Investor & analyst call – Edited transcript

6M 2020

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Company participants

- Fernando Mata Verdejo, MAPFRE SA Chief Financial Officer and Member of the Board
- Natalia Núñez Arana, MAPFRE SA Investor Relations & Capital Markets Director

Presentation

Natalia Núñez Arana

Good afternoon, everyone, and welcome to the presentation of MAPFRE's results for the first half of 2020. This is Natalia Núñez, Head of Investor Relations.

As in the previous quarter, this presentation includes the main figures to give you an overview of Mapfre's performance. The MD&A and other information, including the usual spreadsheets, can be found on our website, as well as the Embedded Value figures for 2019.

As always, we have here with us our CFO, Fernando Mata, who will go through the highlights and key figures of the quarter.

Before Fernando begins, I want to give a general overview of the current situation of MAPFRE's operations regarding the pandemic. The current situation is diverse, with a "new normality" in Europe, making it possible to return to almost full commercial activity in our main market, Spain, where more than 35% of the personnel are back to the office. Strict control and prevention measures are in place, due to growing concern regarding new outbreaks. The situation in the U.S. and LATAM is complicated. New cases are still on the rise in the U.S., although in Massachusetts, our main market there, the situation has been improving and 28% of the workforce is now on-site. In Brazil, there is still a large impact from the crisis, although in the state of Sao Paulo, where the company is headquartered, there has been a gradual improvement, with 18% of staff now back at the office. In the rest of Latin America, there is some concern as the number of new cases continues to grow and the interruption of economic activity is already causing a strong negative economic impact in the region.

MAPFRE will continue to be focused on the same priorities that we have had since the start of the crisis: guaranteeing the health and safety of all our collaborators and ensuring business continuity in order to continue providing the highest quality service levels to our clients.

Just as a reminder, at the end of the call we will answer all questions received at the Investor Relations email address during the Q&A. The IR team will be available afterwards to answer any pending questions you might have regarding this disclosure.

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

Fernando Mata Verdejo

Thank you, Natalia, and thank you everyone for being here with us again today. Before we go into the details, I would like to highlight that we are satisfied with this quarter's results, considering the current COVID scenario. Insurance units are performing very well, with an attributable result of EUR429 million, up 13% on the year. Iberia remains the largest profit and dividend contributor, with a notable quarter-by-quarter stability in Non-Life premium growth and also profitability.

We have seen strong improvements in Brazil, the U.S., Mexico and other important Latin American markets, as well as Turkey and Italy. There has been some benefit from lower frequency as a result of COVID, but we are also seeing the fruits of strategic initiatives that have been implemented over the last years.

The largest impact from the pandemic has been on the top line, due to confinement measures and lower economic activity. The crisis has affected some channels more than others, mainly dealerships and bancassurance. Currency depreciation has been a headwind, as has the negative environment for Life Savings products. Regarding the claims side, direct impacts on insurance units, mainly in the Burial and Health segments in Spain, have been mitigated by lower frequency, especially in Motor across all markets.

This quarter we booked the cost of COVID-related claims at MAPFRE RE with a EUR56.9 million impact on the attributable result. Travel Assistance business was hit, but mainly in the first quarter, as trends have been more positive in the second quarter. Finally, we have updated IBNR reserves to reflect changes in claims reporting patterns as a result of COVID, affecting the majority of the Non-Life business lines. The largest reserves were booked in Spain, but we have exercised prudence in all countries. This represents around 2.7 percentage points on the loss ratio for the group.

We feel quite comfortable with our current asset exposures. During this quarter, we have carried out an extensive review of equity, fixed income and real estate portfolios, as well as intangibles and accounts receivable. Equity write downs were negligible and we haven't seen any signs of non-payment or delays in collections. We haven't observed any indications of goodwill impairment since results have improved in the majority of operations. The largest impact was from provisioning for undeveloped land in Spain with a net impact of around EUR20.5 million.

Regarding NatCat events, there was a smaller earthquake in Puerto Rico in Q2 and a slight increase in the cost of first quarter events in Spain, bringing the total net cost to around EUR77 million, up EUR10 million on the quarter. MAPFRE continues to boast an excellent capital position with significant flexibility to manage any potential volatility going forward.

Please turn to the next slide. Regarding the figures for the first half of the year, premiums are down around EUR1.5 billion on the year. One important driver of the fall has been currency depreciation, with a EUR580 million impact. Second, Life Savings premiums are down over

EUR400 million in Iberia, EUR450 million for the total Group, due to the challenging environment for these products.

And finally as a reminder, last year there was a two-year industrial policy issued in Mexico, for PEMEX, for EUR445 million. Non-Life premiums are down slightly under 10%, but at constant exchange rates and excluding the PEMEX policy in Mexico, they would be down only around 1%, which is excellent considering the current market context and our focus on restructuring in several units. The net result stands at over EUR270 million with a combined ratio at 96.7%, and 93.8% at the insurance units. The direct impacts from COVID claims and NatCat events have been partially offset by a strong fall in frequency, mainly in Motor across main markets.

Assets under management are down around 4% during the year and shareholders' equity is down around 6% due to the downturn in financial markets and currency depreciation, but -- this is important -- with a 6% improvement since the close of March. So the second quarter has been quite positive in terms of our capital base. At the beginning of June, we reported updated figures for our capital position, with the Solvency II ratio at 177% at the close of March, within our comfort range, and an excellent level considering the market situation at that time. We should expect additional improvements in the second quarter.

Lastly, Embedded Value was up over 20% in 2019, and this improvement is explained by changes in the model for the annual renewal business in the bancassurance channel in Brazil, the fall in discount rates in major currencies, better experience and a solid performance in new business, especially in Spain and Brazil. You can consult the full disclosure of Embedded Value on our website.

Please turn to the next slide. On this slide, we will analyze the different components of the adjusted attributable result. There have been several large claims events during the first half of the year. Earthquakes in Puerto Rico had a total impact of EUR61.2 million. There was another smaller earthquake during the second quarter, which explains most of the EUR7.5 million increase compared to March. The severe rain and storms in Spain had a total impact in January of EUR16 million: EUR10.2 million in the insurance unit, the remainder in the reinsurance unit.

Regarding COVID direct claims, there was a EUR56.9 million impact at MAPFRE RE. This estimate is based on the most recent loss communication from the cedents. I would like to highlight that we do not have exposure to Event Cancellation and our main Business Interruption exposure is in the reinsurance segment. And there is no evidence of relevant exposure in our insurance units.

Regarding expenses related to reorganization of operations, last year there was a positive EUR4.5 million impact in the U.S., while this year there has been a EUR15 million net impact from a provision for restructuring of operations. Financial gains and losses are down nearly

EUR24 million compared to the previous year. The net loss in real estate reflects real estate provisions for land in Spain, which were written down by around 8% of their book value, which were partially offset by the sale of a property in Boston in the first quarter of the year.

Regarding financial investments, we prefer a cautious approach to realizing gains, when the market can offer better opportunities. Excluding all these impacts, the adjusted net result reached EUR406.3 million, up EUR74 million compared to the previous year.

Regarding the impact of COVID on insurance operations, we expect the final effect to be almost neutral, with tailwinds from a decrease in Motor frequency that will offset direct claims from COVID in other lines, other related expenses and also the decrease in premium volume. With this in mind, we have decided not to include this effect in the adjusted result.

Please turn to the next slide. On the right, you can see the main figures by business unit. Again, I would like to highlight the consolidation of the positive trends at our insurance unit with an almost 13% increase in net result. Iberia continues to perform very well. The fall in the result is due mainly to lower financial gains. Higher weather-related claims and COVID-related expenses have been largely offset by lower frequency in Motor.

And regarding premiums in Spain, we outperformed the market in most business lines. In Motor, we are taking a more cautious approach given the current pricing environment, while prioritizing customer retention. Premiums are down in Life Savings, but we are outperforming the market in Life Protection, which is a higher margin segment, with premiums up over 4%. The contribution of MAPFRE Vida was EUR88 million, stable -- very stable year-on-year -- which is an excellent result in the current context.

In other regions, it is important to highlight the strong impact the currency movements have had both on premiums and results. In LATAM, results are up nearly EUR30 million, and all three regions are reporting remarkable ROEs, with an outstanding 17% in LATAM North. The combined ratio for the region stands at under 90%, and despite headwinds, results have improved in Brazil and Mexico, and across Central America, especially Panama. In Brazil, in local currency, we've seen strong growth in Agro insurance and resilient Life Protection premiums, while again the Motor premiums continued to fall as a result of our restrictive underwriting approach. The improvement in the attributable results is due to the measures being implemented in Motor as well as lower frequency, obviously due to to the pandemic.

Regarding the International business, results are up by EUR31 million year-on-year. There were two large impacts in North America: first, the EUR14 million net realized gain from the sale of real estate in the first quarter, and second, the EUR26 million net loss as a result of the earthquakes in Puerto Rico. The results in the United States are also benefiting from profitability measures implemented in the last years. Results continued to improve significantly in both Turkey and Italy, thanks to a focus on underwriting discipline, as well as a significant decrease in Motor frequency as a result of the crisis.

Regarding RE and Global Risks, as I mentioned on the previous slides, results were impacted by the earthquakes in Puerto Rico and Storm Gloria in Spain, with a total net impact of around EUR41 million, as well as around EUR57 million from COVID-related claims. There has also been an increase in attritional claims frequency.

The total impact for MAPFRE RE from COVID-related claims was EUR80.9 million before tax and minorities, of which EUR70.9 million correspond to Property claims, based on the information reported by our cedents as well as an evaluation of the exposures reported by our clients. Claims reported in Property lines are basically concentrated in specific Business Interruption covers in Europe, mainly in Germany, France, the United Kingdom and Switzerland. In the vast majority of the Property portfolio, Business Interruption coverage is contingent on the existence of material damage, which does not exist in this case. As you remember, Eduardo Perez de Lema explained this at the first quarter presentation. Therefore, there has only been exposure in a very limited number of cases. However, there is a high degree of uncertainty surrounding the final amounts to be paid, and how any legal proceedings could conclude.

In the Credit segment, although reported claims have been very, very limited, a small amount, a EUR10 million reserve was booked as an uptick in claims is expected for the coming quarters. MAPFRE RE has not had any claims related to Event Cancellation as we do not underwrite this line of business, nor do we have exposure to Casualty or Workers Compensation in the U.S. And the impact in the Life business has been pretty immaterial so far.

In the Assistance business, the largest hit was from Travel Cancellation claims in the first quarter of the year. We have been prudently reducing exposure and we have also taken further steps in our restructuring process. In addition to the five operations we already decided last year to shut down, we have also decided to put the UK Specialty insurance unit in runoff, as well as sell the Roadside Assistance business in the U.S. No additional economic financial impacts are expected from these operations.

And finally, the line “Other”, apart from holding expenses, which is the normal expense that we include in this line, includes a provision for undeveloped land in Spain, and also the restructuring provisions that we already mentioned.

Please turn to the next slide. Shareholders’ equity stood at EUR8.3 billion, down around 6% during the year. The most relevant changes are, first, a EUR424 million decrease from currency conversion differences due to the depreciation of almost all currencies, but mainly the Brazilian real, by far our second largest exposure, which is down over 26%. The Mexican and Colombian pesos and the Turkish lira are also down during the year. The U.S. dollar was slightly down on the quarter as well, and in the second quarter, there was a EUR96 million deterioration from currencies. So if you compare with the first quarter, you can conclude that the volatility seems to be more moderate in this quarter. Net unrealized gains on the available for sale portfolio have only had an EUR86 million negative impact during the year. However, they have improved by EUR440 million on the second quarter.

The 2019 final dividend amounting to EUR262 million was paid in June, as you know. We would like to provide new information that you very often ask us: the upstream of dividends within the Group has been very, very stable during the period, with total upstreaming reaching EUR280 million in this quarter, with EUR208 million from Spain, EUR37 million from the U.S. and EUR29 million from Brazil.

On the right you can see the breakdown of currency conversion differences as of June 30 and changes during the period as well. As you see in the sensitivity analysis the U.S. and the Brazilian real are the most relevant currencies. On the bottom left, you can see the detail of the net unrealized gains amounting to almost EUR1 billion, similar to the beginning of the year. And on the bottom right, you can see the detail of the available for sale portfolio in Iberia, which represents three quarters of MAPFRE's total available for sale portfolio of around EUR37 billion. The majority of unrealized gains are in immunized portfolios and the gains have increased since March, thanks to the recovery in the markets.

Please turn to the next slide. Capital structure and credit metrics. On the left, you can see the breakdown of the capital structure, which amounted to EUR12.6 billion. Our credit metrics remained quite strong, with leverage around 24%, which should go back down to target levels over the course of the year.

Regarding Solvency II, on the left, you can see that the ratio closed at 177% at the end of March, within our target range. Eligible funds were down by nearly EUR780 million, mainly as a result of market movements, but it was offset by a EUR180 million reduction in the capital requirement, mainly due to equity and currencies, and to a lesser extent also spread risk.

The largest move in Eligible Own Funds in March was the fall in market value of investments and currency movements and the phase out of transitional measures also takes place in the first quarter. As a reminder, the approval process for the use of our internal longevity risk model for Group Solvency calculation, which is currently used in MAPFRE Vida, is underway. We hope to receive approval to apply this to 2020 year-end calculations. This will imply roughly a 10 percentage point uplift to Solvency figures.

Regarding the credit diversification benefits from the matching adjustment, this process could take a little bit longer, and the combined expected uplift is around 17 percentage points.

Please turn to the next slide. On the right, you can see that assets under management are down over 4%, driven by the falls in stock and debt markets, as well as currency effects.

Despite the fall, we have seen positive net inflows in pension funds. The breakdown of the investment portfolio is on the left. Asset allocation has been stable throughout the year and exposure to government and corporate debt remains mostly unchanged. Spanish sovereign debt for a little under EUR18 billion and Italian debt around EUR2.9 billion are our largest exposures. These investments are mainly held in immunized portfolios.

Realized gains in the euro area reached around EUR29 million, down by EUR21 million. We continue with our cautious stance regarding asset sales and wait for better opportunities in the market.

Please turn to the next slide. On the top half of the slide, you can see the yields and duration of our euro area actively managed fixed income portfolios. In Non-Life, both accounting and market yields are down, while Life portfolios have been fairly stable. Nevertheless, the trend is not positive; those portfolio yields should continue downward. On the bottom, you can see the portfolios in other main geographies. Here accounting yields are still well above those in Europe and have been quite resilient in LATAM North and North America. However, we are still seeing some downward pressure, particularly in Brazil and LATAM South.

Please turn to the next slide for closing remarks. First of all, performance of the insurance unit has been outstanding, reaching a net result of nearly EUR429 million, up nearly 13%. Regarding MAPFRE RE, it is a challenging time for reinsurance. COVID claims should be manageable and MAPFRE RE maintains a strong financial position and prudent underwriting approach. Right now, our top priority is preparing our business defensivley to face this crisis, which will continue for some time. We are implementing portfolio retention plans across the Group and we are also focused on cost contention and continuous streamlining of our business units. In any case, business transformation is key and we are maintaining our initiatives in order to have more efficient and digitalized operations.

MAPFRE has a privileged financial position with a solid capital base, financial flexibility and high level of liquidity, underpinned by strong cash generation and dividend upstreaming from subsidiaries. We continue to demonstrate our commitment to shareholders. The final dividend against 2019 results was paid in June. The Board of Directors will assess future dividends during the fourth quarter of the year, but current metrics do not point to any potential restriction for dividend payment. Again, the main driver of dividends will be net income, with a minimum payout target of 50%, as we announced at the AGM.

Regarding other targets announced at the AGM, there is still a lot of uncertainty surrounding the spread of the pandemic and the related economic crisis. Most markets have also been hit by lower activity and lower interest rates. In this context, it is impossible for us to give guidance right now, but our strategy is in place; our priorities haven't changed and we expect to follow the same trend, focusing on giving protection to employees, clients and other stakeholders.

Thank you for your attention and now I will hand the floor over to Natalia to begin the Q&A session.

Q&A

Natalia Núñez Arana

Thank you very much, Fernando. We can now start with a Q&A question. The first one is coming from Paco Riquel at Alantra Equities and he has the following question: "Can you please explain the increase in IBNR reserves equivalent to 2.7 percentage points in terms of combined ratio? In what regions and products have you booked these provisions? I ask because the combined ratio in some business lines looks too low, close to 70% in Motor in Spain during Q2."

Paz Ojeda from Banco Sabadell would also like to know some details regarding the breakdown of the IBNR updating.

Fernando Mata Verdejo

Thank you, Paco and Paz, quite interesting questions. Very simply, since the end of March, we realized there was a delay in the way that claims were reported by our policyholders. We set different instructions with our actuarial department in order to assess proper IBNR reserves, and to catch up with this delay in the way that claims were reported.

This IBNR has been updated on a monthly basis. The peak was at the end of May. There were some releases in April, particularly in Iberia, because the peak of the pandemic was over, particularly at the end of March, and it was a pretty stable catch-up of claims reported. In general, let's say that this IBNR update is affecting all the units and all lines of business. It includes both COVID-related affected lines of business and also other, such as Motor, in which the new IBNR estimate tries to somehow limit the increase of losses in the future.

More or less half of this IBNR was booked in Iberia. There are some releases in June. The lines of business mainly affected were Health and Motor segments, but there are new estimates from practically all lines of business.

Natalia Núñez Arana

Thank you very much. Jonathan Denham at Morgan Stanley and Andrew Sinclair at Bank of America have the following question regarding claims frequency: “Your Auto combined ratio improved by almost 10 percentage points versus first half of 2019. How do you expect claims frequency to develop going forward?”

Farquhar Murray from Autonomous, Michele Ballatore at KBW, and Alex Evans from Credit Suisse had similar questions, with a special focus on the Brazilian Motor and U.S. markets. Specifically, how much of the improvement in combined ratio is due to underlying improvements, and how much is due to lower frequency?

Farquhar would also like to know, in Motor, “Please could you just quantify the number of car claims over the second quarter of 2020 as compared to historic average, and how has that developed so far in the third quarter of 2020? In Homeowners, did you see any material differences in frequency or severity, particularly from households, being able to spot developing claims earlier than might be normally the case?” It's a long question…

Fernando Mata Verdejo

More than a question, this is almost a summary of the Q&A session. I’ll try to cover them all.

Thank you for your questions. I understand, this is the key question, but unfortunately, I'm not able to predict what is going to happen.

What I can tell you is what we've seen, just in the short run. Particularly, our experience in Iberia and Italy when the pandemic started and also how this pandemic is developing, particularly in emerging countries in LATAM.

And first of all, it's absolutely impossible - we can’t differentiate the reduction in the loss ratio in Auto, separating those derived from the lack of frequency due to the lockdown measures, and those that are derived from strategic measures implemented in order to improve our combined ratio, particularly in Spain, U.S. or Brazil. What happened? During practically, the second quarter, April, May and June, there were no reported claims, particularly in Auto. So we started this just to catch up and just to set a better estimate for IBNR.

Suddenly, once the lockdown measures were lifted, we realized there was really a big tsunami of reported claims affecting both lines - Motor and Homeowners. Just to give you a number - in June, there was a 50% increase for Homeowners and Condominiums in the numbers of claims reported in that period.

Regarding the outlook for Auto, what we saw in Spain - and we should expect the same from the U.S. and emerging countries, when the lockdown measures are lifted - is a dramatic increase in mileage, particularly on the weekends. On working days mileage is still pretty reduced, due to the number of employees that are working from home.

Regarding frequency and also severity in Spain, and it was published by the Spanish traffic agency, we saw in just one fortnight - the last week of June and first week of July - an increase in the number of deaths in car crashes, increasing 22%. It was a dramatic increase. We didn't have this hit in our experience, but the increase in the number of deaths in Spain was a two digit percentage.

Regarding Homeowners, again, during the lockdown and the confinement, there were some claims, partially declared, but it was practically impossible with the information to assess a proper loss estimation. So once the lockdown measures were lifted and we started catching up, there was a big backlog of claims. The one I mentioned was the 50% increase during June. We should expect a similar trend in the U.S., where there is some delay in the pandemic “tsunami”, and the same as well in Latin America. This is mainly the reason for the new estimate for IBNR, in order to try to cover the delay in the way the policyholders are reporting claims.

I think I covered most of the questions. So, let’s please move to next, Natalia.

Natalia Núñez Arana

Thank you very much. Jonathan Denham at Morgan Stanley has the following question. COVID cases unfortunately seem to be increasing in Spain again. What actions have you taken to be better prepared to tackle a second wave in Europe, if there is one?

Fernando Mata Verdejo

Well, this is not still clear. There're some clusters in Spain and also in Europe, but, the consensus is that the second wave if, in the end, there is one, won't produce the same intensity in terms of personal damage and casualties, particularly in Spain.

Our national health service is better prepared. There are plans, a contingency plan, ready. And currently, probably you've seen in the papers that there are like over 200 clusters across Spain, but there is capacity in the majority of the hospitals. The intensive care units are not collapsed. There are beds for everyone and the National Health Service and also MAPFRE are better prepared to face a second wave of this pandemic.

In terms of operations, as I mentioned, we have a team of 40% of our employees working at the premises, which is good, and the remaining 60% are working from home. In terms of technology, we set up a new contingency plan as well. Everybody is well-prepared, and also the operating entities are fully working with the same quality level and handling all the claims filed by policyholders. So, let's say that this is back to normal. In terms of logistics and operations, it is fully implemented and the conclusion is we're better prepared and ready in case there is a second wave of the pandemic.

Natalia Núñez Arana

Okay. Thank you very much, Fernando. Now we have questions regarding MAPFRE RE. Most of our analysts would like to have more details of the impact of COVID claims at MAPFRE RE.

Alex Evans at Credit Suisse, Paco Riquel at Alantra, Jonathan Denham at Morgan Stanley, Sofia Barallat at CaixaBank, and Paz Ojeda at Sabadell have asked regarding this topic. So, I think it's important for all of us. They would like to know more details about the losses booked for Business Interruption at MAPFRE RE in the first half. If we should expect further losses in second half or in 2021; if the amount provisioned covers all potential risks arising from this cover or only the claims occurred in the quarter. And if we have considered the possibility of an increase due to litigation of denied claims and future claims.

Fernando Mata Verdejo

Thank you, Natalia. Unfortunately, we don't have Eduardo Perez de Lema at the meeting today. We will bring him for the third quarter results presentation. I want to make it pretty clear - we booked everything we know. What we know today and when we closed our accounts, any subsequent events regarding provisions was booked. And we did so following the traditional basis for prudence MAPFRE applies for provisions.

And when I say that we booked everything we know, that is everything that was reported by our ceding entities, in addition to some IBNR regarding exposure at clients that haven't reported claims yet. So, there are both - individual reported claims for ceding entities, and also some booked for IBNR. That's basically for Business Interruption, but we also booked practically EUR10 million before taxes and minority for the Credit line. Practically the whole amount went to IBNR.

The number of claims is pretty small and we booked this IBNR because of the current deterioration from the economic scenario. At MAPFRE RE, our exposure in the Credit line is quite reduced. And as we mentioned at the first quarter presentation it is just barely 3% of the total MAPFRE RE exposure.

Regarding the Property line, as I just said, we have evaluated claims based on the information reported by our cedents as well as on the evaluation of the current exposures that were reported by our clients. Claims have been denied, obviously, in the case of non-existence of this coverage in the original policy of the ceding entities or the reinsurance policy. In these cases, there could be legal procedings in the following quarters, and the only thing we booked is a small reserve for legal expenses.

Also, many clients are still evaluating any potential direct impacts that they could suffer, and also the possibility of recovering this with reinsurance coverage. Any of these potential future, third quarter claims that have not been incurred and are not included in this valuation means that losses coming in the third quarter will be booked during the third quarter. As we said during the presentation, claims reported in Property lines were concentrated exclusively in specific BI covers in business in which they're linked to material damage. And geographically talking, they are mainly in Europe, affecting Germany, France, United Kingdom and Switzerland. Those are the main countries.

Once again, please take into account that -- and I repeat -- Business Interruption coverage is only triggered in the event of material damage, which is not the case. But we're booking what our ceding entities are reporting. The claims occurred and reported to-date have already been reserved, thus correctly reflecting our current costs and exposures. What we've done is to take measures in order to reduce future exposure in the event of new outbreaks.

In general, I would like to say that the quality of our policy wordings has improved, adding more clarity to wording, and in most of the cases including specific exclusions to limit coverage. But anyway, and this is something that we have to state - there is still a high level of uncertainty, which may lead to changes in valuation, mainly as a result of different variables, such as, first, the possibility of court rulings that could force payment of not-covered claims, which is, in my or MAPFRE’s view, not probable. Another possibility is losing arbitration processes with some clients. There is the possibility that the economic crisis generates larger losses than initially considered in the credit segment. So far, the number of clients are very small and very reduced. And there is also the possibility that potential new outbreaks lead to new claims, perhaps, which is not very likely, thanks to the compensation agreement signed in previous outbreaks, and also the progressive introduction of exclusions.

Overall, in a nutshell, it's difficult. We booked what we know, and there are a lot of uncertainties regarding the proper development and evolution of these claims. It's a quite complex CAT event, it will last as long as COVID lasts. And I have to say that COVID is still out there. So the event, the claim, will evolve as long as COVID is affecting the population.

Natalia Núñez Arana

Yes. Thank you very much, Fernando. I think it's a very comprehensive answer too. Andrew Sinclair at Bank of America would like to know how much losses were passed from geographic business units to MAPFRE RE via internal reinsurance. Did any of these relate to COVID?

Fernando Mata Verdejo

Practically, none, Andrew. The COVID impacts of the insurance units is largely retained by the insurance units. Perhaps for some proportional treaties, but it’s quite reduced. And the impacts at MAPFRE RE are largely from external clients. So let's say that only in those cases where there are proportional treaties, quota share is being passed to MAPFRE RE, but it is negligible.

Natalia Núñez Arana

Okay, thank you very much. Now, the next set of questions are regarding dividend and strategy. Alessia Magni at Barclays has questions regarding dividend and targets. “Are you still comfortable with your 2021 targets? Regarding dividends, consensus has recently reviewed downwards its dividend forecast for 2020 and beyond. Is your dividend policy unchanged or are you considering a review?”

Fernando Mata Verdejo

We are pretty comfortable with the results we're publishing today. And also with the solid and quite strong balance sheet MAPFRE is presenting as well. It's extremely difficult to to see or to forecast what the final impact of COVID is going to be in the second part of the year. It’s absolutely impossible; it wouldn’t be prudent just to give any guidance.

When updated 2021 targets were announced at the AGM this year, we were only just seeing the first impact of the COVID crisis and did not contemplate the current situation. But I remember what our Chairman said, at that point - we were living the first steps of this virus, of this pandemic, and he said that any potential effect will obviously affect our targets and they will be updated when we know the actual impact on our accounts. So, those targets published at that date already contemplate [that there could be] potential changes derived from the pandemic.

It could be one of the largest insurance events in history, both due to the virus itself and also the collateral effects of the economic crisis. Nobody knows the duration; it's extremely difficult to predict. What we're seeing is that, the consensus is that significant falls in GDP are expected in 2020 and depend on the shape of the recovery - a partial recovery, V recovery, a W recovery, L recovery, whatever, you've got all the different options - and there is still high level of uncertainty.

This economic outlook will clearly have an impact on the insurance and reinsurance market, and falls in premiums. As I said, the most affected will be top-line, and also the expected impacts on lines such as Health and Auto. It will depend on how long lockdowns and confinement measures last, particularly in emerging countries, and also the measures regarding social distancing that are affecting our standard of living as well.

We expect low growth in most countries, which will also depend on currency evolution. And we will maintain our prudent strategy and strict technical control. Our underwriting policies are practically the same and even stricter. Auto insurance premiums should suffer a significant reduction in new business – like we've seen in Spain due to lower car sales, as I mentioned as well at the first quarter. And in some countries we have seen zero new business in some months.

On the other hand, Health insurance could benefit from higher premium volume, as in crisis situations people try to find additional medical coverage. We expect as well a change in covers particularly in Auto. In general, drivers, policyholders, they move from full covers to less comprehensive products, just limiting probably to third-party liability.

Life Protection insurance going forward will depend on how consumption, investment and lending, particularly financial lending, evolve in the different markets where we operate. Regarding guidance, we do not usually provide any annual guidance, but even if we did, in the current situation it would not be prudent due to the high level of uncertainty that we are facing. We're working with different scenarios. Today, we presented the ORSA, the Own Risk and Solvency Assessment, to the Board, with different scenarios. We'll file this with the Spanish Regulatory Body. And we've been very prudent because of the lack of actual information; to have really accurate figures is extremely difficult.

However, and there is always a however, the strength of MAPFRE's balance sheet is its high level of capital and solvency, and its liquidity position, and the availability of additional financing make it possible to conclude that these impacts in any case will be limited. As I mentioned, our priorities haven't changed. The transformation of our business model continues to be a top priority for the executive team and we are focused on profitable growth. We'll be prudent, monitor the situation and when we review the targets we will make them public as soon as possible. And that's it, basically.

Regarding dividends, dividend policy has not changed. Let me make it clear, the dividend has not been cut or canceled. We have only delayed the dividend decision. The Board will monitor the situation carefully and we'll reassess the situation in the fourth quarter of the year when we have the financial reports for the third quarter, and in line with the supervisor’s recommendation – strong recommendation – and also taking into account other circumstances.

In any case, we maintain a strong commitment to shareholders. And as I mentioned, current metrics do not point to any potential restrictions for dividend payment. We're maintaining regular conversations with the Spanish Supervisory Body and their focus on maintaining solvency levels and liquidity. We should expect the Solvency II ratio as of June to improve. MAPFRE is in an excellent position, in this sense. MAPFRE VIDA is now the most solvent company in the Spanish market. And there is very, very good news regarding our capital base.

So, all in all, the dividend will depend on three factors. And there is nothing new. First, net income, which is still uncertain. We're quite satisfied with the net income for the first half of the year, and the minimum payout target of 50% that was announced at the AGM is still valid. Second, solvency and capital strength; we are comfortable. And third, liquidity and dividend upstreaming from subsidiaries, which is also comfortable. As I mentioned, our subsidiaries generate sufficient cash to finance their operations and upstream dividends to the holding. Only external factors could limit this upstreaming, but they would have to be quite extreme, quite radical. What we've done, and this is the information we mentioned in the U.S., Spain and Brazil, is we've already cashed in EUR280 million in dividends during the first half of the year. So, there is no cash restriction at all.

In some countries, we will limit dividends to strengthen capital and liquidity. Particularly, we want to strengthen our capital base in Mexico and also in Colombia and in Peru, but those are not the most significant dividend contributors, and there is no restriction for the dividend of the Group. There is some pressure, as you know, from the Mexican supervisor, but we are quite comfortable. And we're happy. We're reinforcing our capital in Mexico. So probably there won't be any upstream of dividends from this country.

The only contribution we’re missing is from MAPFRE RE. It's been a challenging year for MAPFRE RE, and we’ll probably suspend any dividend payment from this subsidiary. I think we covered a lot.

Natalia Núñez Arana

Yes, a lot. Yes, you deserve a break. Thank you very much. Now we can start with Iberia; the next set of questions is regarding the Motor business in this region.

Jonathan Denham at Morgan Stanley has the following question regarding the Motor business. “Can you please give us an update about the pricing environment and underlying claims inflation, ex-COVID frequency in the Spanish Auto market?”

Sofia Barallat at CaixaBank BPI would like to know, “Other competitors in Spain have started launching more aggressive commercial campaigns in Motor insurance. Have you taken any actions on this front? And could you update us on the evolution of the combined ratio in Motor insurance in Iberia since the confinement measures have been lifted?”

Fernando Mata Verdejo

As I mentioned, it's extremely difficult to differentiate the decrease in terms of combined ratio or loss ratio, and differentiate by confinement effect or lack of frequency because of the reduced mileage, compared to strategic initiatives that we put in force in order to improve the combined ratio, particularly in Spain, but also in the U.S. and Brazil. It is absolutely impossible. Probably with the year-end figures, we can give you a clearer picture.

Before the COVID crisis, what we saw was some pressure on tariffs, particularly in Spain, but also we saw certain improvements, particularly in some segments of Auto, in terms of combined ratio. But the general trend was pressure on tariffs. And it was between a 1.5% and 2% decrease in average premium, more or less. I don't remember exactly, but more or less in this range.

What we saw after the COVID crisis, is no new business. What we're doing is just trying to protect our portfolio with rebates, discounts in order to keep our portfolio quite stable. We continue with a very, very prudent approach. Fortunately, the churn ratio in Auto is quite stable. We haven't seen any significant change and we also put our portfolio retention plan in place in Spain. One of the most important ones is the special renewal for Motor policyholders, with an average discount of around 4 percentage points. As I mentioned at the press presentation, our fleet is quite stable. The number of insured vehicles hasn't changed. And so there is a decrease in premiums, approximately 5%, so let's say that the average premium reduction is 5%, and it is based on the discounts that we are offering our policyholders, as part of our retention measures.

So we're happy. And answering your question about what the competetion is doing - I don't know what they're doing. What we know is what MAPFRE is doing, which is practically every day we're offering the best price according to the risk profile of each driver - the best price to our policyholders in order to maintain our portfolio.

We are quite confident that we are able to maintain our portfolio without any radical measures. And our underwriting policy is still in place, and we are very prudent. So the policies that are getting discounts, is because the risk profile allowed this discount; it's quite simple. I don't see what the competition is doing. We believe that MAPFRE is taking the right approach in this crisis. Discounts are made on a daily basis at renewal, and based on the whole experience of our policyholders, not just if they declared or they reported a claim during the last two months, or due to any other external factors.

Regarding frequency, in the medium and longer term, we should see some normalization from current levels, which are very much affected by lockdown and social distancing measures. As I mentioned, the Spanish traffic management authority reported a 22% increase in deaths, just in two weeks. We have to wait just to see the figures for the whole month of July, but we're seeing more mileage at weekends and more accidents on our highways.

We've also seen an increase in reported claims with an uptick in severe accidents, probably due to higher speed as well. People, drivers are speeding up. It is, I wouldn't say normal, but we should understand it's a personal reaction, a human reaction after three months of confinement.

Regarding claims cost, it will depend on the evolution of Spanish inflation, but we could see some pressure from monetary easing. Nevertheless, claims cost inflation is generally updated in pricing and is being considered as well at renewals. The current 90% combined ratio for MAPFRE Group and 80% combined ratio for the Spanish business is not sustainable. A majority of the reduction is due to the confinement measures, and we should expect the combined ratio to come back to expected figures in a range between 92% and 94%. That's basically -- hopefully I covered most of the question.

Natalia Núñez Arana

Thank you, Fernando. The next one is regarding solvency. Paz Ojeda at Sabadell has the following questions. “Equity has increased EUR500 million from Q1. What should make Solvency II figures go up? Could you give us some light on Q2 Solvency II figures?”

Sofia Barallat at Caixa, BPI would also like to have an update on the Solvency II ratio as of June 2020.

Fernando Mata Verdejo

Yes, thank you, Sofia and Paz. We're working the numbers and there is still a lot of work to do.

I don't have a crystal ball. But what we're seeing is a better trend, obviously, and the financial markets are in better shape. And we changed our portfolio as well, trying to have lower exposures, particularly in equities. It was very good news, the small amount that we impaired in equities. Our equity portfolios is a Safe Harbor. And bearing in mind that the largest move in Eligible Own Funds in March was the fall in market value of investments and currency movements and also the transitional measures - the phase out is being booked at the 1st of January every year - we should expect for Q2 - I will be extremely prudent - a better, higher Solvency II ratio versus previous quarter.

But let me tell you as well, in order to have a better, clearer figure, we should expect the end of the year, when we have the net effect of the decrease in premiums and also the decrease of our provisions for the full year, that it will affect a decrease in our SCR. As of June, we're not going to see such a reduction in SCR since the whole effect of reduction in premiums has not been booked yet.

Natalia Núñez Arana

Okay, thank you very much. Now, Andrew Sinclair of Bank of America and Jonathan Denham of Morgan Stanley have the following question regarding equity impairments. “How much of Q2's lower investment income was due to one-off impairments?”

Fernando Mata Verdejo

Regarding equity, it was practically negligible. It was just EUR1 million, and we have been very, very prudent and it was practically negligible. And the bulk of the impairment booked in this quarter was for a provision on land in Spain. And as I mentioned, it amounted to, out of the EUR29 million, like EUR2 million before minorities and taxes. EUR2 million refers to equity and the remaining EUR27 million to new real estate valuations.

And regarding Non-Life financial income, the fall is due to lower realized gains, lower ordinary recurring income and our fixed income portfolio as well. And dividends, which the net effect will be at the fourth quarter, which is the usual calendar for the dividends from our equity portfolio. But nobody knows who is going to pay dividends at the end of the quarter. We expect lower from financial institutions because of the restrictions made or recommended from the European Central Bank. But the reality is that we should expect perhaps a 30% reduction on the dividend flow.

Natalia Núñez Arana

Okay, thank you. Now, another question: "What is the magnitude of expected future equity impairments if the market stays flat?" This is impairing stocks with unrealized losses which have a market value below book value for longer than 18 months.

Fernando Mata Verdejo

Yes, if the market remains flat, the impairment will be zero. None. As I mentioned, we booked everything we know today. And there is only one name with a fall in valuation above 40%. But I have to clarify as well that there are some big names in the range between a 30% and 40% decrease in value. So it will depend on how the equity market evolves during the third quarter. So far, and according to yesterday's valuation, there is not any evidence of new impairments, neither in equity nor real estate. So we have a very prudent real estate and equity portfolio.

Natalia Núñez Arana

Okay. Thank you very much. And now we have a question regarding outlook. Alessia Magni at Barclays would like to know what trends we are seeing in 3Q 2020 so far in terms of Motor premiums and claims in the different regions?

Fernando Mata Verdejo

Alessia, thank you for your question, but it is extremely difficult. What we are seeing is a extreme variation in the loss ratio and combined ratio and premium growth across the regions. And as I mentioned, for instance, there is a significant increase in Global Risk because of the hardening of market, which is very good – a 40% increase.

But on the other hand, there is a 50% decrease [in premiums] in Motor in Brazil, quite extreme.

Burial expenses, for instance, in Spain, we have a combined ratio well above 130% during the first half of the year. Obviously, during the second part of the year it will decrease, assuming there are no new clusters or deaths from the virus in Spain.

The same is happening with profits. Some small entities are reporting extremely good results. If you see the VERTI numbers or other small entities, results are outstanding. They're not sustainable in the future. But other negative results that we've seen such at MAPFRE RE or GLOBAL or even Assistance are not sustainable in the future. So what we should expect is both negatives and positives to converge toward standard metrics - the metrics that we expected, the metrics that we had before this crisis. So far, the range of variation is extremely wide. And this is because of the effects of the pandemic at the second quarter. But it is extremely difficult to predict what is going to happen, particularly in LATAM or in the U.S. during the third quarter of this year. Sorry about that, but it's not a good moment to give guidance.

Natalia Núñez Arana

Okay, thank you very much. Also, Alex Evans at Credit Suisse asks, "Have you seen a better trend in premium growth since the end of Q2, as economies have begun to open up more? Or should we expect more of a longer-term impact?"

Fernando Mata Verdejo

Well, what we are seeing is a nice rebound, particularly in Spain in June. And what we should expect is a flight-to-quality trend, particularly for new business in insurance shoppers. The MAPFRE name weighs a lot, particularly in Spain, when people are shopping for insurance. And so we are happy with our churn ratio and also with the new business, and it's return to normality, particularly in Spain. But it has been only three weeks, and we need longer in order to see a longer period of time in order to materialize this conclusion.

In LATAM, there are still a lot of uncertainties, and it's not the moment to give any guidance. So again, the MAPFRE name and our name recognition is very important in order to see an improvement in premium growth, particularly in Spain and also Massachusetts.

Natalia Núñez Arana

Thank you very much. And now we continue with outlook questions. We have one from Andrew Sinclair and Alex Evans that is on COVID impacts. You said that COVID impact on business units ex-MAPFRE RE was neutral. Was this for first half, or expectations for the full year? Do you expect it to be neutral for the full year?

Fernando Mata Verdejo

Again, very difficult. What we saw during this half of the year is that the decrease in frequency, particularly in Auto, which is a positive thing, is offsetting increases in other lines of business, and also the premium decrease, and also other expenses that we disclosed, amounting to

EUR24 million. And you can also put in the same bucket, to a certain extent, the decrease in financial income.

In the future, we should expect a neutral effect as well, but it's difficult to predict. We could have as well a quite strange situation in which there are new outbreaks with no fatalities, but confinement measures. In that case, there would be a decrease in frequency, but as we've done, we are trying to transfer this increase in profitability to lower prices for our policyholders. We are extremely committed to protecting our portfolio. And we'll do it again.

Natalia Núñez Arana

Okay, thank you, Fernando. We have a follow up question that is coming from Jonathan Denham. "I thought you had two potential triggers for equity impairments. The decline in market value is above 40% of book value or the market value is below book value for over 18 months. You have some stocks 30% or 40% down; don't they get impaired, if they stayed at that level after 18 months?" It's regarding the answer you have already given just before.

Fernando Mata Verdejo

In the financial report, in the MD&A, there is a full disclosure of the way we impair equities, and there is a full disclosure. It's EUR0.9 million for a decrease in value, and EUR0.7 million [for 18 month or longer]. There is only one name, I can't disclose - it was in Spain and there is no additional exposure. And regarding those that have got a period of 18 months or longer, it was a small portfolio allocated in Malta, if I remember well, and there is no additional exposure or additional risk for portfolios longer than 18 months. We are focused on this special range of 30% and 40%. It is easy to guess the names that are included in this range. They are Spanish financial institutions, and also oil companies, and we are pretty sure that they're quite reliable. And there is a temporary decrease in the value of these stocks. And in the future, there will be a bounceback, I'm sure, for those equities.

If not, we'll get rid of them, as we've done with other stocks. Once they're close to the red line, we'll go to the market and we will sell them and that's basically it. In July and also during the second quarter, we tried to have a more prudent equity portfolio, because those that were above the red line, we got rid of them. And we will do the same if there are any more. So far, we are comfortable. They are still in our portfolio. They are quite reliable financial institutions. So there is no reason to get rid of them. But if there is an additional risk, we will do it.

Natalia Núñez Arana

Okay, thank you very much. There are a couple of questions, but more or less they are follow-up questions. I think they have already been answered during the call. One of these is Alessia Magni at Barclays, who has the following question: "In the second quarter 2020, combined ratio improved 2.9 percentage points year-on-year. Can you please give us the main drivers of these improvements in second quarter? In second quarter, also, how much was the benefit on combined ratio from Motor lower frequency and the negative impact from other lines such as Burial?

Fernando Mata Verdejo

Well, we disclosed the decrease or let's say the change in different combined ratios for the different lines of business. It is included on page, correct me if I am wrong, on page six of the financial report. The majority of the decrease in loss ratio is due to the confinement measures, the lockdown measures, and the main increase in Burial expenses is due to the number of deaths, and that is everything that we can say so far.

Natalia Núñez Arana

Okay, thank you very much, Fernando. One more follow-up question and this is the last one for today. It's been a tough and long session, with a lot of interest from the analysts and investors. This one is coming from Andrew Sinclair: "Can you please ask the following question on dividend. How committed are you to keeping the dividend at least flat year-on-year and avoiding a year-on-year dividend cut?" They want more clarity.

Fernando Mata Verdejo

Andrew, that is a very interesting question. But, the only thing I can do is just to repeat what I said. We are fully committed to shareholders and investors. The main driver for dividend payment is net income, and also the payout - we are fully committed.

We believe that the dividend is a normal flow for investors and also for public companies. And as I said, the current metrics do not point to any potential restriction. The final decision will be made once we get the financial information for the third quarter. But that's all I can say at this point. Sorry about that. But we are fully committed to shareholders; no restrictions so far in our financial statements, and the decision will be made once we have the financial statement as of the third quarter.

Natalia Núñez Arana

Thank you very much Fernando, and before you say some words of wrap up, I would like to apologize for the delay we had today in publishing the documents on our website. We had some technical issues, but all the documents are now available on mapfre.com. And we hope this issue doesn't occur again. Sorry about that. And from my side, I wish you a very nice summer and summer break for all of you.

Fernando Mata Verdejo

Thank you, Natalia. A few final remarks - in general, the outlook for Europe is much better. There's still a lot of uncertainty with regards to the duration and the severity of the pandemic and also the related economic crisis. Nevertheless, today, we are optimistic about the financial measures being taken by governments and central banks worldwide, especially the European recovery plan. Most of all, we are confident about MAPFRE's capacity to weather this crisis. Our businesses are very well positioned, thanks to high levels of diversification, a multi-channel approach, with a loyal agent base, particularly in Spain, a healthy balance sheet and a strong liquidity position.

Furthermore, MAPFRE has been committed to helping our collaborators and society as a whole, and this is strengthening our brand, especially in our main markets. Right now, we're seeing a flight-to-quality trend in insurance shoppers, particularly in Iberia and LATAM, where MAPFRE has great name recognition.

Thank you for your time today. Have a nice summer and above all, stay safe. Thank you and bye-bye.

Natalia Núñez Arana

Bye.