

## Nacional de Reaseguros S.A.

**Primary Credit Analyst:**

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

**Secondary Contacts:**

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

Simon Virmaux, CFA, Paris + (33) 1-4075-2519; simon.virmaux@spglobal.com

### Table Of Contents

---

Credit Highlights

Outlook

Key Assumptions

Business Risk Profile

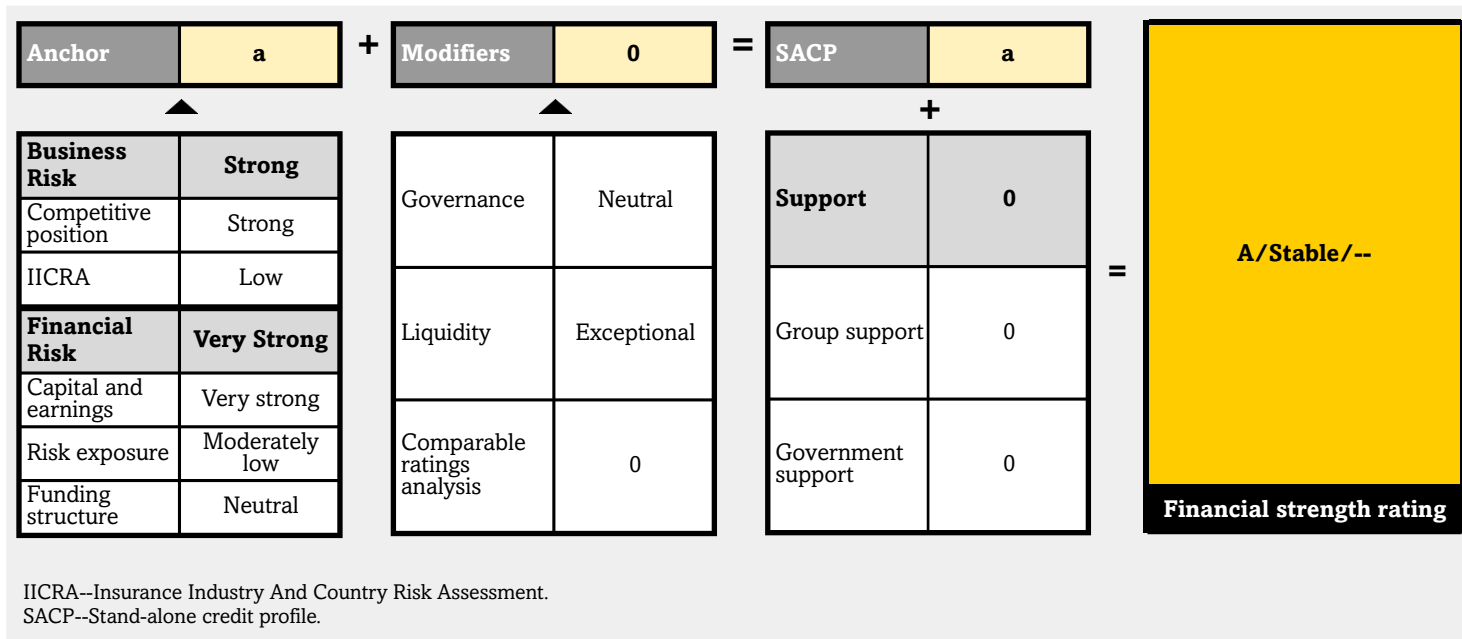
Financial Risk Profile

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.	Geopolitical and economic risks, capital market volatility, and inflation trends are adding uncertainty to financial targets.
Very low expense ratio is a competitive edge.	

**Nacional de Reaseguros (NRe)'s capitalization remained resilient in 2022 despite capital market movements and S&P Global Ratings believes that sound earnings retention will further support capital generation.** At year-end 2022, NRe maintained its excellent capital adequacy based on our risk-based capital model despite capital market movements and an increase in interest rates. Capitalization was supported by a 3.3% increase in shareholders' equity to €439 million. However, we believe that the relatively small absolute size makes capital more volatile compared to larger peers. For the next two years, we expect capital growth to be supported by strong net earnings of about €35 million-€45 million.

**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 geographical footprint remain 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. In 2022, earnings were affected by natural catastrophe claims, mainly in France and Germany. Technical performance was also affected by inflation trends, leading to a combined ratio (loss and expense) of 104.1%. We expect that NRe will take advantage of the hard reinsurance market through price increases and more favorable terms and conditions, maintaining a disciplined underwriting strategy.

### 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 forecast 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 period.

#### 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.

## Key Assumptions

- Eurozone real GDP growth slows to 0.6% in 2023 and 0.9% in 2024, from 3.4% in 2022.
- Spain's real GDP growth slows to 2.1% in 2023 and 1.6% in 2024, from 5.5% in 2022.
- Long-term Spanish interest rates increase to 3.56% in 2023 and 4.01% in 2024. The same trend in the eurozone, with rates that we estimate at 3.61% in 2023 and 3.67% in 2024.
- Average inflation in Spain falls to 3.5% and 2.6% in 2023 and 2024 respectively.
- Unemployment remains high in Spain at 12.1% in 2023 and 2024, compared with 6.4% and 6.5% in the eurozone over the same period.

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

	2024f	2023f	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premium written (mil. €)	~750	~720	690.0	633.1	608.5	590.8	567.5
Net income (mil. €)	40-45	35-40	18.4	30.0	28.9	40.2	37.0
Return on shareholders' equity (%)	8-10	6-8	4.3	7.2	7.3	10.9	10.8
Property/casualty: Net combined ratio (%)	92-95	93-96	104.1	96.7	97.5	92.9	92.9

f--S&P Global Ratings forecast.

**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 €690 million of gross premiums at year-end 2022, which is an increase of 9% compared with 2021. For the next two years, we expect a premium increase of about 4%, supported by a favorable pricing environment in the property/casualty (P/C) reinsurance market and the company maintaining its conservative underwriting strategy. We also expect positive developments in life operations, mainly in 2023, with expected premium growth of 17% driven by the acquisition of a larger contract. 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 geographical expansion strategy outside Spain, which helps to preserve its strong operating performance on average.

NRe has a diversified insurance business mix, which at year-end 2022 included fire and multi-risk (46% of gross premiums), life (16%), motor and third-party liability (15%), marine (8%), personal accident and health (5%), and other lines (9%).

NRe's performance declined in 2022, with a net income of €18.4 million and a combined ratio of 104.1% versus €30 million and 96.7% respectively in 2021. The fall in net income was due to lower investment results as well as a lower technical P/C result due to some larger claims in France and Germany, and higher inflation. The life segment partly offset the earnings decline and recorded a strong pretax profit of €23.4 million compared with €4.5 million in 2021. The lower overall technical and investment result was also visible in the return on shareholders' equity for year-end 2022, which was 4.3% compared with 7.2% in 2021..

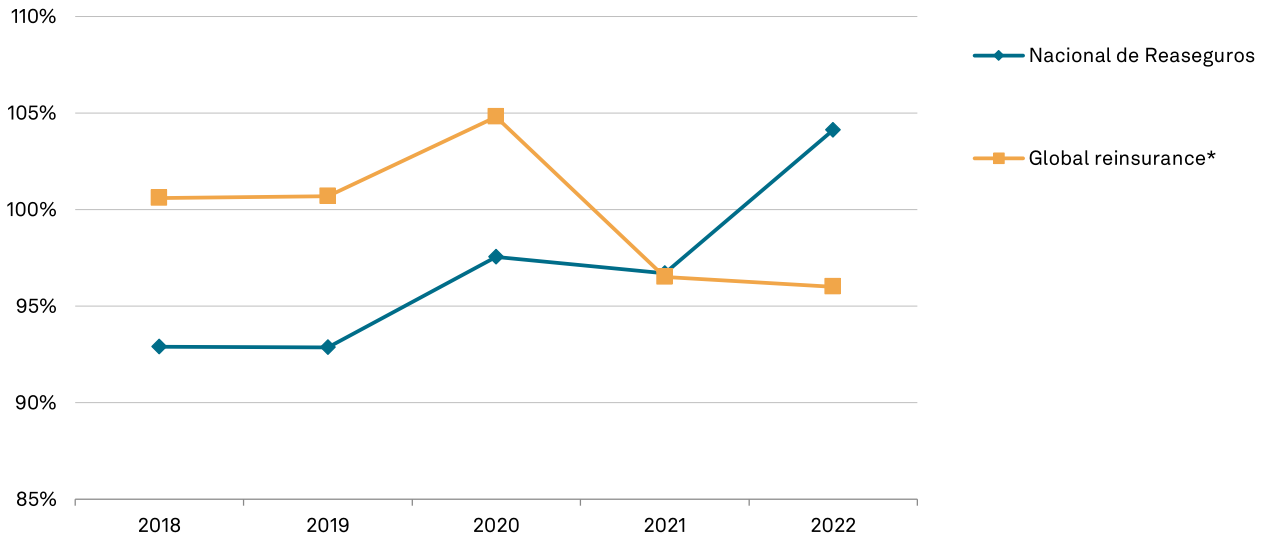
We believe that the current hard reinsurance market, combined with the company's stringent underwriting policy, will enable NRe to improve its technical profitability in the next two years, including combined ratios of 93%-96% in 2023 and 92%-95% in 2024. We also expect that increasing interest rates will materialize in higher investment results in the coming years, leading to a net income of €35 million-€45 million and a return on equity of 6%-10%. However, current geopolitical and economic risks, capital market volatility, and inflation trends are adding uncertainty to financial

targets.

**Chart 1**

**P/C combined ratio--Nacional de Reaseguros versus global reinsurance market**

Nacional de Reaseguros' stable property/casualty (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.

Sources: S&P Global Ratings and company financials.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

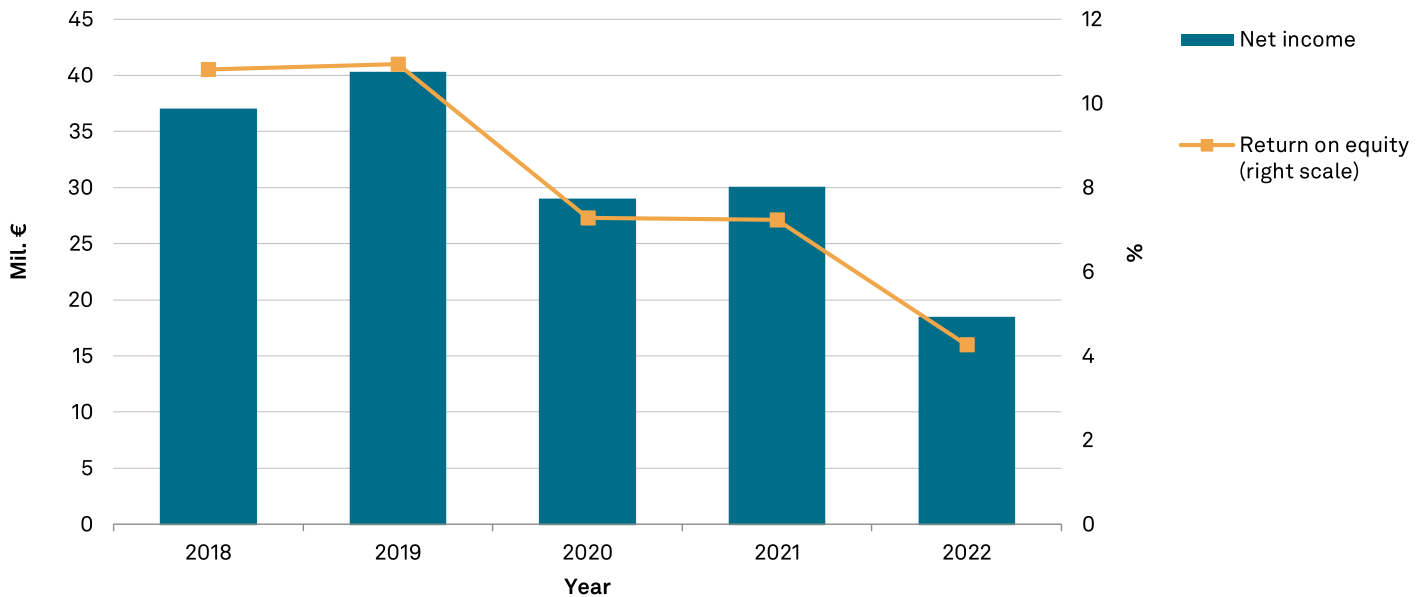
**Financial Risk Profile: Very Strong**

NRe's operations are backed by a solid balance sheet. We expect capital adequacy to remain at the 'AAA' level over our two-year forecast period, supported by strong retained earnings. We believe that the company's improving net income, together with a stable dividend payout of 35% of after-tax results will finance capital requirements from increasing business. We also expect capital requirements to increase modestly, since the company is focusing on improving the quality of its portfolio rather than fast expansion in the current hard reinsurance market. From a regulatory capital standpoint, the company comfortably meets requirements with a solvency ratio of 201% at year-end 2022. This was flat versus year-end 2021. 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 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



Sources: S&P Global Ratings and company financials.  
 Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect earnings volatility to remain modest, especially thanks to the stability of NRe's domestic operations. We don't expect that inflation will have a material negative impact on NRe's future results, mainly because of Spain's system for assessing damages in personal injury claims (Baremo), which provides a solid and effective framework to anticipate claim 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 improved to the 'A-' level by year-end 2022 from 'BBB+' at year-end 2021. We believe that increasing interest rates will allow NRe to reduce credit risk over the next few years, without sacrificing investment returns. Exposure to equities is relatively high, representing about 20% of total invested assets at market values, although about 11% refers to NRe's long-term investment in Grupo Compañía Española de Crédito y Caución S.L. Net investment yields improved to 1.5% in 2022 compared with 1.1% at

2021 (1.8% including realized and unrealized gains), reflecting higher interest rates.

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. In our view, its overall risk profile remains largely unchanged since we do not anticipate that NRe 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 committed to gradually and prudently building its market position outside Spain, taking advantage of its 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 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
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 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

## Appendix

Nacional de Reaseguros S.A.--Credit metrics history					
Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy*	Excellent	Excellent	Excellent	Excellent	Excellent
Total shareholder equity	439	425	404	391	345
Gross premiums written	690	633	609	591	568
Net premiums written	571	516	481	472	450

**Nacional de Reasegueros S.A.--Credit metrics history (cont.)**

Ratio/Metric	2022	2021	2020	2019	2018
Net premiums earned	558	512	479	467	449
Reinsurance utilization (%)	17	19	21	20	21
EBIT	24	40	36	52	48
Net income (attributable to all shareholders)	18	30	29	40	37
Return on revenue (%)	3.4	5.0	5.9	9.1	9.6
Return on shareholders' equity (reported) (%)	4.3	7.2	7.3	10.9	10.8
P/C: net combined ratio (%)	104.1	96.7	97.5	92.9	92.9
P/C: net expense ratio (%)	31.2	28.5	30.7	29.7	30.5
Net investment yield (%)	1.5	1.1	1.1	1.1	1.1
Net investment yield including investment gains/(losses) (%)	1.8	2.4	1.7	2.0	1.4

P/C--Property/casualty.

**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 November 14, 2023)\***

**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/--

**Domicile**

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



Copyright © 2023 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.spglobal.com/ratings](http://www.spglobal.com/ratings) (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.spglobal.com/usratingsfees](http://www.spglobal.com/usratingsfees).

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