. They are asking what are the main drivers? And if there were some one-off gains in 2022 investment income in LATAM south that we should exclude in order to project any kind of future valuation. And if not, if this level is sustainable?

Fernando Mata Verdejo

Group CFO & Director

Well, basically, it will depends on the inflation and also the Central Bank rates. As you know, we got EUR 1.8 billion is a pretty big number. Most of them is linked to life run-off portfolio, particularly in Colombia. So let's say that we got a very good year in terms of financial income in Colombia. And frankly talking, I mean, we should remove part of this financial income because it won't be sustainable. At least we should expect that the economy will be better. Then also Central Bank rates and also inflation will go down at any point in the near future.

The decision that is on [indiscernible] hands, obviously, will -- decided to move from inflation and Central Bank rates linked fixed income portfolios to plain vanilla and also increase the ratios. We did it well when -- a couple of years ago when we restructured our portfolio. And so far, we're going to implement no changes in our current state, but then we note that probably in 2023, we have to see in -- with a larger area on the horizon, we were going to have to do with these bonds. But frankly, yes, the answer is we should consider as nonrecurring some percentage points in our life financial income.

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

Okay. Thank you very much, Fernando. Another question related with MAPFRE. There was -- Thomas Batman was asking some color on the MAPFRE RE large loss budget of EUR 300 million to EUR 400 million that you mentioned Eduardo. What was the budget previously?

Eduardo Perez de Lema
Chief Executive Officer of Mapfre Re

Well, we used probably -- previously, it was 250 million to 300 million. So you see a relatively big jump there. One thing I forgot to mention this is pre-tax. It's not the final figure that we usually report. And the big jump is coming for 2 main reasons. One is we have grown our premium base on car business very substantially in the last 2 years. So that, of course, allows us to absorb more retention levels, as I mentioned before, gone up. So we have a bigger retention than before.

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

Okay. Thank you very much. I have a last question coming from Carlos Peixoto. And it's related with the M&A. Which businesses and geographies would MAPFRE like to expand? What are the criteria used when accessing to potential operations? What kind of returns are we expecting market share, solvent impacts, potential growth in the specific market? Those kind of questions related with the M&A that we...

Antonio Huertas Mejias
Chairman & CEO

Let us start with the business guidance the financial would say would ask some comments more. I can say that we don't have an appetite for new acquisitions. We know that we have to be very prudent now. But we have already defined our strategic markets, which are essentially Mexico, Germany, and other ones, but we are not doing any specific process to make any money operations there. But we are open to that. We are -- we know that we have a lost bancassurance channel in Spain. So it's a weak for MAPFRE future development. And we should -- in terms of life insurance, mainly because non-life, we have enough capabilities to distribute this approach. But talking about channels, I would say that bancassurance is very, very important in the future for the development of our business.

And in terms of geography, we are not doing anything. But in terms of capital allocation, Fernando can say more because it's also important at this moment before to make any specific process.

Fernando Mata Verdejo
Group CFO & Director

Yes, as Antonio said, I mean, in the long run, we always consider the potential acquisition to be accretive, that's pretty clear. But in the long run, regarding Solvency II impact, I will say that Carlos, negative Solvency II impacts because any transaction you had to pay a goodwill or whatever. And this is a negative impact in Solvency II ratio. And potential growth in specific market or market share always is considered. So let's say that anything you name in your question is being considered by MAPFRE.

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

So thank you very much. We don't have any more questions for the platform. I don't know if the audience has any questions. Okay. So thank you very much. Antonio, if you want to say some last words.

Antonio Huertas Mejias
Chairman & CEO

Yes. I would like to start -- started with our solidarity with Turkey people because I think it's the most important topic that we have now over the table and first, we have to think about our customers there. It's a coincidence, but I am going to travel to Turkey this Sunday because it was a business trip that I have planted before. So it's good possibility to know better what's happening in the country and how we can help this country.

In fact, MAPFRE Food Foundation has put in place today, the plan to help this country with humanitarian aid with a car funding process to send the money to the more affected area, and by specific aids like cohorts and other things that these poor people needs. Now, so it's been a difficult moment for them.

I can only say that thank you for being here for following us every quarter and for having the opportunity to share with you our financial and business development. We are very positive, as I said, and we think if the macroeconomic environment, it's going better, we can reach easily our main goals. Thank you very much.

Fernando Mata Verdejo
Group CFO & Director
Thank you very much. I just remind you that the IR team will be available if you have any further questions or any further remarks in the following days. Thank you very much.