Research Update:

France-Based Caisse Centrale de Reassurance 'AA' Ratings Affirmed On Revised Capital Model Criteria; Outlook Negative

May 28, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- Based on our new criteria, Caisse Centrale de Reassurance's (CCR's) capital adequacy remains excellent.
- We therefore affirmed our 'AA' ratings on CCR.
- The negative outlook mirrors that on France, which itself reflects our expectation that the company will maintain its critical role for and integral link with the French government over at least the next two years.

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Rating Action

On May 28, 2024, S&P Global Ratings affirmed its 'AA' long-term issuer credit and insurer financial strength ratings on government-backed French reinsurer Caisse Centrale de Reassurance (CCR). The outlook is negative.

Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any rating changes because CCR's capital adequacy remains excellent, supported by its conservative investment strategy and the gain on the sale of CCR Re.
- We've captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
Capitalization that we expect to remain well above 99.99% as per our risk-based capital model.	Exposure to high-severity natural catastrophe risks having a significant impact on earnings and profitability.
Backing from a French government guarantee, and the entity's role as the sole provider of unlimited reinsurance coverage for natural catastrophe risks in France.	Limited business diversification, which could lead to earnings volatility.
Incoming changes to the government-determined natural catastrophe scheme, which will increase the natural catastrophe premium rate to 20% from 12% and boost premium growth.	

Outlook

The negative outlook on CCR mirrors that on France. It also reflects our expectation that the company will maintain its critical role for and integral link with the French government over at least the next two years.

Downside scenario

We could lower our rating over the next 12-24 months if we were to lower that on France. Although unlikely, any indication of a weakening of the company's critical role or integral link with the French government might also prompt us to consider lowering the long-term rating on CCR, potentially by several notches.

Upside scenario

We could revise the outlook on CCR to stable if we take a similar action on France and our view on the insurer's critical role for and integral link with the French government is unchanged.

Rationale

CCR is a French public reinsurer with a state guarantee offering unlimited coverage for sectors specific to the French market, and in particular natural disasters. It mainly differs from other private reinsurers because its business model relies on a government-determined program to formalize the policy terms. CCR commands a market share of about 95% in the domestic natural catastrophe reinsurance market and is the lone provider of unlimited insurance coverage against natural catastrophes (droughts, floods, and earthquakes; and windstorms in overseas territories), nuclear, and terrorism-related risks in France.

Despite increasing natural catastrophes and an especially perilous 2022, CCR has shown stable net income growth but varying profitability depending on the severity of natural events, with a five-year average combined (loss and expense) ratio of 112.7% (this includes CCR Re information up to Dec. 31, 2022).

At Dec. 31, 2023, the insurer registered total gross written premiums of about €1.2 billion, up about 14% year on year.

Although CCR is exposed to the highly volatile natural catastrophe insurance business, the unlimited state guarantee mechanism ensures the insurer's solvency. We expect CCR to maintain its capitalization above our highest stress level of 99.99% capital adequacy as per our risk-based capital model and minimal financial debt. This excellent capitalization is supported by the recent gain from the sale of CCR Re and overlay used to protect CCR's investment portfolio from any volatility in the financial markets.

Our assessment of CCR's liquidity as exceptional reflects the insurer's liquid investment portfolio and its high credit quality (average rating of 'AA' at year-end 2023). Over 70% of invested assets are in fixed-income products while 10% are in equities. Moreover, we positively consider the use of an overlay protection, which mitigates market volatility on the investment portfolio.

Over the next three accounting years, we forecast significantly increased premium growth (over 60% in 2025 followed by about 5% the following year) due to the change in the natural catastrophe regime additional premium as dictated by the French government. For this reason, we expect a significant target capital growth rate of about 8% in 2025, then 7% a year afterward and an increased net income of about €350 million in 2025. This leads to an unchanged 99.99% capital position over our forecast period until year-end 2026.

Ratings Score Snapshot

Financial strength rating	AA/Negative/--
Anchor*	a
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Excellent
Risk exposure	High
Funding structure	Neutral
Modifiers	0
Governance	0
Liquidity	Adequate
Comparable ratings analysis	0
Support	3
Group support	0
Government support	3

*CCR's unique position in the market and capacity to generate strong earnings through the cycle influence our choice of the 'a' anchor for its stand-alone credit risk profile.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
Caisse Centrale de Reassurance	
Issuer Credit Rating	
Local Currency	AA/Negative/--
Financial Strength Rating	
Local Currency	AA/Negative/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.