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ISSUER IN-DEPTH
4 October 2018

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RATINGS

CNP Assurances

Insurance financial strength rating	A1
Outlook	stable

Source: Moody's Investors Service

KEY METRICS:

CNP Assurances - € million

	2017	2016	2015
Total assets	423,298	419,130	393,732
Total shareholders equity	18,257	17,531	15,936
Net income	1,285	1,200	1,131

Sources: Company reports and Moody's Investors Service

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CNP Assurances

Expected new shareholding structure creates strategic uncertainties, but no immediate credit impact

On 30 August 2018, the French Ministry of Finance announced that La Banque Postale (unrated), the banking subsidiary of La Poste (the French post office), will take ownership of the 41% stake in insurance group CNP Assurances (CNP, A1 stable) currently held by Caisse des Dépôts et Consignations (CDC, Aa2 positive), the investment arm of the French government. La Banque Postale will also take control of the 1% CNP stake held directly by the government of France (Aa2 positive). La Banque Postale will ultimately become CNP's biggest shareholder, while CDC will be left with a controlling stake in La Poste. The operation would be achieved through the transfer of both CDC and the French State's stakes in the capital of CNP to La Poste, which would then transfer them to La Banque Postale. Taken in isolation, the new shareholding structure would have no impact on CNP's credit profile. The change to a majority ownership by La Banque Postale would however reinforce CNP's access to the post office branch network, the insurer's largest distribution channel, a credit positive. Conversely, it may become harder for CNP to negotiate or retain distribution agreements with other partners. The change also raises the possibility that CNP would provide some form of support to La Poste or its banking subsidiary.

» **Expected change in shareholding structure has no credit impact.** CDC and the government of France would remain key indirect shareholders in CNP, allowing it to retain its strong financial flexibility. We do not currently factor shareholder support considerations into CNP's ratings, and do not plan to change our approach once the new structure takes effect.

» **La Poste distribution deal becomes more secure.** Under the proposed changes, La Banque Postale would ultimately become a majority shareholder in CNP. This virtually eliminates the risk that CNP may lose its access to La Poste's branch network, its main distribution channel, generating 29% of group premiums in 2017.

» **Some strategic uncertainties arise.** CNP's new ownership could make it harder for the insurer to negotiate or retain distribution deals with other banks, notably BPCE (baa1 adjusted BCA, A1 bank deposit rating, stable outlook). We also see a risk that CNP may be required to provide some form of support to La Poste or La Banque Postale. We do not expect major risk in the next 12-18 months, but the loss of the distribution agreement with BPCE would be credit negative for CNP, affecting the group's market position and its profitability. We will reassess these risks as CNP's strategy within La Poste becomes clearer.

Expected change in shareholding structure has no credit impact

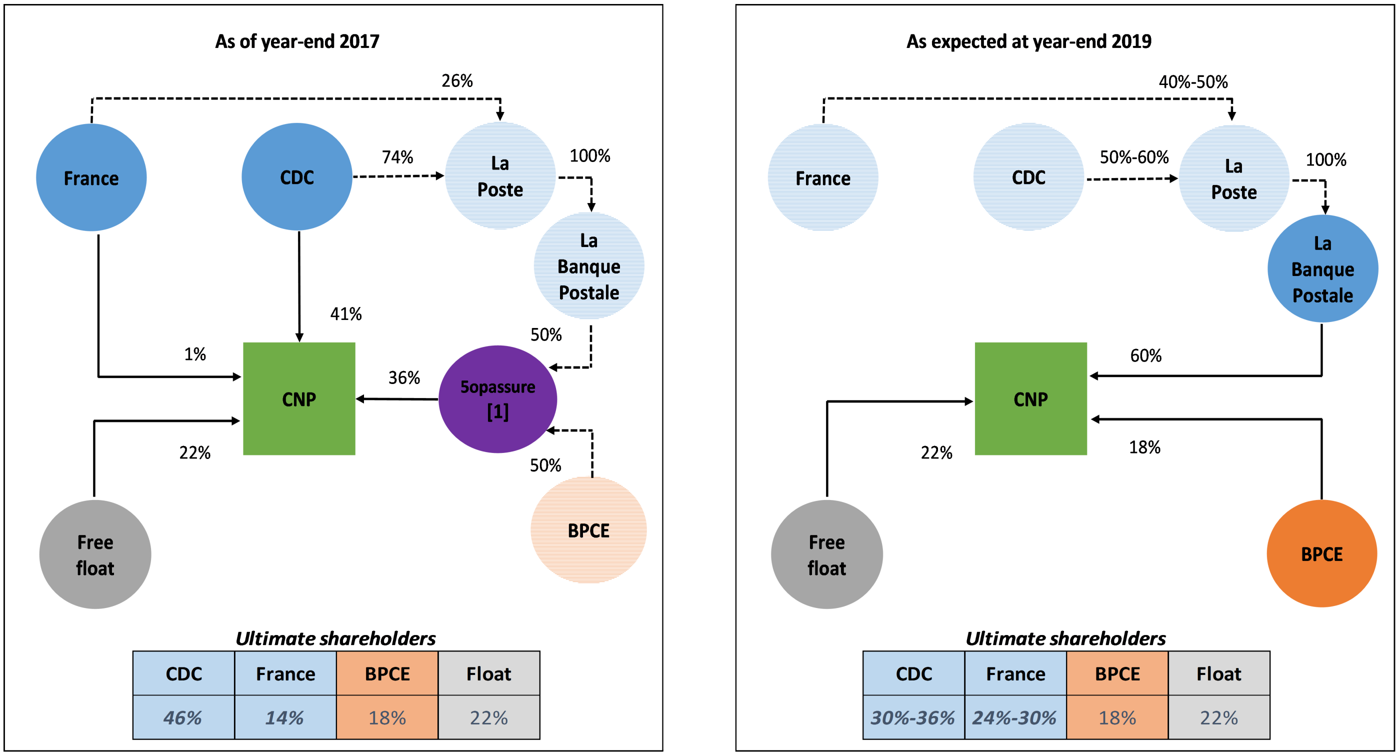
Restructuring redistributes France and CDC's indirect shareholdings

As shown in Exhibit 1, the proposed change to CNP's shareholding structure would not fundamentally alter the ultimate ownership of the insurer, but would rather redistribute stakes that remain ultimately owned by CDC and the government of France. We rate CDC at Aa2 positive, on a par with the French government.

Exhibit 1

CDC and the French government would remain key indirect shareholders

Expected change in CNP's shareholding structure [2][3]



As of year-end 2017 – Ultimate shareholders

CDC	France	BPCE	Float
46%	*14%*	18%	22%

As expected at year-end 2019 – Ultimate shareholders

CDC	France	BPCE	Float
30%-36%	*24%-30%*	18%	22%

Notes: [1] Sopassure is an ad hoc joint-venture created between La Banque Postale and BPCE to hold CNP shares (CDC, France and Sopassure are linked by a shareholder pact which will end on 31 December 2019 and Sopassure is expected to be dissolved at that date); [2] in this chart, stakes from CDC, France and Sopassure in CNP include stakes held under the shareholder pact and shares acquired through scrip dividends in 2012 and 2013; [3] all percentages of ownership have been rounded to the closest percentage.
Sources: CNP Assurances, French Ministry of Finance, Moody's Investors Service

CNP would retain its strong financial flexibility

We believe the 41% stake in CNP currently held by CDC, the French state's investment arm, enhances the insurer's financial flexibility, which is one of the factors we use in assessing the financial strength of CNP. Although CDC would no longer be a direct shareholder under the proposed new structure, it would maintain a significant indirect stake via La Poste, while the French government's indirect holding would increase. We therefore anticipate no deterioration in CNP's financial flexibility once it is absorbed into La Poste group.

We do not include shareholder support considerations in CNP's rating

We do not currently factor any shareholder support considerations into our rating of CNP. We do not intend to alter our approach under the new structure, even though CDC's indirect control over CNP would increase. Despite the lower indirect stake that CDC would have in CNP (see Exhibit 1 above), CDC's indirect control over CNP would increase because it would take a controlling stake in La Poste, which itself would have a controlling stake in CNP through La Banque Postale. Previously, CDC only held a minority 41% stake in CNP.

However, as indicated above, we qualitatively acknowledge some benefit from indirect ownership by CDC and France, notably through our assessment of financial flexibility.

The French government has indicated that it will ask the French Financial Markets Authority to waive the requirement that La Banque Postale tender for the minorities in CNP.[1] If the waiver is not granted, La Banque Postale may have to acquire 100% of CNP's shares and could become the sole owner of CNP. In this scenario, we might review our approach to shareholder support considerations, although as a general rule, under our Government-Related Issuers (GRI) methodology, we do not regard the subsidiaries of GRIs as GRIs themselves.

La Poste distribution deal becomes more secure

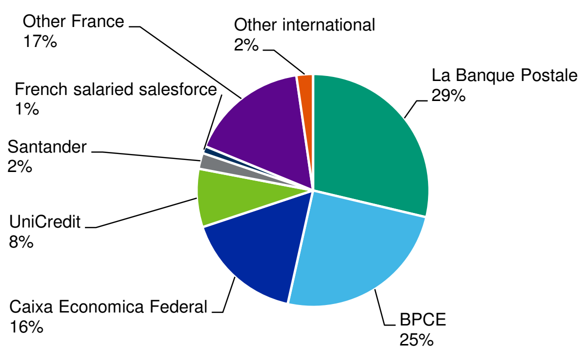
CNP's business model is based on selling its insurance products through third party distribution networks, particularly large banking branch networks (Exhibit 2). Access to large banking networks is positive for the group's market position. While the insurer has signed long-term exclusive distribution agreements with its banking distributors, these agreements need to be renewed periodically. There is no certainty that they will be extended, which introduces some uncertainty on CNP's long-term market position.

CNP's largest distribution agreement is with La Poste's banking subsidiary, La Banque Postale, which accounted for 29% of the insurer's premium revenues in 2017 (Exhibit 2). CNP's absorption into La Poste group therefore virtually eliminates the risk that this distribution deal will not be renewed when it expires in 2025, a credit positive.

Exhibit 2

CNP's biggest distribution partner is La Banque Postale

Breakdown of CNP's 2017 premiums by distribution channel (total premiums €32.1 billion)



Source: CNP Assurances

The French Ministry of Finance has also highlighted opportunities to strengthen the relationship between CNP and La Banque Postale. We believe that opportunities could arise for CNP mostly in the field of protection insurance. La Banque Postale currently owns an insurance subsidiary, La Banque Postale Prévoyance, which offers individual protection products.

Some strategic uncertainties arise

CNP's integration into La Poste group will also pose some strategic challenges for the insurer. The French government has said the new ownership structure is designed to reinforce La Poste group, while creating a financial institution with a strong presence in cities and rural areas. However, few details about the role and the strategy of CNP going forward have been disclosed.

We see two main risks to CNP's credit quality over the coming years:

» The company's current strategy of selling its products through several distribution channels in France may come under pressure,

» CNP may be required to provide financial support to La Poste and/or its banking subsidiary.

Multi-partner distribution may come under pressure

At present, CNP has no dominant commercial shareholder, and sells its products through various banks that compete with each other (Exhibit 2). However, once La Banque Postale acquires a controlling stake in CNP, other banks may become reluctant to sign distribution agreements that would indirectly benefit La Banque Postale, one of their competitors.

CDC and the French Ministry of Finance have said they are willing for CNP to maintain its multi-partner distribution model. This was reinstated by CNP on the 27th of September 2018. However, there is no guarantee that CNP will be able to preserve its distribution relationships with banks once its current agreements expire.

We believe there is a particular risk that CNP's distribution agreement with BPCE, which ends in December 2022, may not be renewed after 2023. BPCE is currently a shareholder of CNP, and has announced that it sees its CNP holding as a financial rather than a strategic stake. The bank is also willing to grow its insurance activities internally.

CNP's strong position in the French market is currently one of the company's key credit strengths and a loss of access to BPCE's network would therefore be credit negative. CNP generated €7.9 billion of premiums through BPCE's network in 2017, accounting for around 25% of its total premiums. CNP's profitability would also be negatively impacted if the agreement with BPCE were not renewed.

Around 70% of premiums generated through BPCE network were related to in-force savings business (premiums added to savings policies sold in the past) and only 30% to new business (protection business and reinsurance of new savings policies). However, if BPCE decides not to renew the distribution agreement, it will also have to purchase the insurance book represented by policies sold in the past. This required payment may act as an impediment for the non-renewal of the agreement.

If BPCE decides not to renew the agreement and compensates CNP for the back-book, the ultimate credit impact on CNP would depend on how the insurer would use this compensation. A distribution to shareholders would for example be a clear credit negative.

Under the agreement signed between BPCE and CNP in 2015, BPCE may initiate negotiations for the purchase of the insurance back-book after five years, i.e. at the end of 2020.

Positively, we believe that the change in CNP's ownership would have no material impact on its ability to sign distribution agreements outside France. In this regard, the binding agreement that CNP signed with the large Brazilian bank Caixa Economica Federal secures access to a very large network outside of France.

La Poste or La Banque Postale may seek support from CNP

The French government has said the change in CNP's ownership is designed in part to reinforce the financial strength of La Poste whose revenues are affected by a decline in volumes in its traditional postal operations.[2] The change is also intended to create a strong bancassurance group by combining CNP and La Banque Postale. We therefore see a risk that a significant part of profits and potentially also some capital of CNP may be upstreamed to its new parent, or that La Banque Postale may seek to leverage CNP's balance sheet.

This would follow the pattern set by some other integrated bancassurance groups, in which the insurance company has directly or indirectly supported the bank, either by providing indirect funding (for example by purchasing assets originated by the bank), or by transferring capital. Scottish Widows Limited (A2 stable), a subsidiary of Lloyds Bank plc (a3 BCA, Aa3 bank deposit rating, stable), is for example repatriating significant capital to its parent company. Most Dutch life insurance companies are also developing banking operations by taking benefit of their large balance sheet. They notably fund the mortgages originated by their bank by transferring them to their balance sheet.

Any upstreaming of CNP's capital that resulted in a decline in the insurer's solvency would be credit negative. However, we believe that large and direct capital support from CNP to La Poste or La Banque Postale is unlikely at this stage. Firstly, La Banque Postale currently plans to maintain the insurer's stock market listing, with third parties owning a 40% stake. This reduces the risk of a large-scale capital repatriation, as it would dilute the benefit of any such transaction to La Poste group. Secondly, given La Banque Postale's current capitalisation (ratio common equity Tier 1 of 13.7% as of year-end 2017) and business profile, we expect little support to be needed in the short-term.

A deterioration in CNP's asset quality, resulting for example from the purchase of assets originated by La Banque Postale, would also be credit negative. Nonetheless, the ultimate credit impact would depend on the extent of the change in CNP's asset mix. CNP's balance sheet is large (€423 billion in total assets at year-end 2017) and the quality of the insurer's fixed income portfolio is currently strong. A moderate increase in illiquid or lower quality assets would therefore have little impact on its credit quality. We do not anticipate any wide use of CNP's balance sheet by La Banque Postale currently.

However, should La Poste decide to develop its banking operations more aggressively, more support from CNP could be envisaged. We will reassess these risks as La Poste's strategy and CNP's strategy within La Poste group become clearer.

Endnotes

1 A tender is required when an entity acquires more than 30% of another entity.

2 The impact of volumes decline had a negative impact of €561 million on La Poste's turnover in 2017, which was offset by tariffs increases and the development of other activities.

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