

Research Update:

# Mapfre Group Ratings Affirmed On Sound Profits And Capital Despite Pandemic-Related Impacts; Outlook Stable

July 22, 2021

## Overview

- Mapfre's 2021 earnings will improve versus 2020 in the absence of one-off goodwill impairments and higher technical performance from property/casualty and reinsurance, but this will partly be offset by lower earnings from Latin America.
- We forecast a combined ratio (profit and loss) at 93%-95% and return on equity of about 8%-10%, assuming that Mapfre's risk-based capital remains above the 'A' confidence level in 2021-2023.
- We have therefore affirmed our issuer credit and insurer financial strength ratings on Mapfre Re, a core operating entity of the group, at 'A+'.
- We also affirmed the ratings on the group's nonoperating holding company Mapfre S.A. and its senior unsecured bonds at 'A-', as well as its subordinated bonds at 'BBB'.
- The stable outlook reflects our expectation that Mapfre will remain focused on profitable growth, with solid technical performance and capitalization at least at the 'A' level, based on our capital model.

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## Rating Action

On July 22, 2021, S&P Global Ratings affirmed its 'A+' long-term insurer financial strength and issuer credit ratings on Mapfre Re, Compania de Reaseguros, S.A., a core subsidiary of Spain-based insurer Mapfre Group. At the same time, we affirmed our 'A-' long-term issuer credit on the group's nonoperating holding company, Mapfre S.A. The outlook on both entities is stable.

We also affirmed the 'A-' rating on Mapfre Group's senior unsecured debt and the 'BBB' rating on the group's subordinated debt.

## Rationale

Mapfre implemented profitability measures and experienced overall positive claims from the pandemic, especially in motor. This led to a reported group combined ratio of 94.8% in 2020, which is 2.9 percentage points lower than in 2019. In life, the group's net earnings after minorities dropped by 27% to €185 million in 2020, due to a lower business volume, a high mortality rate in Latin America (mainly Brazil), currency depreciation, and lower financial income. Together with a €132 million goodwill write-off, net earnings declined to €821 million in 2020 from €955 million in 2019, including minority interests.

We believe that economic uncertainties from the Latin American markets and losses associated with the COVID-19 pandemic will likely be offset by lower claims frequency, especially from motor business across all the markets. We think that a rallying economic environment in its domestic market, as well as improving rate conditions in the reinsurance market will support overall group earnings. We expect net profits will increase in 2021 to more than €1.0 billion including minorities, and to more than €1.2 billion in 2022. We also factored lower volume in life due to the deconsolidation of Bankia Mapfre Vida and pressured investment returns for 2021-2023.

Capital adequacy under our risk-based capital model was above our expectations in 2020, driven by a reduction in capital requirements due to high currency depreciation mainly in Latin America. We also observed a slowdown of business activity in 2020, which we expect to recover in 2021-2023 and lead to higher business volume. We expect the group's capital adequacy to remain above the 'A' confidence level in 2021-2023. We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payout of at least 50% of net income. Moreover, the group's solvency ratio will likely remain comfortably within its target capital range of 175%-225% in 2021-2023, following increase of 201% at the end of March 2021, from 193% at year-end 2020.

## Factors specific to the holding company

The issuer credit rating on the group's top nonoperating holding company, Mapfre S.A., is the standard two notches below the insurer financial strength rating on the group's core entities. The holding company depends on cash flows from its operating entities to fulfil its financial obligations, and Mapfre S.A. creditors are subordinated to the core entities' policyholders. The stable outlook on Mapfre S.A. mirrors that on the group's core operating entities.

## Outlook

The stable outlook is based on our expectation that Mapfre Group will take advantage of the recovery in the Spanish economy, although partly offset by challenges in its Latin American operations. That said, the group's strong diversification by country and business line will likely diminish the negative impact, supporting its leading position in its main markets. We also expect that the group will keep its capital position comfortably at the 'A' level, according to our capital model, backed by sound earnings and supporting Mapfre's growth and dividend targets.

## Upside scenario

We see limited rating upside in the next 24 months. We could take a positive rating action if we were to see a substantial enhancement in Mapfre's capital position through higher earnings

contribution, and--although not our base-case assumption--maintaining capitalization consistently commensurate with at least the 'AA' rating level.

## Downside scenario

We also consider a negative rating action unlikely at this stage, but we could consider a negative rating action over the next 24 months if one of the following occurs:

- Capitalization declined sustainably below our threshold for the 'A' level, based on our capital model. This could result from severe combined global and domestic financial market stress.
- Performance consistently deteriorates below our expectations with combined ratios higher than 100%, cutting into the group's competitive strength.
- We no longer expected Mapfre Group to pass our sovereign default test, which could result from an unexpected drop in regulatory capital or from an increase in Spanish assets relative to regulatory capital.

## Ratings Score Snapshot

### Mapfre Group

Financial Strength Rating	A+/Stable
Anchor	a+
Business Risk Profile	Very Strong
Competitive Position	Very strong
IICRA	Intermediate
Financial Risk	Strong
Capital & Earnings	Strong
Risk Exposure	Moderately low
Funding Structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable Ratings Analysis	0
SACP	a+
Support	0
Group support	0
Government support	0

SACP--Stand-alone credit profile. IICRA--Insurance Industry and Country Risk Assessment. The rating scores and financial strength rating relate to Mapfre Re, the group's core operating entity.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 20, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Ratings Affirmed

#### Mapfre S.A.

Issuer Credit Rating	
Local Currency	A-/Stable/--
Senior Unsecured	A-
Subordinated	BBB

#### Mapfre Re, Compania de Reaseguros, S.A.

Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

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