

Research Update:

DRAFT: Nacional de Reaseguros S.A. 'A' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

July 12, 2024

S&PGR Affirms Nacional de Reaseguros At 'A'; Outlook Stable

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on the new criteria, Nacional de Reaseguros S.A.'s (NRe's) capital adequacy remains above the 99.99% level.
- We now consider liquidity to be adequate instead of exceptional as a result of the rising insurance exposure relative to available liquid assets.
- We affirmed our 'A' ratings on NRe.
- The outlook is stable because we expect NRe to maintain its capital adequacy above the 99.99% level, its leading position in Spain, and improving operating performance for the next two years.

Rating Action

On July 12, 2024, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on Nacional de Reaseguros S.A. (NRe). The outlook is stable.

Impact Of Revised Capital Model Criteria

- Applying the revised capital model criteria did not affect our view of NRe's creditworthiness.
- The assessment of the capital model indicates a capital adequacy at the '99.99%' confidence interval, reflecting an increase in total adjusted capital owing to the removal of haircuts to liability adjustments, such as life value-in-force and non-life surpluses.
- We have also captured the benefits of risk diversification more explicitly in our analysis, which

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in turn supports our analysis.

- The recalibration of our capital charges to higher confidence levels partly offset these improvements.

Credit Highlights

Overview

Key strengths

Leading position in the Spanish reinsurance market with some diversification via international business.

Low historical earnings volatility from natural catastrophe events in Spain.

Key risks

Small absolute size and position in the global reinsurance market.

Increase in natural catastrophe events in its international business.

Limited depth of workforce creates a key-man risk.

Uneven track record of efficiency of retrocession coverage.

Outlook

The stable outlook reflects our expectation that NRe will maintain its leading, profitable position in Spain while prudently and profitably expanding its business outside Spain over the next two years. We also expect capital adequacy will remain above the 99.99% level and that the recent volatility in results from natural catastrophes will reduce in 2024 and 2025.

Downside scenario

We could lower the ratings on NRe over the next two years if:

- Continued higher-than-expected catastrophe risk exposure, other foreign business-related risks, or changes in its investment portfolio were to increase volatility or weaken the company's strong operating performance; or
- Capital adequacy declined below our 99.99% confidence-level over a prolonged period.

Upside scenario

We consider a positive rating action to be remote over the next two years, given the company's lesser global diversification compared with that of higher-rated peers.

Rationale

NRe maintains a very strong capital position, consistent with the 99.99% confidence-level as per our risk-based capital model and considering the limited absolute size of its capital base.

NRe generated resilient earnings despite being affected by the historical floods and storms that occurred in Italy in July 2023. These floods and storms have weighed on non-life technical

performance as non-life net combined (loss and expense) ratio reached 100.3%, above the five-year average of 98.4% (2019-2023). Conversely, the life segment contributed strongly to overall profitability, with €18.2 million of technical results. The company's net income improved by about 49% to €27 million for 2023 from €18 million in 2022. We expect net income to be between €35 million and €40 million in the coming years, supported by lower impact from natural catastrophes and improved investment return given the higher reinvestment yield. We expect the non-life net combined ratio to improve to 98.5% in 2024 and to 97.5% in 2025.

We revised liquidity to adequate from excellent resulting from the rising insurance exposure relative to available liquid assets. The liquidity score also reflects exposure to unlisted financial participations for around 10% of the portfolio. We consider NRe investment strategy to be commensurate to its needs with about 75% of the assets allocated in fixed income investments, 18% in equities, and 6% in real estate. The average credit rating of this bond portfolio remains at 'A-' with virtually no exposure to non-investment grade assets.

NRe continues to maintain a strong brand reputation in the Spanish market, where it positions itself as a leader in the pricing of the treaties. We estimated its market share at about 10%. It reported €735 million of gross premiums at year-end 2023, which is an increase of 6.5% compared with 2022. The company has slowly and steadily built strong international relationships to gain ground outside Spain, as well. International business now represents 38% of its premiums and diversifies its exposures. Despite this diversification benefit, however, business outside of Spain has increased the company's exposure to natural catastrophe events. Contrary to Spain, where the Consorcio de compensacion de seguros covers all Spanish market participants from extraordinary events including NRe (as well as in France where the Caisse Centrale de Reassurance plays a similar role), other countries where NRe has expanded its international footprint do not benefit from such a scheme. Notably, NRe underwrites about 11% of its business in Germany, Switzerland, and Austria, and about 5% in Italy. Natural catastrophe claims have represented 7 percentage points of the non-life net loss ratio on average for the past five years, with a higher impact of 11 percentage points in 2023.

Ratings Score Snapshot

Financial strength rating	To	From
	A/Stable/--	A/Stable/--
Anchor*	a	a
Business risk	Strong	Strong
IICRA	Low	Low
Competitive position	Strong	Strong
Financial risk	Very Strong	Very Strong
Capital and earnings	Very Strong	Very Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional

Financial strength rating	To	From
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

*NRe's competitive strength in the international business is less prominent than that in the Spanish market. IICRA--Insurance Industry and Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Nacional de Reaseguros S.A., Nov. 14, 2023

Ratings List

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceld/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.

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