



Call for Analysts and Investors  
**Transcript**  
21 October 2024 | 9:00 AM CET

**Speakers:**

Carlos Rodríguez-Ugarte

Mark Brewer

## Presentation

### Mark Brewer

*Investor Relations*

Good morning and welcome to Línea Directa's conference call to discuss September 2024 results.

I'm Mark Brewer, from the Investor Relations team. As usual, we will first walk you through the slides and then we'll be happy to take any questions you may have.

Now let me turn the call over to our CFO, Carlos Rodriguez-Ugarte.

### Carlos Rodríguez Ugarte

*Chief Financial Officer*

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

After 9 months of 2024 we can clearly confirm a strong consolidation of the Group's P&L and an important turnaround of client growth since the second half of the year. We are pleased to present these results:

Combined ratio stood at a 95.4% in the first nine months of the year, 10.6 percentage points below that of 2023, and the same ratio in the third quarter standalone, that is, 95.4%.

As in previous quarters, this remarkable improvement year-wise for our combined ratio has been driven by both an improvement of the loss ratio but also, our ongoing effort on the expense side of the business, where again, our expense ratio has improved 0.4 percentage points, from 22.4% to 22.0%.

As for the revenue side of the business, our gross written premiums grew 3.5%, with a clear improvement in the third quarter standalone, where premiums grew by almost 6%. Noteworthy, growth has accelerated in the Health line of business.

Another highlight, which we already anticipated in our previous results call, has been the growth in customer portfolio. During the third quarter standalone, it grew by more than 39.000 clients, reversing the recent loss trend and accelerating its gain quarter over quarter.

Net income increased to 40.7 million euro, which compares to the loss of 12.5 million euro reported for the first nine months of 2023.

Finally, solvency ratio stood at 189.5%, mainly driven by the positive results seen during the quarter.

Turning now to page number 7.

- Insurance revenues were up 2.9%, with the contribution of all business lines.
- Technical insurance result stood at 32.9 million euro, confirming the positive trend we have seen throughout the year. Loss ratio dropped by 10.2 percentage points and expense ratio a further 0.4 points. Hence, combined ratio dropped to 95.4%. Likewise

for the third quarter standalone, combined ratio stood at an excellent 95.4%, which compares to 102.2% for the same quarter of last year.

- Investment result was up 6.1%. Underlying investment result would have been up by 11.5% excluding the prudent write-off we have recorded for the Atos Bond during the previous quarter.
- 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 6.5 million euro for the first nine months of the year.
- Altogether, profit after tax stood at 40.7 million euro, which compares to the loss of 12.5 million euro over the same period of last year, a turnaround of more than 52 million euro.

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As usual, we breakdown premiums and policyholders by line of business. Health continued to enjoy significant revenue growth.

It is also important to mention the very positive evolution of the gross written premiums for each business line on a quarterly basis. Third quarter standalone has showed significant improvement on the revenue side of the business.

The portfolio also grew quite significantly during this quarter standalone for Motor and Home, confirming the trend already reflected in the second quarter of the year.

Turning to page number 9.

The portfolio in the Motor business grew more than 19.800 policyholders. Gross written premiums on the quarter grew by 5.4% as compared with 1.1% of the second quarter.

Combined ratio, again, had an extraordinary progress. 95.1% on the quarter and 95.5% on the year clearly reflect the effort and actions the company has been implanting in the last couple of years.

Turning to page number 10.

In the Home business, as with Motor, the portfolio of customers grew by more than 2.900 clients during the third quarter, reinforcing the upward trend we already had on the second quarter of the year. Premiums grew 4.8% on the year but if we look at the third quarter by itself, this growth reaches 5.7%.

Combined ratio remains quite low for the year and stands at 89.8% year to date and 91.8% for the third quarter standalone. Still, this quarter's low presence of weather events was a key component to which it is also fair to add the careful subscription.

As with regards to the Health business, the remarkable growth continues, posting a 10% increase in premiums for the year and 12.9% increase on the quarter standalone. Combined

ratio also had an outstanding performance as compared to last year and it keeps moving downward.

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

Please let's move now to slide number 12.

Loss ratio stood at 73.4%, 10.2 percentage points lower compared to last year with Motor leading the improvement with a 10.7% decrease in claims costs.

Also, Home and Health posted lower claims experience on the back of good behaviour in average costs and frequencies.

Turning to page number 13.

On expenses, the Company keeps on improving its efficiency and, once again, it has improved its overall expense ratio to 22% on the year which represents an improvement of 0.4 percentage points over last year. Noteworthy, the expense ratio for our core business Motor, which stood at a remarkable 19.96% on the year, has improved 0.6 percentage points since the first quarter.

Turning to page number 14 on financial result.

Investment result was up 6.1%. Let's remember that on the second quarter, in a prudent approach, the Company decided to record an impairment in a bond of the French technology company Atos.

Excluding such effect, financial result would have been up by 11.7%. The increase is driven by the income from the fixed income portfolio, especially on the corporate bond portfolio.

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 under IFRS9 and some other metrics. The message here is that the overall yield of the portfolio still stands at about 3% excluding realised gains/losses and the overall duration of the fixed income portfolio is 3.1 years. Portfolio composition, with minor changes, remains pretty much the same.

Moving on to our solvency position, Solvency margin rose to 189.5% in the quarter, with positive contributions to eligible own funds coming from the profit of the quarter and the development of the available-for-sale portfolio.

For each part, SCR increased by 6.9 million euro in the quarter, mainly driven by market risk due to greater exposure to fixed income and equities, and the quarterly symmetric adjustment published by the European regulator. This was partly offset by lower counterparty risk as balances in deposits decreased.

To conclude, our September results show so far, that the company is back on track in client growth, sound risk profiling, ongoing efficiency efforts and, last but not least, a remarkable improvement in revenues and profits.

As we always say, these results are a reason to be pleased but, again, we believe the company's strategy, culture and people will allow us to deliver better results in the short-term. Thank you very much. I will now hand the call over to Mark to begin the Q&A session.

## Q&A

**Mark:** Thank you for the presentation, Carlos. First, we'll begin with the questions received from the conference call.

**Moderator:** Ladies and gentlemen, we will now begin the Q&A session.

If you would 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 unmuted locally before proceeding with your question.

The first question comes from Max Mishyn from JB Capital. Now, your line is open.

**Max Mishyn:** Hello, good morning. Thank you very much for the presentation and taking our questions. I have a couple. The first one is on motor insurance.

You have accelerated growth in new customers, and my estimates also suggest growth in average premiums increased in the third quarter. Does this mean you see markets more benign? Have you made any additional changes to your strategy to accelerate growth in both clients and premiums? And what kind of hikes in average premiums and increase in clients should we expect for the rest of the year?

And then the second one is on the combined ratio of the motor insurance business. Claims in motor have increased quarter on quarter, and I was just wondering if this has been driven by frequencies or any other reason.

Do you continue to see easing pressure of repair costs, and do you think we could see repair costs declining in the coming quarters? What kind of combined ratio do you expect for 2024, and what would your ambition be for 2025? Thank you.

**Carlos Rodriguez Ugarte:** Thank you very much, Max. Regarding the evolution of the motor business, in terms of average premiums, we were more in line of rising average premiums individually to clients, but very much in line with CPI increases, or a little bit more, throughout the year.

Of course, what we are seeing is that the market is increasing average premiums in higher numbers of Linea Directa, but it's something that we did last year. So, again, I think the market is doing the homework we did last year.

In our case, on average, we are increasing average premiums, as I said, very close to CPI increases, and that should be the trend looking forward this year and looking forward in the coming years.

In terms of the combined ratio, well, the combined ratio for the motor business has been more or less the same as in the previous quarter. I think we posted a 94.8%, and now it's 95.1%. So, basically, it has been more or less the same. Of course, you have the holiday season, which always has an impact on frequency and so on, but our severity has been quite mild

throughout the year, and my expectation is that this combined ratio should keep on improving looking to the end of the year.

And for 2025, we should be looking at a combined ratio more in line with 94-95% than anything else.

**Max Mishyn:** Thank you very much.

**Moderator:** The next question comes from Francisco Riquel from Alantra.

Now your line is open.

**Francisco Riquel:** Yes, good morning. Thank you for taking my questions, I have two.

The first one I wanted to ask you about the strategy in motor. For now, you are growing policies and premiums again, but still below the sector.

I wonder if you have completed the process in terms of tariff hikes and if you will be looking to regain market share in coming quarters or do you still have further to go in terms of risk profiling and tariff hikes in your motor business?

And then the second question is about the policy count, which increased almost 20,000 quarter on quarter in motor, but just by 3,000 in home. I thought you were focused on the bundle offering between motor and home and cross-selling home within your motor customer base, but home is lagging behind, if you can comment on this. Thank you.

**Carlos Rodriguez Ugarte:** Thank you, Paco. Well, regarding the motor business and the strategy, I think now we are in that process of gaining market share and gaining clients. I think we grew by 5,000 clients in the second quarter standalone. Now we are in 19, almost 20,000 clients on the quarter standalone.

So, I think that should be the trend looking forward. We are still adjusting prices to CPI. It's something that you should expect, not only for the year, but also for the next year. Adjusting our average premiums individually to clients, but very much in line with CPI increases. But, of course, the pace of our increases nowadays are lower than those of the market. So that is the reason also why we are not only gaining new clients, but also retaining our clients much better than last year. And that should be the trend looking forward.

And in terms of the home insurance business, well, it is true that numbers are not the same as the motor insurance. I mean, I think we grew by almost 3,000 clients. But we also improved from the second quarter, and that should be the trend.

Are we happy with the bundle of the product of home and motor? Yes, I think it's working quite well. If you take a look at the evolution of our gross sales, both in the motor insurance and the home insurance, they have improved. But probably we need to accelerate a little bit more on the home insurance, looking forward to try to grow more. But, again, for the motor insurance, for the home insurance, and also for the health insurance, the evolution in terms of premiums and the evolution in terms of clients is much, much better than second quarter, and it should be better by the end of the year.

**Moderator:** The next question comes from David Barma from Bank of America. Now your line is open.

**David Barma:** Thank you. Good morning.

Just coming back on the very first question about the balance of premium, average premiums and policy count growth in motor, which looked a lot better than I expected, but you don't seem surprised. So maybe the difference there comes from inflation and what you consider the average level of inflation in Spanish motor today. So, can you talk about what the level of inflation you're seeing, both in bodily injury claims costs and material damages in motor today?

And then, secondly, on home, do you think we're back to a normal run rate of profitability now in the low 90s? And linked to that, was there any support from prior year reserve development in the quarter like you had in the last few ones with €3-4 million of support? Thank you.

**Carlos Rodriguez Ugarte:** Well, thank you very much, David. Beginning from your last question, there were no extraordinary reserve releases throughout the quarter. Basically, I mean, we have managed our reserving as the business has gone.

Home insurance, it's been a very good year in terms of claim costs, not only for Linea Directa, but I think also for the sector. Atmospheric events have been quite mild throughout the year. A little bit worse in the third quarter than in the second quarter, but still a very good quarter in terms of atmospheric events. We'll see what happens in the fourth quarter, my expectation is that this business will be a business which will have to move in combined ratios close to 90% to 92%. I think expecting something below 90% is too optimistic from my point of view, not only for Linea Directa, but also for the sector. Atmospheric events, they really have an impact, throughout the year, the major impact that we have is 1 million euros, which compares to a big number on previous years. So, I'm happy if I'm able to deliver a business in the neighborhood of 91-92% combined ratio.

And then on the motor insurance and the strategy, we are still being impacted by inflation. It's true that September inflation closed with a 1.5% increase, which is nothing compared to the previous year, but it's still there. You should expect inflation throughout the year in the neighborhood of 2.5-2.8%, more or less, for the year. So, this will have an impact on our business.

Of course, in terms of average repair cost, and in terms of claim cost itself, the average increase is quite lower than the previous year. But it's also true that we are still adjusting prices. If you take a look at the average premium of the company, we are still rising average premiums by 3.5%, more or less, which is coping with the increase on the cost side of the business.

In terms of strategy, and trying to go back to the previous question. In the second quarter results, we said that we will see a positive evolution in clients. It's something that we are seeing nowadays. Again, coming from an increase of 5,000 clients in the motor business in the second quarter, now we have almost 20,000 new clients, an increase in the portfolio.

And it's something that you should expect throughout the year and coming years. We have been working very much in retention. Our retention rates have improved quite a bit throughout the year. And that should be the trend looking forward.

**David Barma:** Is inflation much higher on bodily injury?

**Carlos Rodriguez Ugarte:** No. Bodily injury, as you know, is linked to the Baremo, which moves based on previous year's CPI increase. This year's Baremo increase was above 3%. So, we'll see what happens next year.



My expectation is that next year, the Baremo increase will be in the neighborhood of 2.5-2.8%. It will depend on the November number of CPI, but more or less, it should be lower than this year.

**David Barma:** Thank you.

**Moderator:** The next question comes from Carlos Peixoto from CaixaBank. Now, your line is open.

**Carlos Peixoto:** Hi, good morning. A couple of questions from my side as well. The first one, actually, on shareholder remuneration. You had paid an interim dividend over the first half results. Now, I believe you're not paying anything on the third quarter. Does this mean that you're changing your dividend policy towards two dividends per year? Or should this simply, in 2025, move back to the quarterly dividends that you were doing before? And also, if you could give us some color on the type of payout ratio that you expect going forward.

Then, on a separate question, which does relate a bit to what my colleagues were already asking before, but on the motor business, what type of gross return premiums evolution do you expect over next year? Should we expect mid-single-digit growth in premiums, or should we expect closer to double-digit? Thank you very much.

**Carlos Rodriguez Ugarte:** Thank you, Carlos. In terms of shareholder remuneration, it's difficult for me to give you some light there as it's a board decision. It is true that the board in this quarter has not approved any dividend so far. So, throughout the year, we have paid only dividends for the first six months of the year.

My expectation is that, as this is a year where still we are being very cautious on the evolution of the company. I think the board is being very cautious on taking decisions on remuneration, but I think you should expect Linea Directa being a company with a high dividend payout, either on a quarterly basis or on a half-yearly basis. But, again, I think the board is being very cautious. I think it's the right way to do it. But again, you should expect Linea Directa being a high dividend payer.

And in terms of the evolution of the motor business, in terms of gross written premiums, looking forward to next year, we should shoot for a better number than this year. And when I say a better number than this year, we should be shooting for a high single digit.

In terms of pricing, again, the company's strategy is try to adjust the average premiums in an individual basis, but always very much linked to CPI increases.

**Moderator:** The last question comes from Juan Pablo López Cobo from Santander. Now your line is open.

**Juan Pablo López Cobo:** Good morning, everyone. I got two questions. First one is a follow-up from Carlos' question regarding shareholder remuneration.

It would be interesting to see, to listen to your thoughts. We saw solvency capital requirement increasing a bit for the non-life risk and the market risk. If we were to deduct the €15 million net income from the quarterly results, the solvency ratio would be around 182%. Do you have any minimum or target solvency capital ratio? That would be my first question.

And the second question is related to the investment portfolio. We see there's been some changes quarter on quarter. There's been disposal from Portuguese bonds, probably increasing Spanish and Italian bonds, and also increasing corporate bonds in BBB rating.



Could you elaborate a bit on your strategy regarding the investment portfolio in a lower-rate environment? I don't know if we could assume that you are trying to invest in bonds with a slightly higher yield to offset the potential impact of lower rates. And maybe to conclude, if we should expect this €10 million financial income on a quarterly basis for the short, medium term. Thank you.

**Carlos Rodriguez Ugarte:** Thank you, Juan Pablo.

Well yes, we feel comfortable in a solvency ratio in the neighborhood of 180%. This is something that we have always said since we were listed back in 2021. The board is very comfortable on those grounds. And again, if you do the numbers as you did, if we were to pay out the amount that you say, we would've been above 180%. But I think the company feels very much comfortable on those grounds.

And in terms of the investment portfolio, the big change throughout the year has been that we have weighted a little bit more into corporate bonds than government portfolio. And basically it's because of yields being much better. You shouldn't expect any changes in terms of prudence of the company. We have always been very prudent investing in investment-grade corporate bonds and in government bonds.

What's going to happen if interest rates continue going down? Well, we will maneuver in order to provide an investment income more or less in line with what we are providing nowadays. We have been in that situation not so far away and we were able to maneuver and post good numbers in the investment income, and we will continue doing so.

Another thing is that the portfolio has increased by almost 90 million euros throughout the year. And that is because we are getting more premiums from clients and we have more capacity to invest. So, that should also help us on the investment income.

But again, you shouldn't expect any major changes. We'll keep trying to look for higher yields, going a bit more in the corporate side than in the government side. But that should be more or less the trend throughout the year and throughout next year.

**Mark Brewer:** Thank you all for your questions. We have no further questions, and thank you very much, Carlos. Thank you all for joining us today. And as always, the Investor Relations team is here to help if you have any further queries.

**Carlos Rodriguez Ugarte:** Thank you very much.