

CNP Assurances

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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SACP* Assessments				SACP*		Support		Ratings		
Anchor	a	+	Modifiers	0	=	a	+	0	=	Financial Strength Rating
Business Risk			ERM and Management	0		Liquidity	0	Group Support	0	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.

Major Rating Factors

Strengths:	Weaknesses:
<ul style="list-style-type: none"> Leading position in the French life insurance market and increased penetration of life-protection business. Strengthened capital adequacy thanks to increased policyholder surplus reserves. Continuity of CNP's business in Brazil following the signing of a new long-term partnership in Brazil. 	<ul style="list-style-type: none"> CNP's ownership is evolving toward a lower-rated group than the current shareholder the state-owned fund Caisse des Dépôts et Consignations (CDC; currently 41% stake). Low margins of traditional savings products in the French market. Relatively high proportion of soft capital items within our measure of adjusted capital.

Rationale

S&P Global Ratings' issuer credit ratings on France-based life insurer CNP Assurances (CNP) reflect its view of the company's prominent business position in France, where it generates 67% of its business volumes as of end-September 2018, as well as the depth and breadth of its product offering and distribution. The ratings also incorporate our view of the group's strengthened capital adequacy and the signing of the renewal of its profitable and fast-growing partnership with Caixa Seguridade in Brazil.

Historically, CNP has focused on traditional savings products in the French market, but has gradually increased profits in life protection and unit-linked products, thanks to international joint ventures (JVs) and domestic partnerships. As a result, the new business margin in France jumped to 23.2% as of end-September 2018 from 10% in 2016.

CNP's adjusted capital is now in line with the 'AA' benchmark of our capital model, and we expect it will stay at this level in the next two years. Capital adequacy has improved over years on the back of CNP's capacity to build up its French policyholder surplus reserves and the reinforcement of its hedge program against a fall in the equity market, moderating the progression of capital charges.

We acknowledge the French government's recently announced ambition to combine CNP with La Banque Postale in order to form a large public-owned financial services hub. 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 group playing a leading role as a primary shareholder. Going forward, we view CNP as highly strategic to La Poste group. In case of financial stress, we believe exceptional support could flow indirectly to CNP from CDC through La Poste and La Banque Postale (the latter would be the direct majority shareholder). We factor in our capital forecasts a moderate increase in dividends.

Outlook: Stable

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 at 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 group will be.

Upside scenario

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 (A/Positive/A-1).
- 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.

Downside scenario

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.

Macroeconomic Assumptions

- GDP growth in France of about 1.6% per year in 2018-2020.
- Average 10-year French government bond yields decreasing to 0.77% in 2018 and rising to 1.10% in 2019.

CNP Assurances' Consolidated Key Metrics						
(Mil. €)	2015	2016	2017	2018f	2019f	2020f
Gross premium written	31,760	31,780	32,460	>32,000	>30,000	>30,000
Net income*	1,131	1,200	1,285	~1,300	~1,300	~1,300
New business value to APE (%)	14.5	13.9	23.6	>15.0	>15.0	>15.0
Return on average embedded value§ (%)	10.7	7.2	9.7	7.0-10.0	7.0-10.0	7.0-10.0
S&P Global Ratings' capital adequacy	Moderately strong	Strong	Very strong	Very strong	Very strong	Very strong
Financial leverage (%)	20.5	20.6	17.7	<25.0	<25.0	<25.0
Fixed charge coverage (%)	7.8	7.3	9.0	>8.0	>8.0	>8.0

*Excluding minority interests. §Based on operating return on EV. f--forecast. APE--Annual premium equivalent.

Business Risk Profile: Strong

CNP's strong business risk profile is underpinned by its leading market position in France. In addition, it derives 90% of its technical reserves from this market, therefore shaping our view that CNP supports the low insurance industry and country risk in France.

CNP has a very broad product offer, but has historically predominantly sold traditional savings life products for mass markets that have relatively low margins. Over the last couple of years, CNP has improved its new business margins by shifting its business mix to the benefit of life-protection and unit-linked contracts. At half-year 2018, revenues from personal risk protection represented 56% of the group's total revenues, which represents an increase of 10 percentage points over the past two years.

CNP's two largest distributors, La Banque Postale and Banque Populaire Caisse d'Epargne (BPCE), together made up 49% (€11.9 billion) of CNP's premium income for the first nine months of 2018. CNP's distribution capability outside of these two main networks in France is also strong, with premium income of €4.6 billion at third-quarter 2018. These revenues come from a broad base of agreements with companies and local authorities, French financial institutions, mutual insurers, and Amétis, the group's direct distribution network.

Since October 2016, the retail saving portfolio is in run-off as CNP no longer books new contracts, but continues to receive new money on the existing contracts on its balance sheet. This distribution partnership includes increased penetration of the sale of creditor-term life business, and high-end life insurance products via BPCE's private bank platform. Our base case is that inflows will continue to decrease at a gradual pace and that the partnership will not be put into question in practice before its expiry date at the end of 2022.

With the potential integration of CNP in La Poste group, we expect synergies and commercial dynamism with La Banque Postale's network to gradually increase over the medium term. La Banque Postale's network was the first source of premium income for CNP in 2018.

CNP's main overseas operation is a JV (Caixa Seguradora) with Caixa Seguridade, which is the insurance arm of the state-owned Brazilian bank Caixa Econômica Federal. CNP predominantly sells creditor protection and pension business in this market. Caixa Seguradora has increased its presence in Brazil, where margins are materially higher and

saving and pension premiums are almost entirely in unit-linked. These operations provide uplift to the group's earnings (29% of the group EBIT). On Aug. 30, 2018, CNP announced that it had signed a binding agreement with Caixa Seguridade to amend and renew the distribution partnership until 2041. After regulatory approval, a new JV will be created; CNP will own 40% (economic rights) and the remainder will be held by Caixa Seguridade. The products sold will include pension, term life, and consumer credit. We believe other business lines sold under the current agreement may be subject to an auction.

On Jan. 1, 2018, CNP has successfully renewed its partnership with UniCredit for seven years. First results show a strong underlying commercial dynamic, with premium income going up by 36% in the first nine months of the year; with a strong focus on unit-linked business. This has reinforced our view that CNP manages its partnerships in line with its long-term strategy and risk appetite. We believe the absolute revenue contribution from CNP UniCredit Vita will significantly increase after 2021 when the initial higher distribution commission costs will reduce as laid out in the agreement's terms.

The JV with Santander Consumer Finance generates the other main European operations. This 20-year partnership consists of exclusive distribution of protection products to Santander's customers in 12 different countries. The growth is robust, with Germany and Poland being the JV's main operating markets. This JV contributed to 2.2% of group EBIT at end-June 2018. Given the nature of the product sold, the business written via this partnership enjoys high margins, and we expect it will provide increasing and recurrent support to group earnings.

Financial Risk Profile: Strong

CNP's strengthened capital adequacy supports our view of the group's strong overall financial risk profile. CNP has a proven track record of building capital through retained earnings and increasing policyholder surplus reserves (5.5% of technical reserves at €12.4 billion as of end-September 2018). This effort has allowed CNP's prospective capital adequacy to meet the capital requirement as per the 'AA' benchmark under our capital model. In addition, CNP further reinforced its hedging program in 2018 to counter potential drops in equity markets, which supports our assessment. In our view, the relatively high share of soft capital, such as hybrids, unrealized capital gains, and present value of future profits, weaken our assessment of CNP's capital and earnings.

We hold a forward-looking view of capital and factor a moderate increase in dividends and net earnings after minorities of about €1.3 billion per year into our assessment. Furthermore, CNP has announced the price for the renewal of the distribution partnership with Caixa Seguridade, and we believe CNP will be able to cover it without materially weakening its capital adequacy.

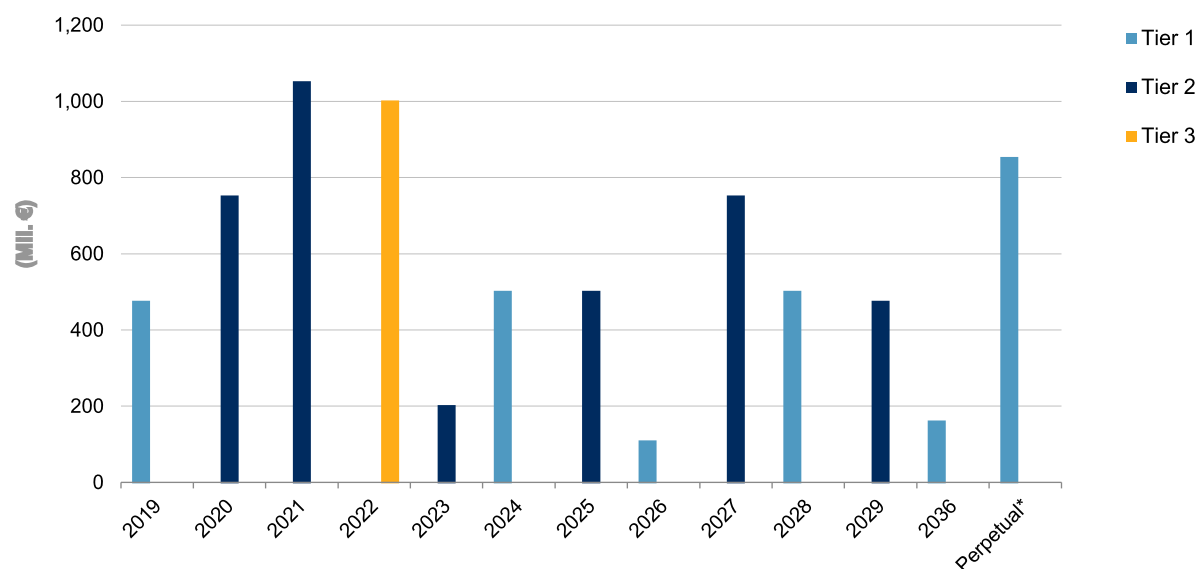
We forecast that capital requirements will increase at a moderate pace of around 2% over the next two years, given the increased share of capital-light product sales and the expected net outflow from traditional savings products. We expect the group will maintain its investment profile. The group has significant holdings in assets that we consider high risk, with equity and real estate investments representing 13% and 4% of the investment portfolio, respectively, at end-June 2018. CNP is a large private equity investor and leverages the opportunities to co-invest with their historical institutional partners.

Other sources of volatility that could affect our view of the financial risk profile are limited. CNP has little in the way of defined-benefit obligations and limits exchange rate risk in its investment portfolio. The group's ability to share investment losses with policyholders, due to low guaranteed rates in the backbook (0.29% as of end-June 2018), and the profit-sharing characteristics of products sold in France, mitigate the relatively risky investment portfolio, in our view.

We believe the group benefits from demonstrated access to international debt markets. We have no concerns regarding CNP's ability to face its upcoming debt maturities. Indebtedness indicators are also a strength; we believe that CNP will maintain leverage ratios below 25% and fixed-charge coverage ratios of about 8x through 2019. We note that in two successive years, 2011 and 2012, CNP's major shareholders provided direct support by accepting dividends in shares, helping the insurer to rebuild capital. We believe La Banque Postale, La Poste, and CDC will remain long-term and supportive investors. Prospectively, we believe La Poste group will play a leading role as a primary shareholder in case of financial distress at CNP.

Chart 1

CNP Assurances' Breakdown Of Subordinated Debt By Call Date



*Perpetual subordinated debt for which the first call date has already occurred. Source: CNP Assurances.
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Other Assessments

We consider CNP's enterprise risk management (ERM) practices to be adequate, with strong risk controls. CNP has deployed risk metrics to monitor and limit its risk exposure consistently groupwide.

We view asset and liability management practices as prudent, since CNP monitors multiple risk metrics at individual portfolio levels when defining asset allocation, hedging strategies, and modelling liability.

CNP's development of a single risk metric (ORSA) and its embedding in the reporting and decision-making process have further strengthened overall risks control. We also consider CNP's underwriting risk well managed, given that it assumes full ownership over pricing and product design, and limited authority is delegated to distribution networks. ERM is of high importance to the rating, reflecting the complexity associated with CNP's large scale.

In our opinion, CNP's management and governance is satisfactory. In recent years, the group has executed a consistent strategy of preserving capital, de-risking its balance sheet while maintaining a leading position in the French market, and continuing to expand internationally.

We have no concern about CNP's liquidity, due to the strength of its available liquidity sources and the historically low levels of lapse rates experienced. CNP has a track record of pre-financing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities.

Rating Score Snapshot

CNP Assurances' Rating Score Snapshot	
Financial Strength Rating	A/Stable/--
Issuer Credit Rating	A/Stable/--
SACP	a
Anchor	a
Business Risk Profile	Strong
IICRA	Low risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Strong
Risk Position	Intermediate risk
Financial Flexibility	Strong
Modifiers	
ERM and Management	0
Enterprise Risk Management	Adequate with strong risk controls
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry and Country Risk.

Factors Specific To Group Companies

We view CNP Caution S.A. as a core subsidiary of CNP Assurances. CNP Caution is 100%-owned by the parent group, and the business it underwrites is integral to the group's creditor insurance related strategy. The company is fully integrated in terms of distribution and support functions. CNP Caution also benefits from a letter of comfort from CNP Assurances, indicating its commitment of support.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria - Insurance - General: Insurer Hybrid Capital Instruments With Nonviability Contingent Capital (NVCC) Features, July 24, 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

Related Research

- France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable, Oct. 30, 2018
- France-Based La Banque Postale Outlook Revised To Positive After Similar Action On Parent La Poste, Oct. 30, 2018
- French Postal Operator La Poste Outlook Revised To Positive; 'A/A-1' Ratings Affirmed, Oct. 30, 2018

NB: In the below table, the junior subordinated debts rated 'BBB-' are restricted tier-1 deeply subordinated notes.

Ratings Detail (As Of December 12, 2018)

Operating Companies Covered By This Report

CNP Assurances

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

A/Stable/--

Junior Subordinated

BBB+

Junior Subordinated

BBB-

Subordinated

BBB+

CNP Caution

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

A/Stable/--

Domicile

France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:

Insurance Ratings Europe; insurance_interactive_europe@spglobal.com

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