

RATING ACTION COMMENTARY

Fitch Assigns Ratings to Qualitas Mexico and Qualitas Grupo

Wed 29 Dec, 2021 - 13:46 ET

Fitch Ratings - Monterrey - 29 Dec 2021: Fitch Ratings has assigned international and national scale Insurance Financial Strength (IFS) ratings to Qualitas Compania de Seguros, S.A. de C.V. (Qualitas México) of 'BBB' and 'AAA(mex)', respectively. Fitch also assigned an Issuer Default Rating (IDR) and a National Long Term Rating to Qualitas Controladora SAB de CV of 'BBB-' and 'AAA(mex)', respectively. The Rating Outlooks for all of the ratings are Stable.

KEY RATING DRIVERS

Qualitas Grupo's IDR is derived by notching from subsidiary Qualitas Mexico's IFS rating. Fitch rates Qualitas Mexico international IFS 'BBB' and its implied Local Currency IDR 'BBB-'. Per Fitch's criteria, the IDR of a holding company is set at the same level as that of the operating company in "Group Solvency" jurisdictions. This standard applies in investment-grade countries like Mexico.

Qualitas Mexico's IFS benefits from the entity's strong and stable company profile and financial performance. The assessment is constrained by pressure due to high leverage ratios and sovereign investment risk concentration.

Fitch recognizes Qualitas Grupo's robust business model supported by its strong coverage network that includes 570 offices, and more than 18,300 tied agents that, along with stringent cost control policies and technological innovation, allow Qualitas Grupo to consistently report profitability above market average. To support cost control strategy, the business model includes non-insurance specialized entities (vertical subsidiaries), which represented MXN111 million of group income, excluding intercompany operations at 3Q21. Qualitas Grupo's corporate governance follows international best practices in terms of financial transparency, board independence, and governance, and Fitch categorizes it as moderate/favorable.

Qualitas Mexico's core capitalization and leverage ratios are pressured by group's dividends payout policy. The group's public dividend payout policy permits payments between 40% and 90% from the prior year's net results as long as regulatory solvency capital requirement is above 1.5x; the value of the previously mentioned range will depend on the underwriting results, future projects and other considerations. The company's solvency ratio was 4.0x at 3Q21.

During 2020, Qualitas Mexico paid out MXN4 billion in dividends to its holdings while Qualitas Grupo paid MXN722 million in the same period, aligned with the with Group's strategy to allocate resources for various projects, including their recent expansion in other Latin-American countries. At 3Q21, Qualitas Mexico's net leverage stood at 7.2x, although the ratio falls to 3.7x when measured at the holding company level. The holding company maintains significant cash and invested assets.

Fitch considers Qualitas Grupo's company profile to be persistently strong. The assessment considers Qualitas México's (group's core operating company with approximately 90% of group's total net written premiums) leading position in the Mexican insurance industry since 2007 (ranks fourth of 112 companies at 3Q21 and ranks as number one in the Mexican motor insurance line of business), the entity's favorable operating scale, and most favorable competitive positioning along with a strong franchise and a solid business model relative to Latin American international peers. The assessment is pressured by the group's concentration in auto business, which is partially offset by operations abroad and growing product diversification strategy.

Pandemic impacts for the auto insurance industry were mostly driven by premium production and claims dynamics. Qualitas Grupo's gross written premiums grew 9.3% at 3Q21 compared with 0.4% contraction at YE20. In 2020, Qualitas Grupo's net income totaled a record MXN6,794 million due to pandemic-related lockdowns and lower driving

activity. Low claims during 2020 led the holding's combined ratio of 80.1%. As of 3Q21, the combined ratio was 91.3%, slightly above the 2017-2019 three-year average of 90.6%. Fitch believes the combined ratio will stabilize at levels similar to 2017-2019's three-year average.

Qualitas Mexico's investment portfolio is highly diversified compared with the local market standards, but still concentrated at 65.2% in sovereign instruments due to local regulation. Qualitas Mexico's high sovereign investment/capital ratio was 165% as of 3Q21, which limits the subfactor evaluation due to the predominant sovereign risk level minus one notch, per Fitch's methodology.

National Ratings

Qualitas Mexico's national IFS and Qualitas Grupo's national IDR were assigned 'AAA(mex)' ratings. Entities maintain credit quality relative to the national scale according to their operating jurisdiction, Mexico.

RATING SENSITIVITIES

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

--Given the company's current company profile, which Fitch scores '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;

--Fitch's perception of company profile, driven by capital above USD800 million and diversification in other lines of business;

--Net leverage below 6.6x;

--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 capital below USD475 million and deterioration in net leverage ratio above 7.9x;

--The national scale rating would be negatively affected by a downgrade on Qualitas Mexico's international rating.

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.

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>

DATE OF RELEVANT COMMITTEE

08 December 2021

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.

RATING ACTIONS

ENTITY / DEBT ⚡

RATING ⚡

Qualitas Controladora SAB de CV	LC LT IDR	BBB- Rating Outlook Stable	New Rating
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Natl LT	AAA(mex) Rating Outlook Stable
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New Rating

Qualitas Compania de Seguros, S.A. de C.V.	Ins Fin Str	BBB Rating Outlook Stable	New Rating
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Natl Ins Fin Str	AAA(mex) Rating Outlook Stable
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New Rating

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

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

[Metodología de Calificación de Seguros \(pub. 29 Jun 2021\)](#)

[Insurance Rating Criteria \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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Qualitas Compania de Seguros, S.A. de C.V.

EU,UK Endorsed

Qualitas Controladora SAB de CV

EU,UK Endorsed

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