S&P Global Ratings

Research

CNP Assurances

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CNP Assurances

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Low
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Leading position in the French life insurance market and increased penetration of life-protection business.	CNP's ownership is evolving toward a lower-rated group than that of the current shareholder, state-owned fund Caisse des Depots et Consignations (41% stake).
Strengthened capital adequacy above the AA confidence level.	Low margins of traditional savings products in the French market.
Continuity of CNP's business in Brazil following the signing of a new long-term partnership in Brazil.	Capital buffer could weaken following further investments in Latin America and hybrid instrument refinancing with weaker-quality securities.

CNP Assurances holds a prominent position in the French life insurance market, ranking second after Crédit Agricole Assurances. It benefits from profitable joint ventures in Europe and Latin America, which generated 24% of the group's net profit at half-year 2019. CNP Assurances' book of business predominantly comprises capital-intensive savings products, which have relatively low margins. Nevertheless, we have observed a shift in the business mix over the past few years toward life-protection and unit-linked. We expect revenues from life-protection contracts to remain robust.

We expect CNP to maintain its adjusted capital at or above the 'AA' benchmark of our capital model until at least 2021. In our view, the dividend payout will not deviate from the publicly announced range of 40%-50%. In addition, our capital and earning assessment factors in the assumption of further expansion in Brazil in the next two years.

The French government has announced plans to combine CNP with La Banque Postale to form a large public sector-owned financial services hub from the first quarter of 2020. We expect the ongoing support to CNP from Caisse des Depots et Consignations 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.

Outlook: Stable

The outlook is stable because we believe that, over the next 12-24 months, CNP can retain its strong market position and capital and earnings under the upcoming shareholding structure reshuffling, 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 (A/Positive/A-1).

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 if we were to downgrade La Poste.

Upside scenario

We may raise the ratings in the coming two years if we believe CNP will become a core subsidiary of La Poste, or if we anticipated a sustainable 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.

Key Assumptions

- GDP growth in France of 1.3% per year in 2019 and 2020.
- Average 10-year French government bond yields decreasing to -0.43% in 2020 and gradually returning to positive, albeit low, territories in 2021.

Key Metrics

	2020f	2019f	2018	2017	2016
Gross premium written (mil. €)	>33,000	>33,000	32,534	32,460	31,780
Net income* (mil. €)	~1,300	~1,300	1,367	1,285	1,200
Return on shareholders' equity§ (%)	>9	>9	9.3	9.1	9.0
Total invested assets	380,000	380,000	380,896	387,888	384,395
Net investment yield (%)	>2	>2	2.31	2.37	2.35
Financial leverage (%)	~30	~30	29.1	27.9	29.1
EBIT fixed-charge coverage (x)	>8.0	>8.0	9.8	9.0	7.3
S&P Global Ratings capital adequacy	Very strong	Very strong	Very strong	Very strong	Strong

*Excluding minority interests. §Including minority interest. f--S&P Global Ratings forecast.

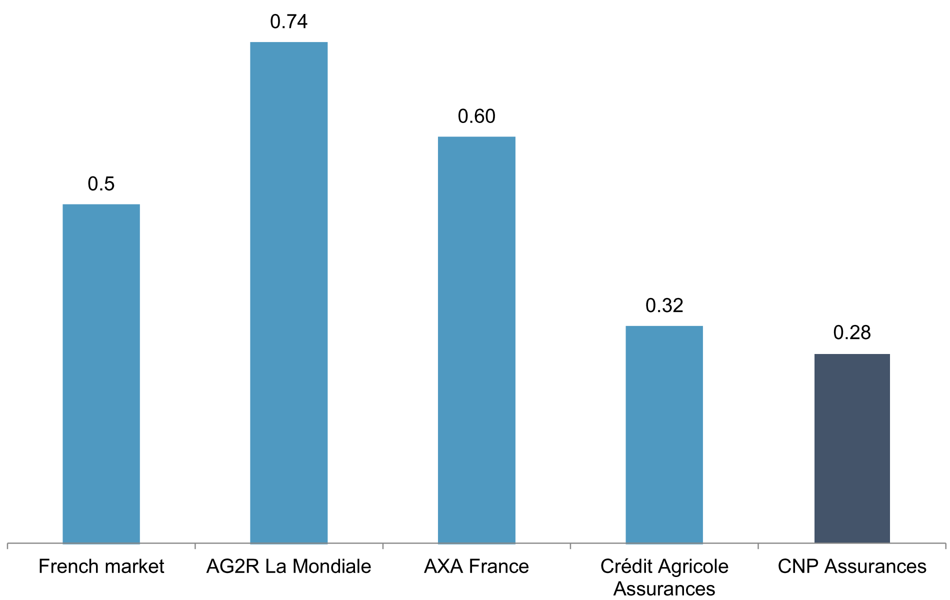
Business Risk Profile: Strong

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

CNP has a very broad product offer, but historically it has predominantly sold traditional savings and 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 product mix toward life-protection and unit-linked. In the first half of 2019, the protection activities generated 55% of the group's total revenue. On the saving side, unit-linked represented 40.7% of group inflows at September 2019, uplifted by foreign operations.

Chart 1

2018 Average Guaranteed Rates (%)
CNP has flexibility to lower bonus rates to policyholders thanks to its very low average guaranteed rate on its traditional saving book.



Source: Companies' financial reports; S&P Global Ratings.

France

CNP's two largest distributors, La Banque Postale and Banque Populaire Caisse d'Epargne (BPCE), together made up 45% (€11.6 billion) of CNP's premium income at September 2019. In the context of the upcoming integration of CNP in La Poste group, the agreement covering CNP's product distribution through La Banque Postale's network will be extended until at least 2036. We expect synergies with La Banque Postale's network, combined with commercial initiatives, to gradually strengthen CNP's positioning in the French life insurance market, also creating value for La Poste group.

On the BPCE front, creditor term-life business will be booked under a 50%/50% co-insurance mechanism starting January 2020, from the current 66%/34% in favour of CNP. The change should not materially affect the top-line, as we expect it will be largely absorbed by growth. Since 2016, the retail savings portfolio that originated via the BPCE network has been in run-off mode. Meanwhile, the distribution agreement with BPCE is set to be extended for another eight years beyond the initial 2022 maturity.

CNP also has strong distribution capability outside of these two main networks in France; premium income went up by 20% to €5.5 billion in the first nine months of 2019. These revenues come from a broad base of agreements with local authorities, French financial institutions, mutual insurers, and Amétis, the group's direct distribution network.

International

Brazil is CNP's main overseas market where it runs a joint venture (JV) with Caixa Seguridade, the insurance arm of state-owned Brazilian bank Caixa Econômica Federal (CEF). CNP predominantly sells creditor protection and pension business via the CEF bank network, under a distribution agreement due to expire in February 2021. The JV (Caixa Seguradora) has increased its presence over the years to become Brazil's third largest insurer. These operations enhance CNP's earnings (20% of net earnings) with materially higher margins, and savings/pension premiums that are almost entirely unit-linked.

On Sept. 20, 2019, CNP and Caixa Seguridade announced the completion of their negotiations regarding the new, exclusive distribution agreement in the CEF network, which will be in force from February 2021 (subject to regulatory approval). The upfront cost amounts to Brazilian real (R$) 7 billion (€1.57 million), and the duration is set at 25 years. Although some terms are less favorable to CNP (such as reduced economic rights in the JV and a reduced product perimeter), we believe growth potential and profitability of the secured products offering will support CNP's credit quality. We also believe that CNP has appetite to seize opportunities on the Brazilian market, leveraging its long-dated local expertise. In particular, other business lines sold under the current agreement may be subject to an auction in which CNP could participate.

On Jan. 1, 2018, CNP renewed its partnership with UniCredit for seven years. 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 nine months of 2019 volumes were down by 20% year on year, because of the withdrawal of certain tax-advantaged products.

In 2017, CNP Assurance launched a high-end saving business in Luxembourg under an open-architecture model. Volumes are unit-linked focused and fast growing, representing already 8.5% of foreign savings and pensions premiums at September 2019.

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.

Financial Risk Profile: Strong

CNP's strengthening 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 (€12.7 billion or 5.6% of technical reserves at June 2019). We project capital adequacy will continue to exceed the capital requirement for the 'AA' confidence level under our capital model.

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 it can cover without materially weakening its capital adequacy.

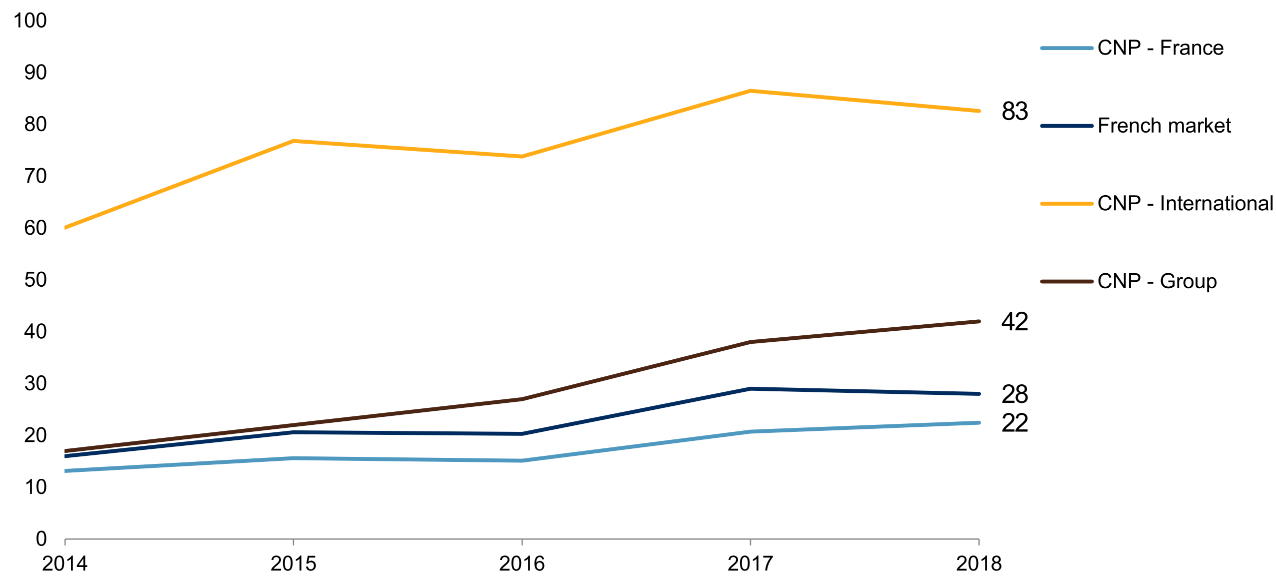
We forecast that CNP's capital requirements will increase at a moderate pace over the next two years, given the increased share of capital-light product sales and the continuous net outflow from traditional savings products. We expect the group will broadly maintain its investment profile. The group has significant holdings in assets that we consider high risk, with equity and real estate investments representing 9.4% and 2.6% of the investment portfolio, respectively. We anticipate that the exposure to equity investments will decrease at year-end 2019 as part of management actions to recover the Solvency II ratio. The latter lost 18 points in the first six months of 2019 to 169%, and another eight points in the third quarter of 2019 due to the low interest rate environment. It should be noted that the 161% published at third-quarter results includes the impact of the upfront renewal cost of the agreement with Caixa Seguridade in Brazil ($7 billion; equivalent to € 1.57 million, not yet cashed out).

The strong capital and earnings assessment factors in a degree of uncertainty regarding potential call refinancing of outstanding hybrid instruments by securities of lower quality, which would not be eligible in our measure of adjusted capital. We also believe that additional capital cost could arise from further expansion in Brazil.

The group's ability to share investment losses with policyholders, due to low guaranteed rates in the back book (0.24% as of June 30, 2019), and the profit-sharing characteristics of products sold in France, mitigate the relatively risky investment portfolio, in our view (see chart 2).

Chart 2

Unit Linked Sales (%)
CNP's international operations constitute a significant source of profitable capital light products.



Source: CNP Assurances. Federation Francaise de l'Assurance.

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 to be well managed, given that it assumes full ownership over pricing and product design, and delegates limited authority to distribution networks.

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. We believe that CNP will maintain its financial leverage ratios at around 30% and EBIT interest coverage of about 8x-10x through 2021.

Other Key Credit Considerations

Governance

We have not identified any governance-related risks at CNP. In recent years, the group has executed a consistent strategy of preserving capital and derisking its balance sheet, while maintaining a leading position in the French market and continuing to expand internationally. We do not expect the upcoming ownership evolution to disrupt governance stability and question CNP's business model.

Risk management culture has been increasingly significant over recent years, with the definition of a group risk appetite that is now well embedded and cascaded down to business unit risk budgets. CNP has also moved toward a compensation structure that is more risk sensitive and linked to risk-adjusted profitability targets.

Liquidity

CNP's exceptional liquidity benefits from the strength of its available liquidity sources and from historically low lapse rates. It has a track record of prefinancing calls on its hybrids with step-ups, reducing its exposure to confidence-sensitive liabilities.

Group support

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.

We regard CNP as highly strategic to La Poste group. In two successive years, 2011 and 2012, CNP's major shareholders provided direct support by accepting dividends in shares, helping the insurer rebuild capital. In our view, 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.

Ratings Score Snapshot

CNP Assurances' Rating Score Snapshot	
Business Risk Profile	**Strong**
Competitive position	Strong
IICRA	Low risk
Financial Risk Profile	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

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

*This is influenced by our view of CNP's leading position in the French and other core markets. CNP's extension of operations on the profitable Brazilian market is also supportive of the anchor choice.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- French Insurer CNP Assurances' Subordinated Tier 2 Notes Rated 'BBB+, Nov. 20, 2019
- Bulletin: CNP Assurances Moves Closer Toward Securing Position In Brazil, Sept. 24, 2019
- Research Update: CNP Assurances Ratings Affirmed At 'A'; RT1 Instrument Upgraded To 'BBB' Under Revised Criteria; Outlook Stable, July 18, 2019
- Bulletin: CNP Assurances' Shareholder Restructuring Won't Shift Its Business Model, June 6, 2019

Note: The junior subordinated debts rated 'BBB' in the Ratings Detail table (below) are restricted Tier 1 deeply subordinated notes.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of December 18, 2019)*

Operating Company 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+
Related Entities	
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.