

# RatingsDirect®

---

## Nacional de Reaseguros S.A.

**Primary Credit Analyst:**

Jean Paul Huby Klein, Frankfurt + 49 693 399 9198; jeanpaul.hubyklein@spglobal.com

**Secondary Contact:**

Marta Heras, Madrid + 34 91 389 6967; marta.heras@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

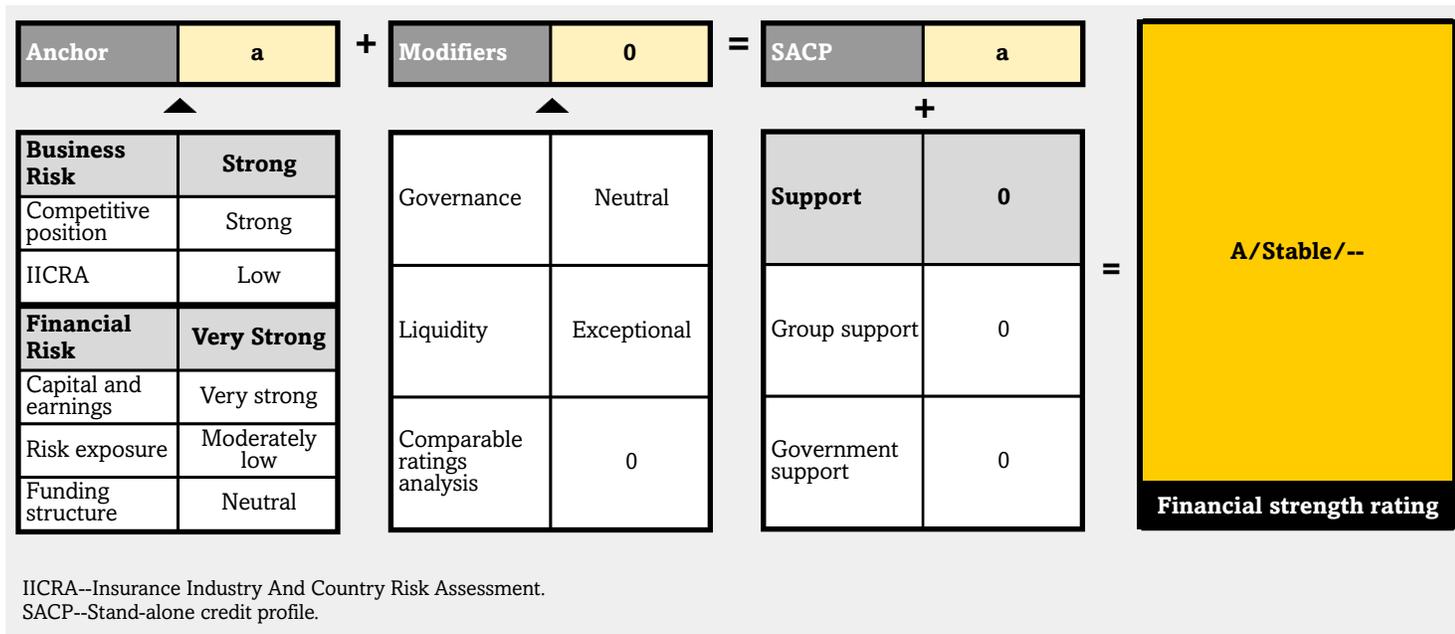
Financial Risk Profile

Other Key Credit Considerations

Related Criteria

Appendix

# Nacional de Reaseguros S.A.



## Credit Highlights

Overview	
Key strengths	Key risks
Leading position in the Spanish reinsurance market with some diversification via foreign business.	Small absolute size and position in the global reinsurance market.
Low historical earnings volatility from natural catastrophe events.	Limited depth of workforce creates a key-man risk.
Resilient earnings generation supporting capital adequacy.	Macroeconomic uncertainties and volatility in capital markets are putting some pressure on investment performance and capitalization.
Very low expense ratio is a competitive edge.	

*S&P Global Ratings believes that Nacional de Reaseguros' (NRe) capitalization will come under some pressure in 2022, but recover in the subsequent years, supported by sound earnings retention.* Increasing interest rates are having a negative impact on NRe's bonds portfolio, putting some pressure on the company's shareholder's equity and capitalization. In contrast to recent years, we don't believe that the company will be able to maintain its excellent capital adequacy in 2022. However, we expect that NRe's strong retained earnings will allow it to rebuild its capital position over our two years forecasting horizon. For 2022, we expect net earnings to decline to €19 million-€21 million. Solid technical results are offset by lower investment results as a result of volatile capital markets.

*We expect NRe to maintain its leading position in Spain's reinsurance market.* Thanks to long-lasting relationships with insurers and brokers, NRe is a well-recognized brand in Spain, where we expect it will keep its competitive advantage and strong market position. Outside Spain, NRe has progressively expanded its activities over the past decade thanks to a selective distribution approach. Notwithstanding the diversification from this foreign business, the company's scale and geographic footprint remains small in a global context. This influences our view of NRe's

competitive position compared with that of most 'A+' rated peers.

**We consider that risk exposure will remain moderately low.** Risks underwritten in Spain are mainly mitigated by the Consorcio de Compensacion de Seguros (CCS; a national scheme that will notably cover specific large catastrophe events). Outside Spain, we think that NRe has adopted a prudent approach to its expansion strategy, underwriting a low amount of catastrophe risk, as well as continually improving risk management to accompany its expanding international presence.

## Outlook: Stable

The stable outlook indicates that we do not expect to change our ratings on NRe over the next two years. We expect NRe 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, inflation, or other lesser-known risks over our two-year forecasting horizon. Furthermore, we expect NRe will increasingly align its enterprise risk management to that of larger peers, with capital adequacy consolidating at an excellent level.

### Downside scenario

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

### Upside scenario

We consider a positive rating action to be remote at this stage given the company's lack of global diversification compared with that of higher-rated peers, as well as pressure on its excellent capital adequacy.

## Key Assumptions

- Decline in real GDP growth in the Eurozone, down to 3,3% in 2022 and 0% in 2023, from 5.3% in 2021.
- We expect the Spain economy's real GDP growth rate will fall to 4.6% in 2022 and further to 0.9% in 2023 from 5.5% in 2021.
- We expect long-term Spanish interest rates to increase to 3.6% in 2022 and 4.5% in 2023. The same trend in the eurozone, with rates that we estimate at 2.1% in 2022 and 2.2% in 2023.
- Average inflation in Spain to remain high at 9.0% in 2022 and 5.1% in 2023, compared with 3.0% in 2021.
- Unemployment rate to remain high in Spain at 12.8% in 2022 and 13.0% in 2023, compared with 6.7% and 7.0% in the eurozone over the same period.

**Nacional de Reaseguros S.A.--Key Metrics**

	2023f	2022f	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Very strong	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (Mil. €)	~730	~680	633.1	608.5	590.8	567.5	556.0
Net income (Mil. €)	35-40	19-21	30.0	28.9	40.2	37.0	32.1
Return on shareholders' equity (%)	9-11	5-7	7.2	7.3	10.9	10.8	9.7
Property/casualty: Net combined ratio (%)	94-96	95-97	96.7	97.5	92.9	92.9	96.1

f--S&P Global Ratings forecast. Source: S&P Global Ratings.

## Business Risk Profile: Strong

NRe is the leading reinsurer in terms of premiums in Spain, with an estimated market share of about 15%, excluding intercompany operations in the Spanish reinsurance market. It reported €633 million of gross premium at year-end 2021, which is an increase of 4% compared with 2020. For 2022, we expect a premium increase of 7% to about €680 million taking profit of a favorable pricing environment in the property / casualty (P/C) reinsurance market and some organic business growth. We expect the main growth driver to be the multirisk, liability, and trade credit operations, whereas motor and accident operations might see more competitive pressure. Life business is likely to decline in 2022 due to the cancellation of some larger contracts. Thanks to solid relationships with both insurers and brokers in Spain, which have been built over the decades, NRe has a leading position on most contracts in its domestic operations.

NRe's expansion across Europe, which began in 2010, has borne fruit. The international portfolio now contributes about one third of the company's total gross written premium, providing volumes and diversification. However, we believe that its international market position is less prominent than in its domestic market. NRe demonstrates disciplined execution of its geographic expansion strategy outside Spain, which helps to preserve its strong operating performance.

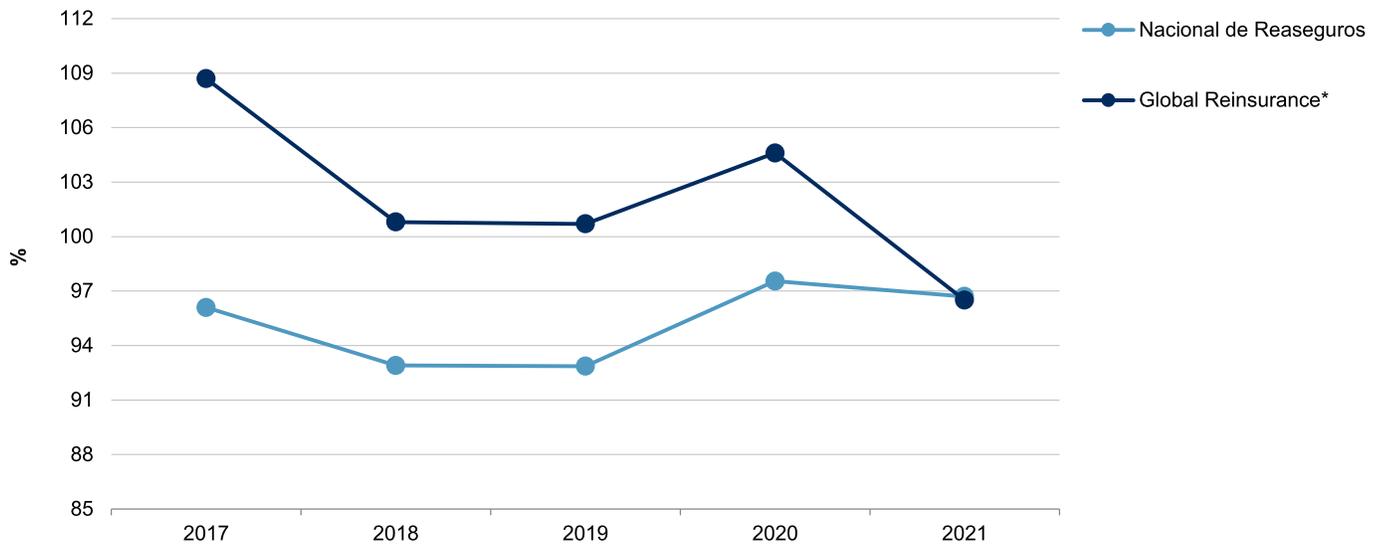
NRe has a diversified insurance business mix, which at year-end 2021 included: fire and multi-risk (44% of gross premiums), life (18%), motor and third-party liability (16%), marine (8%), personal accident and health (6%), and other lines (7%).

NRe's performance improved in 2021 disclosing a net income of €30 million and a combined ratio of 96.7%, compared with €28.9 million and 97.5% respectively in 2020. This occurred despite unusual high natural catastrophe losses from storms Bernd in Central Europe and Filomena in Spain. Life results contributed with about €4.5 million, taking profit of lower, pandemic-related claims. Return on equity remained fairly stable at 7.2%.

We forecast the combined ratio to gradually improve to 94%-97% over the next two years, taking advantage of the favorable pricing momentum in the P/C reinsurance market following some years of elevated natural catastrophe claims. However, we see some uncertainties in future investment results and net earnings driven by the volatility in capital markets. We expect return on equity to decline in 2022 to 5%-7% impacted by the lower investment results, normalizing in 2023 to 9%-11%.

**Chart 1**

**P/C Combined Ratio: Nacional de Reaseguros Versus Global Reinsurance Market**  
 Nacional de Reaseguros' stable P/C technical results



\*Top 21 global reinsurers - Alleghany, Arch, Ascot, Aspen, AXIS, China Re, Everest Re, Fairfax, Fidelis, Hannover Re, Hiscox, Lancashire, Lloyd's, Markel, Munich Re, PartnerRe, Qatar Ins., RenaissanceRe, SCOR, Sirius, and Swiss Re. P/C--Property / casualty. Source: S&P Global Ratings and company financials. Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

**Financial Risk Profile: Very Strong**

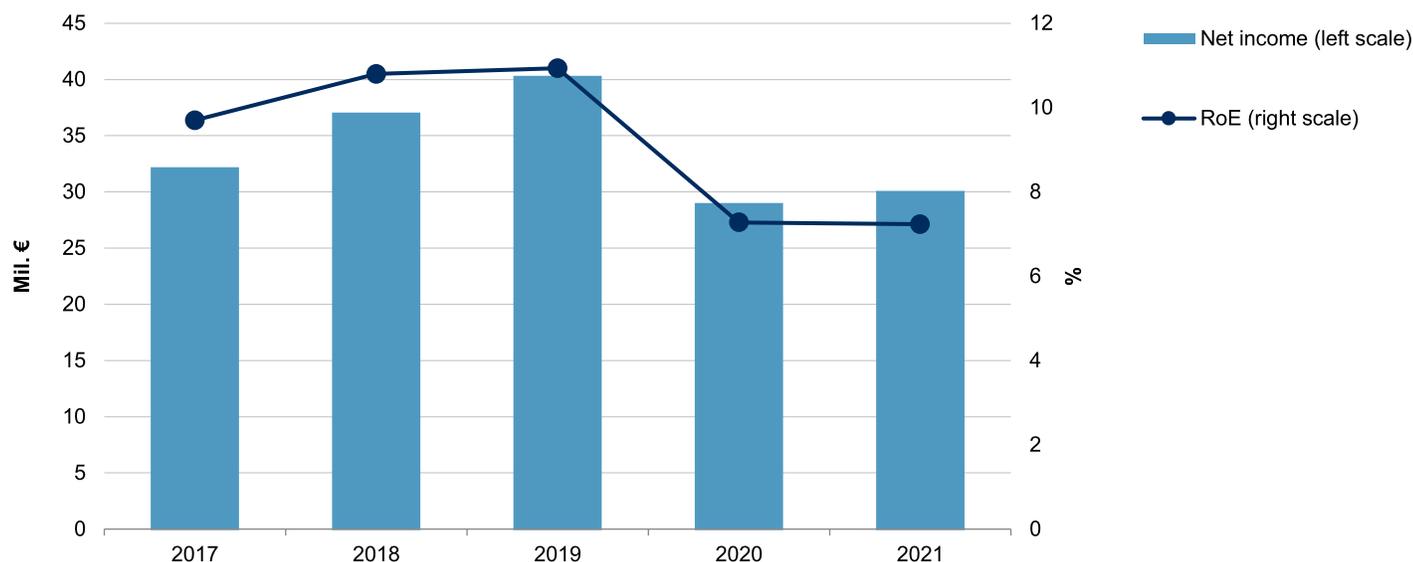
NRe's operations are backed by a solid balance sheet. We expect capital adequacy to decline to the AA capital level in 2022 driven by the decline in shareholders equity as a result of increased interest rates. Nevertheless, we expect that the strong and stable earnings generation will bring NRe back to a AAA capitalization over our forecasting period. From a regulatory capital standpoint, it comfortably covers the company's solvency capital requirements with a regulatory solvency ratio of 201% at year-end 2021. The ratio declined from 226% in 2020 mainly due to best estimate reserve adjustments as a consequence of unusual high natural catastrophe claims in 2021. For 2022, we expect solvency capital to remain broadly stable in light of the volatile capital market environment. We believe that the small absolute size of its capital remains a risk compared with larger reinsurers, making the company somewhat susceptible to movements in capital and earnings in the event of potential large losses.

NRe's shareholders have a long-term commitment to its development. We therefore forecast that the company's retained earnings will support its growth ambitions over the next two years. However, net income will likely decline to €19-€21 million in 2022 and recover to €35-€40 million in 2023, retaining about 65% of this to finance capital requirements from the expanding business and continually increase its capital base.

NRe has no debt, and we consider its need for extraordinary additional funds to be modest because of its long-established strategy of self-financing organic growth.

**Chart 2**

**Nacional de Reaseguros' Consistent Profitability**



RoE--Return on equity. Source: S&P Global Ratings and company financials.  
 Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect earnings volatility to remain modest, especially thanks to the stability of the domestic operations. We don't expect that inflation will have a material negative impact on NRe's results mainly because of Spain's system for assessing damages in personal injury claims (Baremo), which provides a solid and effective framework to anticipate claims amounts and contain inflation trends. Additionally, NRe's liabilities are mostly of short duration with yearly renewed contracts, allowing the company to quickly adapt to a change in economic conditions. Meanwhile, the CCS scheme to cover natural catastrophes absorbs most losses on claims arising from such events, which lessens the volatility of technical results.

We expect conservative underwriting and comprehensive reinsurance cover will limit peak risks outside Spain. The majority of NRe's new portfolio comes from proportional treaties in line with existing ones. In addition, NRe's focus on the EU reduces volatility, as well as regulatory and political risk, because of its physical and cultural proximity.

NRe's investment strategy focuses on short-duration and liquid assets, consistent with a strict asset-liability management policy. NRe's average credit quality in its fixed-income portfolio remained at the 'BBB+' level. We believe that increasing interest rates will allow NRe to reduce credit risk over the next years, without sacrificing investment returns. Exposure to equities is relatively high, representing about 16.6% of total invested assets at market values,

although around 12% refers to NRe's long-term investment in Grupo Compañía Española de Crédito y Caución S.L. Net investment yields remained stable at 1.1% (2.4% including realized and unrealized gains) in 2021.

We believe NRe's catastrophe and overall risk management is improving to support its increasing international profile, thus helping to mitigate the company's exposure to more volatile earnings. We believe NRe's overall risk profile remains largely unchanged since we do not anticipate that it will take material catastrophe risk in its international business, and that catastrophe risk will generally remain controlled in its Spanish business.

## Other Key Credit Considerations

### Governance

NRe has an effective governance framework in place, with management and shareholders seamlessly committed to gradually and prudently building its market position outside Spain, taking advantage of the company's established expertise as a service-led coverage provider for small and midsize companies. Risk management is ingrained in NRe's culture, with continual efforts to embed risk-based decisions at all levels of the organization.

### Liquidity

Liquidity is exceptional. NRe maintains a sufficient level of cash or cash equivalents, as well as a high portion of readily realizable assets to face its obligations in the short term.

### Environmental, social, and governance

#### ESG Credit Indicators

E-1	<b>E-2</b>	E-3	E-4	E-5	S-1	<b>S-2</b>	S-3	S-4	S-5	G-1	<b>G-2</b>	G-3	G-4	G-5
-----	------------	-----	-----	-----	-----	------------	-----	-----	-----	-----	------------	-----	-----	-----

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of NRe.

## Related Criteria

- 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: 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

## Appendix

### Nacional de Reasegueros S.A.--Credit Metrics History

Ratio/Metric	2021	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Total shareholder equity	425.2	404.5	390.9	345.2	340.0
Gross premiums written	633.1	608.5	590.8	567.5	556.0
Net premiums written	515.5	480.5	472.2	450.4	444.0
Net premiums earned	512.5	479.3	467.3	449.0	482.0
Reinsurance utilization (%)	18.6	21.0	20.1	20.6	20.0
EBIT	39.8	36.3	52.0	47.7	41.0
Net income (attributable to all shareholders)	30.0	28.9	40.2	37.0	32.1
Return on revenue (%)	5.0	5.9	9.1	9.6	5.8
Return on shareholders' equity (reported) (%)	7.2	7.3	10.9	10.8	9.7
P/C: net combined ratio (%)	96.7	97.5	92.9	92.9	96.1
P/C: net expense ratio (%)	28.5	30.7	29.7	30.5	28.3
Net investment yield (%)	1.1	1.1	1.1	1.1	0.7
Net investment yield including investment gains/(losses) (%)	2.4	1.7	2.0	1.4	2.1

P/C--Property/casualty. Source: S&P Global Ratings.

### Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

### Ratings Detail (As Of December 22, 2022)\*

#### Operating Company Covered By This Report

#### Nacional de Reasegueros S.A.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

**Ratings Detail (As Of December 22, 2022)\*(cont.)**

<b>Domicile</b>	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.

**Additional Contact:**

Insurance Ratings EMEA; [Insurance\\_Mailbox\\_EMEA@spglobal.com](mailto:Insurance_Mailbox_EMEA@spglobal.com)

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.