

RatingsDirect®

Summary:

Mapfre Re, Compania de Reaseguros, S.A.

Primary Credit Analyst:

Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@standardandpoors.com

Secondary Contact:

Marco Sindaco, Madrid (44) 20-7176-7095; marco.sindaco@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Mapfre Re, Compania de Reaseguros, S.A.

Local Currency

Credit Rating: A/Stable/--

Rationale

The ratings on Spain-based reinsurer Mapfre Re, Compañía de Reaseguros, S.A. (Mapfre Re; A/Stable/--) reflect its status as a core subsidiary of Spanish insurance group Mapfre (the group; main operating entities are rated A/Stable). This is derived from Mapfre Re's role as the group's exclusive treaty reinsurer, management's strong links with other parts of the Mapfre group, and the parent's track record of capital management to fund Mapfre Re's development.

The ratings on Mapfre group's core operating entities reflect our view of the group's strong business and financial risk profiles, which result in an 'a' group credit profile. The ratings are three notches above the long-term sovereign credit rating on Spain.

As a core entity to the Mapfre group, we believe Mapfre Re is integral to the group's current identity and future strategy and its ratings are aligned to the group credit profile. We believe Mapfre Re would receive financial support from the group if required, but would also be affected by financial stress at the parent level if it happened. The Mapfre group has confirmed its support for Mapfre Re's business model by adapting its dividend policy to clear risk tolerances, and injecting capital when required (latest injections between 2002 and 2006). Mapfre Re accounts for almost 10% of the group's total consolidated capital, and the quality of its capital is strong, reflecting the absence of financial leverage, the predominantly short-tail book of business, favorable reserve development, and generally conservative risk retentions.

Mapfre Re is Mapfre's reinsurance specialist unit. Although legally separated, it effectively operates as a division in relation to the group business and is highly integrated with the group. Mapfre Re is the sole treaty reinsurance purchaser for the whole group, coordinating catastrophe and counterparty risks, and risk retention at both consolidated and country levels. Its role, together with the group's high exposure to property/casualty business, explains its reinsurance utilization ratio, which remains higher than peers' at over 30%.

In 2014, Mapfre Re reported €3.3 billion gross written premiums, 45% of which was intra-group business. Mapfre Re's role as treaty reinsurer to the group provides a sizable, diversified, and profitable revenue stream, as well as international brand recognition. With a strong presence in Europe, the U.S., and Latin America, Mapfre Re operates in geographic regions that are integral to the overall group strategy. In 2014, 55% of its business was generated from non-group entities. We consider Mapfre Re has built strong cedant relationships thanks to the quality of its underwriting process, recognized expertise, and long-term approach to client relationships. Mapfre Re's size, however, remains relatively modest in the global, consolidating reinsurance industry. With about 40% of its business written in Spain and Portugal and countries rated lower than Spain, Mapfre Re is also in part concentrated in regions with an

above-average country risk compared with the global reinsurance market.

Mapfre Re's strong track record of earnings performance is in line with the group's management targets and earnings. In 2014, Mapfre Re reported net income of €142 million (return on equity: 12%), which accounted for more than 10% of the group's total consolidated earnings that year. Mapfre Re's earnings have generally been more stable than the rest of the global reinsurance industry over the past 10 years. It is not heavily exposed to catastrophe risk in Spain; this type of risk is largely covered by the Consorcio de Compensación de Seguros.

However, in recent years, Mapfre Re has increased its exposure to major corporate risks while increasing its geographic diversification, in line with the Mapfre group. Nevertheless, Mapfre Re continues to demonstrate strong earnings. In 2014, Mapfre Re's net non-life combined ratio improved further to 93% from 97% in 2013. In 2014, the reinsurer experienced net losses derived from natural catastrophes of slightly over €100 million versus the record loss of €291 million in 2011.

Outlook

The stable outlook on Mapfre Re reflects that on Mapfre's core operating entities, which in turn reflects that on Spain, as we are unlikely to rate Mapfre's core operating entities more than three notches above Spain. We also expect Mapfre to retain its capital adequacy near the 'A' threshold under our methodology, and its wide access to capital markets; these factors are the cornerstones of its strong financial risk profile.

Upside scenario

We could raise the ratings on Mapfre's core entities if, following a similar action on Spain, we consider the group's business risk profile to have strengthened over the next two years. Such an improvement would include evidence that Mapfre's ambitious expansion strategy has successfully increased business volumes and earnings diversification in key major markets outside Spain (Brazil, Mexico, the U.S., and other European countries). At the same time, we would expect to see that the group had preserved its net combined (loss and expense) ratio at 96% or below, its return on equity at 10% or above, and its strong financial risk profile.

Downside scenario

We could lower the rating on Mapfre's core entities if we lowered the rating on Spain. We could also lower the rating if:

- Capital adequacy unexpectedly dropped materially to levels significantly below the 'A' threshold. This could result from a severe combined global and domestic financial market stress; or
- We did not expect Mapfre to pass the sovereign default test, which could result from an unexpected drop in regulatory capital or an increase in Spanish assets relative to regulatory capital.

Related Criteria And Research

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013

- Enterprise Risk Management, May 7, 2013
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Mapfre Group, Aug. 6, 2015

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Copyright © 2015 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.