

Outlook On 12 Mexican Financial Institutions, Five Insurers Revised To Stable From Negative On Similar Sovereign Action

July 6, 2022

- On July 6, 2022, we revised our outlook on the sovereign ratings on Mexico to stable from negative. This is because we expect that cautious macroeconomic management will prevail in the next two years, notwithstanding a more complex global backdrop. Moreover, we expect the administration of President Andrés Manuel López Obrador to pursue economic policies that will result in stable fiscal and debt dynamics.
- The Mexican banking and insurance sectors have shown resilience amid adverse economic conditions. In general, these entities are operating with healthy balance sheets and with adequate liquidity and solid capitalization levels.
- Global macroeconomic conditions are deteriorating--bringing additional risks--but we expect a limited impact on Mexican banks and insurers based on conservative growth strategies and risk management standards, as well as tightening underwriting policies that will allow them to manage this situation.
- In this sense and given that the ratings on Mexico constrain the ratings on 12 domestic financial institutions and five insurers, the outlook revision on them to stable from negative follows the same action on the sovereign, and we're affirming all ratings.

MEXICO CITY (S&P Global Ratings) July 6, 2022--S&P Global Ratings today revised its outlook on 12 Mexican financial institutions (five commercial banks, six government-related entities [GREs], and a clearinghouse) and on five insurers to stable from negative. This action follows a similar action on the sovereign. We also affirmed all ratings on these entities. At the same time, we affirmed our ratings on Banco Nacional de Mexico S.A. (Citibanamex) and the outlook on it remains negative.

We revised outlooks on the following financial institutions:

- BBVA Mexico S.A.;
- Banco Mercantil del Norte S.A. Institucion de Banca Multiple Grupo Financiero Banorte (Banorte);
- Scotiabank Inverlat S.A.;
- HSBC Mexico S.A.;
- Banco Inbursa S.A. Institucion de Banca Multiple Grupo Financiero Inbursa;

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- Nacional Financiera S.N.C. (NAFIN);
- Banco Nacional de Comercio Exterior S.N.C. (Bancomext);
- Banco Nacional de Obras y Servicios Publicos S.N.C. (Banobras);
- Instituto Para La Proteccion al Ahorro Bancario (IPAB);
- Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit);
- Fondo Especial de Asistencia Tecnica y Garantia Para Creditos Agropecuarios (FEGA); and
- Asigna Compensacion y Liquidacion.

And we did the same on the following insurers:

- AXA Seguros S.A. de C.V.;
- SOMPO Seguros Mexico, S.A. de C.V.;
- Chubb Seguros Mexico, S.A.;
- Qualitas Controladora S.A.B. de C.V.; and
- Qualitas Insurance Co.

The outlook revision on Mexico led to a similar action on 12 financial institutions and five insurers.

We revised the outlook on Mexico to stable from negative, reflecting our expectation that the government will maintain cautious fiscal and monetary policy execution during the remainder of the López Obrador administration, while the net general government debt ratio to hold fairly steady. Moreover, given the stage of the political cycle and polarization in Congress, we don't expect passage of constitutional initiatives that could weigh on the business climate.

Our sovereign ratings on Mexico constrain ratings on the 12 Mexican financial institutions--due to their substantial exposure to country risk and the highly sensitive nature of their businesses to sovereign stress. Therefore, we took the same rating action on these financial institutions following the one on Mexico (see "Mexico Outlook Revised To Stable On Cautious Fiscal And Monetary Policies; 'BBB' Foreign Currency Rating Affirmed," published on July 6, 2022). The outlook on the five insurers reflects that on the local and foreign currency sovereign ratings. Most of these insurers operate solely in Mexico, and their investment portfolios have a significant portion of sovereign debt.

The Mexican banking and insurance sectors proved to be resilient during the pandemic and afterwards thanks to generally conservative growth strategies and prudent risk management.

In general, banks and insurers are operating with healthy balance sheets and with adequate liquidity and solid capitalization levels. Even though we expect pressure on these entities' performance during the next 12-18 months--because of deteriorating global macroeconomic conditions, high and increasing interest rates given historically high inflation, and market volatility--we believe the impact would be manageable. This reflects our expectation that Mexican banks and insurers will maintain a conservative stance on growth--tightening their underwriting standards--that will limit the potential harm to their business and operating performance during the next 12-18 months.

The pandemic hit Mexico hard, the economic recovery has been modest, and we expect the country's economic growth after 2022 to be close to its historical structurally low growth rate of 2%. Given the strong link between economic dynamics and credit expansion and insurance

premiums growth, we expect credit growth of only 5% in nominal terms and insurance premiums of 7%-8% in 2022-2023. Once consumer and business dynamics stabilize and employment level recovers, the banking and insurance sectors' momentum will gradually gain steam. Meanwhile, we still expect banks' asset quality to deteriorate in the next 12-18 months, but remaining at manageable levels thanks to conservative growth strategies and prudent lending practices, with a focus on middle- and high-income customers with appropriate debt capacity.

As economic activity resumes amid the ebbing effects of the pandemic, Mexican banks and insurers' profitability is stabilizing. However, rising interest rates will prompt banks to increase rates on loans, which along with economic challenges ahead, will pressure asset quality and could raise loan-loss provisions. In addition, high inflation and rising interest rates could limit demand for credit and insurance products, intensifying competition among banks and insurers, preventing them from passing the total increase in interest rates to customers, which would dent margins and the overall profitability. In our opinion, the Mexican banking system's return on assets (ROA) will be 1.6%-1.7% and return on equity (ROE) at about 15% in 2022-2023. We expect the Mexican insurance sector's ROA at 2%-3% and ROE of about 18%.

Outlook

The outlook on global scale ratings on the 12 Mexican financial institutions and five insurers is stable for the next two years. The stable outlook on the five Mexican commercial banks--BBVA Mexico, Banorte, Scotiabank Inverlat, HSBC Mexico, and Banco Inbursa--reflects the one on Mexico and incorporates these entities' stand-alone credit factors and potential sovereign or group support. The outlook on the six Mexican GREs--Nacional Financiera, Bancomext, Banobras, Infonavit, IPAB, and FEGA--reflects their status as GREs and potential support from the sovereign in case of stress, along with their stand-alone credit factors.

Asigna, a Mexican clearinghouse operator, is the only financial institution with a global scale long-term rating above the sovereign level. The global scale rating stable outlook reflects our consideration of only a one-notch differential between the ratings on it and those on the sovereign. Although Asigna passes the sovereign stress test for a hypothetical default of Mexico, tougher operating conditions have shortened the gap by which it passes this test. In our opinion, the stress test results still demonstrate the capacity of Asigna's financial safeguards to absorb a substantial portion of all uncovered losses in the event that some clearing members default.

The outlook on the five insurers--AXA Seguros, SOMPO Seguros Mexico, Chubb Seguros Mexico, Qualitas Controladora, and Qualitas Insurance reflects the outlook on the local and foreign currency sovereign ratings. According to our group rating methodology, we can rate highly strategic insurance subsidiaries up to two notches above the foreign currency sovereign rating, while strategically important subsidiaries are limited to the foreign currency sovereign rating. In this sense, our 'BBB/A-2' foreign currency rating on Mexico is the reference point for the credit quality of subsidiaries of international insurance groups, such as AXA Seguros and SOMPO Seguros Mexico. We consider Chubb Seguros Mexico, the stand-alone credit profile (SACP) of which is 'a-', a strategically important subsidiary. But we rate this entity the same as the 'BBB+' local currency rating on Mexico because it passes our sovereign default scenario in foreign currency, but not in the local currency. Finally, the ratings on Qualitas Controladora and Qualitas Insurance reflect our view of the group's credit fundamentals, which are constrained by those of the sovereign. The ratings on both entities are subordinated to our views of their group, so they're affected in tandem, although the ratings on them are below those on Mexico.

Negative scenario

A negative rating action on Mexico would result on a similar action on the 12 domestic financial institutions and five insurers in the next two years. Moreover, if their respective SACPs deteriorate beyond our base-case assumptions or if we revise our assessments of government or group support materialize to a weaker category, we could also lower the ratings on these entities.

Upside scenario

We see limited rating upside in the next two years because ratings on Mexico constrain those on the 12 financial institutions and five insurers. An upgrade of these entities would depend on an upgrade of Mexico, while maintaining or improving their SACPs and group or government support.

Our negative outlook on our global and national scale ratings on Citibanamex indicates a possible downgrade in the next two years if new details about the parent's (Citi's) exit plans lead us to believe that Citibanamex's creditworthiness will weaken, perhaps if it's sold to a weaker buyer than Citi following the execution of those plans. On the other hand, we could revise the outlook on the global and national scale ratings to stable from negative if we conclude that Citi is likely to retain ownership of Citibanamex in order to continue operating its institutional and private banking business in Mexico.

Environmental, Social, and Governance (ESG) Credit Indicators

S&P Global Ratings has disclosed its ESG credit indicators for Latin America's commercial banks, insurance companies and a clearinghouse, for which we assess their stand-alone credit profiles. In this sense, we consider that ESG factors have no material influence on our credit rating analysis of the following entities: BBVA Mexico, Banorte, Scotiabank Inverlat, HSBC Mexico, Banco Inbursa, AXA Seguros, Chubb Seguros Mexico, Qualitas Controladora, and Asigna.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July

20, 2017

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- 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

Related Research

- Mexico Outlook Revised To Stable On Cautious Fiscal And Monetary Policies; 'BBB' Foreign Currency Rating Affirmed, July 6, 2022
- Credit Conditions Emerging Markets Q3 2022: Risks Accumulate As Conflict Lingers, June 28, 2022
- Economic Outlook Latin America Q3 2022: Resilient So Far This Year, With Tougher Conditions Ahead, June 27, 2022

Ratings List

	To	From
Banco Nacional de Comercio Exterior, S.N.C. (Bancomext)		
Issuer credit rating		
Foreign Currency	BBB/Stable/A-2	BBB/Negative/A-2
Local Currency	BBB+/Stable/A-2	BBB+/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Secured Debt	BBB	BBB
Senior Secured Debt	mxAAA	mxAAA
Banco Nacional de Obras y Servicios Publicos, S.N.C. (Banobras)		
Issuer credit rating		
Foreign Currency	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Secured Debt	mxAAA	mxAAA

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	To	From
Nacional Financiera, S.N.C.		
Issuer credit rating		
Foreign Currency	BBB/Stable/A-2	BBB/Negative/A-2
Local Currency	BBB+/Stable/A-2	BBB+/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Secured Debt	mxAAA	mxAAA
Certificate of Deposit	BBB/A-2	BBB/A-2
BBVA Mexico S.A.		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Unsecured Debt	mxAAA	mxAAA
Subordinated debt	BB	BB
Banco Mercantil del Norte, S.A. (Banorte)		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Unsecured Debt	mxAAA	mxAAA
HSBC Mexico S.A.		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Banco Inbursa S.A.		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Unsecured Debt	BBB	BBB
Senior Unsecured Debt	mxAAA	mxAAA
Scotiabank Inverlat, S.A.		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Unsecured Debt	mxAAA	mxAAA
Fondo Especial de Asistencia Tecnica y Garantia Para Creditos Agropecuarios (FEGA)		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2

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	To	From
Instituto del Fondo Nacional de la Vivienda para los Trabajadores (Infonavit)		
Issuer credit rating		
Global Scale Rating	BBB/Stable/A-2	BBB/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Instituto para la Protección al Ahorro Bancario		
Issuer credit rating		
Foreign Currency	BBB/Stable/A-2	BBB/Negative/A-2
Local Currency	BBB+/Stable/A-2	BBB+/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
Senior Unsecured Debt	BBB+	BBB+
Senior Unsecured Debt	mxAAA	mxAAA
Asigna, Compensación y Liquidación		
Issuer credit rating		
Global Scale Rating	BBB+/Stable/A-2	BBB+/Negative/A-2
National Scale	mxAAA/Stable/mxA-1+	mxAAA/Stable/mxA-1+
AXA Seguros, S.A. de C.V.		
Issuer Credit Rating		
Financial Strength Rating		
Local Currency	A-/Stable	A-/Negative
National Scale	mxAAA/Stable	mxAAA/Stable
Chubb Seguros Mexico S.A.		
Financial Strength Rating		
Local Currency	BBB+/Stable	BBB+/Negative
National Scale	mxAAA/Stable	mxAAA/Stable
Issuer Credit Rating		
National Scale	mxAAA/Stable	mxAAA/Stable
Qualitas Controladora, S.A.B. de C.V.		
Issuer Credit Rating	BB+/Stable	BB+/Negative
Qualitas Insurance Company		
Financial Strength Rating	BBB-/Stable	BBB-/Negative
Issuer Credit Rating	BBB-/Stable	BBB-/Negative
Sompo Seguros Mexico, S.A. de C.V.		
Financial Strength Rating	A-/Stable	A-/Negative
Ratings Affirmed		
Banco Nacional de Mexico, S.A. (Citibanamex)		
Issuer credit rating		
Global Scale Rating	BBB/Negative/A-2	BBB/Negative/A-2
National Scale	mxAAA/Negative/mxA-1+	mxAAA/Negative/mxA-1+

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