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Ratings

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Mapfre Group

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Mapfre Group

Credit Highlights

Holding Company: Mapfre S.A.
Issuer Credit Rating
Local Currency
BBB+/Positive/--
Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A/Positive/--

Overview

Strengths	Risks
Highly ranked international insurance brand with market-leading positions in Spain and Latin America.	Limited contribution to overall performance from some business units, and in particular more recent acquisitions.
Broad business diversification by line and geography and wide asset diversification.	Moderate earnings sensitivity to currency fluctuations derived from operations in emerging markets.
Solid level of capital under both S&P Global Ratings' and Solvency II calculations.	Limited capital generation in recent years as a result of dividend payments and acquisitions.

S&P Global Ratings expects Mapfre Group to maintain its top-tier ranking in the Spanish and selected Latin American insurance markets. Mapfre is a long-established international insurance group that benefits from a renowned brand name, multi-channel distribution strategy, and diversification by business line and geography.

We estimate Mapfre will maintain solid solvency levels and a diversified investment portfolio over 2019-2020. We assess that the group will maintain its capital adequacy in the 'A' confidence level, according to our model, and a Solvency II ratio of above 180%. The insurer's international investment diversification allows us to rate its core operating entities up to three notches above the long-term rating on Spain.

We estimate that the group will generate normalized annual net profit (after minorities) of nearly €700 million. The strong profitability of the Spanish and reinsurance businesses is in part mitigated by the limited profit contributions from countries where the group has expanded in more recent years (such as Turkey and Italy), as well as the U.S. and parts of South America. In our view, the effective implementation of the latest strategic plan and the strengthening of distribution agreements with banks will allow Mapfre to consolidate its market positions, more closely integrate operations, and achieve stronger performance.

Outlook

The positive outlook indicates that we could raise the ratings in the next 6-12 months if we saw the group continuing to enhance its profitability and competitive position through the effective implementation of its strategic plan. At the same time, we would expect Mapfre Group's acquisition and dividend policy not to dilute capital adequacy, which we estimate will remain in the 'A' range.

Downside scenario

We could revise the outlook to stable if, contrary to our expectations, capital adequacy unexpectedly drops below the threshold for the 'A' rating. This could result from severe combined global and domestic financial market stress. We could also revise the outlook to stable if the group's earnings normalize at levels significantly below our assumptions, or if earnings diversification is not progressing in line with peers.

Furthermore, we could lower the ratings if we no longer believed Mapfre Group would pass the sovereign default test, which could result from an unexpected drop in regulatory capital, or an increase in Spanish assets relative to regulatory capital.

Key Assumptions

- Average GDP growth of 2.3% in Spain for 2019, and 1.9% for 2020.
- Yield on Spanish 10-year government bonds expected to average 1.5% over 2019-2020.
- Average GDP growth of 1.0% for Brazil in 2019, and 2.2% in 2020.
- Average yield for long-term rates in Brazil to average 7.5% over 2019-2020.

Key Metrics

	2020F	2019F	2018	2017	2016
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Strong	Strong
Gross premium written (mil. €)	23,500	23,000	22,537	23,481	22,813
Net income after minorities(mil. €)	700	700	529	701	775
Return on shareholders' equity (%)	8.0	8.0	6.4	7.9	8.8

F--S&P Global Ratings' forecasts.

Business Risk Profile

Mapfre Group benefits from wide geographic diversification, and leading and profitable positions in its larger business units--Spain, reinsurance, and Brazil--which together generate about 80% of net group profits. The group's diversified and sizable distribution networks, client-service focus, and successful sharing of best practices underpin its leading positions.

Mapfre Group's operations in low risk and highly profitable markets such as Spanish property and casualty (P/C) balance those in riskier and less profitable markets such as Turkey and some Latin American countries.

The group is the second largest insurer in its domestic market in terms of premiums with leading positions in both P/C and life insurance. It also ranks No.2 in the Brazilian P/C sector through its joint venture with Banco do Brasil, one of Brazil's largest banks with more than 66 million clients. Mapfre Group generated €2.4 billion from external reinsurance in 2018 (65% of its gross inward reinsurance premiums), accounting for over 10% of the group's business and providing a significant source of business and profit diversification.

However, Turkey, Italy, and some Latin American countries still contribute only a limited amount to Mapfre Group's overall profits.

We believe that the group's reorganization and strengthening of its bancassurance agreements--with Banco do Brasil in Brazil and Bankia and Santander in Spain--will allow it to consolidate its market positions, integrate operations more closely, and achieve stronger performance. We also view positively Mapfre Group's focus on controlling costs, enhancing claims management, and strengthening distribution capacity and existing market positions, targeting an average combined ratio of 96%.

Financial Risk Profile

We regard Mapfre Group's position as solid. We assess that the group will maintain its capital adequacy in the 'A' confidence level, according to our risk-based model, and above 180% according to Solvency II, including transitional measures.

Although we estimate that the group can generate normalized annual net profit (after minorities) of nearly €700 million, goodwill write-downs, currency depreciation, and the effect of natural catastrophes constrained overall performance in 2018. We estimate Mapfre will continue to generate sufficient retained earnings, after taking into account an average dividend payout of nearly 60% of net income, to compensate for the rise in capital requirements from business growth.

We believe Mapfre Group benefits from strong and well-developed risk controls and view positively the insurer's enhancement of its investment and asset-liability management risk controls.

Mapfre's investment portfolio has historically been consistent with a strategy of closely managing asset-liability mismatches in its Spanish life business. Bonds--mostly government and financials--account for about 75% of the invested, nonlinked assets. Fixed-income (FI) investments rated below 'BBB' are mainly concentrated at the Brazilian government and represent about 10% of the group's total FI holdings.

In our view, Mapfre Group is less sensitive to the very low interest-rate environment in Europe than many eurozone peers, thanks to its significant share of U.S. dollar-related activities and investments.

In recent years, the group has demonstrated its ability to raise debt capital via its listed entity, Mapfre S.A. We expect the group's financial leverage will average about 20% and anticipate that it will continue to comfortably cover financial interests by more than 15x.

Other Key Credit Considerations

Governance

Mapfre's management has demonstrated its ability to expand--both organically and through acquisitions--without losing its focus on underwriting discipline and customer service. Although we view the group's risk culture as robust, growth weighed on profitability ratios owing to some of the acquired businesses' performance issues.

Liquidity

Liquidity is exceptional, given the high percentage of readily realizable assets and strong operating cash flows.

Ratings above the sovereign

Mapfre Group's international diversification makes it resilient to a hypothetical domestic sovereign stress situation. As a result, we can rate the core operating entities of the Mapfre Group above the Spanish sovereign long-term rating up to a maximum of three notches, reflecting our view of the group's moderate-to-high sensitivity to country risk.

In our assumptions, we add back to Mapfre Group's own Solvency II funds, minority interests in excess of regulatory capital at subsidiaries that are excluded from Solvency II. We also estimate Mapfre Group's Solvency II regulatory capital in case of stress would benefit from the characteristics of its Spanish life liabilities--that is, mainly terminal guarantee and payout of the market value of the assets (if lower than the technical provisions) in case of surrender of policyholders.

Factors specific to the holding company

The issuer credit rating on the group's top nonoperating holding company, Mapfre S.A., reflects our standard two-notch differential with the insurer financial strength rating on group core entities, and the subordination of Mapfre S.A. creditors to the core entities' policyholders. The positive outlook on Mapfre S.A. mirrors that on the group's core operating entities.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral

Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

*The anchor reflects the insurer's strong brand, leading market positions, and diversified product and geographical profile compared with peers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Appendix

Mapfre Group Credit Metrics History

Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy*	Strong	Very Strong
Total invested assets	48,014	48,491
Total shareholder equity	9,198	10,513
Gross premiums written	22,537	23,481
Net premiums written	19,163	19,416
Net premiums earned	19,212	19,310
Reinsurance utilization (%)	14.97	17.31
EBIT	1,408	1,577
Net income (attributable to all shareholders)	878	1,098
Return on revenue (%)	6.6	7.3
Return on assets(%)	2.3	2.5
Return on shareholders' equity (reported) (%)	6.4	7.9
P/C: net combined ratio (%)	98.0	98.6
P/C: net expense ratio (%)	28.3	27.9
P/C: return on revenue (%)	5.1	6.3
Life: Net expense ratio (%)	22.6	24.9
EBITDA fixed-charge coverage (x)	18.2	16.1
Financial obligations / EBITDA adjusted	1.9	1.5
Financial leverage including pension deficit as debt (%)	22.5	18.1

Mapfre Group Credit Metrics History (cont.)		
Ratio/Metric	**2018**	**2017**
Net investment yield (%)	3.6	3.6
Net investment yield including investment gains/(losses) (%)	3.1	4.3

Ratios and numbers reflect S&P Global Ratings' calculations.

Ratings Detail (As Of September 12, 2019)*	
Holding Company: Mapfre S.A.	
Issuer Credit Rating	
Local Currency	BBB+/Positive/--
Senior Unsecured	BBB+
Subordinated	BBB-
Operating Company Covered By This Report	
Mapfre Re, Compania de Reaseguros, S.A.	
Financial Strength Rating	
Local Currency	A/Positive/--
Issuer Credit Rating	
Local Currency	A/Positive/--
Domicile	Spain

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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