



RATING ACTION COMMENTARY

Fitch Rates CNP Assurances IFS 'A+'/Stable

Wed 15 Jul, 2020 - 10:06 ET

Fitch Ratings - Paris - 15 Jul 2020: Fitch Ratings has assigned CNP Assurances SA (CNP) an 'A+' Insurer Financial Strength (IFS) Rating. The Rating Outlook is Stable. A full list of rating actions is below.

KEY RATING DRIVERS

The rating reflects CNP's very strong business profile, strong capitalisation and leverage and a stable record of financial performance. These strengths are partly offset by the insurer's high asset risks compared with peers'.

The rating incorporates Fitch's current assessment of the impact of the COVID-19 pandemic, including its impact on the company's business profile, capitalisation, asset risks and earnings prospects. The Stable Outlook reflects our view that the company's credit fundamentals will remain resilient despite negative pressures on capital and earnings from the pandemic.

We rate CNP based on its standalone credit profile and view ownership as neutral to the rating, with the company able to operate autonomously with a strong standalone franchise. In March 2020 La Banque Postale (LBP; A-/Stable) became CNP's majority shareholder with a 62% stake.

We rank CNP's business profile as 'Favourable' compared with other French insurers', mostly due to the company's extremely strong and well-established franchise in the French life insurance sector. CNP is the third-largest French insurer by premiums (second-largest in life), and ranks highly among the top-10 largest European insurers by assets. In addition, Caixa Seguragora, the company's Brazilian subsidiary, is the third-largest insurer in Brazil, with a market share of 11% at end-2019.

The favourable assessment of CNP's business profile is also underpinned by life, protection and creditor insurance products that are distributed through the widespread branch networks of major banks including LBP and BPCE ('A+'/RWN) in France, Caixa Economica Federal (BB-/Negative) in Brazil and UniCredit (BBB-/Stable) in Italy. We do not expect COVID-19 pressures on its franchise to materially impair the company's business profile.

Our assessment of CNP's capitalisation and leverage supports the IFS Rating. CNP's Prism Factor-Based Model (Prism) score was 'Very Strong' at end-2019, and benefited from the full inclusion of the 'Provision pour Participation aux Benefices' (PPB; French profit-sharing reserves). On a pro-forma basis for Fitch's COVID-19 rating-case assumptions, CNP's Prism score would be at least 'Strong', despite a high exposure to equities.

The new regulation on PPB, effective since December 2019 and which allows French life insurers to account for a large amount of PPB in the Solvency 2 own funds, largely explained the significant increase of CNP's Solvency 2 coverage ratio to 227% in 2019 from 187% in 2018. The ratio remained at a very strong level at end-1Q20 at 218%. Financial debt leverage, as calculated by Fitch, stood at 21% in 2019 and at 22.6% on a pro-forma basis including the June 2020 Tier 2 EUR 750 million issuance, which we view as very strong. This ratio also benefits from the full inclusion of the PPB.

CNP's capital metrics are vulnerable to low interest rates, despite a reasonably well-managed duration gap between assets and liabilities. Furthermore, over 50% of CNP's total available capital as measured by Prism comprised PPB, subordinated debt and value of in-force business, which are of lower quality than paid-up capital. These factors constrain our view of CNP's capitalisation to some extent.

Asset risks are high for the rating, with a risky assets ratio of 137% at end-2019, due to a higher exposure to equity-like investments than peers'. This is mitigated by the company's ability to share investment losses with policyholders, and equity hedging strategy. These mitigating factors make CNP's capital position

and earnings profile fairly resilient to equity-market volatility, although sensitivity to low interest rates persists.

CNP has a stable record of profitability, which supports the rating, although its return on equity (ROE) remained at a level that was more in line with the lower-end of the 'a' rating category at 7.6% in 2019. The COVID-19 pandemic has created uncertainty around the company's earnings in 2020 and 2021, amid the potential impact of solidarity measures and lower business volumes in France, but these risks are common to other French insurers. However, CNP is exposed to heightened volatility and economic turbulence in Brazil, which is CNP's rapidly-growing market for growth and earnings.

Fixed-charge coverage was in line with the rating at 8.7x in 2019. However, this score is vulnerable to pandemic-related earnings weakness in 2020. As an established frequent issuer, CNP's financial flexibility is very strong.

RATING SENSITIVITIES

The rating remains sensitive to a material change in Fitch's rating-case assumptions with respect to the COVID-19 pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic and the pace with which new information is made available on the medical aspects of the outbreak.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A material positive change in Fitch's rating assumptions with respect to the COVID-19 impact;

--CNP's Prism score remaining in the 'Very Strong' category for a sustained period;

--ROE increasing to above 9% on a sustained basis.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material adverse change in Fitch's rating assumptions with respect to the COVID-19 impact;

--CNP's Prism score deteriorating to the 'Strong' category with limited prospects for recovery, or financial leverage ratio deteriorating to above 32% on a sustained basis;

--ROE decreasing to below 5% for a sustained period.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [\[https://www.fitchratings.com/site/re/10111579\]](https://www.fitchratings.com/site/re/10111579)

DATE OF RELEVANT COMMITTEE

25 June 2020

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING		
CNP	Ins	A+ Rating Outlook Stable	New Rating
Assurances SA	Fin		
	Str		

[VIEW ADDITIONAL RATING DETAILS](#)

FITCH RATINGS ANALYSTS

Stephane Vago

Associate Director

Primary Rating Analyst

+33 1 44 29 91 88

Fitch Ratings Ireland Limited 60 rue de Monceau Paris 75008

Manuel Arrive, CFA

Director

Secondary Rating Analyst

+33 1 44 29 91 77

Willem Loots, FIA

Senior Director

Committee Chairperson

+44 20 3530 1808

MEDIA CONTACTS

Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on www.fitchratings.com

APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

ADDITIONAL DISCLOSURES

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CNP Assurances SA -

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