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Summary:

Mapfre Re, Compania de Reaseguros, S.A.

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	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's core operating entities reflect our view of the group's strong business and financial risk profiles, which result in an 'a' anchor. In accordance with our criteria for rating above the sovereign, the ratings are three notches above the ratings on Spain. As a core entity to the Mapfre group, we believe Mapfre Re is integral to the group's identity and future strategy, and consequently its ratings are aligned with the credit profile of the Mapfre group. This means that, in the light of the close business and funding ties, we believe Mapfre Re would receive financial support from the group if required, but would also be affected by a financial stress at parent level.

Mapfre Re is Mapfre's specialist reinsurance unit. Although legally separate, it effectively operates as a division in relation to the group business and is highly integrated with the group. In 2013, Mapfre Re reported €3.25 billion gross written premiums, 44% of which was intra-group business. Mapfre Re benefits from its exclusive role as treaty reinsurer to the group's entities, which provide a sizable, diversified, and profitable revenue stream, as well as international brand recognition. It is regarded as a center of excellence within the group, with obvious benefits in terms of risk management and costs.

With a strong presence in Spain, Europe, and Latin America, Mapfre Re operates in geographic regions that are integral to the overall group strategy. In 2013, 56% of its business (€1.82 billion) was generated from non-group entities. Mapfre Re has built strong relationships with cedants, which underpin its mostly proportional-based treaties. Mapfre Re's size, however, remains relatively modest in the global, consolidating reinsurance industry. With some 50% 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 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 PC business, explains a reinsurance utilization ratio higher than peers' at 34%. Mapfre Re accounts for almost 10% of the group's total consolidated capital and its level of capital benefits from historically high levels of earnings retention. The Mapfre group has affirmed its support for Mapfre Re's business model by adapting its dividend policy to defined risk tolerances, and injecting capital when required (latest injections between 2002 and 2006). Mapfre Re's quality of capital is also strong, reflecting the absence of financial leverage, the predominantly short-tail book of business, favorable reserve development, and generally conservative risk retentions.

Mapfre Re's strong track record of earnings performance is in line with the group's management targets and earnings. In 2013, Mapfre Re reported net income of €108.8 million (return on equity: 11%), which accounted for more than 10% of the group's total consolidated earnings that year. Mapfre Re 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 and natural catastrophes as it has increased its geographic diversification, in line with the Mapfre group. Notwithstanding this, Mapfre Re continues to demonstrate strong earnings. In 2013, Mapfre Re's net non-life combined ratio further improved to 96.5%, from 97.0% in 2012 and 100.6% in 2011. In 2013 the reinsurer experienced net losses derived from natural catastrophes of €94 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 Mapfre's core operating entities are unlikely to be rated more than three notches above Spain. We also incorporate our expectation that Mapfre will retain its strong business and financial risk profiles over the next two years.

Upside scenario

We could raise the rating on Mapfre's core entities following a similar action on Spain, accompanied by an improvement in the group's financial and business risk profiles. For example, this could happen if:

- The economic risk to which Mapfre is exposed were to decrease sustainably, improving its business risk profile; or
- The group's average asset credit quality were to substantially improve; and capital and earnings were to reach very strong levels.

Downside scenario

We could lower the rating on Mapfre's core entities if the financial risk profile were to weaken as result of weakening capital adequacy. We could also lower the rating if:

- We lowered the rating on Spain;
- 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; or
- Exposure to Spanish assets increased such that Mapfre might not pass the sovereign default test.

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

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- Mapfre Group, July 10, 2014

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