

Insurance Markets

Research Update:

Mapfre Insurance Group Core Entities Downgraded To 'BBB+' Following Downgrade Of Spain; On CreditWatch Negative

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Research Update:

Mapfre Insurance Group Core Entities Downgraded To 'BBB+' Following Downgrade Of Spain; On CreditWatch Negative

Overview

- On Oct. 10, 2012, we downgraded the Kingdom of Spain to 'BBB-/A-3' from 'BBB+/A-2'. The outlook on Spain remains negative.
- Our criteria allow up to a two-notch differential between the ratings on the core operating entities of Spain-based insurance group Mapfre, and the ratings on Spain. This reflects the group's business and asset diversification to Brazil, the U.S., and other countries rated 'BBB+' or higher.
- We are therefore lowering our long-term rating on Mapfre's core and strategically important operating entities to 'BBB+' from 'A-'. We are also lowering our long-term rating on the Mapfre group's holding company, Mapfre S.A., to 'BBB-' from 'BBB' and on the intermediate holding company Mapfre USA Corp. to 'BB+' from 'BBB-'.
- We are also placing the ratings on CreditWatch with negative implications, reflecting the possibility that we could lower the ratings by a further one notch following our review of Mapfre's exposure to country risk and the sensitivity of its profile to the deteriorating credit quality of Spain.

Rating Action

On Oct. 15, 2012, Standard & Poor's Ratings Services lowered to 'BBB+' from 'A-' the long-term counterparty credit and insurer financial strength ratings on the core operating entities of Spain-based Mapfre insurance group: Mapfre Global Risks, Compañía Internacional de Seguros y Reaseguros S.A., and Mapfre Re Compañía de Reaseguros S.A.

At the same time, we lowered the long-term counterparty credit rating on the group's holding company, Mapfre S.A., to 'BBB-' from 'BBB'. We also lowered our long-term issue ratings on the subordinated debt of Mapfre S.A. to 'BB' from 'BB+'.

We regard Mapfre's U.S. operations--Commerce Insurance Co. and Citation Insurance Co. and their intermediate holding company, Mapfre USA Corp.--as "strategically important." We have lowered to 'BBB+' from 'A-' the long-term counterparty credit and insurer financial strength ratings on the first two of these entities, according to our group rating methodology. We have also lowered to 'BB+' from 'BBB-' the long-term counterparty credit rating on Mapfre USA Corp.

We also placed all these ratings on CreditWatch with negative implications.

Rationale

The rating actions on the various Mapfre Group entities follow our lowering of the long- and short-term ratings on the Kingdom of Spain (BBB-/Negative/A-3) on Oct. 10, 2012 (see "Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative," published on Ratings Direct on the Global Credit Portal). Under our criteria, our view of country risk generally constrains our ratings on an insurer. Following the sovereign rating action, country risk has, in our view, increased.

Our criteria allow up to a two-notch differential between the ratings on Mapfre's core operating entities and the ratings on Spain (see "Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions," published June 14, 2011.) This reflects Mapfre's geographic diversification in countries rated higher than Spain, and the sensitivity of the insurance sector to country risk, which we regard as high.

The ratings on Mapfre's operating entities reflect our view of the group's strong operating performance; increasing geographic diversification, enhanced by leading positions in Spain and Latin America; and track record of good management. We consider these positive factors to be partially offset by the deteriorating credit quality of the investment portfolio, increasing country risk exposure, and weakening capital adequacy levels and quality.

CreditWatch

The negative CreditWatch placement reflects the possibility that we could lower the ratings by a further one notch following our review of Mapfre's exposure to country risk and the sensitivity of its profile to the deteriorating credit quality of Spain.

We could lower the ratings by a further notch if, in our view, the sensitivity to country risk from exposures to Spanish business, sovereign debt, related bank debt, and deposits--and the resulting potential impact on the business and financial risk profiles--does not justify a two-notch differential with the Spanish sovereign rating.

Conversely, we could affirm the ratings at 'BBB+' if, in our opinion, Mapfre's business and financial profiles demonstrate higher-than-anticipated resilience to the deteriorating Spanish environment, through material diversification of exposures.

We expect to complete our review of Mapfre's exposure and sensitivity to

country risk within the next week, after discussions with management.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- Spain Ratings Lowered To 'BBB-/A-3' On Mounting Economic And Political Risks; Outlook Negative, Oct. 10, 2012
- Nonsovereign Ratings That Exceed EMU Sovereign Ratings: Methodology And Assumptions, June 14, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- 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
- Group Methodology, April 22, 2009
- Holding Company Analysis, June 11, 2009
- Interactive Ratings Methodology, April 22, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004
- Criteria Update: Factoring Country Risk Into Insurer Financial Strength Ratings, Feb. 11, 2003

Ratings List

Downgraded

	To	From
Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. Mapfre Re, Compania de Reaseguros, S.A. Commerce Insurance Co. Citation Insurance Co. (MA) Counterparty Credit Rating Financial Strength Rating	BBB+/Watch Neg/-- BBB+/Watch Neg/--	A-/Negative/-- A-/Negative/--
Mapfre S.A. Counterparty Credit Rating Subordinated	BBB-/Watch Neg/-- BB/Watch Neg	BBB/Negative/-- BB+
Mapfre U.S.A. Corp. Counterparty Credit Rating Senior Unsecured	BB+/Watch Neg/-- BB+/Watch Neg	BBB-/Negative/-- BBB-

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Complete ratings information is available to subscribers of RatingsDirect on

the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

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