

FITCH UPGRADES MAPFRE TO IFS 'A+'; OUTLOOK STABLE

Fitch Ratings-London-23 January 2019: Fitch Ratings has upgraded Spanish insurer MAPFRE S.A.'s (MAPFRE) core operating subsidiaries' Insurer Financial Strength (IFS) Ratings to 'A+' from 'A' and affirmed MAPFRE's Issuer Default Rating (IDR) at 'A-'. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The upgrade of the IFS ratings follows the publication of Fitch's revised global master insurance criteria "Insurance Rating Criteria" on 11 January 2019. The revised criteria include changes to the way Fitch captures country-related risks in ratings, moving away from the use of "top-down" sovereign constraints, to defining how country risk is captured within each key credit factor under a "bottom-up" analysis. Prior to that, MAPFRE's IFS ratings were capped by the sovereign constraint set at 'A', one notch above the sovereign rating of Spain (Long-Term Foreign-Currency Issuer Default Rating (LTFC IDR) A-/Stable).

The IFS rating of 'A+' reflects MAPFRE's very strong capitalisation and leverage, very strong financial performance and earnings and a very strong business profile. This is somewhat offset by MAPFRE's significant exposure to Spanish sovereign debt, used to match domestic life insurance liabilities in Spain.

Fitch views MAPFRE as strongly capitalised, based on a 'Strong' score from the agency's Prism factor-based model (FBM) at end-2017. The group's regulatory Solvency II (SII) ratio was also very strong at 202% at end-1H18 (end-2017: 200%). MAPFRE's financial leverage increased to 20.5% at end-9M18 following the EUR500 million Tier 2 subordinated debt issue in September 2018 from 19.5% at end-1H18. Fitch views MAPFRE's financial leverage ratio as moderate, in line with the rating but lower than those of its peers.

MAPFRE's underwriting performance remains resilient despite difficulties in some of the group's core markets, including an economic downturn in Brazil (LTFC IDR BB-/Stable). The group reported a combined ratio of 98.1% for 9M18 (9M17: 98.7%) and a return on equity of 9.2%. MAPFRE's target combined ratio is unchanged at 96% or less. Fitch expects MAPFRE's technical profitability to remain strong over the next 12-24 months.

MAPFRE's IFS rating takes into account the group's significant exposure to sovereign debt at 164% of total equity at end-9M18. MAPFRE is also substantially exposed to the Spanish economy as around 60% of its attributable result originates from Spain. However, Fitch believes that MAPFRE's capital is resilient against potential stress from substantial exposure to sovereign debt.

MAPFRE has a very strong market position in Spain, where it is the leader in the non-life segment, and in Latin America, particularly Brazil. MAPFRE's share of Spanish non-life insurance was 14.3%, life 6.5% and Latin American non-life 7.6% in 2017. This makes it the 10th-largest European and third-largest Latin American insurance group.

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 financial performance improves, as measured by net income return on 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.

FULL LIST OF RATING ACTIONS

MAPFRE S.A.

Long-Term IDR affirmed at 'A-/Stable

Senior debt affirmed at 'BBB+'

Subordinated debt affirmed at 'BBB-'

The IFS Ratings for the following entities have been upgraded to 'A+' from 'A'; Outlook Stable:

MAPFRE Espana Compania de Seguros y Reaseguros S.A.

MAPFRE Global Risks S.A.

MAPFRE Vida S.A. de Seguros y Reaseguros

MAPFRE Re Compania de Reaseguros S.A.

MAPFRE Asistencia Compania de Seguros y Reaseguros S.A.

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

<https://www.fitchratings.com/site/re/10058790>

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