

Best's Credit Rating Effective Date

November 17, 2023

Analytical Contacts

Jose Berenguer
Associate Director-Analytics
Jose.Berenguer@ambest.com
+31 20 308 5429

Mathilde Jakobsen
Senior Director-Analytics
Mathilde.Jakobsen@ambest.com
+31 20 308 5420

Information

[Best's Credit Rating Methodology](#)

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Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

Nacional de Reaseguros, S.A.

AMB #: 085481 | **AIIN #:** AA-1840680

Ultimate Parent: AMB # 046129 - Corporacion Europea de Inversiones, SA

Best's Credit Ratings

Financial Strength Rating (FSR)

A
Excellent
Outlook: Stable Action: Affirmed

Issuer Credit Rating (ICR)

a
Excellent
Outlook: Stable Action: Affirmed

Assessment Descriptors

Balance Sheet Strength	Very Strong
Operating Performance	Strong
Business Profile	Neutral
Enterprise Risk Management	Appropriate

Rating Rationale

Balance Sheet Strength: **Very Strong**

- The risk-adjusted capitalisation of Nacional de Reaseguros, S.A. (Nacional), is at the strongest level according to Best's Capital Adequacy Ratio (BCAR), underpinned by low underwriting leverage.
- The company's risk-adjusted capitalisation benefits from low volatility due to a focus on proportional reinsurance and low exposure to natural catastrophe risk as these risks are mainly covered by the Consorcio de Compensación de Seguros and retrocession programmes.
- The company has no financial leverage, prudent reserving, and strong liquidity.

Operating Performance: **Strong**

- Nacional has a strong and stable operating performance track record, with a five-year weighted average return on equity of 7.9% and pre-tax profit of EUR 23.5 million in 2022.
- Despite a competitive operating environment, the company's proportional-dominated underwriting portfolio delivered stable results, particularly in Nacional's domestic market.
- In 2022, Nacional Re's non-life combined ratio increased to 104.1% (96.7%) driven mainly by negative results on international property business. The company's five-year average combined ratio remained good at 97.1% (2018-2022).

Business Profile: **Neutral**

- Nacional has a strong competitive position within Spain with good cedant relationships and moderate dependence on brokers.
- The company continues its prudent international expansion with gross written premiums representing 33% of the company's profile in 2022.
- The company's profile remains concentrated in Spain and property is its main line of business, representing 46% of gross written premiums in 2022.

Enterprise Risk Management: **Appropriate**

- Nacional's enterprise risk management (ERM) is appropriate relative to its risk profile.
- The company has an effective risk reporting and governance structure in place, which evolved during previous years, continuously enhancing process and risk models, leveling up to best market practices.
- Nacional has effectively reduced asset concentration risk by decreasing exposures to Spanish sovereign debt, introducing diversification.

Outlook

- The stable outlooks reflect AM Best's expectation that the company will maintain its very strong balance sheet strength through continued internal capital generation. Additionally, AM Best expects Nacional to continue its strong level of operating performance supported by stable underwriting results.

Rating Drivers

- Negative rating pressure could result from a deterioration of Nacional's currently strong level of operating performance.
- A material deterioration in risk-adjusted capitalisation could also lead to negative rating pressure.
- Although considered unlikely, positive rating pressure could result from continued diversification and expansion of Nacional's profile, resulting in more diversified sources of risk and income to the company's balance sheet.

Key Financial Indicators

AM Best may recategorize company-reported data to reflect broader international reporting standards and increase global comparability.

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	56.5	46.0	41.5	40.0

Source: Best's Capital Adequacy Ratio Model - Global

Key Financial Indicators	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)
Net Premiums Written:					
Life	109,101	113,231	112,579	95,942	89,203
Non-Life	462,016	402,303	367,935	376,246	361,179
Composite	571,117	515,534	480,514	472,188	450,382
Net Income	18,413	30,009	28,938	40,243	36,969
Total Assets	1,723,125	1,559,618	1,510,794	1,432,416	1,373,873
Total Capital and Surplus	439,153	425,165	404,480	390,927	345,165

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account	23,450	4,510	11,080	7,415	9,261	...
Balance on Non-Life Technical Account	-18,623	13,107	8,974	26,688	25,775	...
Net Income Return on Revenue (%)	3.2	5.7	5.9	8.4	8.0	6.1
Net Income Return on Capital and Surplus (%)	4.3	7.2	7.3	10.9	10.8	7.9
Non-Life Combined Ratio (%)	104.1	96.7	97.6	92.8	92.9	97.1
Net Investment Yield (%)	1.5	1.1	1.1	1.1	1.0	1.2
Leverage:						
Net Premiums Written to Capital and Surplus (%)	130.0	121.3	118.8	120.8	130.5	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Nacional de Reaseguros, S.A. (Nacional)'s risk-adjusted capitalisation as measured by Best's Capital Adequacy Ratio (BCAR) remained within the strongest assessment at year-end 2022 primarily supported by modest underwriting leverage. Capital and surplus increased by 3.2% to EUR 439 million in 2022, due to continued positive results and a moderate dividend pay-out ratio of 40%. The quality and diversification of the company's invested asset base has improved over the years. Currently, its bonds portfolio has a slight concentration towards Spain, albeit representing a moderate share of 20%. The company's fixed-income duration remains under 4 years, in line with liabilities. Nacional has demonstrated significant reserve margins above external best estimates and an appropriate retrocession programme to mitigate volatility and protect the company's underwriting activity. Nacional has an unleveraged balance sheet with no debt.

Capitalisation

Nacional has risk-adjusted capitalisation at the strongest level as assessed by the BCAR. Its risk-adjusted capitalisation benefits from limited catastrophe exposure within Spain due to the Consorcio de Compensación de Seguros (CCS), the compulsory government natural catastrophe scheme covering physical damage. This allows the company to have lower volatility in its capital position compared to most reinsurance peers. Nacional has bought additional retrocession protection for natural catastrophe events in Spain following storm Filomena, which was not fully insured by the CCS due to certain weather conditions.

The company has a modest level of underwriting leverage with net written premiums of EUR 571 million compared to a capital base of EUR 439 million in 2022. Prospective risk-adjusted capitalisation is expected to remain at the strongest level based on the company's expectations of positive operating performance underpinned by its strategic controlled growth and prudent capital management.

Balance Sheet Strength (Continued...)

Capital Generation Analysis	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)
Beginning Capital and Surplus	425,165	404,480	390,927	345,165	339,571
Net Income	18,413	30,009	28,938	40,243	36,969
Net Unrealized Capital Gains (Losses)	6,825	1,596	-1,735	18,478	-20,595
Change in Equalisation and Other Reserves	-6,000	-6,000	-6,000	-5,999	-6,000
Net Change in Paid-In Capital and Surplus	6,000	6,000	6,000	6,000	6,000
Stockholder Dividends	-11,250	-10,920	-13,650	-12,960	-10,780
Net Change in Capital and Surplus	13,988	20,685	13,553	45,762	5,594
Ending Capital and Surplus	439,153	425,165	404,480	390,927	345,165
Net Change in Capital and Surplus (%)	3.3	5.1	3.5	13.3	1.6

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2022	2021	2020	2019	2018
Liquid Assets to Total Liabilities	88.6	93.6	91.5	92.8	91.9
Total Investments to Total Liabilities	91.5	97.0	95.1	96.6	92.9

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Nacional's investment portfolio allocation is dominated by liquid assets composed of fixed income, mutual funds, and money market securities. The company has a low appetite for credit and duration risk. The asset allocation to higher risk assets, including shares, real estate, and alternative investments, stood at approximately 24% of the invested portfolio at year-end 2022.

Nacional's direct investments in equity reflect a strategic holding of EUR 131 million in Grupo Compañía Española de Crédito y Caución, S.L. (Grupo CyC) at year-end 2022.

Most of the company's investments are directly managed whereas funds are co-managed with external experts. The company has limited duration risk as the majority of its business is in short-tail lines.

Composition of Cash and Invested Assets	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)
Total Cash and Invested Assets	1,174,759	1,100,809	1,052,296	1,005,720	956,164
Cash (%)	3.8	2.8	3.2	2.1	5.9
Bonds (%)	49.9	47.4	51.2	53.4	53.1
Equity Securities (%)	43.2	46.3	41.9	40.6	39.8
Real Estate, Mortgages and Loans (%)	3.2	3.5	3.8	3.9	1.1
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Reserve Adequacy

Nacional has a prudent reserving approach, reporting reserves well in excess of best estimates as determined by an external third party. Nacional's reserve surplus increased in 2022 in order to account for increased inflation levels. This margin had reduced in the prior two years due to negative trends in the reinsurance market.

Balance Sheet Strength (Continued...)

Holding Company Assessment

Nacional is majority owned by Corporación Europea de Inversiones (CEI), an investment holding company which specialises in the insurance sector. CEI is a non-operating holding company and has a neutral impact on the assessment of Nacional's balance sheet strength.

Operating Performance

Nacional's strong operating performance assessment is supported by a track record of stable technical results, with a 5-year weighted average return on equity of 7.9% and non-life combined ratio of 97.1%. The company's underwriting portfolio is weighted towards proportional business, which along with historical low levels of catastrophe exposures has helped achieve limited volatility in underwriting performance.

Nacional's GWP stood at EUR 690.0 million in 2022, increasing by 9%. Growth was driven by Spain, which increased by 12% in 2022; with international business experiencing growth of 3%. By line of business, Nacional's main contributors were multi-risk and motor, which represented 46% and 15% of Nacional's non-life GWP in 2022. Multi-risk experienced a high growth of 12%, reflecting price adjustments for contracts affected by natural disasters.

At an operating level, Nacional's non-life loss ratio deteriorated to 72.9% (2021: 68.2%) driven by significant losses in fire and property, particularly in international markets (France and DACH). The impact of natural catastrophe losses in the combined ratio decreased to 5.5%, well below 2021 (16.1%), but above the period 2018-2020 (1.9%-3.9%).

Nacional's technical performance is supported by strict underwriting guidelines that focus on conservative risk selection and low net maximum exposures per line of business. Exposures are carefully monitored and covered through a comprehensive retrocession programme.

At a non-technical level, Nacional has also continued to report positive results, with a net investment income including gains and losses of EUR 18.7 million in 2022.

Nacional has a relatively prudent investment philosophy that has produced good and stable investment yields over the years. The company mainly focuses on risk control and liquidity. In 2022, the company reported a net investment return (inc. gains) of 1.8%, which is line with its 5-year weighted average.

During the first nine months of 2023, Nacional continued to operate profitably, reporting pre-tax profits of EUR 24.3 million (versus EUR 23.5 million in the third quarter of 2022) supported by significant price increases on 2023 renewals and an improved loss experience in non-life business.

Financial Performance Summary	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)
Pre-Tax Income	23,543	39,809	36,318	51,963	47,659
Net Income after Non-Controlling Interests	18,413	30,009	28,938	40,243	36,969

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2022	2021	2020	2019	2018
Overall Performance:					
Return on Assets	1.1	2.0	2.0	2.9	2.7
Return on Capital and Surplus	4.3	7.2	7.3	10.9	10.8
Non-Life Performance:					
Loss and LAE Ratio	72.9	68.2	66.8	63.2	62.4
Expense Ratio	31.2	28.5	30.7	29.7	30.5
Non-Life Combined Ratio	104.1	96.7	97.6	92.8	92.9

Source: BestLink® - Best's Financial Suite

Business Profile

Nacional maintains a strong competitive position as a leading reinsurer in Spain. The company has been operating for more than 80 years and has a strong competitive position in its domestic market, with established relationships with its main cedants. However, the company's overall size remains limited when compared with its international reinsurance competitors. Nacional has embarked on a strategy to improve diversification by selectively expanding its foreign activities to reduce its dependence on its domestic market.

Nacional is a composite reinsurance company predominantly focused on non-life risks. At year-end 2022, non-life business represented 84.1% of gross written premium (GWP). Nacional's profile primarily consists of proportional treaties, which account for 76% of business written, with the remainder consisting of non-proportional treaties (17%) and facultative contracts (7%). Nacional's profile has benefited from growth in the Spanish primary insurance market as well as its prudent international expansion. Nacional's non-life GWP increased by 11.8% to EUR 580 million in 2022, while the smaller life portfolio, which reinsures solely mortality risk, decreased by 3.6% to EUR 110 million.

Nacional has successfully operated as a local market reinsurer, establishing an excellent reputation and strong relationships with cedants in the market. However, Nacional's concentration and dependence to its domestic market was highlighted during the financial crisis and the company decided to undergo a strategic shift to diversify part of its operations away from Spain. The company has successfully executed this initiative as demonstrated by a reduction of the weight of business written in Spain from 84% of total premium in 2011 to 67% by year-end 2022. During this period, the international portfolio has grown prudently, contributing EUR 226 million to total gross premium revenue in 2022. The foreign business has been derived from the DACH region (8% of total GPW in 2022), France (6%) and Italy (4%).

Despite challenging market conditions, Nacional has been able to successfully grow its international business by targeting small to medium-sized insurers and mutual societies in these markets. Nacional's strategy abroad is to write lines of business where it can leverage its existing underwriting expertise, and the company limits its exposures by initially writing small shares of treaties with new cedants. As part of its strategic plan 2022-2024, Nacional aims to target mutual insurers on a direct basis, focusing on develop its footprint in Europe, primarily in the French market and DACH region.

The company's retention levels are relatively low (approximately 82.7% in 2022) compared with its reinsurance peers; however, this is indicative of Nacional's lower risk profile and focus on proportional business. All risks are protected through a global retrocession programme.

Nacional is predominately a property writer, which accounts for 46% of its GWP at year-end 2022 and covers multi-risk and fire. The company has good diversification across other lines of business including, life (16%), motor (15%), transport (8%), personal accident and health (6%), and miscellaneous lines including credit and liability insurance (8%). The business mix has remained largely consistent year on year.

Nacional's life business, being predominately death and disability coverage, only represents a relatively small amount of premium revenue but has seen continuous growth in recent years, except for 2022. The life business provides another revenue stream that complements the existing non-life book of business by providing the company with uncorrelated risks.

Nacional writes 72.5% of its total business on a direct basis and the remainder through brokers, with whom the company's strategy is to continue strengthening long-term relationships.

AM Best expects Nacional to maintain its leading position in the domestic market, as well as to continue its controlled growth of the international portfolio boosted by the current hardening market. The changing business profile of the company will expose Nacional to marginally higher risk, whereby prudent risk practices will need to be developed to ensure risks are controlled in markets that are less familiar to the company.

Geographical Breakdown of Gross Premium Written	2022 EUR (000)	2021 EUR (000)	2020 EUR (000)	2019 EUR (000)	2018 EUR (000)
European Community	180,247	178,738	179,464	177,758	167,005
Spain	463,507	413,308	400,687	389,418	379,425
Total Europe	643,754	592,046	580,151	567,176	546,430
Other World-Wide	46,283	41,098	28,350	23,623	21,070
Total	690,037	633,144	608,501	590,799	567,500

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

Nacional's enterprise risk management (ERM) is deemed to be appropriate relative to its risk profile. The company operates a low-risk business model writing mainly proportional business and retaining approximately 82.8% of business written. Nacional's exposure to catastrophe risk has been limited by Spain's natural catastrophe scheme. However, weather-related events not fully covered by the CCS have added some volatility to the company's technical results in recent years; albeit results have remained positive on a net basis. In the international business, the company has continued to develop its catastrophe modelling capabilities to improve pricing according to its risk appetite.

The company continues to strengthen its internal procedures and operations to ensure compliance with the Solvency II pillar 2 requirements around governance and risk management.

Nacional's key functions (Risk Management, Actuarial, Internal Audit and Compliance) prepare individual reports for both the Executive Committee and Board of Directors. Those charged with governance receive quarterly/monthly management information to ensure any required remedial actions can be agreed and implemented efficiently.

Investment risk is adequately supported by Nacional's capital base, with the company ensuring sufficient liquidity and appropriate asset-liability management is in place.

Reinsurance Summary

In 2022, Nacional ceded approximately 17% of its premiums to a panel of highly rated retrocessionaires. Nacional focuses on security and continuity, and its proportional retrocession cover has been mostly stable for a number of years, both in terms of the panel of retrocessionaires and the level of cover it affords. The level of cessions decreased slightly in 2023 driven by market conditions, however, Nacional saw continuity of most retrocession partners at renewal, maintaining the high credit quality of the panel.

Environmental, Social & Governance

AM Best views the main ESG risk to Nacional to be climate risk due to its exposure to higher frequency and severity weather-related events. Nacional is a mid-size property/casualty and life reinsurer mainly operating in Spain albeit selectively expanding across Central Europe, with a concentrated property portfolio.

Nacional has invested in external modelling tools that will provide greater insight into its exposures, help it assess sensitivity to future events and to factor rising global temperatures into underwriting considerations. Nacional has also continued to develop its internal natural catastrophe tools, enhancing exposure analysis on a more granular basis, in order to improve pricing and mitigate tail risks.

Financial Statements

	12/31/2022		12/31/2022
	EUR (000)	%	USD (000)
Balance Sheet			
Cash and Short Term Investments	44,523	2.6	47,538
Bonds	585,898	34.0	625,575
Equity Securities	507,109	29.4	541,450
Other Invested Assets	37,229	2.2	39,750
Total Cash and Invested Assets	1,174,759	68.2	1,254,314
Reinsurers' Share of Reserves	198,863	11.5	212,330
Debtors / Amounts Receivable	52,386	3.0	55,934
Other Assets	297,117	17.2	317,238
Total Assets	1,723,125	100.0	1,839,815
Unearned Premiums	177,530	10.3	189,552
Non-Life - Outstanding Claims	746,121	43.3	796,648
Life - Outstanding Claims	103,443	6.0	110,448
Life - Long Term Business	29,119	1.7	31,091
Total Gross Technical Reserves	1,056,213	61.3	1,127,740
Other Liabilities	227,759	13.2	243,183
Total Liabilities	1,283,972	74.5	1,370,923
Capital Stock	96,000	5.6	102,501
Retained Earnings	18,413	...	19,660
Other Capital and Surplus	324,740	18.8	346,731
Total Capital and Surplus	439,153	25.5	468,892
Total Liabilities and Surplus	1,723,125	100.0	1,839,815

Source: BestLink® - Best's Financial Suite

				12/31/2022	12/31/2022
	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	Total EUR (000)	Total USD (000)
Income Statement					
Gross Premiums Written	580,028	110,009	...	690,037	736,766
Net Premiums Earned	452,250	105,673	...	557,923	595,706
Net Investment Income	...	1,382	15,449	16,831	17,971
Realized capital gains/(losses)	...	329	3,872	4,201	4,485
Unrealized capital gains/(losses)	...	-29	-342	-371	-396
Other Income	...	590	...	590	630
Total Revenue	452,250	107,945	18,979	579,174	618,396
Benefits And Claims	329,627	53,976	...	383,603	409,581
Net Operating And Other Expenses	141,246	30,519	263	172,028	183,678
Total Benefits, Claims And Expenses	470,873	84,495	263	555,631	593,258
Pre-Tax Income	-18,623	23,450	18,716	23,543	25,137
Income Taxes Incurred	5,130	5,477
Net Income before Non-Controlling Interests	18,413	19,660
Net Income/(loss)	18,413	19,660

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

[Best's Credit Rating Methodology, 11/13/2020](#)



[Catastrophe Analysis in A.M. Best Ratings, 03/10/2023](#)

[Available Capital & Holding Company Analysis, 10/13/2017](#)

[Scoring and Assessing Innovation, 02/27/2023](#)

[Understanding Global BCAR, 07/06/2023](#)

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