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Research Update:

France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable

Primary Credit Analyst:

Charlotte Chausserie-Lapree, Paris (33) 1-4420-7205; charlotte.chausserie@spglobal.com

Secondary Contact:

Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@spglobal.com

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Research Update:

France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable

Overview

- France-based life insurer CNP Assurances (CNP) enjoys a stable and profitable position in the French life market, despite recent reshuffling of distribution agreements locally and uncertainties regarding its strategic positioning in Brazil and Italy.
- We expect that CNP's capital management will favor buffer strengthening over the next two years, and that its main shareholder, Caisse des Dépôts et Consignations, will offer continuous support.
- We are therefore affirming our 'A' ratings on CNP and its core subsidiary CNP Caution.
- The company's enterprise risk management has improved, in our view, as we consider the company now embeds its internal risk metrics into decision-making and risk controls.
- The stable outlook is based on our view that CNP's long-standing expertise in its main French markets helps mitigate the challenges from low interest rates and from strategic uncertainties in its ancillary markets.

Rating Action

On Dec. 5, 2017, S&P Global Ratings affirmed its 'A' long-term financial strength and issuer credit ratings on CNP Assurances (CNP) and CNP Caution. The outlook is stable.

At the same time, the 'BBB+' issue ratings on CNP's subordinated and junior subordinated notes were affirmed.

Rationale

The affirmation reflects our belief that CNP's business mix shift is gradually allowing the insurer to adjust to the challenges raised by the low-interest-rate environment. It also reflects our base-case assumption of stabilized distribution vehicles in France, with La Poste and BPCE being its main distributors. Further supporting the rating is our expectation of support from its main shareholder, Caisse des Dépôts et Consignations (CDC), should the need arise. Balancing our views are the lingering uncertainties surrounding its operations in Brazil and to a lesser extent in Italy.

We consider CNP is reducing the sensitivity of its book to interest rates by gradually shifting its business mix toward less-interest-sensitive products.

This is evidenced by the 8% increase of its protection business during the first nine months of 2017, while traditional savings premium fell over the same period. The proportion of unit-linked product sales reached 38% over the same period, boding well for margin prospects. This trend, combined with low guaranteed rates on the back book relative to peers, positions CNP well to withstand the low-interest-rate context and maintain its strong capital adequacy.

Net earnings (after minorities) derived from activities in Brazil contribute 23% of CNP's overall profit at half-year 2017. We assume the partnership with Caixa Seguridade will be renewed, but the new terms imply that volumes and profits will be lower, moderately affecting CNP's future earnings. Our base case is that CNP will finance any distribution renewal fee without weakening its capital adequacy.

CNP is currently negotiating the renewal of its partnership with UniCredit, which is expected to come into force in January. In 2017, CNP made improvements on the quality of net saving and pension inflows, and we believe this positive trend should continue after the ongoing negotiations conclude. The economic contribution of CNP UniCredit Vita to CNP's half-year 2017 net earnings is nearly 3%, making it the second international partnership contributor.

The CNP Santander business builds on CNP's product development strengths and opens the doors to new markets, through less-capital-intensive products, which fits with CNP's strategy going forward. While it has limited impact currently and in the near future, this activity sows the seeds for diversification in the longer term.

CNP's enterprise risk management practices have improved, in our view, to "adequate with strong risk controls," reflecting the gradual strengthening of its controls over its most important risks, namely market risk, underwriting risk, and asset-liability management. Our assessment also reflects that CNP has now embedded its internal risk metrics within its regulatory own risk and solvency assessment (ORSA) reporting and decision-making process.

Capital and earnings are moderately strong on the back of CNP's demonstrated capacity to build up its French policyholder surplus reserves (which we include in our calculation of available capital), complemented by supportive earning retention policies, and net earnings after minorities of around €1.2 billion per year. Our expectation is that CNP will manage its capital at around our 'A' risk-based capital benchmark in the next two years. In 2017, CNP has also reinforced its hedge program against a fall in the equity market, moderating the impact on the capital charges of the relatively high proportion of equity investments.

We continue to consider that CNP plays a moderately strategic role in CDC's mission, which strengthens the rating on CNP by one notch. Our base-case expectation over the next two years is that CDC's support to CNP will remain unchanged, although we note that CDC recently announced a review of its

financial holdings.

Outlook

The stable outlook reflects our view that CNP's long-standing expertise in its main French markets acts as a stabilizing factor against the challenges from low interest rates and from strategic uncertainties in its other main markets. The stable outlook also denotes our expectation that CNP's buffer-building policy will support at least a stable capital adequacy close to our 'A' range risk-based capital benchmark.

Upside scenario

We may raise the ratings in the coming two years if:

- Strategic uncertainties in Brazil conclude with a positive or neutral impact for CNP's capital adequacy and strategic positioning;
- CNP continues to shift its business mix toward less-interest-rate sensitive life policies; and
- We believe the group will maintain net earnings after minorities around €1.2 billion.

Downside scenario

Although we see it as a remote possibility, we could lower the ratings if:

- CNP were to suffer a significant decline in earnings; or
- Support from CDC were to weaken.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable/--	A/Stable/--
SACP	a-	a-
Anchor	a-	a-
Business Risk Profile	Strong	Strong
IICRA	Low risk	Low risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital and Earnings	Moderately strong	Moderately strong
Risk Position	Intermediate risk	Intermediate risk
Financial Flexibility	Strong	Strong
Modifiers	0	0
ERM and Management	0	
Enterprise Risk Management	Adequate with Strong Risk Controls	Adequate

Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	+1	+1
Group Support	+1	+1
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 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

CNP Caution

Counterparty Credit Rating	A/Stable/--
Financial Strength Rating	A/Stable/--

CNP Assurances

Subordinated	BBB+
Junior Subordinated	BBB+

Additional Contact:

Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

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.capitaliq.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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