

28 Apr 2020 | Affirmation

Fitch Affirms MAPFRE at IFS 'A+'; Outlook Stable

Fitch Ratings-Frankfurt am Main-28 April 2020:

Fitch Ratings has affirmed Spanish insurer MAPFRE S.A.'s (MAPFRE) core operating subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A+' (Strong) and MAPFRE's Issuer Default Rating (IDR) at 'A-'. The Outlooks of the ratings are Stable.

Key Rating Drivers

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for MAPFRE that are compared with both rating guidelines defined in its criteria, and relative to previously established Rating Sensitivities for MAPFRE.

Under our pro-forma analysis, we continue to view MAPFRE's as strongly capitalised, with financial capital ratios only marginally weaker than those reported in 2019 results. Capitalisation, as measured by Fitch's Prism Factor-Based Model (FBM), remains "Strong", unchanged from the score achieved at end-2019. MAPFRE's financial leverage was 23% at end-2019 and Fitch does not expect a significant increase of the ratio for 2020 under our rating-case assumptions.

MAPFRE has a strong liquidity position at holding company level, and in addition has access to a EUR1 billion syndicated loan facility. It has no debt maturities before end-2024.

We expect MAPFRE's normalised profitability to remain resilient for 2020 under our rating case. Fitch assumes the group's combined ratio to weaken to 99.6% on a pro-forma basis for 2020 from 97.6% in 2019 (2018: 97.6%) .

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions in support of the pro-forma ratings analysis discussed above:

--Decline in key stock market indices by 35% relative to 1 January 2020.

--Increase in two-year cumulative high-yield bond default rate to 13%, applied to current

non-investment grade assets, as well as 12% of 'BBB' assets.

--Both upward and downward pressure on interest rates, with spreads widening (including high-yield by 400bp) coupled with notable declines in government rates.

--A coronavirus infection rate of 5% and a mortality rate (as a percent of infected) of 1%.

--For the non-life and reinsurance sectors, a negative impact on the industry-level accident year loss ratio from COVID-19-related claims at 3.5pp, partially offset by a favourable impact from the auto line averaging 1.5pp.

RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is made available on the medical aspects of the outbreak. An indication of how ratings would be expected to be impacted under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.

--Prism FBM score falling to below 'Strong'.

--Spain's sovereign rating downgraded by two or more notches.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A material positive change in Fitch's rating assumptions with respect to the coronavirus impact.

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the Spanish insurance industry and MAPFRE.

--An improved capital position, as measured by a PrismFBM score of 'Very Strong'.

--Improved financial performance, as measured by net income return on shareholders' equity of 10% or more on a sustained basis.

Stress-Case Sensitivity Analysis

--Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp, more prolonged declines in government rates, heightened pressure on capital-markets access, a coronavirus infection rate of 15% and mortality rate of 0.75%, and an adverse non-life industry-level loss ratio impact of 7pp for COVID-19 claims that is partially offset by a favourable 2pp impact for motor.

--The implied rating impact under the stress case would be a downgrade by no more than one notch.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

MAPFRE ESPANA Compania de Seguros y Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+; RO:Sta

MAPFRE Asistencia Compania Internacional de Seguros Y Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+; RO:Sta

MAPFRE RE, Compania de Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+; RO:Sta

MAPFRE Vida SA De Seguros Y Reaseguros; Insurer Financial Strength; Affirmed; A+; RO:Sta
MAPFRE, S.A.; Long Term Issuer Default Rating; Affirmed; A-; RO:Sta
----subordinated; Long Term Rating; Affirmed; BBB-
----senior unsecured; Long Term Rating; Affirmed; BBB+

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

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