

## CREDIT OPINION

28 January 2021

Update

✓ Rate this Research

### RATINGS

#### CNP Assurances

Domicile	PARIS-FR, France
Long Term Rating	A1
Type	Insurance Financial Strength - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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## CNP Assurances

### Semi-annual update

#### Summary

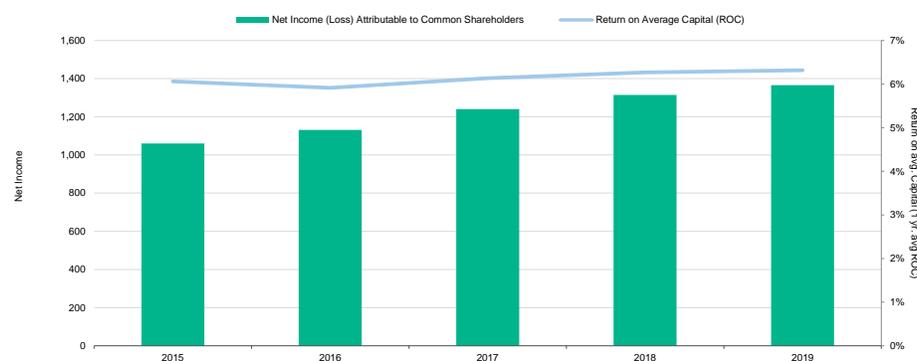
CNP Assurances (CNP)'s credit profile is supported by (1) the group's very strong market position in the French life insurance market, (2) a low liability risk profile thanks to a low average guaranteed rate on traditional savings products, (3) a very stable level of profitability, as well as (4) a good financial flexibility, in part owing to [Caisse des Dépôts et Consignations](#) (CDC, Aa2 stable), that has remained a key indirect shareholder within the new shareholding structure from March 2020.

These strengths are partly offset by a reliance on third-party distribution and concentration on a small number of distributors, namely large banking networks. The level of risky assets on CNP's balance sheet is also high, although the participating nature of French traditional guaranteed products strongly mitigates asset risk.

CNP also faces the challenge of reorienting its business mix in a context of very low interest rates, for example by selling more unit-linked products and protection products. CNP's exposure to interest rate risk is mostly evidenced by recent decline in its Solvency II ratio.

#### Exhibit 1

#### Net Income and Return on Capital



Sources: Company reports, Moody's Investors Service

On March 2020, CDC and the French government (Aa2 stable) transferred their stakes in CNP to La Poste (the French post office) which subsequently transferred them to its bank subsidiary La Banque Postale (unrated). In the new ownership structure, La Banque Postale is now CNP's majority shareholder with a stake of 62.8% while CDC is left with a controlling stake in La Poste and will therefore remain a key indirect shareholder of CNP.

### Credit strengths

- » Very strong market position in the French life insurance market, with a market share of 11% and a relative market share of around 2.0x
- » A low liability risk profile thanks to a low average guaranteed rate (0.21% in France as at 30 June 2020) on traditional savings business (77% of CNP's net average technical reserves)
- » Very stable profitability as profits are mostly made of technical results and of fee-based earnings on long duration liabilities
- » Good financial flexibility, in part supported by, [Caisse des Dépôts et Consignations](#) which maintains a significant indirect ownership within the new shareholding structure

### Credit challenges

- » Distribution strategy concentrated on a small number of large banking networks, which results in a low control of the distribution
- » Relatively high proportion of equities and real estate in the investments portfolio
- » Balance sheet still dominated by traditional savings business and necessity to reorient the business towards unit-linked and protection business in a context of increased competition in these segments and of a sharp decline in interest rates

### Rating outlook

The outlook is stable, reflecting the long-term nature of the agreements that CNP signed with its distributors and our expectation that profitability in the next 12-18 months will not be significantly affected by continued low interest rates or by the [new agreement](#) signed with [Caixa Economica Federal](#) in Brazil. At this stage, we also expect the coronavirus outbreak and its impact on financial markets to have a moderate impact on CNP's financial profile, notwithstanding the negative impact of low interest rates on the group's solvency ratio.

### Factors that could lead to an upgrade

- » Material improvement in geographic, business and distribution diversification
- » Decrease in high risk assets and improvements in capitalisation, as evidenced by a Solvency II ratio sustainably above 200% (adjusted for deferred profit sharing reserve), with low volatility risk

### Factors that could lead to a downgrade

- » Loss of a significant distribution agreement, which would materially affect CNP's franchise and financial metrics
- » Prolonged decline in profitability with a return on capital below 5% resulting, for example, from the group's inability to grow profitably protection and unit-linked business to offset the expected gradual decline in earnings generated by the traditional savings business in a low interest rate environment
- » Reduced capitalization resulting, for example, in a Solvency II ratio consistently below 160% (adjusted for deferred profit sharing reserve)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

- » Increased adjusted financial leverage to above 30% and reduced earnings coverage to below 5x, or a material change in CNP's shareholders structure which would result in a reduced financial flexibility

## Key indicators

### CNP Assurances

CNP Assurances [1][2]	2019	2018	2017	2016	2015
<b>As Reported (Euro Millions)</b>					
Total Assets	440,366	415,524	423,298	419,130	393,732
Total Shareholders' Equity	21,188	19,521	20,023	19,297	18,571
Net Income (Loss) Attributable to Common Shareholders	1,412	1,367	1,285	1,200	1,131
Total Revenue	48,714	38,636	45,125	42,475	43,699
<b>Moody's Adjusted Ratios</b>					
High Risk Assets % Shareholders' Equity	356.5%	366.6%	385.6%	357.2%	704.7%
Goodwill & Intangibles % Shareholders' Equity	13.1%	14.2%	14.2%	13.9%	12.9%
Shareholders' Equity % Total Assets	2.8%	2.7%	2.7%	2.7%	1.2%
Return on Average Capital (ROC)	6.3%	6.3%	6.1%	5.9%	6.1%
Sharpe Ratio of ROC (5 yr.)	3743.5%	2525.6%	1860.1%	1494.7%	NA
Adjusted Financial Leverage	26.3%	24.7%	24.7%	24.7%	23.8%
Total Leverage	31.2%	30.6%	30.3%	30.6%	30.7%
Earnings Coverage	8.4x	8.1x	8.3x	7.0x	7.2x
Cash Flow Coverage	NA	NA	NA	NA	NA

[1]Information based on IFRS financial statements as of the fiscal year ended 31 December. [2]Certain items may have been relabeled and/or reclassified for global consistency.  
Sources: Moody's Investors Service and company filings

## Profile

CNP is the second largest French life insurer primarily selling life insurance savings and protection products through the networks of La Banque Postale and of [BPCE](#) (A1 stable, baa1). The group also operates in Brazil where it has a joint venture with [Caixa Economica Federal](#) (Ba2 stable, ba3), one of the largest banks in the country.

CNP is a public company with a 21.05% free float. La Banque Postale is the majority shareholder with a stake of 62.84%. [BPCE](#) owns 16.11%.

## Recent developments

[The coronavirus outbreak](#) has created a severe and extensive credit shock across many sectors and has had a negative impact on the asset quality, capital and underwriting of insurers.

In 9M 2020, CNP reported a net outflow of €4.8 billion for its French savings and pension business driven by outflows on traditional savings products (negative €5.7 billion net flow) only partly offset by inflows on unit-linked contracts (positive €0.9 billion) impacted by the fall in equity market.

Outflows will have very limited impacts on the group's profits. Nonetheless, they illustrate CNP's challenge in increasing unit-linked sales in France and in transforming its business toward a less interest rate sensitive product portfolio.

CNP's profitability will also be affected by a number of exceptional payments in 2020 such as extra contractual payments to support financially vulnerable policyholders and childcare costs (estimated negative impact on profitability of €50 million) as well as contribution to the solidarity fund set up by the government (€25 million). Finally, CNP's investment income will also decline given the drop in interest rates and lower dividends received on the equity portfolio.

## Detailed credit considerations

### Distribution through large banking networks supports market position but limits distribution control

**Market position: expected decline in market shares, but still a very strong position in the French market**

CNP is the number two life insurer in France with around 11% market share and the number three life insurer in Brazil, benefitting from exclusive distribution agreements with some of the largest banks in these two countries.

We estimate CNP's relative market share at a very strong 2x in France, although declining. We expect CNP's market position to continue to decline over the next three to five years as a result of the termination of sale of insurance savings products through [BPCE](#) networks since the end of 2016 and of term creditor insurance through [Crédit Agricole S.A.](#) (Aa3 stable, a3) since 2018. Nonetheless, the decline in market share will be gradual as CNP continues to receive premiums on existing business and benefits from a wider access to BPCE network to sell protection products. CNP also continues to sell savings products through La Banque Postale and is developing partnerships with other distributors.

**Distribution: reliant on third party but long-term agreements with large banking network are secured**

CNP's access to very large banking networks is positive for the group's market position but we also consider the concentrated distribution strategy on a few third-party banking partners as the group's main credit challenge. In the first half of 2020, 42% of the group's premiums were sourced from BPCE and La Banque Postale's networks in France, and 19% from Caixa Economica Federal's networks in Brazil.

Positively, CNP has secured long-term agreements with its banking distributors. The agreement with La Banque Postale will run until 2036 and the absorption of CNP into La Poste group virtually eliminates the risk of non renewal of this distribution deal. Additionally, BPCE announced its intention to [extend its distribution agreement with CNP Assurances until December 2030 from December 2022](#).

A new agreement with [Caixa Economica Federal](#) has been signed in 2019 and closed in December 2020. Although the new agreement includes the creation of new joint-venture and a reduction of CNP's economic rights in the Brazilian business to be underwritten through the Brazilian bank, it enables CNP to secure a distribution agreement with the Brazilian bank until 2046 on a significant part of the previous activities.

CNP is also diversifying its distribution strategy by developing partnerships with other banks in Europe (e.g., UniCredit in Italy, Santander Consumer Finance in several European countries), but also with mutual and provident associations. CNP is also developing business through direct distribution and its salaried sales force. Non-banking distribution represents around 15% of the group's premiums and we expect this percentage to grow but most likely at a slow pace.

**Low risk product is a key credit strength**

**Product risk: low average guaranteed rate on traditional savings products and a growing focus on unit-linked and protection business**

CNP's balance sheet is dominated by French insurance savings and pension products (79% of CNP's net technical reserves), which we consider as low risk given the low level of guarantees that CNP granted to policyholders. The average guaranteed rate in the French business (which represents most of CNP's guaranteed business) is only 0.21% (as at 30 June 2020), one of the lowest level within European life insurers.

In addition, French guaranteed products are participating products. CNP shares a high portion (at least 85%) of investments results with policyholders and has some flexibility to smooth the returns credited to policyholders over time. These features bring stability in the credit profile of CNP and drive our assessment of asset quality, profitability and capital adequacy, as described below.

In order to reduce its exposure to interest rate risk, CNP has been limiting the underwriting of traditional savings products and increasingly focusing new business sales on unit-linked products, on which the insurers bears limited investment risk. However, the fall in equity market in the first nine months of 2020, caused by the coronavirus outbreak, and lockdown measures, had an adverse effect on unit-linked sales. Sales of unit-linked premiums in France decreased by 24% compared to 9M 2019. Volatility in financial markets may continue to hinder the development of unit-linked products in the coming months.

At the same time, CNP is active in transferring existing policyholders from pure guaranteed products to other products with a minimum portion of unit-linked. These transfers will contribute to gradually improve the group's risk profile.

CNP also increasingly sells protection products, mostly term creditor products, which Moody's also considers as low risk.

**Some financial metrics in the low end of expectations for the rating level, but a very stable financial profile**

**Asset quality: relatively high level of equities and real estate, mitigated by ability to share asset losses with policyholders**

High risk assets (namely equities, real estate and below investment grade or non-rated bonds) represented 357% of CNP's shareholders' equity as of year-end 2019. This ratio is high for a A-rated insurer.

Nonetheless, CNP has implemented hedges on part of its equity portfolio (€12.3 billion nominal hedged as at 30 June 2020) and, because of the participating nature of French guaranteed products, has a high ability to pass on asset losses to policyholders in stress scenarios. Ability to share losses with policyholders mainly stems from the high level of unrealized gains on CNP's equity and real estate portfolio and from the difference between CNP's investment return and the average level of guaranteed rate. When considering these mitigants, CNP's exposure to high risk assets is more in line with CNP's rating level.

#### **Capital adequacy: declining Solvency II ratio because of low interest rates**

As of 31 December 2019, CNP reported a Solvency II ratio of 227%, up from 187% in 31 December 2018. Nonetheless, this increase was mostly driven by a legal change in December 2019 according to which [French insurers now include a significant portion of their deferred profit sharing reserves in insurers' regulatory own funds](#). The inclusion of the deferred profit sharing reserves accounted for a significant portion of the increase in CNP's solvency ratio (60 percentage points) partly offset by a decrease in interest rates during 2019.

As of 30 September 2020, CNP's Solvency II ratio decreased further to 203%. Unfavorable market condition, notably low interest rates and the fall of stock prices, resulted in a decrease of 37 percentage points. The decrease was partly offset by remeasurement of deferred profit sharing reserves (positive 10 ppts) and capital generation net of dividends (3 ppts). Therefore, excluding the inclusion of the deferred profit sharing reserves, CNP's ratio would have dropped by around 50 ppts between 31 December 2018 and 30 September 2019.

More positively the recovery of equity markets at the end of 2020 should have a positive impact on CNP's solvency ratio. In addition, we acknowledge that CNP's ratio includes some conservatism. For example, the 2020 dividend which has not been paid at this stage remains fully deducted from the current own funds.

We consider CNP's Solvency II ratio, excluding the deferred profit sharing reserve from own funds, to be a broadly adequate measure of CNP's economic capital (CNP does not use transitional measures or equivalence to calculate its ratio). This ratio takes into account the low risk nature of the products sold by CNP and the group's ability to share losses with policyholders. The ultimate forward rate (UFR) also has a limited impact on the group's ratio (a reduction of the UFR by 50 bps reduces CNP's ratio by 5ppts).

We believe the sensitivity of CNP's financial market condition is largely driven by the weight of future profits included in CNP's Tier 1 capital, which is common for life insurance groups and is technically resulting from the large duration gap of the group (see below).

The level of solvency reached as at 30 September is below our expectations for CNP's rating level. At the same time, the risk of CNP not being able to meet its interest rate guarantees remains very low in the medium term. We also take into account the capital management policy of the company in our analysis of capital. The low duration of the assets and the stock of discretionary deferred policyholders' participation reserves enable the group to facilitate policy transfers from one product to another. The shift in business profile that the group is driving through these actions, as well as through changes in new business mix, should contribute to improve CNP's solvency ratio, although the pace of these changes remains uncertain at this stage.

#### **Profitability: consolidated ratios boosted by Brazilian business, but long-duration and low risk liabilities provide with a very low volatility**

CNP's consolidated profitability metrics (return on capital of 6.3% in 2019, 6.1% on a five-year average) are good. These metrics include 100% of the profits generated by its operations in Brazil that it controls only at 51.75%. When taking into account only the stake of CNP in its Brazilian business and other businesses, we estimate CNP's return on capital to be closer to 5%. However, the new distribution agreement in Brazil will result in reduced profits for CNP, all else being equal, both because of a lower stake in the future Brazilian business, and because the new distribution agreement would cover a reduced perimeter.

Positively, the volatility of CNP's profitability is very low, as evidenced by an excellent Sharpe ratio of return on capital of 3,744% in 2019. This partly reflects the participating nature of French life savings products together with their long duration. Given the low level of guarantees granted to policyholders, CNP will be able to largely protect its profitability even in a persistently low interest rates by passing most of the decline in investment returns to policyholders. Most of CNP's profits in the savings business are generated by fees taken out from policyholders' reserves.

Nonetheless, we expect the profitability of traditional guaranteed products to erode gradually because of the net outflows on these products (negative €3.0 billion in 2019 in France, equivalent to 0.9% of total reserves, negative €5.7 billion in 9M 2020) and because

of low interest rates. CNP faces the challenge of reorienting its business mix to unit-linked products and protection products. In 2019, CNP has well initiated this transition, as evidenced by the growth in unit-linked premiums and reserves (CNP reported a positive €3.2 billion of net flows on unit-linked policies in France in 2019). However in the first nine months of 2020, unit-linked business in France was affected by the fall of equity market and lockdown measures which resulted in a limited inflow of €0.9 billion. The volume of guaranteed products fell more significantly though.

CNP also aims at increasing earnings contribution from protection products, which represented 41% of the group's profits before interest and tax including own funds portfolio in 2019.

#### Liquidity & ALM: risk of sharp increase in interest rates well managed

CNP's liquidity is good, as shown by the high ratio of liquid assets over liquid liabilities (2.5x as of year-end 2019).

One of the main financial risks that CNP faces is that of a sharp increase in interest rates, which would depress the value of CNP's fixed income assets and would likely also result in an increase in surrender rates on guaranteed savings products. However, CNP has implemented hedges to partly protect its asset portfolio from this risk, which mitigates this risk. A sharp increase in surrenders would nonetheless reduce the volume of fees that CNP can take out from savings policies and affect CNP's recurring earnings.

In addition, CNP has a high stock of deferred profit sharing reserves that it can use to improve policyholders' credited rates and retain customers.

The surrender risk is also partly covered by a low duration of assets (with a weighted average life of bonds at around 5 years in France) compared to the duration of liabilities.

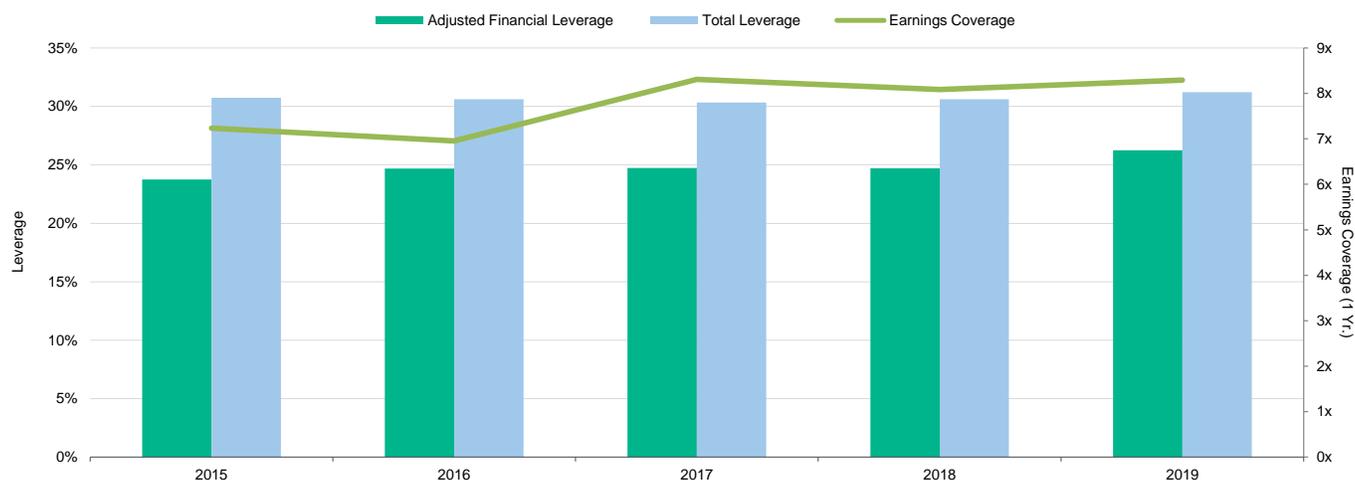
This however exposes CNP Assurances to some reinvestment risk. We consider this reinvestment risk to be limited given the low average guaranteed rate on traditional savings business. Nonetheless, low interest rates pose a long-term profitability risk for CNP, and also negatively impact the group's regulatory Solvency II ratio.

#### Financial flexibility: strong shareholder contributes to a good access to capital

CNP's leverage metrics (26.3% adjusted financial leverage and 31.2% total leverage as of year-end 2019) are consistent with a strong credit profile. The group's earnings coverage, at 8.3x in 2019 includes 100% of the profits of CNP's Brazilian operations, while only 51.75% of these earnings are effectively available for the holding. When adjusted for this, earnings coverage would be at around 7.0x, which is more in line with an A credit profile. The earnings coverage could go down following the new agreement signed with [Caixa Economica Federal](#), but to a limited extent as the business in Brazil continues to grow.

Exhibit 3

#### Financial Flexibility



Sources: Company reports and Moody's Investors Service

In 2020, CNP issued a €750 million Tier 2 notes in June and a €500 million Tier 3 notes in December. Following these issuances, we estimate that adjusted financial leverage ratio on a pro-forma basis would increase by around 2 to 3 percentage points, which will remain in line with our expectations for CNP's rating level.

We do not consider that the change in CNP's ownership has had a negative impact on the group's financial flexibility. Although [Caisse des Dépôts et Consignations](#) (CDC) is no longer a direct shareholder, it maintains a significant indirect stake via its ownership in La Poste, and, as a result, it continues to enhance the insurer's financial flexibility. Furthermore, CDC's indirect control over CNP has increased because it now has a controlling stake in La Poste, which itself has a controlling stake in CNP through La Banque Postale.

## ESG considerations

### Environment

Environmental risks are not material rating drivers for CNP. The group integrates environmental consideration into investment processes (exclusion of some sectors and introduction of carbon footprint metrics in portfolio evaluation).

### Social

CNP, as a life insurer, faces social risks through the handling of customer information. Changing demographics, and the impact of changing consumer preferences on distribution channels may also have business growth implications, but CNP mitigates these risks through an increasing level of business diversification.

### Governance

Like all other corporate credits, the credit quality of CNP is influenced by a wide range of governance-related issues, relating to financial, managerial, ownership or other factors, all of which can be exacerbated by regulatory oversight and intervention.

La Banque Postale, and ultimately CDC, are the majority shareholder of CNP. Nonetheless, CNP will remain a listed company and BPCE has also expressed its intention to remain a long-term shareholder in CNP, hence forming natural checks and balances in CNP's corporate governance.

## Rating methodology and scorecard factors

Exhibit 4

### CNP Assurances

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								A	A
<b>Market Position and Brand (15%)</b>								Aa	Aa
-Relative Market Share Ratio		X							
<b>Distribution (10%)</b>								A	A
-Distribution Control			X						
-Diversity of Distribution			X						
<b>Product Focus and Diversification (10%)</b>								A	A
-Product Risk			X						
-Life Insurance Product Diversification			X						
Financial Profile								A	A
<b>Asset Quality (10%)</b>								B	A
-High Risk Assets % Shareholders' Equity							X		
-Goodwill & Intangibles % Shareholders' Equity	X								
<b>Capital Adequacy (15%)</b>								Ba	A
-Shareholders' Equity % Total Assets					X				
<b>Profitability (15%)</b>								Aa	A
-Return on Capital (5 yr. avg.)			X						
-Sharpe Ratio of ROC (5 yr.)	X								
<b>Liquidity and Asset/Liability Management (10%)</b>								Aa	Aa
-Liquid Assets % Liquid Liabilities		X							
<b>Financial Flexibility (15%)</b>								Aa	A
-Adjusted Financial Leverage		26.3%							
-Total Leverage			31.2%						
-Earnings Coverage (5 yr. avg.)			X						
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A2	A1

[1] Information based on IFRS financial statements as of fiscal year ended December 31, 2019. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

## Notching considerations

The A3(hyb) ratings on CNP's subordinated debt instruments are rated two notches below CNP's IFSR, in line with our standard notching practice for operating companies.

## Ratings

Exhibit 5

<u>Category</u>	<u>Moody's Rating</u>
<b>CNP ASSURANCES</b>	
Rating Outlook	STA
Insurance Financial Strength	A1
Subordinate	A3 (hyb)

Source: Moody's Investors Service

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