



## RATING ACTION COMMENTARY

# Fitch Affirms Patria's International and National Ratings; Outlook Stable

Fri 04 Jun, 2021 - 5:06 PM ET

Fitch Ratings - Mexico City - 04 Jun 2021: Fitch Ratings has affirmed Reaseguradora Patria S.A.'s (Patria) international and national Insurer Financial Strength (IFS) ratings at 'BBB+' and 'AAA(mex)', respectively.

The Rating Outlook is Stable.

## KEY RATING DRIVERS

### International IFS Rating

The affirmation reflects a more favorable view by Fitch of Patria's financial performance and capitalization, offset by explicit recognition of transfer and convertibility (T&C) risks in light of significant business sourced by Patria outside of Mexico. Patria's international IFS rating of 'BBB+' reflects a one notch downward adjustment for T&C risks relative to an implied 'A-' IFS rating before such risks, and aligns with Fitch's Country Ceiling for Mexico.

Within the context of its criteria, Fitch treats Patria's international IFS rating as a foreign currency rating. The pre-T&C indication reflects only local currency risks.

Fitch's viewpoint of Patria's rating before the impact of T&C risks improved by one notch based a more favorable view held by Fitch on Patria's financial performance and capital. In the current ratings review, Fitch placed greater emphasis on Patria's combined ratio adjusting out the effect of increases in catastrophic and contingency reserves, to better align with international methodologies, which had a positive impact. Fitch also moderately reduced its adjustment for sovereign risks concentrations in its assessment of Patria's capital adequacy, recognizing stabilization of Fitch's sovereign rating on Mexico subsequent to the last review.

Fitch expects Patria's business profile to be maintained at 'bbb+' considering the entity's modest operating scale relative to international reinsurers, although its premium and product diversification is superior to regional players. At YE20, Patria's net written premiums and equity reached USD285 million and USD380 million, respectively. Latin America represented 78% of premiums and overseas increased its participation to 22% in 2020 from 16% in 2019. Fitch recognizes Patria's solid franchise in the region, entity's competitive advantages and robust experience underwriting property and catastrophic risks, and differentiates itself via specialized customer service, with potential continuous growth.

Nonetheless, Patria's risk appetite is considered to be somewhat higher given the focus on LatAm and Caribbean countries with less developed regulatory oversight. Patria's operations are comprised of 58% in investment-grade countries, 29% in below investment-grade and 13% in countries not rated.

Financial performance was solid despite the pandemic and remains highly relevant to the rating assigned. In 2020, premiums grew 42%, the highest level in the last five years benefiting from market conditions, higher penetration and diversification by region, and foreign exchange (FX) fluctuations. Adjusting local reporting standards to international standards, Patria's combined ratio in 2020 was 92%, better than relevant international players. Future improvement could be constrained by the occurrence of natural disasters and deterioration of financial markets.

Patria's capital quality is adequate. Despite strong premium growth, entity's gross and net leverage ratios at YE20 of 1.8x and 1.4x, respectively, remained favorable. Patria's solvency index decreased to 1.5x in 2020 from 1.7x in 2019 due the growth in premiums, but consistently above regulatory requirement and in line with Patria's risk management strategy. Capitalization is constrained by Mexican sovereign-related investment being held at 113% of capital as of YE20.

By the end of 2020, Patria's investment portfolio recovered from Covid-related stress supported by Peña Verde S.A.B. (Patria's holding company) asset management and financial strategy division. Patria reduced market risk exposure by acquiring sovereign bonds, supranational bonds and instruments at 'AAA' rated issuers and allocated 88% of investments on investment-grade securities.

The strategy also rebalanced equity trading securities to seize new opportunities given the market post pandemic conditions, resulting in 20% equity investments-to-capital ratio in 2020 from 26% in 2019. Patria's investment and liquidity risk subfactor remains capped by entity's sovereign investment concentration risk, 70% in instruments backed by Mexican government rated at "BBB-", although distributed 83% in USD and 16% in MXN.

Fitch believes Patria's exposure to catastrophic risks is well managed with a high credit quality retrocession pool. Entity's reinsurance recoverables-to-capital ratio reached 50%. Catastrophic reserves reached levels that would allow Patria to face an event of 975-year return period combined event.

#### National IFS Rating

Patria's affirmed national scale rating is supported by its intrinsic financial profile. The entity maintains credit quality relative to national scale according to its operating jurisdiction, Mexico.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Given the company's current business profile, which Fitch scores at 'bbb+' and its high weight in the rating, the ratings would also be sensitive to an upgrade of Mexico's sovereign rating and country ceiling;

--An upgrade in the national scale rating is not possible since the rating is already positioned in the highest level of national scale ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--The ratings would be sensitive to a downgrade of Mexico's sovereign rating to below investment grade given the large investment concentrations and/or a decline in Mexico's

country ceiling to less than 'BBB+';

--A downgrade could be driven by a material deterioration in Patria's financial profile;

--National scale rating would be negatively affected by a multi-notch downgrade on Patria's international rating.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## **RATING ACTIONS**

ENTITY/DEBT	RATING			PRIOR
Reaseguradora Patria, S.A.	Ins Fin Str	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable
	Natl Ins Fin Str	AAA(mex) Rating Outlook Stable	Affirmed	AAA(mex) Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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## APPLICABLE CRITERIA

[Metodología de Calificación de Seguros \(pub. 10 Sep 2020\)](#)

[Metodología de Calificaciones en Escala Nacional \(pub. 22 Dec 2020\)](#)

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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Reaseguradora Patria, S.A.

EU Endorsed, UK Endorsed

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