Call for Analysts and Investors

Transcript

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Speakers:

CFO Carlos Rodríguez-Ugarte

IRO Beatriz Izard

Presentation

Beatriz Izard
Head of Investor Relations

Welcome, everybody. My name is Beatriz Izard, head of Investor Relations at Linea Directa. We published our 3Q results earlier this morning and I have here with me, our CFO, Carlos Rodriguez Ugarte to present this report.

With this short introduction, over to you Carlos.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thank you, Beatriz, good morning. I will go straight to page 5.

The story of this quarter in a nutshell is the significant improvement of margins. The profit before tax for the third quarter stood at 0.5 million, driven by the substantial reduction in the combined ratio. We continue to put margins before growth and maintain our strict control of overheads and process optimisation as shown by our remarkable expense ratio. Capital position remains robust.

Turning to page 7 on the Spanish Motor market.

CPI takes a softer line although headline inflation is expected to get to 3.6% at year-end and 4.1% for the underlying. Growth in the Motor segment gains momentum even if still trailing behind costs. Although the increases are modest, the change in cycle is confirmed.

Turning to page 8.

Home sales continue to decline, due to high financing costs and loss of household purchasing power. We should expect this trend to continue this year and in 2024. Nevertheless, Home insurance revenues, grew 5.8% driven by average premiums on the rise.

As with regards the Spanish Health market, turnover for the industry continues to report significant growth at 7%, although we have seen some signs of a slowdown in the growth of new policyholders in response to the economic environment.

Turning to page 11. Our key priority is to restore technical performance.

- Expense ratio was excellent at 19.5% for the first nine months of the year and 19.3% in the quarter standalone.

- The claims ratio improved significantly in the quarter. Rate actions continue to earn through our book. We believe we are taking the appropriate measures to achieve a prudent growth and profitability, applying rates at the current level of risk.

- Financial result was down 3.7%. Recurring earnings, though, are on the rise, on the back of fixed income higher reinvestment yields, remuneration of deposits and the revaluation of the hedging derivative. Excluding realised gains financial result would be up 19%.

Turning to page 12.

Core messages in IFRS 17 are exactly the same as in IFRS 4, with the technical result displaying a significant improvement in the quarter.

Here the key message is that comparisons with the former accounting norm expands as the year evolves. Further, IFRS 9 is not restated for 2022, adding an extra layer of complexity for comparison purposes. A full reconciliation can be provided by the IR team should you need it.

Turning to page 13. Rate actions have driven a sliding effect on retention and increased shopping around. We are focused on rebuilding a technical surplus.

I'll turn now to page 14. The Auto industry continued to show profitability challenges through the third quarter 2023 with loss trends outpacing premium growth. We are responding decisively to the changes we experience in loss trends with both rate and underwriting actions. The combined ratio, albeit still very high, begins to show a change in trend with a notable improvement in the quarter standalone. In addition to our focus on addressing profitability, we continue to work on advancing our capabilities on customer service and perceived quality.

We are further targeting our digitalisation and customer experience that will improve our ease of use and low-cost value proposition. We continue with the general operational expense discipline as reflected in the exceptional 16.6% expense ratio.

Turning to page 15. Premiums grew at 4.4% in the Home line of business, despite rate actions also triggering some sliding effect on retention. The combined ratio rose to 97.7%, affected by atmospheric events and water damage in the quarter. Atmospheric events added 4.8 percentage points or 5.1 million in the first nine months of the year (this compares with 2.6 percentage points as of September 2022).

As with regards to the Health business, premiums reflect certain slowdown in policy growth in response to the economic cycle and mix of business. Loss ratio is steadily improving, with a prudent risk selection. Expense ratio shows the absence of the proportional reinsurance commission, which is no longer received as of January 2023.

Please let's move now to slide 17, where we breakdown management ratios by line of business:

- Despite a still very high loss ratio, Motor shows a change in trend in the quarter, with a significant improvement. Home, as I already mentioned, includes atmospheric events and water damage this quarter. Health keeps steadily improving, with prudent underwriting.

- Consolidated expense ratio improved to 19.5%, with Motor at an outstanding 16.6%.

Turning to page 18. Consolidated loss ratio reached 87.3% (84.3 in the quarter standalone). Motor continues to be affected by high average costs and higher frequency especially in the own damage guarantee, yet overall, we begin to experience a change in trend in the quarter.

In addition to rates, we continue to improve our underwriting efforts to try to ensure the business we're writing is classified and priced adequately. Further, we are streamlining the management of claims, expected to bear results in 2024.

Home this quarter is mainly driven by the higher costs of atmospherics as I mentioned before.

As regards to expenses, we are being extremely strict when it comes to cost control and in driving efficiency new measures. Consolidated expense ratio further dropped to 19.5%.

Turning to page 20 on financial result.

Earnings were down 3.7% explained by less realised gains in the first 9 months of the year. Recurrent financial result is up 19% backed by higher reinvesting yields in the fixed income, the revaluation of the hedging derivative and the remuneration of deposits.

On slide 21 you can see the overall yield of the portfolio is up to 2.88% excluding net realised gains. We are reinvesting in shorter maturities and the overall duration of the fixed income portfolio was reduced to 3 years.

Moving on to our solvency position, the Company's capitalisation remains strong at 180%. The Company is now generating capital with its positive quarterly result, yet we had also negative impacts affecting eligible own funds, including the change in the market value of the available-for-sale portfolio driven by higher interest rates.

For its part, SCR increased by 2.7 million in the quarter driven by two opposite effects: on the one hand, lower market and counterparty risk, offset by higher underwriting risk as a result of higher cost of claims incurred.

To conclude, we closed the quarter with an encouraging change of trend in our combine ratio and a strong balance sheet. We believe we are taking the appropriate measures on addressing profitability. In addition, we continue to work on advancing our capabilities on innovation, customer service and perceived quality. We are targeting further our digitalisation and customer experience that will improve our ease of use and low-cost value proposition. We'll continue with the expense discipline as reflected in our exceptional expense ratio.

Thank you. I will now hand the call over to Beatriz to begin the Q&A session.

Thank you very much for the presentation, Carlos. First, we'll begin with the questions received from the conference call.

Q&A

Conference Call Operator

Ladies and gentlemen, we will now begin the Q&A session, if you would like to ask a question, please press *5 on your telephone keypad. If you change your mind, please press *5 again. Please ensure your device is unmuted locally before proceeding with your question.

Our first question comes from Freya Kong, from Bank of America. Now, your line is open.

Freya Kong

Good morning. Thanks for taking my questions. In motor… it's good to see that you're prioritising margins over volumes. How much rate do you think you and the rest of the market still need to push through to get back to pre-covid levels? Or are you expecting claims inflation to moderate and potentially turn negative to help on this? And secondly, other than rate, what other underwriting actions are you taking and how much improvement do you expect this to drive through?

Carlos Rodriguez Ugarte

Well, on the rate side of the business, for Linea Directa YoY the core business in the motor insurance, average premiums have increased very close to 10%. I think the market, the latest numbers we have seen is 4.4% in terms of average premiums, so we are well above the market. Looking forward, I don't see CPI becoming negative, so I think CPI for the next year is going to be in the neighbourhood of 3 or 3.5%. So, our intention is to keep pushing average premiums on the rise, at least to cover the increase on CPI. As I tried to explain over the call, I think the name of the game today is to improve our margins, and I think we still need to increase average premiums. It is true that if you take a look at the market, many of the companies are following up and are increasing average premiums, but I still see some companies or some competitors that are being very aggressive on pricing, which is something that I think will turn around negatively looking forward.

In terms of underwriting, we are very much focused on trying to price accordingly to risk premiums. Risk premiums for the business have increased due to inflation costs, due to repair costs, and that is basically what we are doing. Of course, in that approach, we are losing some clients, but we are losing the clients we want to lose. We are probably cleaning a little bit the portfolio or the worst clients. This is something that we hadn't done since 2020, I think the market, since covid, was not in the move of cleaning portfolio and that is something we have been doing for the year. This is shown on our retention that is has suffered a little bit more than we are used to.

Freya Kong

Thank you.

Conference Call Operator

We will now begin with the written questions. Thank you very much.

Beatriz Izard

I think we have no further questions. So thank you very much to all of you. As always, Investor Relations is around for any follow-up.

Thank you very much, Carlos. And this concludes our meeting.

Carlos Rodriguez Ugarte

Thank you all and have a nice weekend.