

Research

Research Update:

France-Based Insurer CNP Assurances 'A' Ratings Affirmed On Strong Business Profile; Outlook Stable

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Overview

- We consider that CNP Assurances' business risk profile has remained resilient, despite changes in its distribution agreement with BPCE, and that its business mix should improve due to its enlarged and exclusive distribution of more profitable risk and protection products.
- We believe that the shift in CNP's business mix, combined with low average guarantee rates, should help it to withstand low interest rates and maintain strong capital adequacy.
- We are therefore affirming our 'A' financial strength and counterparty credit ratings on CNP and its core subsidiary, CNP Caution.
- The stable outlooks on both entities reflect our view that CNP will maintain its position as one of the leaders in the French market through strong distribution ties, while maintaining its capital adequacy close to or slightly above the 'A' level based on our capital model.

Rating Action

On Dec. 20, 2016, S&P Global Ratings affirmed its 'A' financial strength and counterparty credit ratings on CNP Assurances and its core subsidiary CNP Caution. The outlooks are stable.

At the same time, we affirmed our 'BBB+' issue ratings on CNP Assurances' subordinated and junior subordinated notes.

Rationale

The affirmation reflects that we believe CNP's new distribution agreements with BPCE and La Banque Postale may have a positive impact on the group's business mix over time. The strategic direction of both agreements is to increase the focus on more profitable segments, such as wealth management and personal risk and protection products.

CNP has already started to transform its business mix, with traditional life reducing from 65% of premium in 2012 to 57% in 2015. Over the same period, the share of unit-linked premiums has increased to 21% from 13%. The extension of the distribution agreements to include high-end life insurance products through Banque Privée 1818 (private bank entity of BPCE) and BPE (private bank entity of La Banque Postale) should continue this trend. Term creditor

insurance will now be sold by the Banque Populaires and Crédit Foncier networks (both owned by BPCE) and via direct distribution by La Banque Postale and BPE, which should lead to increased sales volumes.

On the existing portfolio of traditional savings products, CNP has some of the lowest guaranteed rates in the market. Furthermore, its credited rates have been consistently 30 basis points lower than the market average since 2010, without impacting its market share.

Our view on CNP's resilience to low interest rates is supported by improvement in the group's capital adequacy based on our capital model. We have revised our assessment of its capital adequacy over the course of 2016 to be above our 'A' benchmark, helped by the 10% quota share reinsurance agreement with Natixis Assurances on the BPCE in-force book, additional protections against a fall in equity markets, and continued strengthening of French policyholder bonus reserves.

We believe that CNP benefits from a strong shareholder structure, which includes its distribution partners and the Caisse des Dépôts et Consignations (CDC). We currently reflect the positive impact of the ownership structure in the group's strong financial flexibility score in its stand-alone credit profile (SACP). We also believe that CNP would be unlikely to have secured similar distribution channels if it were not for its ownership structure. This contributes positively to our assessment of the business risk profile.

In addition, we consider CNP to be moderately strategic to CDC, adding a further notch of financial support to those elements already captured within the SACP. Our view reflects the close links in terms of management and oversight between CDC and CNP, and participation in certain joint strategic investments, such as the recent acquisition of a stake in the electricity distribution network, RTE. However, we believe that CNP's contribution to CDC's public mission role is only a small part of its activities. Other operations, including those outside France, are of lower strategic value to CDC and in some cases could be undertaken by other private entities, in our view. This limits our evaluation of potential financial support from the group to one notch.

Outlook

The stable outlook indicates that over the next 24 months we expect CNP will maintain its leading market position in France, despite the changes to its distribution agreements, while maintaining capital adequacy close to or slightly above the 'A' level, according to our capital model.

Upside scenario

We could consider raising the ratings on CNP if we believed that the group showed continued progress in shifting its business mix toward higher-margin products, and net earnings after minorities remained above €1.2 billion. We

would monitor in particular CNP's business in Latin America for its resilience to challenging economic conditions, and the capital adequacy of the group based on our capital model.

Downside scenario

We could consider lowering the ratings if CNP were to suffer a significant decline in earnings, either due to a drop in volumes or a reduction in profitability. We would also consider lowering the ratings if we believed that financial support from CDC would not be likely in the event of a stress scenario, although this is a remote possibility.

Ratings Score Snapshot

Financial Strength Rating	A/Stable/--
SACP	a-
Anchor	a-
Business Risk Profile	Strong
IICRA	Low risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Moderately strong
Risk Position	Intermediate risk
Financial Flexibility	Strong
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	+1
Group Support	+1
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 07,

2013

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

CNP Assurances

Counterparty Credit Rating

Local Currency A/Stable/--

Financial Strength Rating

Local Currency A/Stable/--

Subordinated

BBB+

Junior Subordinated

BBB+

CNP Caution

Counterparty Credit Rating

A/Stable/--

Financial Strength Rating

Local Currency A/Stable/--

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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