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Ratings

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CNP Assurances

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CNP Assurances

SACP* Assessments		SACP*	Support	Ratings
Anchor: a	+ Modifiers: 0	= a	+ 0	= Financial Strength Rating
Business Risk: Strong	ERM and Management: 0	Liquidity: 0	Group Support: 0	A/Stable/--
Financial Risk: Strong	Holistic Analysis: 0	Sovereign Risk: 0	Gov't Support: 0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Major Rating Factors

Strengths:

- 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.

Weaknesses:

- CNP's ownership is evolving toward a lower-rated group than the current shareholder the state-owned fund Caisse des Depots et Consignations (CDC; currently 41% stake).
- Low margins of traditional savings products in the French market.
- Partial reliance on softer forms of capital (hybrids, unrealized gains, and life value in force) that generate volatility.

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 generated 69% of its business volumes, as well as the depth and breadth of its product offering and distribution. The ratings also incorporate our view of the group's strengthening capital adequacy and 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 stood at 17.1% in Q1 2019, up 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 over the next two years. Capital adequacy has improved over recent 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 announced ambition to combine CNP with La Banque Postale to form a large public-sector-owned financial services hub. We expect 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. We believe this transaction will not transform the historical model of CNP Assurances as an independent and multi-partnership bank-insurer.

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). CNP's announced dividend policy, released in February 2019, translates into a pay-out of 40%-50%.

Outlook: Stable

The outlook is stable because we believe CNP can 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. CNP's ownership structure is evolving, so it remains to be seen how the transaction will be finalized and how closely CNP will be integrated with La Poste group.

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 capital adequacy, or La Poste were downgraded.

Upside scenario

We may raise the ratings in the coming two years if we believe CNP will become a core subsidiary of La Poste group, with a high degree of integration. 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. In both situations, an upgrade of CNP would also depend on an upgrade of La Poste.

Macroeconomic Assumptions

- GDP growth in France of 1.4%-1.5% per year in 2019 and 2020.
- Average 10-year French government bond yields decreasing to 0.68% in 2019 and rising to 1.10% in 2020.

CNP Assurances' Consolidated Key Metrics							
(Mil. €)	2015	2016	2017	2018	2019f	2020f	2021f
Gross premium written	31,760	31,780	32,460	32,534	>30,000	>30,000	>30,000
Net income*	1,131	1,200	1,285	1,367	~1,300	~1,300	~1,300
New business value to APE (%)	14.5	13.9	23.6	21.3	>15.0	>15.0	>15.0
Return on average embedded value (%)**	10.7	7.2	9.7	7.9	7.0-10.0	7.0-10.0	7.0-10.0
Return on average shareholder's equity (%)§	9.1	9.0	9.1	9.3	>9	>9	>9
Net investment yield	2.6	2.4	2.4	2.3	~2	~2	~2
S&P Global Ratings' capital adequacy	Moderately strong	Strong	Very strong	Very strong	Very strong	Very strong	Very strong
Financial leverage (%)	20.5	20.6	17.7	<25.0	<25.0	<25.0	<25.0
Fixed charge coverage (%)	7.8	7.3	9.0	9.7	>8.0	>8.0	>8.0

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

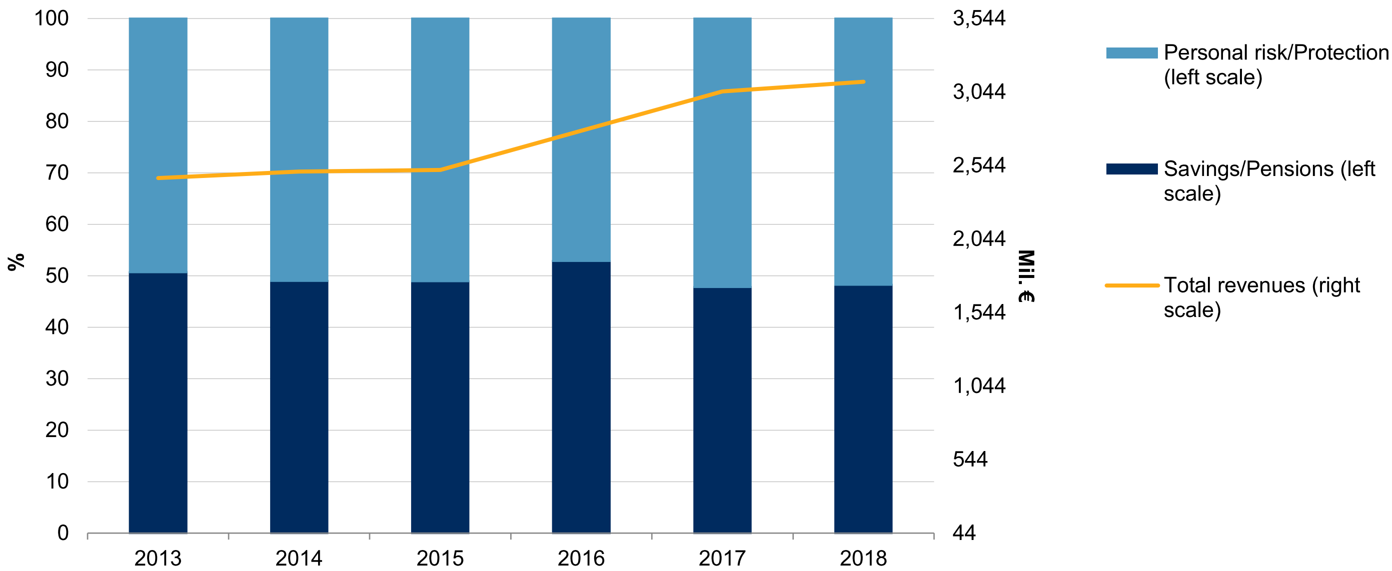
Business Risk Profile: Strong

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 past few years, CNP has improved its new business margins by shifting its business mix to the benefit of life-protection and unit-linked contracts. In 2018, revenues from personal risk protection represented more than half of the group's total revenues. The positive trend of absolute revenues since 2015 (see chart 1) is also largely attributable to an increasingly favorable mix of new money in the savings segment (39% of unit-linked groupwide sales in first-quarter 2019).

Chart 1

CNP Assurances--Revenue Breakdown And Evolution



Sources: Company financials.

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CNP's two largest distributors, La Banque Postale and Banque Populaire Caisse d'Epargne (BPCE), together made up 48% (€15.6 billion) of CNP's premium income in 2018. CNP's distribution capability outside of these two main networks in France is also strong, with premium income of €5.9 billion in 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 savings portfolio originated via the BPCE network has been in run-off mode. CNP no longer books new contracts, but continues to receive new money on existing contracts on its balance sheet. Saving inflows are therefore gradually reducing. We expect this partnership will be extended to 2030 from its initial maturity date in 2022. Creditor term-life business will be booked under a 50/50% co-insurance mechanism starting January 2020. We expect this activity will continue to positively contribute to CNP's profitability. CNP also books high-end life insurance products via BPCE's private bank platform as per the 2016 signing.

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. This is in line with the stated willingness to continue the existing partnership until at least 2036, an additional 11 years compared to the initial maturity in 2025.

CNP's main overseas operation is a JV (Caixa Seguradora) with Caixa Seguridade, the insurance arm of state-owned Brazilian bank Caixa Econômica Federal. CNP predominantly sells creditor protection and pension business in this market and it has increased its presence to become Brazil's third largest insurer. These operations enhance the group's earnings (31% of consolidated EBIT) with materially higher margins, and savings/pension premiums that are almost entirely unit-linked. 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, of which CNP will own 40% (economic rights) and the remainder by Caixa Seguridade. The products sold will include pensions, 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 renewed its partnership with UniCredit for seven years. Initial results show strong underlying commercial dynamics, with premium income going up by nearly 30% year on year in 2018; 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 higher distribution commission costs will reduce as per the agreement's terms. The first-quarter 2019 volumes were down by 21.8% year on year because of the withdrawal of certain tax-advantaged products.

The JV with Santander Consumer Finance comprises CNP's other main European operations. This 20-year partnership consists of exclusive distribution of protection products to Santander's customers in 12 different countries. Growth is robust, with Germany and Poland the JV's main operating markets. This JV contributed 2.3% of the group's EBIT in 2018. Given the nature of the products sold, the business written via this partnership enjoys high margins, and we expect it will provide increasing and recurrent support to the group's 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 (€11.9 billion or 5.3% of technical reserves in 2018). As a result of this discipline, we project its capital adequacy will continue to exceed the capital requirement for the 'AA' confidence level in under our capital model.

In addition, CNP further reinforced its hedging program in 2018 to counter potential declines in equity markets. In February 2019, CNP anticipated its next call dates by issuing 10-year bullet Tier 2 subordinated notes. These notes are not eligible for inclusion in our calculation of CNP's total adjusted capital (TAC) because of their short tenor, as opposed to the notes up for calls. This situation technically reduces CNP's TAC buffer, but doesn't change our view of its capital since we believe it is a one-off transaction.

We continue to factor a 50% dividend payout and net earnings after minority shareholders' interest of about €1.3 billion per year into our capital projections. Furthermore, CNP has announced the price for the renewal of the distribution partnership with Caixa Seguridade, which we believe it can cover without materially weakening its capital adequacy.

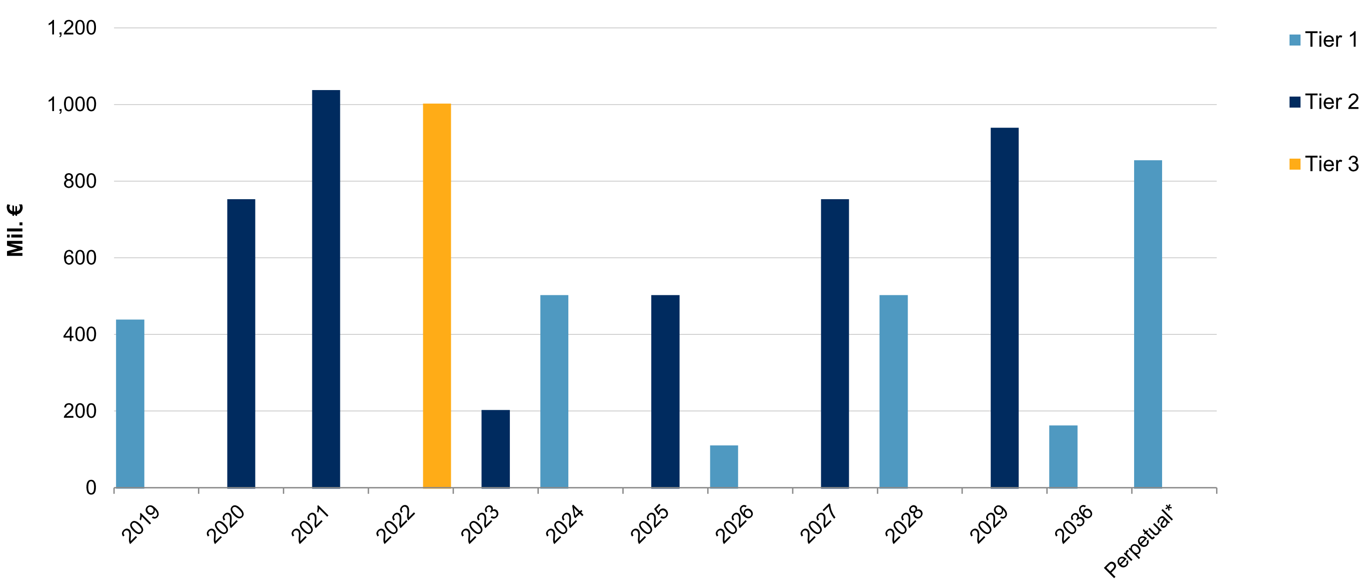
We forecast that CNP's capital requirements will increase at a moderate pace of around 2% annually over the next two years, given the increased share of capital-light product sales and the expected net outflow from traditional savings products. We expect the group will maintain its investment profile. The group has significant holdings in assets that we consider high risk, with equity and real estate investments representing 12% and 3.4% of the investment portfolio, respectively. CNP is a large private-equity investor and leverages opportunities to co-invest with its 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 back book (0.28% as of Dec. 31, 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, and we are confident of CNP's ability to meet 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 2020. 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 rebuild capital. We believe BPCE, La Banque Postale, La Poste, and CDC will remain long-term and supportive investors. We also believe that, in the future, La Poste group will play a leading role as a primary shareholder in case of financial distress at CNP.

Chart 2

CNP Assurances' Breakdown Of Subordinated Debt By Call Date



*Perpetual subordinated debt for which the first call date has already occured. 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 across the group.

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 risk control. We also consider CNP's underwriting risk well managed, given that it assumes full ownership over pricing and product design, and delegates limited authority 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, derisking its balance sheet while maintaining a leading position in the French market and continuing to expand internationally.

CNP's exceptional liquidity benefits from the strength of its available liquidity sources and from historically low lapse rates. CNP has a track record of prefinancing 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

CNP Assurances' Rating Score Snapshot (cont.)	
Financial Strength Rating	**A/Stable/--**
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

- La Poste, April 24, 2019

- La Banque Postale, Dec. 18, 2018
- France-Based Insurer CNP Assurances 'A' Ratings Affirmed; Outlook Stable, Oct. 30, 2018

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

Ratings Detail (As Of June 11, 2019)*	
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.

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