CNP Assurances SA

Update

Insurance
Composite Insurers
France

Key Rating Drivers

Ratings Interconnected with LBP: Fitch Ratings views CNP Assurances SA as a key and integral part of La Banque Postale S.A. (LBP; A/Stable), with which it forms a major publicly owned financial group. CNP represented 60% of LBP's assets and the vast majority of its earnings at end-2021. LBP is owned fully by La Poste (A+/Stable), which is ultimately owned by the French state (AA/Negative). This ownership structure is supportive of an alignment of CNP's and LBP's Issuer Default Ratings (IDRs) and Outlooks.

Very Strong Company Profile: We rank CNP's business profile as 'Favourable' compared with other French insurers, mostly due to the group's very strong and well-established franchise in the French life insurance sector. CNP is the second-largest French life insurer by premiums and ranks sixth in Europe by assets.

Fitch views CNP's business risk profile as favourable, supported by an improving mix, shifting from traditional general accounts savings to unit-linked and pension products, as well as personal and protection lines. The company's progress in diversifying its geographical mix (end-2022: 47% of premiums were from outside France, mainly from Brazil and Italy; 2021: 37%) is also supportive of our assessment.

Strong Capitalisation: CNP's Prism Factor-Based Capital Model (Prism FBM) dropped below the 'Very Strong' threshold by a small margin at end-2021. We estimate that the score was, or was close to, 'Very Strong' at end-June 2022. The Solvency II (S2) ratio reached 230% at end-2022 (end-2021: 217%), boosted by higher interest rates. The insurer reduced its historically high positive sensitivity to interest rate risk to a low level in 2022.

Low Leverage: We estimate the Fitch-calculated financial leverage ratio (FLR) to be at around 17% at end-2022 (end-2021: 19%), which is consistent with Fitch's benchmark range of 10%–23% for the 'aa' rating category. Pro-forma for the January 2023 issue, FLR is 18%. Debt service capability is strong, with a fixed-charge coverage (FCC) ratio maintained above 8x for the past five years.

Stable Earnings Record: Fitch view CNP's profitability as strong, driven by stable earnings and well-diversified sources of earnings. Fitch's estimated return on equity (ROE) was around 10% at end-2022 (2021: 7.4%, five-year average: 7.8%), which is consistent with the 'a' category.

Operating results were steady in 2022, evenly driven by savings and term creditor insurance. For 2023, we expect higher yields to be supportive of technical and investment margins, while new business volumes and fee margins could come under pressure.

High Asset Risks for Rating: Asset risks are fairly high for the rating, although in line with those of large French bancassurers. We expect the risky assets ratio (2021: 120%) to have increased at end-2022 due to lower shareholder equity. The ratio is driven by a high exposure to equity investments, which largely explains its volatility, but this is mitigated by CNP's ability to share investment losses with policyholders and a sustained equity, interest rates and spread risk hedging strategy.

Ratings

CNP Assurances SA

Insurer Financial Strength	A+
Long-Term IDR	A

Outlooks

Insurer Financial Strength	Stable
Long-Term IDR	Stable

Debt Ratings

Subordinated Long-Term Rating (Restricted Tier 1)	BBB-
Subordinated Long-Term Rating	BBB+

Financial Data

CNP Assurances SA

(EURbn)	2022	2021
Gross written premiums	36.0	31.8
Total assets	452	483
Net income	1.9	1.6
Return on equity [a] (%)	10.1	7.4
S2 ratio (%)	230	217

[a] Fitch-calculated
Source: Fitch Ratings; CNP

Applicable Criteria

Insurance Rating Criteria (July 2022)

Related Research

CNP Assurances (November 2022)

French Insurance Outlook 2023 (November 2022)

French Insurers – Peer Review (November 2022)

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- An upgrade of LBP is a pre-requisite for an upgrade of CNP. A Prism FBM score well into the 'Very Strong' category in 2022 and 2023, with an ROE sustainably above 9%, could lead to a better standalone assessment of CNP.

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A Prism FBM score deteriorating to the lower end of the 'Strong' category, with limited prospects for recovery, could lead to a negative change to Fitch's standalone assessment of CNP.
- Negative rating action on LBP, which could lead to a capital depletion at CNP, could also lead to negative rating action.

Latest Developments/Significant Changes

- CNP reported a very strong set of earnings at end-2022, with premium income, operating income and net income at historical highs.
- ROE, as calculated by Fitch, increased to 10.1% in 2022 (five-year average of 8%), which compares favourably to Fitch's criteria guidelines range for the 'a' rating category (6%–9%).
- Premium income increased by 13.7% overall (2020: +1.8%), primarily driven by the acquisitions of the subsidiaries in Italy. Revenue growth in international markets more than offset lower revenues in France, where net outflows on traditional products were twice as high as net inflows on unit-linked products.
- EBIT rose 15.4% as reported (up 6.6% like-for-like), primarily driven by international market growth and the release of provisions in France on higher interest rates.
- We expect CNP's profitability to show resilience in 2023 due to its recurring saving and protection fee-based revenues. Further net outflow on French traditional products in 2023 should not have a significant effect on financial performance, as earnings are based on the stock of contracts.
- CNP's geographical mix is increasingly diversified, with 47% of premium income (2021: 37%) and 37% of operating profits (2021: 30%) having originated from outside France – mainly from Brazil and Italy – at end-2022.
- The company's S2 ratio, calculated using the standard formula and without transitional measures, was very strong at 230%. The ratio has improved (end-2021: 217%), as rising interest rates have more than offset the negative effects of the reduction in profit-sharing reserves to increase crediting rates (end-2022: 1.57%; end-2021: 0.91%), among other factors.
- CNP reduced its historically high sensitivity to interest rate risk to a very low level in 2022. For instance, a 50bp change in interest rates would result in a 6pp reduction in the S2 ratio at end-2022 (versus a 14pp increase at end-2021).
- Guaranties on CNP's in-force portfolio are low. Around 75% of liabilities (including protection) do not have a guaranteed yield, which is positive to our assessment of ALM risk. The average reinvestment yield increased to 2.2% from 0.8%, but yields on the in-force portfolio were stable at 1.8% due to the dilutive effect on traditional product flows.
- The FLR, as calculated by Fitch adjusts for unrealised gains and losses in shareholders' funds, was broadly unchanged at around 17% at end-2022 (five-year average: 20%). This is consistent with Fitch's benchmark range of 10%–23% for the 'aa' rating category. CNP issued EUR500 million in January 2023 but has no need to issue debt for capital-management purposes. Pro-forma for the new issue, FLR is 18%.
- Cash reinvestments contributed to diminishing equity exposure and increasing high-quality credit exposure in 2022. Nevertheless, we expect the risky asset ratio to remain high for the rating in 2022 and 2023, due to lower shareholder equity.
- CNP expects the implementation of IFRS 17 to lead to a EUR1 billion lower – although more stable – shareholders' equity. Earnings will be more volatile due to market movements. The contractual service margin and risk adjustment will be around EUR17 billion and EUR1.5 billion, respectively.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.