

Research Update:

Spain-Based Nacional de Reaseguros S.A. 'A' Ratings Affirmed; Outlook Stable

July 29, 2019

Overview

- Nacional de Reaseguros S.A. (Nacional) benefits from its leading position in the Spanish reinsurance market with strong earnings generation and solid levels of risk-adjusted capital adequacy, based on both Solvency II and our capital model.
- Notwithstanding the increasing diversification from foreign business, the company's scale and geographic diversification remains limited compared to large global players.
- We are therefore affirming our 'A' long-term insurer financial strength and issuer credit ratings on Nacional.
- The outlook is stable because we expect Nacional will maintain its leading, profitable position in Spain while prudently and profitably growing its business position outside Spain. We also expect earnings and capital will remain solid and stable with no material rise in volatility.

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Rating Action

On July 29, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Nacional de Reaseguros S.A. The outlook is stable.

Rationale

Our ratings on Nacional reflect the insurer's leading position in the Spanish reinsurance market as well as its historical and expected strong technical results with little volatility. Retained earnings have allowed Nacional to build solid capital adequacy over time, as measured by our capital model, showing an excess at the 'AAA' confidence level. Regulatory solvency levels remain high at 2.6x. Although diversification from foreign business is improving we believe the company is somewhat lacking scale and geographic diversification compared to higher rated peers.

Outlook

The stable outlook indicates that we do not expect to change our ratings on Nacional over the next two years. We expect Nacional will maintain its leading, profitable position in Spain while prudently and profitably expanding its business outside Spain. We also expect earnings and capital will remain solid and stable with no material rise in volatility from increased exposure to catastrophes or other lesser-known risks. Furthermore, we expect Nacional will increasingly align its enterprise risk management to that of larger peers, with capital adequacy levels further consolidating at an excellent level.

Downside scenario

We could lower the ratings on Nacional if foreign business growth and related risks were to increase volatility, weaken the company's strong operating performance, or decrease its risk profile or capital adequacy below the excellent level.

Upside scenario

We consider a positive rating action to be remote at this stage given the company's lack of global diversification compared to higher rated peers.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Low risk
Financial Risk Profile	Very strong
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

*This is influenced by our view of Nacional de Reaseguros' competitive position compared with most of its 'A+' rated peers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019

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- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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

Ratings List

Ratings Affirmed

Nacional de Reasegueros S.A.

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

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