

RatingsDirect®

Research Update:

Spain-Based Mapfre Core Entities Affirmed At 'BBB+' After Insurance Criteria Change; Outlook Negative

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

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

Research Update:

Spain-Based Mapfre Core Entities Affirmed At 'BBB+' After Insurance Criteria Change; Outlook Negative

Overview

- Following a review of Spain-based Mapfre insurance group under our revised insurance criteria, we are affirming our 'BBB+' ratings on its core operating entities.
- The ratings reflect our view of the group's strong business and financial risk profiles, which result in an 'a' anchor, and are constrained by the exposure to Spanish sovereign risk.
- The negative outlook reflects that on Spain, reflecting Mapfre's meaningful exposure to Spanish assets and insurance business, and indicating that any negative rating action on the sovereign could lead to a similar action on Mapfre.

Rating Action

On June 19, 2013, Standard & Poor's Ratings Services affirmed its 'BBB+' long-term counterparty credit and insurer financial strength ratings on the core operating entities of the Mapfre Group (Mapfre): Mapfre Re, Compania de Reaseguros, S.A. and Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A. At the same time, it affirmed its 'BBB-' long-term counterparty credit rating on Mapfre S.A., the nonoperating holding company of the Mapfre Group. The outlook on all the above entities is negative.

Rationale

The 'BBB+' ratings on Mapfre's core operating entities factor in our view of the group's strong business risk profile and strong financial risk profile, but are constrained by its exposure to Spanish sovereign risk.

The combination of Mapfre's strong business and financial risk profiles leads to either an 'a' or 'a-' anchor, according to our criteria. The anchor for Mapfre is 'a', reflecting our opinion that the group has a particularly strong business risk profile and our expectation that this will enable the group to maintain its strong financial risk profile.

Under our criteria, Mapfre's exposure to Spain means that its long-term rating is limited to two notches above that on the Kingdom of Spain (BBB-/Negative/A-3). This leads to a financial strength rating of 'BBB+'. The two-notch differential with the sovereign rating is based on the current

investment-grade rating on Spain and Mapfre's geographic diversification outside its domestic market.

Mapfre's strong business risk profile reflects our view of the group's very strong competitive position, constrained by its exposure to moderate country and industry risk. This risk mostly arises because the group generates much of its revenues, and in particular its earnings, in Spain, Portugal, and other lower-rated countries.

We assess Mapfre's industry and country risk as moderate. Our view is based on the mix of non-life and life insurance sectors from which Mapfre derives its business. Mapfre originates some 35% of its business from Spain and Portugal, 15% from Brazil, 10% from the U.S., 10% from the global reinsurance market, and the rest from various countries, mostly in South America.

The key factor affecting our view of Mapfre's country risk is the weakened economic conditions in Spain, its major and domestic market. In our opinion, growth prospects over the next two to three years in the Spanish insurance markets are weak and we expect Mapfre's historically strong earnings in Spain to come under pressure.

Mapfre's exposure to the country risk associated with Latin America is mitigated by its exposure to over 17 countries. Our assessment of the group's industry risk is strengthened by its lack of exposure to property catastrophe volatility in Spain, where these risks are covered by the state.

The group benefits from leading and profitable positions in its core markets of Spain and Latin America, enhanced by sizable operations in the U.S. and in global business lines such as reinsurance, commercial risk, and assistance. Mapfre's diversified and sizable distribution network supports its market leadership; the network comprises tied agents and direct sales (47%) as well as bank branches (20%) and brokers and other noncontrolled distribution channels (33%).

Mapfre's portfolio, which provides a balanced exposure between mature and fast-growing countries, is also relatively well-balanced in terms of business lines, including motor (estimated to form 35% of total premium), life (25%), property (15%), inward reinsurance (10%), health and accident (8%), and other (7%). In our base-case assumption, we expect weaker economic prospects and pressure on prices in Spain, combined with selective underwriting, to flatten Mapfre's overall business growth in 2013, after a decade of sustained growth. Partially offsetting the poor trends in Spain, we expect the Latin America and reinsurance businesses to grow by over 10% in 2012.

Mapfre's strong financial risk profile reflects our view of the group's moderately strong capital and earnings, intermediate risk position, and strong financial flexibility. We expect Mapfre to maintain its capital adequacy at least at moderately strong levels in 2013-2015 as net retained earnings will more than offset capital requirements deriving from the expected weak business growth.

Our view of Mapfre's quality of capital is in part constrained by its relatively high reliance on minority interests--in our view, this makes it less fungible--and soft forms of capital such as value of in-force business and unrealized gains on the property portfolio. The group comfortably covered its minimum regulatory capital requirements almost 3.0x at year-end 2013.

Strong underwriting discipline, together with successful geographic and business diversification, will continue to fuel Mapfre's long-term strong earnings. In the shorter term, we expect pressure on earnings to continue because of the difficult economic and underwriting cycle in Spain. Our base-case assumptions include an average net combined (loss and expense) ratio of 98% in 2013-2015 (96% at year-end 2012). Our forecasted year-end annual net earnings over the same period are €600 million (€666 million in 2012).

In our opinion, Mapfre's risk position reflects intermediate risk. Mapfre's investment strategy has historically been reasonably conservative and consistent with a strategy of closely managing asset-liability mismatches, focusing particularly on liquid investments. However, as the credit quality of the Spanish government and financial sector has deteriorated, the concentration in Spain that exists in the insurer's investment portfolio has become a relative weakness. At the end of March 2013, over 50% of Mapfre's €40.8 billion financial assets were invested in Spain, mostly in sovereign debt (25% of total financial assets), debt issued by Spanish financial institutions (14%), and properties (6%). Mapfre's fixed-income portfolio and bank deposits are also concentrated in some major, but weakened, financial institutions, such as Bankia. Partially offsetting these risks is the systemic importance of most of the banks to which Mapfre is exposed, and the fact that we estimate that for some 25% of its fixed-income portfolio, the credit risk is borne by the life policyholders until maturity.

We regard Mapfre's financial flexibility as strong. In recent years, the insurer has demonstrated its ability to raise both equity and debt capital via its listed entity, Mapfre S.A., more effectively than under its previous mutual-based structure. We expect the group will maintain its financial leverage around 20% and will continue to comfortably cover fixed charges comfortably over 10x.

We see Mapfre's management and governance and enterprise risk management (ERM) assessments as neutral to the rating outcome.

ERM is adequate with strong risk controls, in our view. ERM's importance to the ratings is increasing, owing to the group's active capital management strategy, more-complex and diversified business risk profile, and greater asset-risk exposure. The group's risk culture is robust, but we view it as neutral because Mapfre has yet to fully articulate its risk appetite in a comprehensive framework, in line with international and multiline peers. We see ERM as increasingly embedded in the strategic decision-making process.

We view Mapfre's management and governance as satisfactory. It has

demonstrated its ability to grow, both organically and by acquisition, without losing its focus on profitability, underwriting discipline, and customer service. However, management has pursued growth that has consumed capital at a time when asset risk has increased markedly. Furthermore, in our opinion, financial management remains relatively traditional and does not benefit from well-embedded internal models.

Liquidity is exceptional, given the high percentage of readily realizable assets and strong operating cash flows. Some risks may arise from volatile yields on Spanish bonds, which could impede the ability and willingness of Mapfre to freely dispose of bonds to raise cash.

Outlook

The negative outlook mirrors that on Spain; any rating action on Spain is likely to trigger a similar action on Mapfre.

We would likely lower the ratings on Mapfre's core operating subsidiaries by two notches if we were to lower the ratings on Spain by one notch, as, under our criteria, the maximum rating differential would be limited to one notch if the sovereign rating were to fall below 'BBB-'.

We could also lower the ratings by one notch if Mapfre's business, assets, or liability exposure to Spain and lower-rated countries were to increase to levels that no longer supported the two-notch differential under our criteria.

Conversely, we could revise the outlook to stable or raise the ratings on Mapfre following a similar rating action on Spain.

Rating Score Snapshot

Financial Strength Rating	BBB+/Negative
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	-2
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: 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
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed

Mapfre Re, Compania de Reaseguros, S.A.

Mapfre Global Risks, Compania Internacional de Seguros y Reaseguros S.A.

Counterparty Credit Rating

Local Currency BBB+/Negative/--

Financial Strength Rating

Local Currency BBB+/Negative/--

Mapfre S.A.

Counterparty Credit Rating

Local Currency BBB-/Negative/--

Senior Unsecured

BBB-

Subordinated

BB

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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 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.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.