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Research Update:

Spain-Based Insurance Group Mapfre Upgraded To 'A-' Based On Criteria For Rating Above The Sovereign; Outlook Stable

Primary Credit Analyst:

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

Secondary Contact:

Peter McClean, London (44) 20-7176-7075; peter.mcclean@standardandpoors.com

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Overview

- Spain-based insurance group Mapfre passes our hypothetical sovereign default stress test under our revised criteria for rating companies above the sovereign, indicating that it would not exhaust its regulatory solvency capital, even under the stress of a sovereign default.
- We are raising our ratings on Mapfre's core subsidiaries to 'A-' from 'BBB+' and removing them from CreditWatch, where we placed them on Nov. 26, 2013.
- The rating is three notches above the foreign currency sovereign rating on Spain and is one notch below Mapfre's indicative group credit profile, reflecting our view of Mapfre's moderate to high sensitivity to Spanish country risk.
- The stable outlook reflects that on Spain and our expectation that Mapfre's exposure to Spanish assets will not increase in the next two years, relative to its balance sheet.

Rating Action

On Feb. 20, 2014, Standard & Poor's Ratings Services raised to 'A-' from 'BBB+' its long-term counterparty credit and insurer financial strength ratings on the core subsidiaries of Spain-based insurance group Mapfre: Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. and Mapfre Re, Compania de Reaseguros, S.A. We also raised to 'BBB' from 'BBB-' the long-term counterparty credit rating on Mapfre S.A., the group's nonoperating holding company. At the same time, we removed all the above ratings from CreditWatch with developing implications, where we placed them on Nov. 26, 2013. The outlook is stable.

Rationale

The upgrade reflects the implementation of our revised criteria on rating companies above the sovereign level (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013). Under the criteria, we assess the potential impact of a hypothetical Spanish sovereign default on Mapfre's consolidated balance sheet, based on a stress scenario. We apply this test to all companies with indicative credit profiles higher than the rating on the sovereign to which they are materially exposed, to assess whether their rating could be higher than that on the sovereign.

We consider Mapfre to have a material exposure to Spanish assets. We estimate that, in 2014, Spanish assets account for 58% of its total consolidated assets, and 2.4x its regulatory solvency capital. In particular, we estimate that Spanish government bonds, most of which mature after longer than one year, account for 34% of total invested assets or 1.4x regulatory capital. Meanwhile, exposure to Spanish bank fixed-income investments--mostly covered bonds and bank deposits--accounts for 13% of invested assets or 0.5x regulatory capital.

We have applied our hypothetical foreign currency sovereign default stress test to Mapfre's balance sheet, including haircuts on all Spain-based assets, such as sovereign bonds, local bank and corporate bonds, real estate, deposits, and equities. We then compared the euro amount of hypothetical losses with the regulatory solvency capital of the insurer (capital stress) to which we added one year of pre-tax, post-haircut earnings, and policyholders' share of potential default losses on the with-profits portfolios. We also applied liquidity stress under our liquidity criteria that used the asset haircuts above.

We estimate that the haircuts associated with the capital test would not lead to a full depletion of Mapfre's regulatory solvency capital. This indicates, according to our criteria, that Mapfre is unlikely to default on its insurance liabilities under the scenario. In addition, we consider that the liquidity test would result in a liquidity ratio of more than 100%. Mapfre therefore passes our sovereign default stress test.

Because Mapfre would have positive regulatory solvency capital, even after our stress test and excluding mitigation actions, we set the ratings at three notches above those on the sovereign, reflecting our view of its moderate to high sensitivity to country risk. Mapfre is a composite insurer that has material diversification in life and non-life business. Mapfre's substantial non-life focus (75% of total premiums and 35% of total technical reserves) and international diversification (Spain accounts for only 28% of total premium and 36% of consolidated results) lead us to consider that its sensitivity to country risk is less significant than peers that focus on life and domestic business. As a result, we add an additional notch of uplift to the ratings on Mapfre, compared with the maximum two notches we would apply to the ratings on a pure life insurance player.

Furthermore, we expect Mapfre's exposure to assets in Spain will remain at or lower than the current level, relative to its balance sheet and regulatory capital. We also expect the weight of its non-life divisions to remain undiluted over the next two years. Consequently, we rate Mapfre one notch lower than its 'a' indicative group credit profile (GCP).

Mapfre's 'a' indicative GCP is supported by its very strong competitive position and moderately strong capital and earnings. Mapfre's competitive position is supported by strong geographic and business line diversification, and strong market positions in Spain and Latin America. Mapfre's earnings

capacity compares favorably with peers and its diversification enables it to mitigate the effect of the difficult economic conditions prevailing in Spain. We consider that its operating earnings and ratios will remain broadly in line with its very strong performance over the past five years. Its five-year average combined (loss and expense) ratio was 95%, overall expense ratio was 23%, and return on equity was 13%.

Outlook

The stable outlook reflects that on Spain. We do not expect Mapfre to be rated more than three notches above Spain.

We could raise the rating on Mapfre following a similar action on Spain or if we considered that the group's sensitivity to country risk had materially declined. We view the latter event as unlikely to occur during the next two years.

We could lower the rating on Mapfre if:

- We lowered the rating on Spain, or
- We perceived that the group's sensitivity to country risk had increased, which could occur if we saw a material increase in Mapfre's Spanish and life business.
- Exposure to Spanish assets increased to such an extent that Mapfre might not pass the sovereign default test.

Ratings Score Snapshot

Financial Strength Rating	A-/Stable
Anchor	a
Business Risk Profile	Strong
IICRA	Moderate Risk
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
Comparative Analysis	0
Liquidity	Exceptional
Sovereign Risk	-1

Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Credit FAQ: How Does Standard & Poor's Apply Its Ratings Above The Sovereign Criteria To Insurers?, Dec. 20, 2013
- Credit FAQ: Why Our Updated Criteria On Rating Above The Sovereign Led To CreditWatch Placements On Some EMEA Insurers, Dec. 3, 2013
- Rating Actions On Nine European And African Insurance Groups After Revision Of Criteria On Rating Above The Sovereign, Nov. 26, 2013

Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.		
Mapfre Re, Compania de Reaseguros, S.A.		
Counterparty Credit Rating	A-/Stable/--	BBB+/Watch Dev/--
Financial Strength Rating	A-/Stable/--	BBB+/Watch Dev/--
Mapfre S.A.		
Counterparty Credit Rating	BBB/Stable/--	BBB-/Watch Dev/--
Senior Unsecured	BBB	BBB-/Watch Dev
Subordinated	BB+	BB/Watch Dev

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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