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Research Update:

Spain-Based Insurance Group Mapfre's Core Entities Affirmed At 'A'; Outlook Stable

Primary Credit Analyst:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

Secondary Contact:
Marco Sindaco, Madrid (34) 91-788-7218; marco.sindaco@spglobal.com

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Overview

- We believe that insurance group Mapfre's more cautious growth strategy, reduction in exposure to Spanish life savings activity, and increase in reinsurance cover will allow the group to consolidate its current strong financial risk profile.
- We continue to consider Mapfre to be resilient to a hypothetical Spanish default scenario.
- We are therefore affirming the long-term ratings on the group's core operating subsidiaries at 'A' and on Mapfre S.A. at 'BBB+'.
- The stable outlook reflects our view that Mapfre's diversified geographic and business mix and its prudent capital management will shelter it from volatile markets and weak conditions in Brazil, and that exposure to Spanish assets will remain within the threshold to pass our sovereign stress test.

Rating Action

On July 11, 2016, S&P Global Ratings affirmed its 'A' long-term counterparty credit and insurer financial strength ratings on the core subsidiaries of Mapfre S.A. Group, Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros, S.A.

At the same time, we affirmed the long-term counterparty credit rating on the holding company Mapfre S.A. at 'BBB+' as well as our 'BBB+' senior debt rating and 'BBB-' subordinated debt ratings on the entity. The outlook on all entities is stable.

Rationale

The affirmation reflects our belief that Mapfre's more cautious growth strategy, reduction in exposure to Spanish life savings activity, and increase in international property/casualty (P/C) reinsurance cover will allow the group to consolidate its current strong financial risk profile. The affirmation also reflects our view that Mapfre remains resilient to a hypothetical Spanish sovereign default scenario.

We now forecast Mapfre's consolidated capital adequacy will consolidate at the 'A' confidence level over 2016-2018. Mapfre's strategic focus on cost control and claims management--with a target to operate with a combined ratio of 96%--is a positive to our credit opinion, as we expect this will lead to slower growth in in the next two to three years. Mapfre's exit from a joint venture with a Spanish bank alongside a negative trend in Spanish life savings growth will also temper volume growth. We also believe the group's U.S. results will become more stable, thanks to enhanced reinsurance coverage against natural events in the country. Finally, we consider that P/C price increases upheld by Mapfre following a rise in claims frequency and the revision of the Spanish bodily injuries claims table ("the Baremo") will positively affect domestic results in the coming years. These elements more than offset the expected drag from Mapfre's Brazilian operations, which are forecast to remain profitable, but less so than in the past two years, given the recession in the country.

We continue to view the significant share of soft forms of capital (minority interests, value-in-force, and unrealized gains) as a relative weakness of Mapfre's overall capitalization, according to our criteria.

Over the next three years, we expect net profit (after minorities) will range from €750 million to €900 million, and retained earnings will compensate for growth in capital requirements, after taking into account a dividend payout of close to 60%. The low sensitivities of Mapfre's Solvency II ratio (190% at end-2015 under the standard formula) to financial market shocks also support our view of the group's expected earnings resilience in the current volatile environment.

We estimate that, excluding unit-linked investments, Spanish sovereign and corporate bonds, bank deposits, real estate, and equities represented about 50% of Mapfre's total investments and 2x its Solvency II regulatory solvency capital at end-2015. Our estimate of Mapfre's Solvency II regulatory capital in a stress scenario would benefit from the characteristics of Mapfre's Spanish life liabilities, the majority of which offer only terminal guarantee and pay out the market value of assets to policyholders in case of surrender. We estimate that the haircuts associated with our capital stress test would not fully deplete Mapfre's regulatory Solvency II own funds, even though the post-stress own funds under Solvency II are smaller than under Solvency I. This reflects the exclusion of eligible own funds of goodwill and minority interests. Consequently, we consider that Mapfre passes the stress test and is eligible to be rated above the sovereign.

Our view of Mapfre's business risk profile reflects the group's leading market positions and highly-ranked brand in Spain, Brazil, and other Latin American countries, wide distribution, and balanced business mix between various P/C lines of business, life insurance, and reinsurance. In addition, Mapfre has a balanced exposure between developed countries (Spain, the U.S., Italy, Germany, and other developed countries through the global risks and reinsurance activities) and emerging markets. These strengths are mitigated by the relatively weak performance in countries of recent expansion (mainly the U.S., Turkey, Germany, and Italy). Mapfre's material exposure to countries with speculative-grade foreign currency sovereign ratings--totaling about 25%

of its premiums and profits--also generates vulnerability to country risk.

Outlook

The stable outlook reflects our view that Mapfre's diversified geographic and business mix and its prudent capital management will shelter it from volatile markets and weak conditions in Brazil, and that exposure to Spanish assets will remain within the threshold to pass our sovereign stress test.

Upside scenario

We could raise the ratings on Mapfre's core entities if we had evidence that the group had durably improved the performance of the countries where it recently expanded and that Brazil's profitability was proving resilient. We would notably expect the profit contribution of key major markets outside Spain, such as Mexico, the U.S., and Turkey, to converge to the group return on equity target. At the same time, we would expect to see that the group had recovered its net combined (loss and expense) ratio at 96% or below, and its return on equity to 10% or above.

Downside scenario

We could lower the rating on Mapfre's core entities 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.

Ratings Score Snapshot

Financial Strength Rating	A/Stable
Anchor	a
Business risk profile	Strong
IICRA	Intermediate
Competitive position	Very strong
Financial risk profile	Strong
Capital and earnings	Moderately strong
Risk position	Intermediate risk
Financial flexibility	Strong
Modifiers	0
ERM and management	0
Enterprise risk management	Adequate with strong risk controls

Management and governance	Satisfactory
Holistic analysis	0
Liquidity	Exceptional
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment. ERM--Enterprise risk management.

Related Criteria And Research

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

Ratings List

Ratings Affirmed

Mapfre S.A.	
Counterparty Credit Rating	
Local Currency	BBB+/Stable/--
Senior Unsecured	BBB+
Subordinated	BBB-
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.	
Mapfre Re, Compania de Reaseguros, S.A.	
Counterparty Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--

Additional Contact:

Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.