

Research Update:

# Mapfre Group Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

July 11, 2024

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Under our updated criteria, Mapfre group's capital and earnings, albeit better, remain strong. There is no effect on our ratings on the group's nonoperating holding company Mapfre S.A., or the core operating entity Mapfre Re.
- We have therefore affirmed our issuer credit and insurer financial strength ratings on Mapfre Re at 'A+'.
- We also affirmed the ratings on Mapfre S.A. and its senior unsecured bonds at 'A-', as well as its subordinated bonds at 'BBB'.
- The stable outlooks reflect our expectation that Mapfre will remain focused on profitable growth, with solid technical performance and capital adequacy at least at the 99.80% confidence level, based on our capital model.

### PRIMARY CREDIT ANALYST

**Simon Virmaux, CFA**

Paris

+ (33) 1-4075-2519

simon.virmaux

@spglobal.com

### SECONDARY CONTACTS

**Jean Paul Huby Klein**

Frankfurt

+ 49 693 399 9198

jeanpaul.hubyklein

@spglobal.com

**Pratik C Giri**

Pune

pratik.giri

@spglobal.com

## Rating Action

On July 11, 2024, 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.

## Impact Of Revised Capital Model Criteria

- Some of the improvement in capital adequacy results from changes to our methodology for including debt-funded capital in total adjusted capital (TAC). This led to the inclusion in TAC of the Tier 3 instrument issued in April 2022 of €500 million.

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- We have also captured the benefits of risk diversification more explicitly in our analysis, leading to a substantial reduction in the required risk-based capital.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

## Credit Highlights

### Overview

#### Key strengths

A well-recognized international insurance brand maintaining leading positions in Spain and Latin America.

Resilient earnings thanks to strong geographic and business diversification.

Closely matching assets and liabilities limits the volatility of solid capitalization, as measured by our risk-based capital model.

#### Key risks

Global macroeconomic uncertainties are putting pressure on technical performance, especially in the motor business.

Moderate premiums and earnings sensitivities to currency fluctuations mainly stem from operations in emerging markets.

## Outlook

The stable outlook is based on our expectation that the group will continue to navigate the current macroeconomic and capital market uncertainties, profiting from strong country and business lines diversification. We also expect the group will keep its capital position comfortably at least at the 99.80% level, according to our capital model, backed by sound earnings that support Mapfre's growth and dividend targets.

## Downside scenario

While unlikely at this time, we could consider downgrading the group over the next 24 months if:

- Capitalization declined on a prolonged basis below our 99.80% confidence level threshold, based on our capital model. This could result from severe global and domestic financial market stress;
- Performance consistently deteriorated below our expectations with combined ratios (profit and loss) higher than 100%, cutting into the group's competitive strength; or
- 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.

## Upside scenario

We could take a positive rating action over the next 24 months if Mapfre's:

- Capital adequacy remained at the 99.95% confidence level for a protracted period; and

- Operating performance and diversified earnings generation improved, reaching a level in line with 'AA-' rated peers.

## Rationale

**A leading insurer in its domestic market by premium in property and casualty (P/C) and life insurance.** Additionally, Mapfre has built a global business operating outside of Spain, mainly through its reinsurance business, in Latin America--notably in Brazil--and in the U.S. It benefits from a well-perceived brand and reputation in its core markets, adding to its competitive strength. The group's global footprint is enhancing earnings diversification.

**A volatile global macroeconomic environment and persisting inflation are putting pressure on P/C technical profitability, especially in the motor business.** In the first quarter of 2024, the group disclosed a deteriorated combined ratio in motor and accident & health of 105.3% and 102.8%, respectively (local accounting). However, in this period the overall non-life technical performance remained positive, with a combined ratio of 95.8% as opposed to 97.2% as of year-end 2023, demonstrating the effectiveness of its diversification by segment and geography, and the company's efforts to reduce costs. Life results improved in 2023 and contributed €809.3 million (before tax and minorities, local accounting) to the year-end results. For 2023, the group posted a consolidated result of €1.27 billion (under IFRS 17) and a return on equity (ROE) including minorities of 13.7%. We expect the group to continue posting such results, with net income to be around €1.0 billion-€1.3 billion in the coming years, and an ROE of at least 10%-13%. We expect the combined ratio under IFRS17 for the coming years to range between 95% and 96%.

Despite high premium diversification, group earnings are less diversified than those of higher-rated peers, especially in life insurance. The group also generates more of its business in emerging markets, which can be more volatile than mature markets.

**Mapfre Group has a solid consolidated capital position.** We expect capital adequacy will remain at least strong over our two-year forecast period. Its Solvency II ratio was 199.6% at year-end 2023 (excluding transitional measures), well within its internal target range of 175%-225% and higher than at year-end 2022, where the Solvency II ratio stood at 191.4%.

Mapfre's investment portfolio has historically been conservative. Bonds--mostly government and corporate--accounted for about 70% of the invested assets at the end of 2023. Fixed-income investments rated below 'BBB' represent about 15% of the group's total investment portfolio and are mainly concentrated in Brazilian government bonds. Exposure in equity investments remains limited to 6.5% of total invested assets.

For 2023, we calculate Mapfre group's financial leverage to be at 22.1% and its fixed-charge coverage at 8.8x. We expect the financial leverage to remain comfortably below our 40% threshold and the fixed charge coverage ratio above 4x.

## Ratings Score Snapshot

Financial strength rating	A+
Anchor*	a+
Business risk	Very strong

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IICRA	Intermediate
Competitive position	Very strong
Financial risk	Strong
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

\*We allocated the lower anchor because Mapfre group's premiums and earnings are less diversified than other global multiline insurers rated 'AA-'.

Table 1

### Key Metrics--Mapfre group

As per IFRS 17	2025f	2024f	2023	2022*	2021*
S&P Global Ratings capital adequacy	At least strong	At least strong	Very strong	Strong	Very strong
Insurance Revenue/Gross Premium Written	~28,000	~27,000	24,781	24,540	22,155
Net income	1,100-1,300	1,100-1,300	1,267	1,084	1,036
Return on equity (%)	10-13	10-13	13.7	12.0	10.6
Net investment yield (%)	~4	~4	3.7	3.1	2.6
P/C: net combined ratio (%)	95-97	95-97	96.6	98.0	97.5
Return on revenue (%)	3-5	3-5	3.6	7.1	7.6
Financial leverage (%)	~22	~22	22.1	26.0	24.2
EBITDA fixed-charge coverage (x)	>8	>8	8.8	14.7	17.6

\*Data prior to 2023 is based on IFRS 4. f--Forecast. Source: S&P Global Ratings.

Table 2

### Credit Metrics History--Mapfre group

As per IFRS 17	2023
S&P Global Ratings capital adequacy	Very strong
Total invested assets	43,021
Total shareholder's equity	9,656
Insurance Revenue	24,781
Reinsurance utilization (%)	17.2

Table 2

**Credit Metrics History--Mapfre group (cont.)**

As per IFRS 17	2023
EBIT	1,760
Net income (before minorities)	1,267
Net income (after minorities)	677.2
Return on revenue (%)	3.6
Return on assets (excluding investment gains/losses) (%)	2.1
Return on equity (%)	13.7
P/C: net combined ratio (%)	96.6
EBITDA fixed-charge coverage (x)	8.8
Financial obligations / EBITDA adjusted (x)	2.8
Financial leverage adjusted including pension deficit as debt (%)	22.1
Net investment yield (%)	3.7
Net investment yield including investment gains/(losses) (%)	5.5

Data across all sectors unless otherwise stated. Source: S&P Global Ratings.

**Related Criteria**

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

**Related Research**

- Mapfre's Steady Third-Quarter Results Reflect Benefits Of Diversified Operations, Oct. 31, 2023
- Mapfre S.A., June 29, 2023

**Ratings List**

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### Ratings Affirmed

#### Mapfre S.A.

Issuer Credit Rating

Local Currency A-/Stable/--

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

Issuer Credit Rating

Local Currency A+/Stable/--

Financial Strength Rating

Local Currency A+/Stable/--

#### Mapfre S.A.

Senior Unsecured A-

Subordinated BBB

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.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers 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.spglobal.com/ratings](http://www.spglobal.com/ratings). Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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