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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+/Negative/--

Financial strength rating

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

Credit Highlights

Overview

Key strengths	Key risks
Leading position in the French life insurance market and increased penetration in the life-protection business.	Relatively 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, further inorganic growth, or exceptional capital upstream.
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 19% of net profit in 2022. 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.

CNP's integration with La Banque Postale's non-life division offers business diversification benefits. La Banque Postale fully owns CNP. The integration with La Banque Postale's non-life insurance division completes the creation of a major public financial services player, a longstanding project announced by the French minister of economy and finance in 2018. In our view, the restructuring will not transform CNP's historical business model, which it will continue to operate internationally, via bank insurer partnerships while also developing its proprietary distribution capabilities.

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

Outlook: Negative

The negative outlook on CNP mirrors that on La Poste. We view CNP as a core entity to La Poste group, hence any rating action on La Poste would affect CNP. In addition, as La Poste is a government-related entity, a potential rating action affecting France (AA/Negative) would also likely affect the ratings on La Poste and CNP. We also believe that, over the next 12-24 months, CNP will retain its strong market position, including geographical diversification of its business footprint. Moreover, we expect stable capital and earnings under the reshuffled shareholding structure, including capital adequacy, at least at the 'AA' level under our model. We will continue to closely monitor the progress of CNP's operational and financial integration with La Banque Postale.

Downside scenario

We could lower the ratings in the next two years if we downgraded La Poste. We could also lower our ratings if the group's overall financial performance or capital adequacy were to deteriorate materially.

Upside scenario

We would revise our outlook on CNP to stable if we were to take a similar action on La Poste and on France.

Key Assumptions

- France's GDP slows down to 0.4%, with growth of 1.2% in 2024.
- Average 10-year French government bond yields increase to 3.3% in 2023, further increasing to 3.6% in 2024.

CNP Assurances--Key metrics

	2025f	2024f	2023f	2022	2021	2020	2019	2018
Gross premiums written (mil. EUR)				36,050	31,765	27,117	33,672	32,534
Net insurance revenue	~10,800	~10,800	~10,800					
Net income (mil. EUR)	>1,000	>1,000	>1,000	2,262	1,777	1,618	1,736	1,670
Return on shareholders' equity (%)	>7	>7	>7	10.8	7.9	7.8	9.4	9.3
S&P capital adequacy	At least very strong	At least very strong	At least very strong	Very strong	Excellent	Excellent	Excellent	Very strong
Fixed charge coverage	>8	>8	>8	13.7	10.7	8.3	9.3	9.7
Financial leverage (%)	<33	<33	<33	30.76	27.83	28.24	29.98	29.05

Note: IFRS 4 figures until 2022. *forecast. 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. It derives 53% of its gross premiums and 80% of 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's business model mostly relies on long-term bancassurance agreements. La Banque Postale is the largest distributor of CNP's product and accounted for 22% of gross written premiums in 2022. BPCE is the second largest distributor of CNP policies in France (16% of gross written premiums).

CNP has a very broad product offering, but historically it has predominantly sold traditional savings 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 2022, protection activities generated 18% of the group's written premiums and about 36% of its net profit. On the saving side, unit-linked represented 50% of savings business inflow, boosted by foreign operations.

Outside of France, CNP is present in Italy (21% of the group's gross written premiums) relying on a long-term bancassurance partnership with UniCredit and on standalone operations. CNP markets both life savings as well as protection policies.

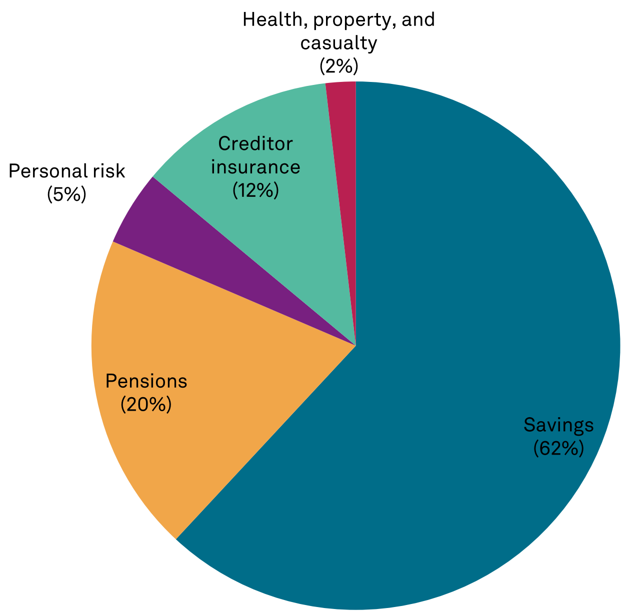
Brazil is CNP's third largest market where it runs a joint venture with Caixa Seguridade, the insurance arm of state-owned Brazilian bank Caixa Ecônomica Federal (CEF). CNP predominantly sells credit or protection and pension business via the CEF bank network, under a distribution agreement that was prolonged to 2046. The joint venture (Caixa Seguradora) has increased its presence over the years to become Brazil's third-largest insurer. In addition, CNP's full ownership of several Brazil-based insurance companies is in line with its strategy to accelerate its international operations beyond historical partnerships. 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 expect premiums will increase by 1%-2% on average, and that CNP will continue to enjoy organic growth opportunities.

Chart 1

Premium income by business line at year-end 2022

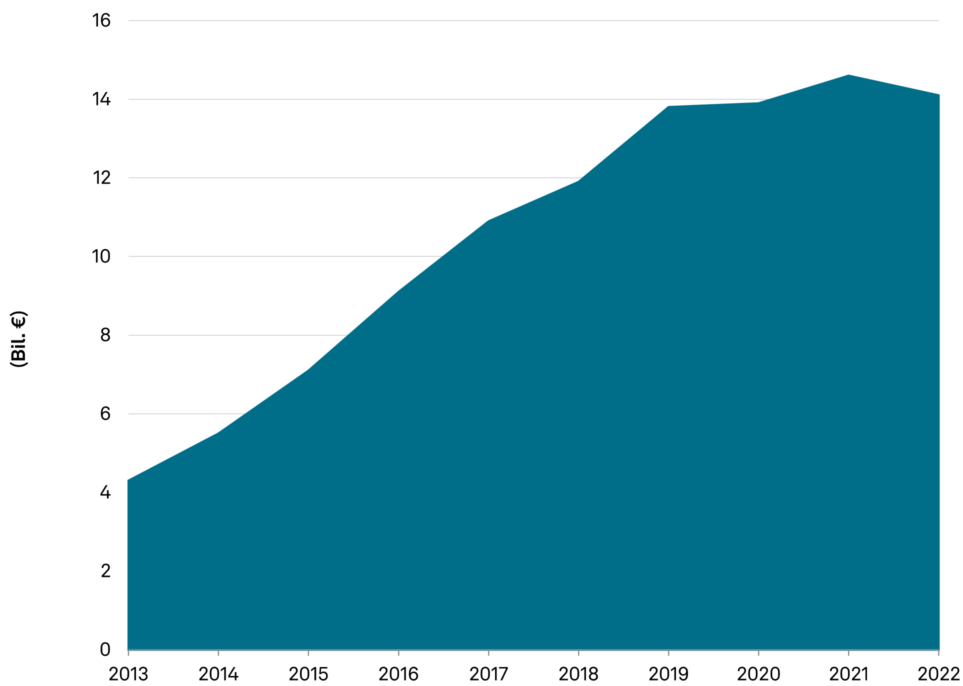
CNP's products are predominantly concentrated in lower margin traditional savings, although declining year-on-year



Source: S&P Global Ratings.

Chart 2

Policyholder surplus reserves still high, but declining



Source: Financial statements from CNP Assurances.

Financial Risk Profile: Very Strong

CNP's high capital adequacy supports our view of the group's very strong overall financial risk profile. CNP has a proven track record of building capital through retained earnings and policyholder surplus reserves. 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 of net earnings after minority shareholders' interest while projecting capital adequacy.

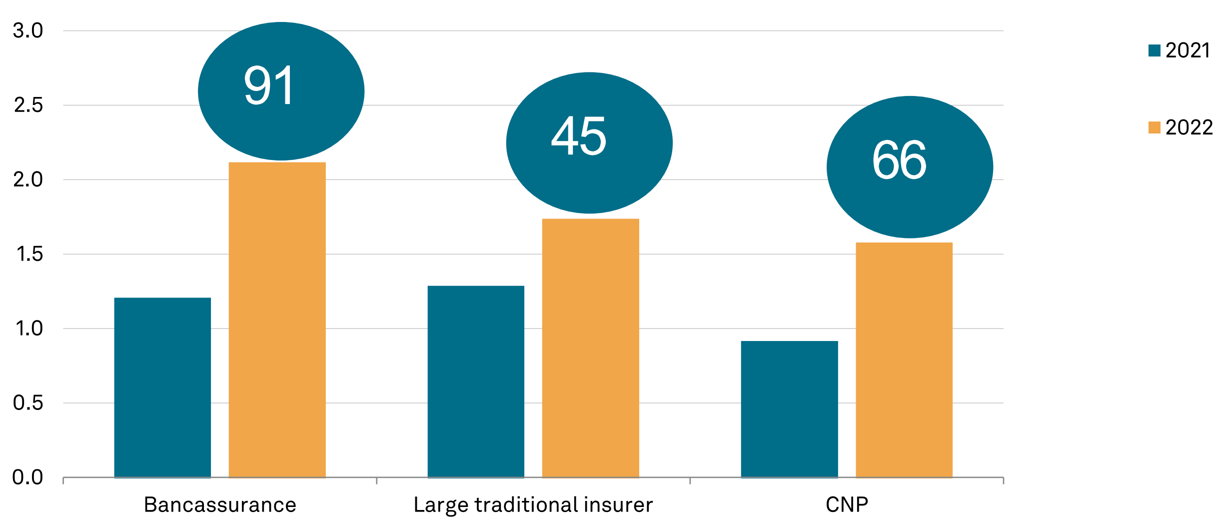
We forecast that CNP's capital requirements will increase at a moderate 1.5% pace over the next two years, given the increased share of capital-light product sales and the continuous net outflow from traditional savings products. We expect the group will broadly maintain its investment profile and benefit from higher re-investment rate in Europe. CNP has significant holdings in assets that we consider high risk, with equity and real estate investments representing about 17% and 5% of the investment portfolio, respectively. That said, CNP benefits from its long-established hedging programs, which smooths the market volatility of its investment portfolio. We anticipate that the exposure to equity investments will not materially change as the higher interest rate environment makes fixed-income assets comparatively more attractive. The Solvency II ratio at June-end 2023 was solid at 259%, up from 230% at end-December 2022 mostly due to higher interest rates which support regulatory solvency, especially for life insurers displaying a shorter duration of assets versus insurance liabilities.

Our very strong capital and earnings assessment factors in a degree of uncertainty regarding potential call refinancing of outstanding hybrid instruments by securities which could not be eligible in our measure of adjusted capital, such as Tier 3 instruments. We also believe that additional capital costs could arise from further expansion in Europe or Latin America.

Similar to other French insurers, CNP's average credited rates on saving contracts increased by 66 bps to 1.57% at year-end 2022 from 0.91% in 2021 due to rising interest rates. CNP may further release its policyholder surplus reserves and use them to finance the payment of increased returns to policyholders. In 2022, CNP already used €0.6 billion to sustain policyholder payout, leaving its policyholders' surplus reserve at a significant €14.1 billion or 6.5% of general account saving reserves at year-end 2022.

Chart 3

Crediting rates rose sharply in 2022



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.

We believe the group benefits from demonstrated access to international hybrid debt markets, and we are confident of its ability to meet its upcoming debt maturities. We believe that CNP will maintain its financial leverage ratios at less than 33% and EBIT interest coverage will exceed 8x through 2023-2024.

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 a 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 our view, BPCE remains a long-term and supportive business partner although no longer a shareholder in CNP.

We view CNP Caution S.A. as a core subsidiary of CNP. 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, indicating its commitment of support.

Environmental, social, and governance

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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

Ratio/metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Very strong	Excellent	Excellent	Excellent	Very strong
Total invested assets	398,183	445,244	406,733	405,751	380,896

CNP Assurances--Credit metrics history (cont.)

Ratio/metric	2022	2021	2020	2019	2018
Total shareholder equity*	18,881	22,882	22,118	19,307	17,640
Gross premiums written	36,050	31,765	27,117	33,672	32,534
Net premiums written	35,334	31,005	26,368	32,597	31,437
Net premiums earned	35,286	30,892	26,173	32,362	31,218
Reinsurance utilization (%)	2.0	2.4	2.8	3.2	3.4
EBIT	3,570	3,095	2,614	3,041	2,924
Net income (attributable to all shareholders)	2,262	1,777	1,618	1,736	1,670
Return on revenue (%)	8.8	8.7	8.3	8.1	7.6
Return on assets (including investment gains/losses) (%)	0.8	0.7	0.6	0.7	0.7
Return on shareholders' equity (reported) (%)	10.8	7.9	7.8	9.4	9.3
Life: Net expense ratio (%)	12.1	12.8	15.1	12.5	12.7
EBIT fixed-charge coverage (x)	13.7	10.7	8.3	9.3	9.7
Financial obligations/ EBIT adjusted	2.3	2.9	3.3	2.7	2.5
Financial leverage including pension deficit as debt (%)	30.8%	27.8%	28.2%	30.0%	29.1%
Net investment yield (%)	1.8	1.5	1.6	1.8	2.3
Net investment yield including investment gains/(losses) (%)	0.9	3.4	2.2	4.4	1.8

Note: IFRS 4 figures until 2022. *Excluding undated subordinated 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 November 9, 2023)*

Operating Companies Covered By This Report

CNP Assurances

Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	A+/Negative/--
Junior Subordinated	A-
Junior Subordinated	BBB+

Ratings Detail (As Of November 9, 2023)*(cont.)	
Subordinated	A-
CNP Caution	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	A+/Negative/--
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.