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Research

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

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- According to the French government, La Poste's (A/Positive/A-1) banking subsidiary La Banque Postale (A/Positive/A-1) may become the majority shareholder of insurer CNP Assurances (CNP) by 2020. Prospectively, we view CNP as highly strategic to La Poste.
- Our view of CNP's stand-alone creditworthiness has improved thanks to its sustainably stronger capital position and the signing of a new long-term partnership in Brazil.
- We are consequently affirming our 'A' long-term ratings on CNP and its core subsidiary CNP Caution.
- The stable outlook reflects our view that CNP would retain its current strong market position and capital and earnings under the new potential shareholding structure.

PARIS (S&P Global Ratings) Oct. 30, 2018--S&P Global Ratings said today that it 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, we affirmed the 'BBB+' and 'BBB-' issue ratings on CNP's subordinated and junior subordinated notes.

The affirmation reflects our view that CNP's stand-alone creditworthiness has significantly improved on the back of the strengthening of its capital position and reinforcement of partnerships. There has been significant 13% growth in policyholders' surplus reserves to €12.3 billion at June 2018 and we expect CNP to generate retained earnings of at least €0.6 billion per year.

Moreover, the signing of the renewal until 2041 of its profitable and fast-growing long-term partnership with Caixa Seguridade in Brazil removes uncertainties that were weighing on CNP's prospective profitability. We also consider that CNP is successfully shifting its business mix toward unit-linked savings and protection, which has had a noticeable impact on new business margins in France.

The affirmation also captures the potential future integration of CNP into La Poste (A/Positive/A-1) through its core subsidiary La Banque Postale (LBP; A/Positive/A-1). The ownership transfer would see the state-owned fund Caisse des Dépôts et Consignations (CDC) exchanging its current 41% stake in CNP for a majority stake in La Poste, with the latter in turn transferring this stake to its banking subsidiary LBP. These potential changes reflect the French government's objective to form a large public-owned financial services hub.

We now have clarity about the continuity of CNP's business in Brazil as it has signed a binding agreement with Caixa Seguridade regarding the distribution within Caixa network, implying the creation of a new joint venture. Although the business lines covered by this agreement and CNP's economic rights are lower than in the current agreement, we believe the insurer will offset any drop in contribution from these activities in the next couple of years given the favorable growth prospects of the pension insurance market in Brazil. We also consider the one-off costs for the renewal of the partnership to be reasonable and have fully included them in our assessment of CNP's prospective capital adequacy.

We now expect CNP's capital adequacy under our model to settle at the low end of our 'AA' risk-based capital benchmark in the next two years, equivalent to a very strong assessment. Capital adequacy has improved on the back of CNP's capacity to build up its French policyholder surplus reserves, and we expect further strengthening from earnings retention of at least €0.6 billion per year. In 2018, CNP again reinforced its hedge program against a fall in the equity market, moderating the progression of capital charges. As with many European life insurance peers, we continue to consider that CNP's reliance on soft forms of capital such as unrealized gains, hybrids, and value of in-force (VIF) business dampens our view of CNP's capital and earnings position.

We acknowledge the French government's recently announced ambition to combine CNP with LBP (please see "French Postal Operator La Poste Outlook Revised To Positive; 'A/A-1' Ratings Affirmed," published on Oct. 30, 2018). If the transaction materializes, our base-case expectation is that the ongoing support to CNP from CDC will moderate but remain in a more indirect way, with La Poste playing a leading role as a primary shareholder in case of financial distress at CNP. Going forward, we view CNP as highly strategic to La Poste. In case of financial stress, we believe exceptional support could flow indirectly to CNP from CDC through La Poste.

Our assessment of CNP's competitive position takes into account its long-term partnership with BPCE. Our base-case scenario is that the agreement will not be put into question before its expiry date at the end of 2022.

We rate hybrids by notching down from the issuer's stand-alone credit profile (SACP), which for CNP is currently equal to the issuer credit rating. This is consistent with the approach we take for LBP.

The stable outlook reflects our view that CNP would retain its current strong market position and capital and earnings under the new potential shareholding structure, including capital adequacy close to the 'AA' level under our model. The stable outlook also reflects the fact that CNP's ownership is evolving, and it remains to be seen how the transaction will finalize and what the level of integration with La Poste will be.

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

- We believe CNP is becoming a core subsidiary within La Poste group following the transaction, with a high degree of integration. An upgrade would depend on us having raised our ratings on La Poste, which is currently on a positive outlook.
- Although less likely in the near term, we could upgrade CNP if we anticipated a significant increase in the group's capital buffer, without a deterioration of its market position in France. This would also depend on us having raised our ratings on La Poste.

Although we see it as a remote possibility, we could lower the ratings on CNP if it were to suffer a significant decline in earnings or capital adequacy, or if we were to downgrade La Poste.

RELATED CRITERIA

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