Best's Credit Rating Effective Date
July 01, 2019

Analytical Contacts

Giannina Carbajal
Financial Analyst
Giannina.Carbajal@ambest.com
+31 20 308 5428

Michael Dunckley
Associate Director-Analytics
Michael.Dunckley@ambest.com
+31 20 308 5422

Information

Best's Credit Rating Methodology

Understanding Best's Credit Ratings

Market Segment Outlooks

Financial Data Presented

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Mutua de Riesgo Maritimo, Sociedad de Seguros a Prima Fija

AMB #: 095280

Best's Credit Ratings – for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
B++	**bbb**
Good	**Good**
Outlook: **Stable**	Outlook: **Stable**
Action: **Assigned**	Action: **Assigned**

Assessment Descriptors

Balance Sheet Strength	**Strong**
Operating Performance	**Adequate**
Business Profile	**Limited**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Mutua Riesgo Maritimo Soc Seg | AMB #: 095280

AMB #	Rating Unit Members
083690	Mutua Riesgo Maritimo Soc Seg

Rating Rationale

Balance Sheet Strength: Strong

- The risk-adjusted capitalisation of Mutua de Riesgo Maritimo, Sociedad de Seguros a Prima Fija (Murimar), as measured by Best's Capital Adequacy Ratio (BCAR), is supportive of a Strongest assessment. BCAR scores are expected to remain within the same assessment level over the medium term, with a slight deterioration due to planned growth.
- Murimar holds sufficient reserves and demonstrates favourable overall loss reserve development trends with a stable approach to reserving.
- Murimar has an appropriate reinsurance program that provides a degree of financial stability within the company's risk appetite. It benefits from the support of Consorcio de Compensacion de Seguros catastrophe protection. However, the mutual mainly relies on one reinsurer, which concentrates credit risk exposure.
- Murimar's invested assets are 44% held in real estate. This strategy reduces the mutual's liquidity and adds exposure to the Spanish commercial real estate market. The mutual is reliant on the cash holdings of its life insurance subsidiary for sufficient liquidity.

Operating Performance: Adequate

- After three years of consecutive losses, Murimar has reported profits in years 2017 and 2018, driven by stricter underwriting conditions and improved claim management procedures.
- Murimar's return on equity has been low over the last two years, around 1%; however, it is in line with the mutual's strategy to focus on service to its members rather than high levels of profitability.
- Over the last five years 2014-2018, Murimar has reported an average loss ratio of 77.8% with an improving trend, supported by selective underwriting. However, in 2018 the ratio deteriorated due to large losses, with the impact controlled by reinsurance recoveries.
- Life business represents 10% of GWP with a retention of 46%. This segment remains unprofitable, with the low interest rate environment representing a headwind to performance.

Business Profile: Limited

- Murimar is a Spanish marine insurance mutual which has been operating for over 90 years. It specialises in small and medium-size vessels with a focus on the fishing fleet and is the fourth-largest marine insurer in Spain.
- The mutual sources 95% of gross premiums written in Spain; however, it has entered new markets, including Portugal and France. It is planning to expand its business to Latin America.
- The company's market position is supported by a strong agency network and its mutual status which contributes to very high client retention.
- The mutual's portfolio of products is relatively undiversified, dominated by hull business representing 60% of gross premiums written. The mutual also writes Protection & Indemnity, third party liability and personal accidents.

Enterprise Risk Management: Appropriate

- Murimar has an enterprise risk management framework suitable to the mutual's size and inherent risk. Business units have ongoing responsibility for risk controls with processes reviewed by internal audit. Risk management tools are effectively used for strategic decision-making.
- Given Murimar's small balance sheet and exposure to the inherent volatility of marine insurance business represents a key risk. This is controlled with a reinsurance programme that restricts net exposures.
- Murimar has appropriate risk monitoring and control measures in place including the assessment of capital adequacy using the standard formula for Solvency II and internal models used for the ORSA report.

Outlook

- The stable outlooks reflect AM Best's expectation that Murimar will be able to sustain operating profitability over the medium term whilst maintaining its competitive position as a niche maritime insurer for small and medium-size vessels. Balance sheet strength is expected to remain at the strong level supported by the strongest level of risk-adjusted capitalization and an appropriate retrocession programme.

Rating Drivers

- Positive rating pressures are considered unlikely at the moment. However, positive rating actions could occur on business profile, which could stem from successful achievement of expansion plans.
- Negative rating actions could occur from a weakening in risk-adjusted capitalisation or if operating performance deteriorates substantially from the profitable underwriting results achieved in 2017 and 2018.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	69.3	55.7	50.4	48.5

Source: Best's Capital Adequacy Ratio Model - Universal

Key Financial Indicators	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)	2014 EUR (000)
Net Premiums Written:					
Life	974	482	477	437	441
Non-Life	6,723	5,677	5,501	3,887	3,520
Composite	7,697	6,159	5,978	4,324	3,961
Net Income	79	133	-275	-557	-799
Total Assets	44,011	38,850	39,649	41,096	37,609
Total Capital and Surplus	11,783	11,706	11,043	10,473	10,211

Source: BestLink® - Best's Financial Suite

Key Financial Indicators & Ratios	2018	2017	2016	2015	2014	Weighted 5-Year Average
Profitability:						
Balance on Life Technical Account (EUR 000)	-72	-23	-229	-146	-263	...
Balance on Non-Life Technical Account (EUR 000)	226	209	108	-433	-608	...
Net Income Return on Revenue (%)	1.0	2.1	-5.2	-12.4	-20.4	-5.1
Net Income Return on Capital and Surplus (%)	0.7	1.2	-2.6	-5.4	-7.8	-2.6
Non-Life Combined Ratio (%)	99.5	99.4	104.1	114.5	122.7	106.0
Net Investment Yield (%)	0.2	0.2	0.1	1.0	0.8	0.4
Leverage:						
Net Premiums Written to Capital and Surplus (%)	65.3	52.6	54.1	41.3	38.8	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

The BCAR scores presented under the 'Best Capital Adequacy Ratio Summary' section of this report are based on 2018 year-end data.

Murimar's balance sheet assessment is supported by risk-adjusted capitalisation at the ‘strongest' level, as measured by Best's Capital Adequacy Ratio (BCAR). Risk-adjusted capitalisation is expected to remain at the strongest level over the medium term, based on projections which maintain the company's current low level of underwriting leverage.

A number of factors are considered to offset the risk-adjusted capitalisation position. Murimar has a high level of dependence on reinsurance; the credit risk associated with this is partially mitigated by the mutual maintaining a reinsurance panel of very good credit strength. Murimar has significant exposure to Spanish real estate holdings, resulting in a high level of market exposure. The small size of the mutual's capital base is EUR 11.8 million, and is therefore less able to absorb a large loss. Murimar has limited financial flexibility: as a mutual it cannot raise further capital from shareholders and has very limited ability to raise capital from members other than by raising premiums.

Balance Sheet Strength (Continued...)

Capitalisation

Balance sheet strength is underpinned by risk-adjusted capitalisation at the strongest level, and low net underwriting leverage. Its BCAR scores are expected to remain within the same assessment level in the medium term. However, they slightly deteriorate going forward due to an increase in underwriting risk in line with the mutual's growth plan. The main drivers of required capital are reserves and premium risks (53.4% of undiversified requirement). Both incorporate life and non-life risks, where exposure is weighted towards the marine lines of business. Our assessment of Murimar's stressed risk-adjusted capitalisation is not materially lower than the standard assessment due the low retention on large risks and accumulations.

Capital Generation Analysis	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)	2014 EUR (000)
Beginning Capital and Surplus	11,706	11,043	10,473	10,211	10,210
Net Income	79	133	-275	-557	-799
Change in Equalisation and Other Reserves	-200	305	845	819	-800
Net Change in Paid-In Capital and Surplus	200	225	...	...	800
Other Changes in Capital and Surplus	-2	...	...	...	800
Net Change in Capital and Surplus	77	663	570	262	1
Ending Capital and Surplus	11,783	11,706	11,043	10,473	10,211
Net Change in Capital and Surplus (%)	0.7	6.0	5.4	2.6	...

Source: BestLink® - Best's Financial Suite

Liquidity Analysis (%)	2018	2017	2016	2015	2014
Liquid Assets to Total Liabilities	21.6	22.4	15.8	13.4	15.4
Total Investments to Total Liabilities	42.0	46.7	38.8	35.5	40.7

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

As year-end 2018, Murimar had investments evenly split between cash (EUR 6.9 million) and real estate (EUR 6.0 million). Murimar's asset allocation towards real estate reduces its liquidity and adds exposure to the Spanish commercial real estate market. Regarding liquidity, Murimar's ratio of liquid assets to net technical reserves was 77.7% from a consolidated point of view at year-end 2018. However, AM Best notes that most of these liquid assets are held by Murimar's life insurance subsidiary. As a result, in the case of high cash requirement, the mutual company would need to upstream cash using a dividend or a loan. The same management team controls both organisations, making this process more straightforward.

The life company's liquidity is stronger because the mutual has not changed its original structure. Murimar set up a Life company with contributions in cash and real estate, which have not moved since then. Management remarked that it was not in their plans to set up a life company, but the regulator did not allow them to create a mutual.

Murimar has EUR 0.5 million in mortgages and loan, all of which are collateralised, which were provided to ship-owning clients during the financial crisis. However, following poor default experience, Murimar's administration board has stopped providing loans to clients as part of their investment policy.

Composition of Cash and Invested Assets	2018	2017	2016	2015	2014
Total Cash and Invested Assets (EUR 000)	13,530	12,667	11,108	10,866	11,164
Cash (%)	51.5	48.1	40.6	37.7	37.8
Equity Securities (%)	...	...	...	...	0.1
Real Estate, Mortgages and Loans (%)	48.5	51.9	59.4	62.3	62.1
Total Cash and Unaffiliated Invested Assets (%)	100.0	100.0	100.0	100.0	100.0
Total Cash and Invested Assets (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Reserve Adequacy

The mutual shows sufficient reserves and a favourable overall loss reserve development trend with a stable approach to establishing reserves for claims. Murimar's gross reserves for outstanding non-life claims amounted to EUR 17.3 million as at year-end 2018. Approximately 59% of these reserves relates to the marine line of business. A further 36% is evenly split in other liabilities and commercial property. Reserves are internally calculated and reviewed annually by the end of February. This review includes the analysis of sufficiency of reserves calculated by product. However, the mutual does not undertake a third party reserve review. The company has prudent reserving standards, with technical provisions exceeding best estimate liabilities (BEL) by EUR 1.9 million in 2018, per the 2018 SFCR. This indicates that Murimar holds a margin over BEL that will make the mutual less likely to see its capital impacted by a reserve write-down.

Operating Performance

Following three years of consecutive losses, Murimar has reported profits in years 2017 and 2018, driven by stricter underwriting conditions and improved claims management procedures. Profit in these years has been modest at EUR 133 thousand and EUR 79 thousand. Murimar's return on equity has been low, at around 1% and is expected to remain at this level. However, the mutual's strategy is to focus on service to its members rather than high levels of profitability.

Murimar reported a five-year weighted average loss ratio of 77.8%, with an improving trend between 2014 and 2017. In 2018, the ratio deteriorated because of large losses experienced in maritime third party and multi-risks. Without these events, the loss ratio for 2018 would have been 72.9%. Overall, Murimar reported a combined ratio of 99.5% in 2018, which places the company in a better position than it was in previous years. Weighted average combined ratio for the last five years is 106.0%. Additionally, the mutual's management is able to adjust pricing to members in order to maintain its targeted level of profitability. Murimar's pricing flexibility is supported by its brand recognition and high level of client loyalty. For example, Murimar client's retention rate in hull insurance was 88.5% in 2018.

Due to the loss experience of marine lines of business, Murimar is exposed to high level of volatility on a gross basis, which is controlled by an appropriate reinsurance programme. This programme operates to control both aggregations and peak loss events. Due to the high level of reinsurance purchase, Murimar's premium retention is just 30%.

AM Best expects Murimar to achieve combined ratios close to 100%, supported by a stringent underwriting and low levels of volatility in a net basis due to the extensive reinsurance arrangements in place. Furthermore, Murimar reports low levels of investment income due to a portfolio invested in cash and real estate.

Financial Performance Summary	2018 EUR (000)	2017 EUR (000)	2016 EUR (000)	2015 EUR (000)	2014 EUR (000)
Pre-Tax Income	96	150	-266	-520	-847
Net Income after Non-Controlling Interests	79	133	-275	-557	-799

Source: BestLink® - Best's Financial Suite

Operating and Performance Ratios (%)	2018	2017	2016	2015	2014
Overall Performance:					
Return on Assets	0.2	0.3	-0.7	-1.4	-2.3
Return on Capital and Surplus	0.7	1.2	-2.6	-5.4	-7.8
Non-Life Performance:					
Loss and LAE Ratio	77.4	69.4	74.3	79.4	95.8
Expense Ratio	22.1	30.0	29.8	35.1	26.9
Non-Life Combined Ratio	99.5	99.4	104.1	114.5	122.7

Source: BestLink® - Best's Financial Suite

Business Profile

Murimar has a niche business profile focused on insurance for small-to-medium vessels in Spain. Despite limited gross premiums of EUR 19.7 million in 2018, Murimar is the second largest fishing vessel hull insurer in Spain, with distribution through a strong agency

Business Profile (Continued...)

network and effective client retention aided by its mutual status. Murimar also operates in other markets, such as, Portugal and France, and it is looking forward to expand its business into Latin America, but through a conservative expansion strategic plan.

In 2018 , Murimar reported gross written premiums (GWP) of EUR 21.9 million with hull insurance as the most important line of business (60% of GWP). Other lines of business include P&I (12% of GWP) and cargo (10% of GWP), which mainly relate to insureds in the marine industry. Hull premiums have increased at an average growth rate of 6% between 2015 and 2018. Premiums grew from EUR 11.9 million to EUR 14.1 million, in line with the mutual's strategic expansion plan.

Offsetting rating factors include the mutual's geographical and product concentration. The mutual's products are highly concentrated in the maritime business, mainly operated in Spain. Therefore, Murimar is exposed to the particular economic and insurance industry risks associated with that country.

Murimar's corporate structure includes its 100% ownership of Murimar Vida (life insurance business, with a capital of EUR 9.0 million), Insermar Consultores (service provider, with a capital of EUR 0.6 million), and Murimar Brok (brokegare services, with a capital of EUR 0.1 million).

Murimar's life business represents 10% of the mutual's GWP (EUR 2.2 million in 2018) with a retention of 46% in the life business. It markets products such as savings, life risk and annuities, in which life risk represents the biggest portion of GWP (EUR 1.8 million in 2018). Life business has experienced consecutive losses due to a number of factors. The amortisation and associated costs of acquired clients relating to the French army and the impairment of real estate assets due to negative market movements.

Murimar is expected to grow at an annual rate of 7% over the next three years, driven by hull and recreational insurance. The main assumptions rely on both price increases and market expansion. Currently, Murimar occupies the second place in the hull sector in terms of premiums, but the first in terms of number of vessels insured. Mapfre has a larger share because it insures tuna fish vessels, which are valued at a higher price. Murimar has a strong connection with ship-owners and fishing unions that should help it maintain and increase its market share.

Murimar has presence through tied and non-tied agents in most of the Spanish ports, which has allowed it to become the largest insurer for fishing ship-owners. The company captures its clients mainly through exclusive agents, which represent its smaller accounts, and brokers which represent its larger accounts.

Murimar's premiums have increased considerably over the last two years (12%), mainly due to hull insurance. However, part of this growth (around 5%) comes from an accounting adjustment required by the Spanish insurance regulator. Prior to the change, a part of members' premiums were treated as a contribution to the mutual's equity and were not reported as premium. This has been adjusted as of mid-2017, with the full volume of premiums reported in the mutual's profit and loss account.

Enterprise Risk Management

Murimar's enterprise risk management (ERM) is considered appropriate as the mutual effectively monitors and controls its key risks. Maritime insurance is subject to volatility which is limited by effective underwriting controls and an appropriate reinsurance programme. AM Best notes, however that the company's asset exposure to real estate in Spain can be a source of market risk which management cannot effectively control. Murimar's implementation of Solvency II has aided the mutual in formalisation of risk management and associated procedures.

The risk management framework of Murimar is set at the board level, where risks are identified, risk/return tolerance levels are defined, and actions are filtered down to the mutual's operating divisions. ERM activities are overseen by the risk management committee. Additionally, independent checks of compliance with internal risk management policies are carried out by the internal audit department, which reports directly to the supervisory board and does not sit within the risk management function. Murimar's underwriting risk is driven by the nature of the maritime business where the mutual operates.

The mutual has placed reinsurance contracts, both proportional and non-proportional, to reduce its net exposure to large losses. The mutual is assisted by its reinsurers' models in evaluating the best programme to contain risk and optimise costs.

Enterprise Risk Management (Continued...)

Reinsurance Summary

In AM Best's view, the protection provided by Murimar's retrocession programme is adequate. The mutual's reinsurance strategy contributes towards effective risk management and towards the alignment of the mutual's risk appetite.

The company uses a maritime reinsurance programme split in two contracts, a quota-share and an excess of loss per event, both together with a capacity of EUR 10 million. Additionally, it has an excess-of-loss contract per event with a capacity of EUR 20 million. Murimar's underwriting limit is up to EUR 10 million per risk.

Retrocession strategy is designed as part of Murimar's overall ERM process. Retention decisions are based on risk metrics and market conditions.

Financial Statements

Balance Sheet	12/31/2018 EUR (000)	%	12/31/2018 USD (000)
Cash and Short Term Investments	6,963	15.8	7,971
Other Invested Assets	6,567	14.9	7,518
Total Cash and Invested Assets	13,530	30.7	15,488
Reinsurers' Share of Reserves	18,409	41.8	21,074
Debtors / Amounts Receivable	8,299	18.9	9,500
Other Assets	3,773	8.6	4,319
Total Assets	44,011	100.0	50,381
Unearned Premiums	8,530	19.4	9,765
Non-Life - Outstanding Claims	17,319	39.4	19,826
Life - Long Term Business	1,522	3.5	1,742
Total Gross Technical Reserves	27,371	62.2	31,333
Debt / Borrowings	203	0.5	232
Other Liabilities	4,654	10.6	5,328
Total Liabilities	32,228	73.2	36,893
Other Capital and Surplus	11,783	26.8	13,488
Total Capital and Surplus	11,783	26.8	13,488
Total Liabilities and Surplus	44,011	100.0	50,381

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.14474 = 1 Euro (EUR)

Income Statement	Non-Life EUR (000)	Life EUR (000)	Other EUR (000)	12/31/2018 Total EUR (000)	12/31/2018 Total USD (000)
Gross Premiums Written	19,779	2,133	...	21,912	25,084
Net Premiums Earned	6,534	858	...	7,392	8,462
Net Investment Income	...	15	15	30	34
Unrealized capital gains / (losses)	...	20	6	26	30
Other Income	106	5	...	111	127
Total Revenue	6,640	898	21	7,559	8,653
Benefits and Claims	5,058	686	...	5,744	6,575
Net Operating and Other Expense	1,356	284	79	1,719	1,968
Total Benefits, Claims and Expenses	6,414	970	79	7,463	8,543
Pre-Tax Income	226	-72	-58	96	110
Income Taxes Incurred	...	...	...	17	19
Net Income before Non-Controlling Interests	...	...	...	79	90
Net Income/(loss)	...	...	...	79	90

Source: BestLink® - Best's Financial Suite
US $ per Local Currency Unit 1.14474 = 1 Euro (EUR)

Related Methodology and Criteria

Best's Credit Rating Methodology, 12/20/2018

Catastrophe Analysis in A.M. Best Ratings, 10/13/2017

Available Capital & Holding Company Analysis, 10/13/2017

Understanding Universal BCAR, 05/23/2019

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, A.M. Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, A.M. Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

Visit http://www.ambest.com/ratings/index.html for additional information or http://www.ambest.com/terms.html for details on the Terms of Use.