

Fitch Affirms MAPFRE at IFS 'A+'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 16 September 2019:

Fitch Ratings has affirmed Spanish insurer MAPFRE S.A.'s (MAPFRE) core operating subsidiaries' Insurer Financial Strength (IFS) Ratings at 'A+' (Strong) and MAPFRE's Issuer Default Rating (IDR) at 'A-'. The Outlooks of the ratings are Stable.

A full list of rating actions is at the end of this commentary.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
MAPFRE ESPANA Compania de Seguros y Reaseguros, S.A.	Ins Fin Str A+ ● Affirmed	A+ ●
MAPFRE Asistencia Compania Internacional de Seguros Y Reaseguros, S.A.	Ins Fin Str A+ ● Affirmed	A+ ●
MAPFRE RE, Compania de Reaseguros, S.A.	Ins Fin Str A+ ● Affirmed	A+ ●
MAPFRE Vida SA De Seguros Y Reaseguros	Ins Fin Str A+ ● Affirmed	A+ ●
MAPFRE, S.A.	LT IDR A- ● Affirmed	A- ●
subordinated	LT BBB- Affirmed	BBB-
senior unsecured	LT BBB+ Affirmed	BBB+

Key Rating Drivers

The ratings reflect MAPFRE's very strong business profile and capitalisation, and strong earnings. These factors are somewhat offset by MAPFRE's significant exposure to Spanish sovereign debt, which is used to match domestic life insurance liabilities in Spain.

We rank MAPFRE's business profile as favourable compared with other European-based insurance groups', and given this ranking, we score its business profile at 'aa-' under our credit factor scoring guidelines. MAPFRE has a very strong market position in Spain, where it is a leader in the non-life segment, and in Latin America, particularly Brazil. MAPFRE's share of Spanish non-life insurance was 14%, life 8% and Latin American non-life 7% in 2018. This makes it the 11th-largest European and the third-largest Latin American insurance group.

Fitch views MAPFRE as strongly capitalised based on a 'Strong' score from the agency's Prism Factor-Based Model (FBM). The group's regulatory Solvency II (S2) ratio also was very strong at 189% at end-1Q19 (end-2018: 190%). Own funds backing the S2 ratio largely consist of unrestricted Tier 1 capital. The FBM score as well as the S2 ratio exclude MAPFRE's goodwill of EUR1.8 billion at end-1H19, which is equivalent to 18% of total equity, from available capital.

MAPFRE's financial leverage weakened to 22% at end-2018 from 18% at end-2017, following a EUR500 million issue of Tier 2 subordinated bond in September 2018. MAPFRE's financial leverage was 23% at end-1H19. Despite the deterioration we view MAPFRE's leverage as 'Very Strong', and lower than that of similarly rated peers.

We assess MAPFRE's investment and asset risk as 'Strong'. This factor is constrained by the group's significant exposure to Spanish sovereign debt at 178% of total equity at end-1H19 (end-2018: 174%). However, Fitch believes that MAPFRE's capital is resilient against potential stress from substantial exposure to sovereign debt.

MAPFRE's underwriting performance remained resilient in 1H19 and 2018, despite difficulties in some of the insurer's core markets, including an economic downturn in Brazil in 2018. The group reported a combined ratio of 95.9% in 1H19 (1H18: 97.4%) and 97.6% in 2018. MAPFRE's target combined ratio is unchanged at 96% or less on average for 2019-2021. Fitch expects MAPFRE's technical profitability to remain strong over the next 12-24 months.

RATING SENSITIVITIES

MAPFRE's ratings could be upgraded if the group's capital position improves, as measured by a Prism FBM score of 'Very Strong', and if the group's financial performance improves, as measured by net income return on shareholders' equity of 10% or more on a sustained basis.

MAPFRE's ratings could be downgraded if the group's capital position deteriorates, as measured by the Prism FBM score falling to below 'Strong' or if Spain's sovereign rating is downgraded by two or more notches.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3. ESG issues are credit-neutral or have only a minimal impact on the entity, either due to their nature or to the way in which they are being managed by the entity.

For more information on our ESG Relevance Scores, visit www.fitchratings.com/esg.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

Additional Disclosures

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