Call for Analysts and Investors

Transcript

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Speakers:

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Presentation

Beatriz Izard
Head of Investor Relations

Buenos días, good morning and welcome to Linea Directa's 1Q 2024 results. This is Beatriz Izard, Head of Investor Relations.

It's a pleasure to have here with us Carlos Rodriguez Ugarte, Linea Directa's CFO.

Let's start by reminding we started to report under the new accounting standards IFRS17&9 last year.

Yet in order to meet the different needs of analyst and investors, we are also providing in the excel financial supplement, local, IFRS4 figures in addition to IFRS17&9. We will continue to do so all around 2024 and even further should you need it.

As always, the Investor Relations department is here to help you with the transition and a full reconciliation has been included.

Nonetheless, please recall that IFRS17&9 doesn't have much impact on our accounts and does not change the way we manage our business.

With this brief introduction, over to you Carlos.

Carlos Rodríguez Ugarte
Chief Financial Officer

Thank you, Beatriz, good morning and thank you for joining us. I will go straight to page 5.

2024 has begun with the consolidation of profit and a change of trend, which we anticipated on the second half of 2023.

GWP grew at a solid 3%. By lines of business, net insurance income (equivalent to the former net premiums earned under IFRS4) grew 3.1 in Motor, 4.5 in Home and 7.9% in Health. It is noteworthy to mention the acceleration of growth in the Health segment.

Policyholders, on the other hand, dropped 4.5% alongside the hardening of subscription for the most aggravated risks not updated in the first quarter of last year.

Combined ratio dropped to 97.3%, 9.5 points better than the first 3 months of 2023 and, also improving over the fourth quarter of 2023. Expense ratio keeps on improving due to our continuous efficiency roadmap based primarily on digitalization.

Capital position remains very robust at 183%.

Turning now to page 7.

- Insurance revenues were up 3.4%, with the solid contribution from all lines of business.

- Technical profit stood at 6.3 million, confirming the positive trend and the success of the action plan in which we focused on insurance margins. Loss ratio dropped by 9.1 percentage points and expense ratio a further 0.4 points. Correspondingly, combined ratio dropped to 97.3%.
- Investment result was up 10%, mainly based on higher income from the fixed income portfolio.
- Credited interest, which is shown separately from investment result for clarity purposes, is the financial unwinding on the prior year discounting of the provision for claims incurred. The unwinding was an expense of 2.2 million for de first 3 months of the year.
- Altogether, profit after tax stood at 10.1 million €, as compared to the loss of 5.3 million over the same period of last year, a remarkable improvement of 15.4 million.

Turning to page 8.

As usual, we breakdown premiums and policyholders by line of business. It is noteworthy the acceleration of growth in Health, both in premiums and clients. On the negative side, hardening subscription and risk selection had an impact on policy count, especially on Motor.

Turning to page 9.

In Motor insurance, in the quarter we made individual adjustments to the most aggravated risks in the portion of the portfolio not updated in the first quarter of last year. As we've seen, this had a toll on policy count.

Combined ratio, on the positive side had an improvement of 10.3 percentage points. This phenomenal positive evolution is the result of rate actions that continue to earn through our book, the excellent management of claims and a strict control of expenses. We can securely say we are back to technical profit, although not to the levels we would like to.

Turning to page 10.

In the Home business, premiums grew 4.4%, despite rate actions also triggering some sliding effect on retention. The Company is very much focused on innovation and on its multi-product offering, with the launch of specific offerings to our clients such as the car-home formula and the carefree home policy.

Combined ratio was strong at 96.6. Several fire claims affected the loss ratio. The cost ratio continues to have an outstanding trend on the back of growing business volumes at the same time as expenses keep on declining.

As with regards the Health business, premiums accelerated its growth to 8.7%. Combined ratio also had an outstanding performance specifically on the expense ratio. And this is precisely the area we know we need to improve the most to reach our breakeven goal. As I commented on previous calls, the integration of Health under the Linea Directa umbrella brand is generating efficiencies from both the marketing and the operational side.

Full disclosure on combined, loss and expense ratios by line of business is provided in page 23 and also in the excel financial supplement.

Please let's move now to slide number 12.

Loss ratio continues to improve and stood at 75.1, 9.1 percentage points down from last year with Motor leading the improvement with the adjustments on the own damage frequencies and subscription and claims management actions.

Further, Home and Health posted lower frequencies although we have seen some increase in the cost of claims.

Turning to page 13.

On expenses, the Company keeps on being completely focused on our efficiency roadmap. The development of expenses has been exceptional along with growing business volumes. The trend in both acquisition and administrative expenses remains excellent.

Turning to page 14 on financial result.

Investment result was up 10%, mainly driven from higher income from the fixed income portfolio. Excluding realised gains and the mark to market of investment funds which adds volatility, the financial result would have grown by almost 27%.

As usual we are providing the credited interest in a separate line for clarity purposes.

On slide 15 we disclose the portfolio composition, the movements that flow directly through equity and some other metrics. The message here is that the overall yield of the portfolio, increased to 3.1% excluding net realised gains.

The overall duration of the fixed income portfolio is 2.9 years.

Moving on to our solvency position, Solvency margin remains very solid at 183%. As with regards eligible own funds, we had positive contributions: earnings, the development of the portfolio and the provision for premiums.

For its part, SCR increased by 6 million in the quarter driven by Market risk. The increase in the symmetric adjustment posted by EIOPA and greater exposure to equities explains the vast majority of SCR movement.

To conclude, in 2023 the company implemented many actions needed to adjust our business to the complex macro and micro scenario of the insurance sector. We knew, as we shared with the investment community the short-term negative impact on the company´s financials. But we also knew that those actions were appropriate for the future wellbeing of the company in the medium and long term. Now, although market environment is still quite complex, we have started to see the results of our past actions with an encouraging and consolidated change of trend, yet still much is to be done.

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

Q&A

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

Moderator: Thank you, ladies and gentlemen, We will now begin the Q&A session. If you'd like to ask a question, please press star five on your telephone keypad. If you change your mind, please press star five again. Please ensure that your device is muted locally before proceeding with your question.

And the first question comes from the line of Max Mishyn from JB Capital. Please go ahead.

Max Mishyn: Hello, good morning. Thank you very much for the presentation and taking our questions. I have two.

The first one is on the evolution of the customer portfolio. Motor has declined in the first quarter and I was wondering if you expect more declines in the coming quarters and what should we expect for the whole year? And given that the pace of reduction in the number of customers has reduced, can we conclude that you are being less aggressive with increases in premiums for renovations?

And then the second question is on the combined ratio. Assuming we have no major shocks in the market, what kind of evolution for combined ratio do you expect for 2024? And if you could share some colour on your thoughts for 2025, that would be very helpful. Thank you.

Carlos Rodriguez Ugarte: Muchas gracias, Max. Well, in terms of customer evolution, it is true that if you take a look at the first quarter and you compare that to last year, I mean we have lost throughout the year over 140,000 clients. I mean we knew that trend will keep on through the first quarter, I mean although we lost fewer clients than before, but given the fact that we needed to update pricing to the portfolio of clients on the first quarter, remember that we started increasing average premiums on the second quarter. We knew that was going to happen on the first quarter.

Looking forward throughout the year, I think you should expect an improvement here. I mean we are not happy about losing clients, we are happy about defending the margin, but not losing clients. So towards the year, especially on the second half of the year, you should expect an improvement on that.

Have we been more relaxed on pricing adjustments? I might say no. I mean if you take a look at the price of the portfolio and on the new business, we have maintained more or less the same strategy as we did last year. I mean looking forward once the entire portfolio has been updated, you know, we will see how we adjust pricing looking forward. I mean still CPI is there. CPI in the neighborhood of 3%, 2.5%, and we have to take that into consideration.

And in terms of the combined ratio, I think the combined ratio for the first quarter has been superb. I mean even better than we expected. It's not only a matter of the premiums, but it's also a matter of the management of costs. I think our claim costs have been managed quite well and average cost per repair has improved quite a lot since the second part of last year.

What should we expect in 2024? Well, I said that our first goal was to try to reach a 94% level on combined ratio. We'll see what happens throughout the year. Probably you shouldn't expect that on an entire year but in some isolated or stand-alone quarters you should expect that.

And 2024, well that's the million dollar question but I think we should be shooting for those labels, so 94, 95 for the entire year.

Max Mishyn: Thank you very much.

Moderator: And this question comes from the line of Thomas Bateman from Berenberg. Please go ahead.

Thomas Bateman: Hi, good morning and thank you very much for the presentation and the excellent results. Could you just give us a little bit more colour on the claims' trends in Q1, both in frequency and severity. I think you talked about the easing benefit cost inflation and something on own damage guarantee. If you just give us a little bit more colour around those movements, that would be really helpful.

And on Health, I guess the numbers still a little bit volatile. What kind of guidance can you give us for this business over the next couple of years? Thank you.

Carlos Rodriguez Ugarte: Thank you very much, Thomas. In terms of the claims side of the business, especially on the motor business, I think the quarter was very, very good. I mean frequency was very much in line as we expected, probably a little bit worse on the own damage frequency because clients leaving the company, they decided to fix the entire car. So frequency was not very good there. But of course, the weight of this guarantee on top of the entire guarantees is lower. So frequency performance was very good. Severity was very good, better than we expected. Even though in Spain at general terms we have seen that accidents have increased quite a bit. For Linea Directa, severity I think was better than we expected and then average cost which was really, really what was driving our claims caused throughout 2023, I think we did a very good exercise in terms of managing costs and the increase in average cost per reclaim was very much flat as compared to last year.

In terms of Health, we decided last year to take a different approach integrating the Health brand into Linea Directa. I think that really starts to pay off. We didn't see still the beauty, entire beauty of that, but we should expect that to see alongside 2024. Expense ratio really went down, benefiting from the rest of the business and in terms of growth, I think the first quarter gross written premium growth was better than the market and you should expect that evolution to keep on going. We'll see what happens on the second part of the year, as you know 60% of the volumes, they come from September to December. But as of today, we are very positive for the trend on health. We are shooting for that break-even, as I said on the call, it is mandatory that we manage expenses, you know, because the rest of the numbers of the health business are going well, growth is going well, frequencies are performing quite well, cost of claims is below average of the market. So all indicators are very positive, and well, we have to wait until the second part of the year, but the evolution is very, very much positive.

Thomas Bateman: Thanks very much, Carlos.

Moderator: Our next question comes from the line of Carlos Peixoto for CaixaBank BPI.

Please go ahead.

Carlos Peixoto: Yes, hi, good morning. Just actually a quick question on payout policy. So now that you're back to profits, how should we think about it going forward and basically do you expect to resume the trend of quarterly dividends repayment already with profits at these levels or should we expect that to take place only once net profit becomes a bit higher on a quarterly basis. Just to have a bit of colour on that. Thank you very much.

Carlos Rodriguez Ugarte: Thank you, Carlos. Well, I wasn't expecting this question, I'm a little bit surprised. So in terms of dividends, well I think, taking a good look at Linea Directa, I think this is a company with an objective of providing, you know, our dividends to our shareholders. It's something that happened throughout the years since we were listed, I think we were in a 90% payout. So that's the intention of the company. It's still to be a company with a high distribution of dividends.

But I think we have to do an exercise of being cautious and try to consolidate, you know, the good numbers we posted on the first quarter, and I think that bearing on those grounds, what is expected is that consolidation, to take off throughout the year and once we see that consolidation comes in, the company probably, if the Board considers, probably will go back to a dividend payout throughout the year. It's, I think, retribution for shareholders. It has to be looked at on a yearly basis more than a quarterly basis, and I think, as of today, coming from a 2023 year with losses, I think it's very prudent and cautious on both sides, you know to consolidate the income and then decide to pay dividends.

Moderator: There are no further questions from the conference call at this time. I will now hand back to Beatriz Izard, Head of Investor Relations.

Beatriz Izard: Thank you. We will now switch to the questions received through the platform.

We just have one question from Paco Riquel. He's asking whether you can give guidance for the combined ratio in Motor for the full year 2024. Are you accruing, in the first quarter, your best guess for the year or do you expect the combined ratio to improve in coming quarters as you continue to reprice the portfolio with higher tariffs?

Carlos Rodriguez Ugarte: Thank you very much, Paco. I think the combined ratio that we posted on the first quarter results is excellent and coming from where we were last year, and especially looking at the average combined ratio of the market, I think we outperformed, probably, the market. I think we did our homework last year prior to the market and the market now is hardening its combined ratio. So I'm very positive on that.

Looking forward throughout the year, I think the combined ratio will be very positive throughout the year. I cannot give you a number because I don't have the numbers calculated, but I think claim costs will keep on providing good news for the company, earned premiums will keep on providing good news for the company, and I expect at least in some standalone quarters to be in the neighborhood of 94%. Is that going to be the end-of-year combined ratio? I don't know, but I think the evolution that we had on the first quarter is something that we will keep or even improve throughout the year.

Beatriz Izard: Thank you. There are no further questions.

So thank you very much, Carlos, and thank you all for taking the time to connect. As always, the Investor Relations department is here to help you should you have any further questions.

Carlos Rodriguez Ugarte: Thank you very much. Have a good day.