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Ratings

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CNP Assurances

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CNP Assurances

Anchor	a+

Business Risk	Strong
Competitive position	Strong
IICRA	Low
Financial Risk	**Very Strong**
Capital and earnings	Very strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0

Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a+

+

Support	0
Group support	0
Government support	0

=

A+/Stable/--

Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Leading position in the French life insurance market and increased penetration in the life-protection business.	Low margins of traditional savings products in the French market.
Very strong capital adequacy, above the 'AA' confidence level, according to S&P Global Ratings' risk-based capital model.	Capital buffer could weaken, due to financial market volatility or further inorganic growth.
Increased geographic and product diversification away from the French traditional savings business.	Refinancing of hybrid instruments with weaker-quality securities.

CNP Assurances (CNP) holds a prominent position in the French life insurance market, ranking second after Crédit Agricole Assurances. The company benefits from profitable joint ventures (JVs) in Europe and Latin America, which generated 17% of net profit in 2021. CNP's book of business predominantly comprises capital-intensive savings products, which have relatively low margins. Nevertheless, S&P Global Ratings has observed a significant shift in the business mix over the past few years toward life-protection and unit-linked products. We expect revenue from life-protection contracts will remain robust.

We expect CNP will maintain its adjusted capital at or above the 'AA' benchmark of our capital model until at least 2023. In our view, the dividend payout will not deviate from the historical range of 40%-50%. In addition, our capital and earnings assessment factors in the assumption of further business growth in the next two years.

The combination of CNP with La Banque Postale to form a large public-sector-owned financial services hub has been finalized. As such, CNP is now fully owned by La Banque Postale (A+/Stable/A-1). Still, we expect CNP will continue to receive support from ultimate majority shareholder, Caisse des Depots et Consignations, in case of need, but that will remain more indirect, with La Banque Postale playing a leading role as sole shareholder. We believe the new ownership structure does not transform CNP's historical model as a multi-partnership bank insurer

Outlook: Stable

The outlook is stable because we believe that, over the next 12-24 months, CNP will retain its strong market position, including geographic diversification of its business footprint. We also expect stable capital and earnings under the reshuffled shareholding structure, including capital adequacy at least at the 'AA' level under our model. We shall continue to closely monitor the progress of CNP's operational and financial integration with La Banque Postale.

Downside scenario

We could lower the ratings if CNP suffered a significant and sustainable decline in earnings or capital adequacy, including in case of material capital upstreaming, or if the group's business position deteriorated unexpectedly. We would also lower the ratings if we downgraded La Banque Postale.

Upside scenario

Although we see it as a remote possibility, we may raise the ratings in the coming two years if CNP's competitive position improved materially as a result of an increase in profitability, along with sustained capital adequacy at the 'AA' level or higher.

Key Assumptions

- France's GDP expands by 2.4% in 2022 before slowing down, with growth of 0.2% in 2023 and partly recovering to 1.8% in 2024.
- Average 10-year French government bond yields increasing to 1.4% in 2022 and likely continue to progress until 2024.

CNP Assurances--Key Metrics

	2024f	2023f	2022f	2021	2020	2019	2018
Gross premiums written (mil. €)	> 30,000	> 30,000	> 30,000	31,765	27,169	33,672	32,534
Net income (mil. €)	>1,400	>1,400	>1,400	1,552	1,350	1,412	1,367
Return on shareholders' equity (%)	>7	>7	>7	7.9	7.8	9.4	9.3
S&P capital adequacy	At least very strong	At least very strong	At least very strong	Excellent	Excellent	Excellent	Very strong
Fixed charge coverage	>8	>8	>8	10.7	8.3	9.3	9.7
Financial leverage (%)	<30	<30	<30	27.8	28.2	30.0	29.1

f--S&P Global Ratings forecast.

Business Risk Profile: Strong

CNP's strong business risk profile is underpinned by its leading market position in France. In addition, it derives nearly 90% of its technical reserves from France, shaping our view that CNP enjoys the low insurance industry and country risk that characterizes the French life insurance market.

CNP has a very broad product offering, but historically it has predominantly sold traditional savings and life products for mass markets that have relatively low margins. Over the past few years, it has improved its new business margins by shifting toward life-protection and unit-linked products. In 2021, protection activities generated 20% of the group's written premiums and about 40% of its net profit. On the saving side, unit-linked represented 51% of savings business inflow, boosted by foreign operations.

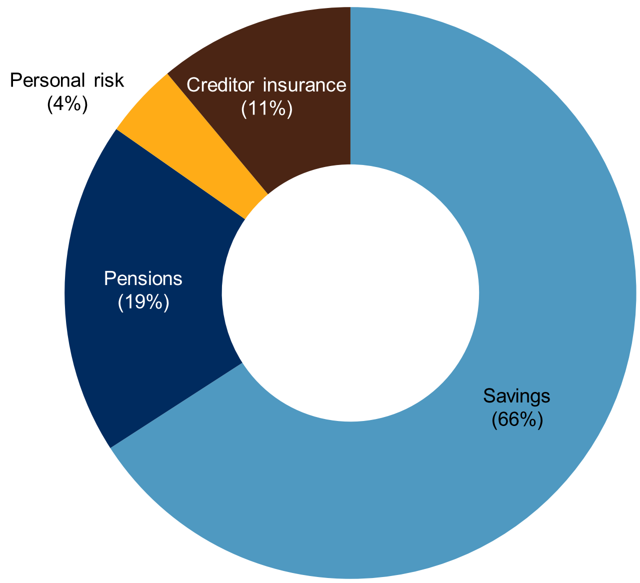
Outside of France, Brazil is CNP's main market where it runs a JV with Caixa Seguridade, the insurance arm of state-owned Brazilian bank Caixa Ecônomica Federal (CEF). CNP predominantly sells creditor protection and pension business via the CEF bank network, under a distribution agreement that was recently prolonged to 2046. The JV (Caixa Seguradora) has increased its presence over the years to become Brazil's third-largest insurer. These operations enhance CNP's earnings with materially higher margins, and savings/pension premiums that are almost entirely unit-linked. Following the restructuring of the partnership agreement, we believe the product offering's growth potential and profitability will continue to support CNP's credit quality.

We don't expect a residual impact from COVID-19 on CNP's business risk profile. For 2022 and 2023, we assume premiums will increase 1%-2% on average, and that CNP will continue to enjoy organic growth opportunities.

Chart 1

Premium Income By Business Line At End-June 2022

CNP's pre-dominantly more concentrated in lower margin traditional saving products

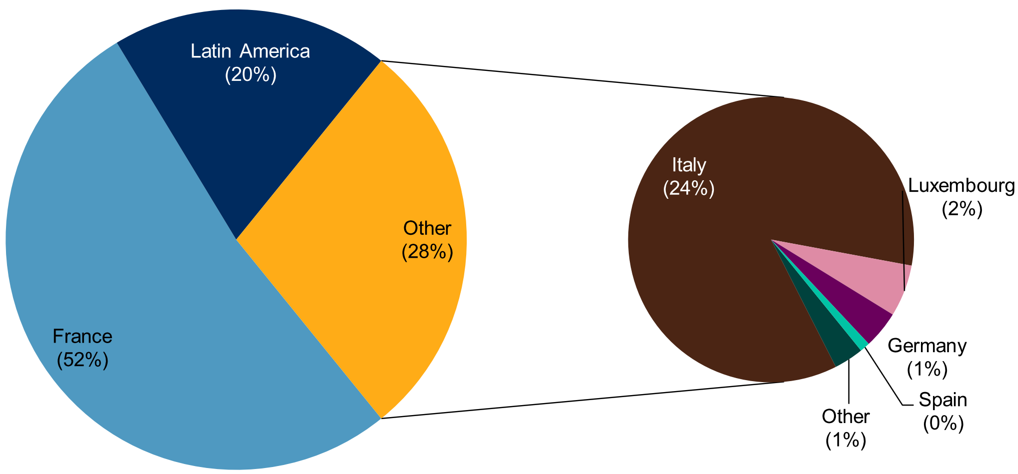


Source: S&P Global Ratings.

Chart 2

CNP's Premium Income By Geography At End-June 2022

CNP's premium income is widely diversified in France, Latin America, and European countries other then France



Source: S&P Global Ratings.

Financial Risk Profile: Very Strong

CNP's high capital adequacy supports our view of the group's strong overall financial risk profile. CNP has a proven track record of building capital through retained earnings and increasing policyholder surplus reserves (€15.4 billion or 7.0% of general account saving reserves at end-June 2022). We project capital adequacy will continue to exceed the capital requirement for the 'AA' confidence level under our capital model.

We continue to factor a 50% dividend payout and net earnings after minority shareholders' interest of about €1.4 billion in 2022 into our capital projections. In first-half 2022, CNP posted net profits of €748 million, up 8% from the same period last year.

We forecast that CNP's capital requirements will increase at a moderate 1.5% pace over the next two years, given the increased share of capital-light product sales and the continuous net outflow from traditional savings products. We expect the group will broadly maintain its investment profile. CNP has significant holdings in assets that we consider high risk, with equity and real estate investments representing about 16% and 5% of the investment portfolio, respectively. That said, CNP benefits from its long-established hedging program, which smooths the market volatility of its investment portfolio. We anticipate that the exposure to equity investments will not materially change at year-end 2022 as the higher interest rate environment should support the Solvency II ratio. The latter was at a solid 249% at end-June 2022, up from 217% at end-December 2021 due to the rise in interest rates which boosts regulatory solvency, especially for life insurers displaying a shorter duration of assets versus liabilities.

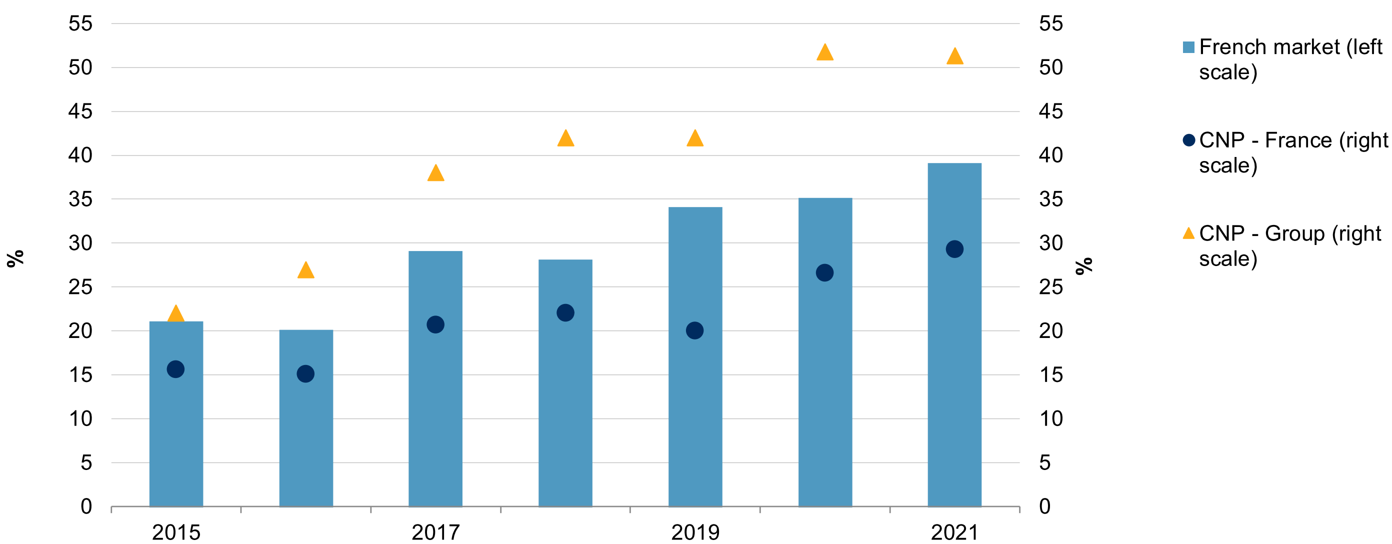
Our strong capital and earnings assessment factors in a degree of uncertainty regarding potential call refinancing of outstanding hybrid instruments by securities of lower quality, which could not be eligible in our measure of adjusted capital. We also believe that additional capital costs could arise from further expansion in Europe or Brazil.

The group's ability to share investment losses with policyholders, due to low guaranteed rates in the back book (0.15% at end-June 2022), and the profit-sharing characteristics of products sold in France, mitigate the somewhat risky investment portfolio, in our view.

Chart 3

Unit-Linked Sales

CNP's international operations constitute a significant source of profitable capital-light products



Source: S&P Global Ratings.

CNP has deployed risk metrics to monitor and limit its risk exposure consistently across the group. We view asset and liability management practices as prudent, since CNP monitors multiple risk metrics at individual portfolio levels when defining asset allocation, hedging strategies, and modelling liability.

CNP's development of a single risk metric (Own Risk and Solvency Assessment [ORSA]) and its embedding in the reporting and decision-making process have further strengthened overall risk control. We also consider CNP's underwriting risk to be well managed, given that it assumes full ownership over pricing and product design, and delegates limited authority to distribution networks.

We believe the group benefits from demonstrated access to international debt markets, and we are confident of CNP's ability to meet its upcoming debt maturities. We believe that CNP will maintain its financial leverage ratios at about 28% and EBIT interest coverage to exceed 8x through 2022-2023.

Other Key Credit Considerations

Of the two potential anchors based on CNP's business and financial risk profile, we select the higher anchor of 'a+'. This reflects our view of the group's sustainably high capital adequacy buffer at the 'AA' level as well as further improved business risk profile due to geographic diversification (non-French business now accounting for nearly half of the group's premiums) and the long-term nature of the bancassurance agreements with all large distributing partners.

Liquidity

CNP's exceptional liquidity benefits from the strength of its available liquidity sources and from historically low lapse rates. It has a track record of prefinancing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities.

Government/Other support/Group support

We regard CNP as a core subsidiary of La Poste group. In two successive years, 2011 and 2012, CNP's major shareholders provided direct support by accepting dividends in shares, helping the insurer rebuild capital. In our view, BPCE will remain long-term and supportive business partner although no longer a shareholder in CNP. We also believe that, in the future, La Poste group will play a leading role as sole shareholder in case of financial distress at CNP.

We view CNP Caution S.A. as a core subsidiary of CNP Assurances. CNP Caution is 100% owned by the parent group, and the business it underwrites is integral to the group's creditor-insurance-related strategy. The company is fully integrated in terms of distribution and support functions. CNP Caution also benefits from a letter of comfort from CNP Assurances, indicating its commitment of support.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of CNP.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: 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

Appendix

CNP Assurances--Credit Metrics History

(Mil. €)	2021	2020	2019	2018	2017
S&P Global Ratings' capital adequacy	Excellent	Excellent	Excellent	Very strong	Very strong
Total invested assets	445,243.9	406,733.0	405,750.9	380,895.8	387,888.0
Total shareholder equity*	22,881.5	22,118.0	19,306.6	17,639.5	18,257.7
Gross premiums written	31,765.0	27,116.9	33,671.9	32,533.7	32,460.0
Net premiums written	31,004.8	26,367.6	32,597.1	31,437.0	30,814.4
Net premiums earned	30,891.9	26,173.1	32,361.6	31,218.2	30,431.8
Reinsurance utilization (%)	2.4	2.8	3.2	3.4	5.1
EBIT	3,094.6	2,614.0	3,041.1	2,924.0	2,889.0
Net income (attributable to all shareholders)	1,776.6	1,617.9	1,735.7	1,670.0	1,623.0
Return on revenue (%)	8.7	8.3	8.1	7.6	7.6
Return on assets (including investment gains/losses) (%)	0.7	0.6	0.7	0.7	0.7
Return on shareholders' equity (reported) (%)	7.9	7.8	9.4	9.3	9.1
Life: Net expense ratio (%)	12.8	15.1	12.5	12.7	12.5
EBIT fixed-charge coverage (x)	10.7	8.3	9.3	9.7	9.0
Financial obligations / EBIT adjusted	2.9	3.3	2.7	2.5	2.4
Financial leverage including pension deficit as debt (%)	0.3	0.3	0.3	0.3	0.3
Net investment yield (%)	1.5	1.6	1.8	2.3	2.4
Net investment yield including investment gains/(losses) (%)	3.4	2.2	4.4	1.8	3.7

*Excluding undated subordianted notes.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	**Very Strong**	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	**a+/a**	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 20, 2022)*

Operating Companies Covered By This Report	
CNP Assurances	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
Junior Subordinated	A-
Junior Subordinated	BBB+
Subordinated	A-
CNP Caution	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	A+/Stable/--
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.