

21 Sep 2020 | Affirmation

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

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Fitch Ratings-Frankfurt am Main-21 September 2020:

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

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

At the same time Fitch has chosen to withdraw the ratings of MAPFRE ESPANA Compania de Seguros y Reaseguros, S.A., MAPFRE RE, Compania de Reaseguros, S.A. and MAPFRE Vida SA De Seguros Y Reaseguros for commercial reasons.

### Key Rating Drivers

The ratings reflect MAPFRE's very strong business profile, very strong capitalisation and leverage 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 market-share in Spain was 14 % in non-life and 8% in life in 2019 and 8% in Latin American non-life in 2019. This makes it the 11th-largest European and the third-largest Latin American insurance group.

Fitch's assessment of MAPFRE's capitalisation is driven by a 'Strong' score from the agency's Prism Factor-Based Model (FBM) as well as the group's regulatory Solvency II (S2) ratio at 184% at end-1H20 (end-2019: 187%). 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 EUR1.7 billion at end-1H20, which is equivalent to 18% of total equity, from available capital. MAPFRE's financial leverage was stable at 24% at end-1H20 (end-2019: 23%). We view MAPFRE's leverage as 'Strong', and comparing favourably with similarly rated peers.

MAPFRE's underwriting performance remained resilient in 1H20, despite losses from natural catastrophe events in Spain and Puerto Rico in 1Q20 and the impact of the coronavirus pandemic on premium income. The group reported a combined ratio of 96.7% in 1H20 (1H19: 95.9%) and 97.6% in 2019. MAPFRE's target combined ratio (excluding natural catastrophe events) is between 96% and 97% on average for 2019-21. MAPFRE's overall profitability also remained strong in 1H20 despite negative market movements and increased credit defaults arising from the coronavirus pandemic. The group's net result (excluding minorities) of EUR271 million equals an annualised return on equity of 6.3% (2019: 7.2%).

Fitch expects MAPFRE's financial performance to remain somewhat vulnerable due to the coronavirus crisis, in particular to the risk of a rise in credit spreads and rating migration on the investment portfolio over the near term. However, Fitch expects the overall impact of coronavirus to be manageable for MAPFRE due to its strong capital position. Fitch also expects MAPFRE's technical profitability to remain strong.

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 185% of total equity at end-1H20 (end-2019: 180%). However, Fitch believes that MAPFRE's capital is resilient against potential stress from substantial exposure to sovereign debt.

#### RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is made available on the medical aspects of the outbreak.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.
- Prism FBM score falling to below 'Strong'.
- Spain's sovereign rating downgraded by two or more notches.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A material positive change in Fitch's rating assumptions with respect to the coronavirus impact.
- Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the

coronavirus pandemic on the financial profiles of both the Spanish insurance industry and MAPFRE.

--A substantially improved capital position, as measured by, for example, a PrismFBM score of 'Very Strong'.

--Improved financial performance, as measured by net income return on shareholders' equity of 10% or more on a sustained basis.

#### Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

#### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

#### ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

MAPFRE ESPANA Compania de Seguros y Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+ ; Insurer Financial Strength; Withdrawn; WD

MAPFRE Asistencia Compania Internacional de Seguros Y Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+

MAPFRE RE, Compania de Reaseguros, S.A.; Insurer Financial Strength; Affirmed; A+  
; Insurer Financial Strength; Withdrawn; WD

MAPFRE Vida SA De Seguros Y Reaseguros; Insurer Financial Strength; Affirmed; A+  
; Insurer Financial Strength; Withdrawn; WD

MAPFRE, S.A.; Long Term Issuer Default Rating; Affirmed; A-  
----subordinated; Long Term Rating; Affirmed; BBB-  
----senior unsecured; Long Term Rating; Affirmed; BBB+

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#### **Applicable Criteria**

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

#### **Applicable Model**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

## **Additional Disclosures**

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