S&P Global Ratings

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Nacional de Reaseguros S.A.

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Table Of Contents

Nacional de Reaseguros S.A.

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

\+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

\+

Support	**0**
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

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.

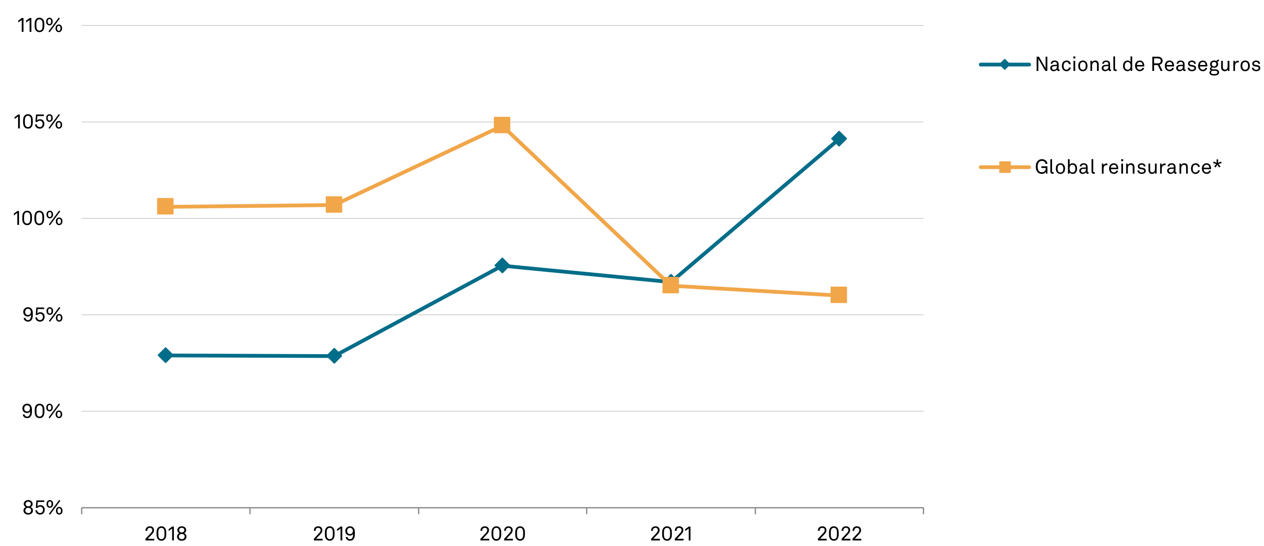
NRe has a diversified insurance business mix, which at year-end 2022 included fire and multi-risk (46% of gross premiums), life (16%), motor and third-party liability (15%), marine (8%), personal accident and health (5%), and other lines (9%).

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 reinsureres: 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.

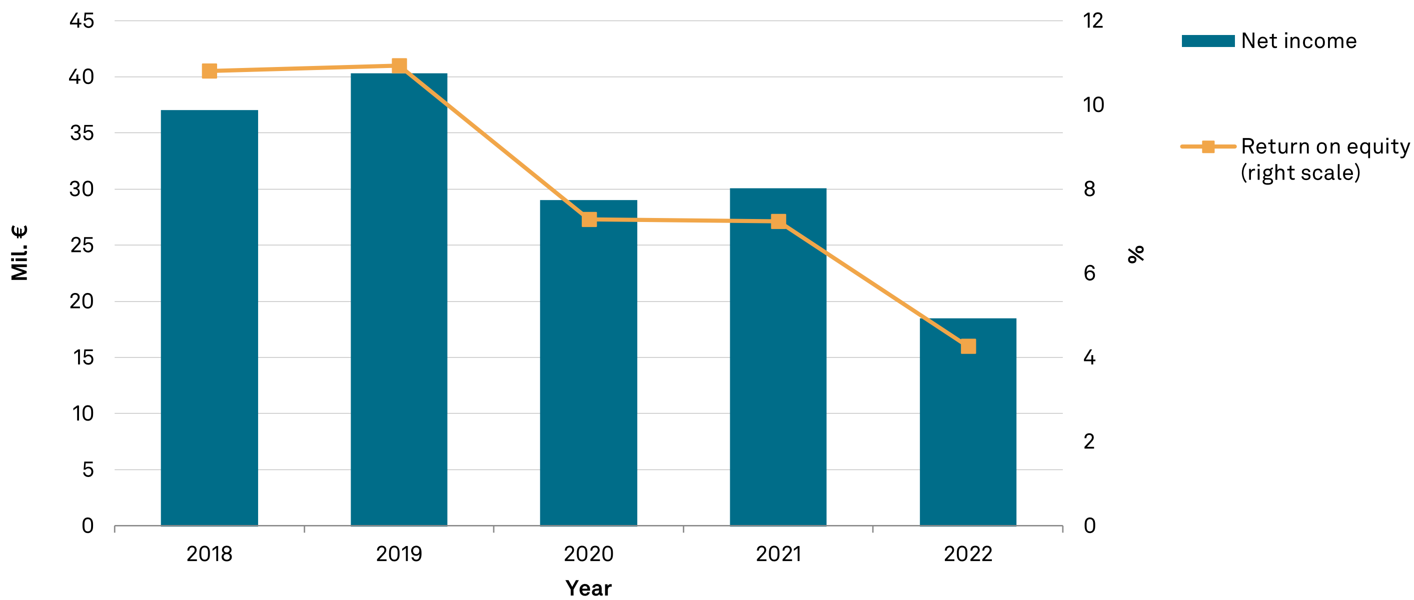
Financial Risk Profile: Very Strong

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.

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 Reaseguros 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 Reaseguros 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.

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