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CNP Assurances

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CNP Assurances

SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	Modifiers	0	a-		1		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	1	A/Stable/--
Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Strong								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Strong competitive position owing to the group's leading position in the French life market.
- New business margins are likely to increase to more than 1.7% by 2014, due to an improved business mix in France and greater weight of operations in Brazil.
- From Jan. 1, 2016, we believe that CNP will lose its ability to exclusively sell life insurance products through one of its major distributors, the Caisses D'Epargne, part of BPCE.

Financial Risk Profile: Strong

- Our assessment of capital and earnings is moderately strong. CNP's capital adequacy has improved materially thanks to a combination of strategic actions and favorable market movements. Capital adequacy is expected to continue building toward, but remain below, the 'A' level.
- CNP's risk position is intermediate. The group maintains material holdings in investments we consider high risk in the portfolio. However, this is offset in our view, by CNP's ability to share losses with policyholders and its diversified portfolio.
- Strong financial flexibility resulting from a proven track record of debt issuance and capital support from key shareholders.
- Financial leverage is expected to remain below 25% and fixed charge coverage is anticipated to be over 8x.

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Other factors:

- Our combined views of CNP's strong business and financial risk profiles lead to an anchor of 'a' or 'a-' for the group. We apply an 'a-' anchor to CNP due to the sensitivity of the group's balance sheet to changes in investment markets. Our assessment of total adjusted capital (TAC) is reliant on softer forms of capital and unrealized gains on its equity portfolio. As such, we believe the group's strong financial risk position is on the boundary of a weaker assessment.
- We consider CNP to have adequate enterprise risk management (ERM).
- We assess CNP's management and governance as satisfactory, recognizing the group's demonstrated ability to rebuild capital and de-risk its balance sheet.
- We believe CNP has exceptional liquidity owing to the strength of its available liquidity resources.
- We consider CNP to be moderately strategic to Caisse des Dépôts (CDC). CDC is CNP's largest shareholder with a 40.87% stake. CNP is a major contributor to CDC's earnings, usually representing around 20% of its net income. In turn, CDC has a track record of supporting CNP. CDC has increased its holding in the insurer by over 4% since 2007 and has, along with CNP's other major shareholders, accepted dividends in shares for two successive years, helping the insurer to rebuild capital.
- However, some of CNP's features weigh down on our assessment of CNP's strategic importance to CDC. CNP enjoys large management independence, and its strategy is set by a shareholders pact that also includes BPCE and La Banque Postale, who together jointly hold 36.25% of CNP's capital. Furthermore, as a private enterprise, CNP's role in the French economy is not sufficiently more pronounced, in our view, than many other large insurers.

Outlook: Stable

The stable outlook on CNP Assurances' ratings reflects our view that the renegotiation of the distribution agreements with La Banque Postale and BPCE will not differ markedly from our current expectations. In addition, the stable outlook encompasses our belief that CNP's capital adequacy will remain at least moderately strong over the next two years.

Upside scenario

We may raise the ratings if:

- CNP is able to replace its current distribution agreement with BPCE with a relationship that is equally favorable in terms of exclusivity, sales, and margins.
- The asset risks within CNP's financial risk profile reduce, such that asset risks no longer result in the group being on the boundary of a weaker assessment.
- CNP's capital adequacy increases sustainably beyond our current expectations, combined with an improvement in the quality of its capital--particularly if core shareholders' equity is expected to be consistently more than 50% of total adjusted capital.
- We believe that CNP is more important to, and integrated into, CDC's long-term strategy, which may lead us to strengthen our view of the likelihood of group support.

Downside scenario

Although currently unlikely, in our view, we could lower the ratings if:

- Capital adequacy decreases markedly, combined with increased asset risk in the investment portfolio. This scenario would, for example, follow a significant deterioration in the credit quality of the group's bond portfolio.

Base-Case Scenario

Macroeconomic Assumptions

- The ratings do not take into account further credit deterioration in Europe's peripheral countries, where CNP had sovereign exposures of €19.3 billion at June 30, 2013.
- We estimate the average yield on French ten-year government bonds at 2.8% in 2014.

Company-Specific Assumptions

Distribution: La Banque Postale and the Caisses D'Epargne remain the bedrock of the group's distribution in France. However, beyond Jan. 1, 2016 we expect that the distribution agreement with the Caisses D'Epargne will no longer be exclusive.

Business mix: We anticipate that CNP will continue to move its business mix away from traditional savings products, toward less capital intensive, higher margin protection and unit-linked business. Indeed, we anticipate increased management focus on value of new business metrics. We also expect continued volume growth and robust margins from CNP's operations in Brazil.

Capital position: We forecast that capital adequacy will continue building toward, but remain below the 'A' level over 2014 and 2015, thanks to retained earnings, an improved business mix, and CNP's short-duration sovereign bond exposures in the European periphery that are coming to maturity.

Investments: We expect CNP's exposures in the European periphery will fall by at least €3 billion over 2013 and 2014. In part due to strategic actions, but also because a significant proportion of these exposures have durations of less than one year. We expect the allocation to equities will remain stable, but anticipate increases in allocations to real estate, infrastructure, and corporate credit.

Financial flexibility

We expect that CNP's financial leverage will remain below 25% and that fixed charge coverage will be over 8x.

Key Metrics

	2010	**2011**	**2012**	**F2013**	**F2014**
Gross premium written (€ mil.)	32,288	30,026	26,439	>27,500	<28,500
Net income* (€ mil.)	1,050	872	951	>1,000	>1,000
Life new business margin	1.4%	1.4%	1.3%	>1.6%	>1.7%
Return on embedded value§	14.5%	15.1%	10.7%	>9%	>10%
S&P capital adequacy	N.M.	N.M.	Upper Adequate	Moderately Strong	Moderately Strong
Financial leverage	26%	28%	25%	<25%	<25%

*Excluding minority interests. §Based on operating return on embedded value. F--Forecast. N.M.--Not meaningful.

Company Description: France's Leading Life Insurer

CNP Assurances is France's leading life insurer, with a market share of 17% in 2012. The majority of the group's volumes are derived from its home market (81%). Brazil is a growing component of the international sales at 11% of gross written premium, with the remainder principally composed of Italy (5%) and Spain (1%).

In 2012, the group reported total written premiums of €26.4 billion, achieved a net result of €951 million, and had total assets of €353.2 billion.

A pact cements CNP's shareholding structure and as of June 30, 2013, includes:

- State-owned CDC, the largest shareholder with 40.87% of CNP's capital;

- Sopassure (36.25%), a 50:50 state-owned joint venture between the French post office's banking arm La Banque Postale and BPCE; and
- The Republic of France, which directly holds 1.11%.

Business Risk Profile: Strong

We consider CNP's business risk profile to be strong. The group possesses a leading market share in the French life market; generating low, but stable, margins. CNP's operations in Brazil provide some uplift to the group's margins.

In 2013, a rebound in sales in Italy, combined with continued growth in Brazil have offset falling volumes in France as the group shifts its business mix. We believe that CNP's focus on margins instead of volumes will likely result in lower sales of traditional, euro-denominated savings contracts. Instead, the insurer will continue to distribute an increasing proportion of protection and unit-linked business.

Insurance industry and country risk: Low risk owing to principal market of operation being in France

We assess CNP's insurance industry and country risk as low, based on our views of low country risk and intermediate industry risks for its life insurance operations. Although the group is generating increasing volumes from its Latin American operations, we anticipate that French insurance industry and country risks will continue to drive our industry and country risk assessment. From a liability perspective, CNP's Latin American operations represent less than 5% of group technical reserves.

The intermediate industry risk assessment balances our view of the competitive nature of the French life insurance market against the limited risk of new entrants. Our assessment is supported by the continuing long-standing growth potential for life insurance in France, where it is used as a vehicle to face retirement needs in the absence of defined benefit pension funds.

Competitive position: Strong

We assess CNP's competitive position as strong. This assessment is based primarily on the group's leading market position in the French life insurance market. CNP sells mostly savings and mass-market driven life products that achieve relatively low but stable margins. The group has a growing presence in Latin America--in particular Brazil--where margins are materially higher. The group's international operations and shifting business mix in France will lead to an increase in new business margins--on a present value of new business premiums (PVNBP) basis--over the next two to three years. We believe that CNP will achieve PVNBP new business margins of over 1.6% in 2013 and over 1.7% in 2014, as the group manages down total revenues in France for an improved business mix.

Table 1

CNP Assurances Competitive Position

	2008	2009	2010	2011	2012
Gross premium written (€ mil.)	28,278	32,532	32,288	30,026	26,439
Change in gross premium written (%)	(10.2)	15.0	(0.7)	(7.0)	(11.9)
Net premium written	27,528	31,576	31,431	28,720	25,500
Change in net premium written (%)	(10.7)	14.7	(0.5)	(8.6)	(11.2)
Total assets under management (€ mil.)	252,664	286,306	301,795	300,275	330,349

Table 1

CNP Assurances Competitive Position (cont.)					
Change in assets under management (%)	(3.7)	13.3	5.4	(0.5)	10.0
Reinsurance utilization (%)	2.7	3.0	2.7	4.5	3.7
Weighted average crediting rate (%)*	4.0	3.5	3.3	2.7	2.5
*As reported by company.					

France

CNP's two largest distributors, Caisses d'Epargne (part of Groupe BPCE) and La Banque Postale, which made up over 62%, or €16.6 billion of 2012 gross written premium, currently give the group access to a vast potential policyholder base. These institutions provide CNP with access to a policyholder base, which has generally exhibited below-market-average lapse rates. CNP's distribution capability outside of these two main networks in France represented gross written premium of €4.9 billion in 2012. These revenues are sourced from a broad base of agreements with companies and local authorities; French financial institutions; mutual insurers and CNP Trésor--the group's direct distribution network.

From Jan. 1, 2016, we expect CNP to lose its ability to exclusively distribute life insurance products through one of the two major networks of France's second-largest retail banking group, BPCE. CNP may continue to distribute some products through BPCE, and receive premiums on existing business, but we consider that new business sales are likely to fall materially. We believe that CNP will have much reduced access to BPCE's network of more than 4,200 branches, which is likely to materially weaken the group's market share in France.

International

CNP's main overseas operation is a joint venture--CAIXA Seguros --with the state-owned Brazilian bank, Caixa Economica Federal. CNP sells predominantly creditor protection and pension business in this market. Local currency volume growth has been maintained through the economic slowdown as insurance penetration rates continue to increase. We believe the joint venture is helping to reshape the earnings profile of the group. In particular, the market consistent new business value achieved in Brazil in 2012 was €136 million against €146 million in France.

CNP's other significant joint ventures are with UniCredit in Italy and with Barclays in Spain, Italy, and Portugal. The size and volatility of these operations provides limited diversification to CNP's earnings profile. The Italian joint venture has achieved variable volumes and has been a challenge for the management team leading to a goodwill write down of €170 million in 2012 and €75 million in 2011. Meanwhile, volumes sold through Barclays have declined and are likely to remain subdued because Barclays has rationalized its operations and CNP has looked to minimize its exposure to sovereigns in the eurozone periphery.

Financial Risk Profile: Strong

We regard CNP's financial risk profile as strong. Our assessment of the group's capital adequacy is enhanced by CNP's financial flexibility and proven track record to rebuild capital. We consider CNP's financial risk profile at the boundary of a weaker assessment. This is due to the asset risk in the investment portfolio leading to volatility in our assessment of total adjusted capital and the quality of capital, which is reliant on the softer forms for which we give credit.

Capital and earnings: Moderately Strong.

We assess CNP's capital and earnings as moderately strong. CNP has used earnings and strategic actions, such as de-risking the asset portfolio and paying dividends in shares, combined with capturing favorable market movements by increasing policyholder surplus reserves to rebuild capital. TAC has increased by €5.1 billion over the period from year-end 2010, up to the half-year 2013. Meanwhile, risk-based requirements have remained broadly flat; with the increase in credit risk from downgrades being mostly offset by reductions in equity risk.

Table 2

CNP Assurances Capital

(%)	2008	2009	2010	2011	2012
Total shareholder's equity	8,457	10,282	11,036	11,076	13,072
Change in shareholder's equity	(14.0)	21.6	7.3	0.4	18.0
Market consistent embedded value	10,440	11,716	12,082	11,859	13,855
Policyholder surplus reserves % of technical reserves exc. UL*	1.1	1.1	1.4	1.3	1.6
*As reported by company.					

Our expectations for continued improvements in capital adequacy over the next two years anticipate the following contributions to TAC:

- Net earnings, prior to the payment of a dividend, will lie between €900 million and €1.1 billion per year.
- We believe CNP will return to paying a full dividend in cash and will do so in respect of 2013. We do not anticipate significant growth in the absolute amount.
- CNP will maintain the strength of its policyholder bonus reserves (€3.6 billion as at June 30, 2013) as a proportion of its liabilities.
- The move to less capital intensive products, combined with gradually rising interest rates should help to increase the credit we give for the value of in force in TAC.

We also anticipate that the growth in capital requirements will be less than the growth in TAC leading to a continued strengthening of the group's capital adequacy toward the 'A' range. In particular we believe:

- CNP will continue moving its business mix away from traditional savings business toward protection and unit-linked products.
- The shortened duration of exposures in the eurozone periphery and their maturity will lead to an easing in capital requirements, although this may be partly offset by increasing real estate and infrastructure allocations.

In terms of quality of capital, we anticipate that our assessment of CNP's TAC will continue to rely heavily on weaker forms of capital for which we give credit, such as the present value of future profits (June 30, 2013: 10%), hybrid equity (June 30, 2013: 18%) and policyholder capital (June 30, 2013: 13%).

Table 3

CNP Assurances Earnings

	2008	2009	2010	2011	2012
Net income (€ mil.)	730.6	1004.1	1050.1	872.0	951.4
Return on shareholder's equity (%)	9.0	12.0	12.1	10.3	10.4
Life: Net expense ratio (%)	11.4	10.2	10.4	12.1	12.5
Life new business margin (%)	1.4	1.3	1.4	1.4	1.3

Table 3

CNP Assurances Earnings (cont.)					
Value of new business (€ mil.)	342	360	393	362	297
Return on operating embedded value (%)	N.M.	9.0	14.5	15.1	10.7

N.M.--Not meaningful.

Risk position: Intermediate Risk

We regard CNP's risk position as intermediate. We therefore consider the company's capital adequacy as having average volatility risk.

CNP has little in the way of defined-benefit obligations and limits its exchange rate risk in the investment portfolio. Offsetting these strengths is the group's high proportion of risky assets relative to TAC. In particular, at June 30, 2013, the company maintained exposures of €19.7 billion in equities and €9.9 billion in real estate. This risk exposure in the investment portfolio is only partly mitigated by the group's ability to share some investment losses with policyholders due to the profit-sharing characteristics of products sold in France and a limited equity hedging program. CNP also continues to face the potential risk of an increased credit risk capital requirement, in our view, given its significant exposures to lower rated eurozone sovereigns.

Table 4

CNP Assurances Risk Position

(%)	2008	2009	2010	2011	2012
Investment portfolio composition (excluding unit-linked portfolios)					
Bonds and other fixed income	83.0	82.0	82.0	84.0	88.0
Equities and other variable income	10.0	12.0	12.0	9.0	7.0
Property and property funds	3.0	3.0	3.0	3.0	3.0
Loans and other receivables	1.0	1.0	1.0	2.0	2.0
Other	2.0	2.0	1.0	1.0	0.0

Financial flexibility: Strong

We believe that CNP's financial flexibility is strong. The group has a track record of accessing multiple sources of capital when needed.

CNP has demonstrated the strength of its financial flexibility in recent years through a number of means. CNP has used its financial flexibility to lower crediting rates, passing to policyholders losses on its Greek bond holdings and reduced investment returns. The group has also continued to demonstrate access to the international debt markets: issuing hybrid debt when required. Looking forward, we believe that CNP will maintain leverage ratios below 25% and fixed charge coverage ratios of above 8x.

The company has received direct capital support from its shareholders in the form of scrip dividends. We consider that CNP's major shareholders--and in particular, La Poste and La CDC--remain long-term and supportive investors.

Table 5

CNP Assurances Financial Flexibility

	2008	2009	2010	2011	2012
Financial leverage (%)	28	22	26	28	25

Table 5

CNP Assurances Financial Flexibility (cont.)					
EBIT* (€ mil.)	2,369	1,756	1,911	2,243	2,278
Fixed-charge coverage (%)	11.4	9.5	10.4	9.4	9.0

*Reported by the company.

Other Assessments

Enterprise risk management: Adequate

We consider CNP's enterprise risk management (ERM) as adequate. The importance of ERM is high, reflecting the complexity associated with CNP's large scale and exposure to international markets.

The group effectively manages underwriting risks, in our opinion, thanks to full control over pricing and product design, with very limited authority delegated to the distribution networks. We see increasing evidence of the Solvency II partial-capital model being used to consider the profitability of product types, asset allocations, and strategic decisions.

Management and governance: Satisfactory

CNP's management and governance is satisfactory, in our opinion. The group has executed its strategy of preserving capital, while maintaining a leading position in the French market and continuing to expand in Latin America. More recently, CNP has sought to reduce exposure to Spanish and Italian markets where it has encountered hurdles to performance.

The appointment of a new CEO and Chairman of the Board in 2012 has not led to a marked shift in CNP's strategy away from the focus on stability of earnings and capital preservation following these changes. A key test for the management team over the coming two years will be the renegotiation of the distribution agreement with CNP's shareholders, while maintaining this overarching strategy.

We also believe that the likely change in the distribution agreement between CNP and BPCE from Jan. 1, 2016, and the potential shift in the working relationship between these companies, may restrict CNP's ability to implement its strategy of targeting higher margin, less capital-intensive products over the remaining two years of the present agreement.

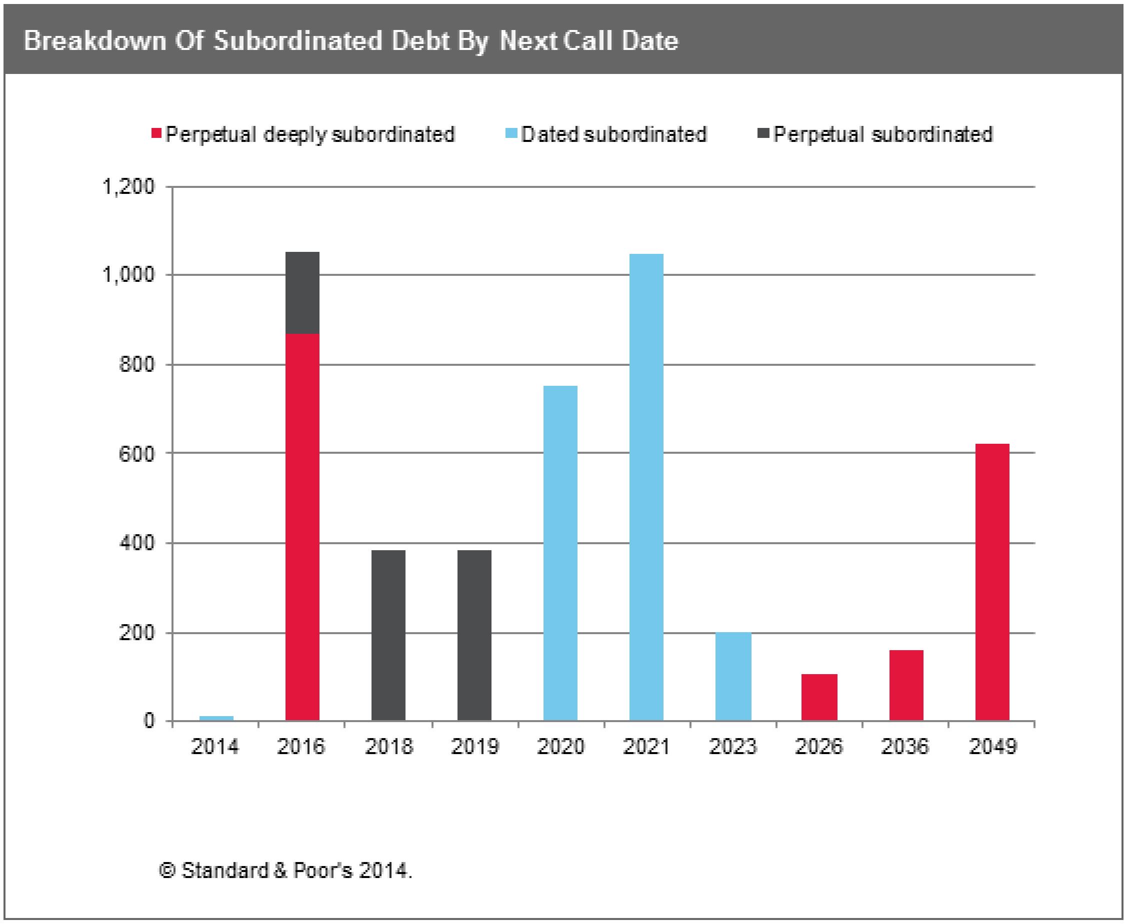
Liquidity: Exceptional

CNP's liquidity is exceptional, in our view, owing to the strength of its available liquidity sources and the historically low levels of experienced lapse rates. CNP has a track record of pre-financing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities. In our opinion, the group's liquidity is not exposed to collateral posting risk or confidence-sensitive liabilities.

Accounting Considerations

CNP prepares its consolidated financial statements under International Financial Reporting Standards. CNP provides supplementary MCEV disclosures, which we have used to analyze the group's operating performance and capital adequacy.

Chart 1



Related Criteria and Research

Related criteria

- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities and Insurers, Nov. 13, 2012
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurance Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- Greater Ratings Stability Is Ahead For The French Insurance Market, Despite Lingering Downside Risks, Nov. 12, 2013
- Insurance Industry And Country Risk Assessment: Low Risk For France's Life Insurance Sector, Nov. 7, 2013

Ratings Detail (As Of February 12, 2014)	
CNP Assurances	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Junior Subordinated	BBB+
Related Entities	
CNP Caution	
Financial Strength Rating	
Local Currency	A/Stable/--
Holding Company	Caisse des Depots et Consignations
Domicile	France

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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