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Caisse Centrale de Reassurance

Primary Credit Analyst:
Olivier J Karusisi, London (44) 20-7176-7248; olivier.karusisi@spglobal.com

Secondary Contacts:
Dennis P Sugrue, London (44) 20-7176-7056; dennis.sugrue@spglobal.com
Marie-France Raynaud, Paris (33) 1-4420-6754; marie-france.raynaud@spglobal.com

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Caisse Centrale de Reassurance

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	+ Modifiers	0	= a		+ 3		= Financial Strength Rating
Business Risk	Strong	ERM and Management	0	Liquidity	0	Group Support	0	AA/Stable/--
Financial Risk	Strong	Holistic Analysis	0	Sovereign Risk	0	Gov't Support	3	

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

Likelihood Of Extraordinary Government Support

S&P Global Ratings equalizes its long-term rating on French state-owned reinsurer Caisse Centrale de Réassurance (CCR) with our long-term sovereign rating on the Republic of France (unsolicited AA/Stable/A-1+). This is because, based on our view of CCR's critical role for and integral link with the French government, we consider that there is an almost certain likelihood that the government would provide timely and sufficient extraordinary support to CCR in the event of financial distress.

Furthermore, we consider that the French government's limited level of contingent liabilities does not constrain its capacity and willingness to support CCR in a timely manner if it is in financial distress. More generally, we do not consider the government's general propensity to support the GRE sector to be doubtful.

According to our criteria for GREs, our assessment of the almost certain likelihood of extraordinary government support, as defined in our criteria, is based on CCR's:

- Critical role for the French government, which, under the renewed 2017 Convention, has given the company a mandate to provide unique and unlimited reinsurance coverage of natural catastrophe risks in France. CCR also insures exceptional risks such as terrorism and nuclear events, and can act with a government mandate when there is a cover shortage in the market; and
- Integral link with the government, reflecting the state's 100% ownership of CCR, and its strong supervision and close monitoring of the company.

CCR's government-guaranteed businesses are stated by law (Insurance Code, Art. 431) and include natural catastrophes and nuclear, terrorism, and other exceptional risks. The details of the law's implementation are reaffirmed in a new agreement between the government and the company, signed in 2017. The government has to provide financial assistance to CCR when claims in one accounting year exceed the threshold of 90% of the equalization and special reserve built up for this type of business.

CCR benefits from France's credit-evaluative system under which the government does not need parliamentary

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approval to provide financial assistance for CCR's guaranteed business, and there is no limit to the amount of support.

CCR Re, a subsidiary of CCR group that writes traditional reinsurance, does not benefit from any guarantee from the French government. Consequently, we derive our rating on CCR Re from our unsupported group credit profile (GCP) for CCR group. Because we view CCR Re as a highly strategic subsidiary to CCR group, its full owner, we assess CCR Re's credit risk profile at 'a-'. Our stable outlook on CCR Re reflects the stable outlook on CCR.

As a reminder, on Dec. 31, 2016, after receiving all the necessary approvals, the CCR group formally spun off its market reinsurance business, after which CCR Re--a longstanding department within CCR--was incorporated.

Rationale

Business Risk Profile: Strong

- We assess CCR's competitive position as strong, particularly in France, supported by positive operating performance stemming from CCR's public policy role as a provider of unlimited reinsurance coverage for natural catastrophes, while also covering terrorism, space, and nuclear risk in France.
- Conducted by CCR Re, the traditional reinsurance business, which accounts for one-third of group premiums, does not exhibit the same competitive position as the state-backed business and has posted lower profitability than peers and the state-backed business.
- CCR's business risk profile is also supported by its geographic presence in France, where it sources three-quarters of its premiums and which we assess as having low insurance industry and country risk.

Financial Risk Profile: Strong

- Capital and earnings are extremely strong, in our view, taking into account the state guarantee for French natural catastrophe business, which we expect will continue over the next two years.
- The group bears high risk because of its exposure to high-severity, low-frequency risk that could cause higher-than-average volatility in capital and earnings.

Other Factors

- Enterprise risk management (ERM) and management and governance are neutral rating factors. We consider CCR's management and governance to be satisfactory and its ERM to be adequate with strong risk controls, based on a positive risk-management culture.

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Outlook: Negative

The stable outlook on CCR mirrors the stable outlook on France. This reflects our expectation that CCR will continue to maintain its critical role to and integral link with the French government, at least over the next two years.

The stable outlook on CCR Re reflects our view of the stable underlying credit quality of the CCR group before taking into account government support. As long as we continue to view CCR Re as a highly strategic subsidiary, the rating on CCR Re will move in tandem with the unsupported GCP.

Downside scenario

We could lower our ratings on CCR if we were to lower our ratings on France. Although unlikely at this stage, any indication of a weakening of CCR's critical role for or integral link with the French government might prompt us to consider lowering the long-term rating on the company, potentially by several notches. This is even more unlikely after the European Commission decision in September 2016, which confirms that CCR's natural disaster scheme fulfills a key public mission. In addition, the split between CCR and CCR Re brings more transparency and limits risks of further allegations of state aid on the market reinsurance business.

Although unlikely, we could lower our ratings on CCR Re if we observed weakening in group support. This could occur following an unexpected change in the CCR group's strategy.

Upside scenario

We could raise our ratings on CCR if we took a similar action on the sovereign, and we expected that CCR would maintain its critical role for and integral link with the French government.

We could upgrade CCR Re if we revised upward our unsupported GCP for CCR group.

Base-Case Scenario

Macroeconomic Assumptions

- French real GDP growth of 1.4% per year on average in 2017-2019, with debt stabilization supported by gradual recovery, and the government's commitment to budget consolidation.

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Company-Specific Assumptions

- Continuation of the current legal framework supporting CCR's critical role for and integral link with the French government.
- A continuously strong competitive position in the state-backed business in France and generally stable premiums over 2017-2019.
- Stable earnings, with a combined (loss and expense) ratio (the industry's main underwriting profitability metric) of 70%-80% in 2017-2018, assuming average natural catastrophe activity.
- Maintenance of extremely strong capital adequacy.
- A net yield from the investment portfolio of about 2% given the continuing low-interest-rate environment.

Key Metrics

	2018f	2017f	2016	2015	2014
Gross premiums written (mil. €)	1,150-1,250	1,150-1,250	1,315	1,287	1,323
Net income (mil. €)	190-200	190-200§	141*	216	193
Return on shareholders' equity (%)	ca. 10	ca. 10	6.1	10	9.5
P/C net combined ratio (%)	70-80	70-80§	103.5	68.2	69.4
Net investment yield (%)	1.25-1.75	1.5-2.0	1.5	1.5	1.8
S&P Global Ratings capital adequacy	Extremely strong	Extremely strong	Extremely strong	Extremely strong	Extremely strong

f--Forecast. P/C--Property/casualty. *Negative prior to equalization reserves release mechanism following Seine and Loire basins' floods last May. §These projections do not take into account the impact of hurricane Irma as they were perfomed in June 2017.

Company Description

CCR is the state-owned reinsurer in France. The French government has given CCR a mandate to provide unlimited reinsurance cover for natural catastrophe risks (including floods, droughts, earthquakes, and hurricanes) on French territory, backed by a government guarantee stated by law. CCR also covers other exceptional risks, such as nuclear and terrorism risks.

As part of its public mission, CCR also provides reinsurance capacity in other lines of business if there is a permanent or temporary shortage in the French market, as was the case in 2001 for aviation risk after the Sept. 11 terrorist attacks in New York, and in 2008 for credit insurance risk during the global financial crisis. Furthermore, CCR manages specific funds on behalf of the state and on the state's accounts, such as those for agricultural and construction risks. Last but not least, the new convention has promoted CCR as the State Risk Manager, playing a key part in risk analysis and prevention.

Business Risk Profile: Strong, As CCR Plays A Unique Role In The French Reinsurance Market

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Insurance industry and country risk

CCR operates in France, in an environment we view as favorable and where we assess insurance industry and country risk as low. We also factor in our assessment of CCR group's credit profile, including high exposure to natural catastrophe claims. We consider the risks from traditional reinsurance operations, similar to those faced by global reinsurers, given the competitive landscapes of multiple markets worldwide.

Table 1

Caisse Centrale de Reassurance Industry And Country Risk

Insurance sector	IICRA	Business mix (%)
France P/C	Low	68
Global P/C reinsurance	Intermediate	23
Global life reinsurance	Low	9
Overall	Low	100

P/C--Property/casualty.

Competitive position

CCR has a strong competitive position, based on its role and recognition as the only provider of unlimited coverage against windstorm, drought, flood, earthquake, and terrorism risks in France. CCR has a share of about 90% in the French natural catastrophe reinsurance market, supported by the state guarantee. CCR differs from other private reinsurers due to its business model that relies on a government determined program to formalize policy terms. CCR accepts catastrophe business in France on the basis of a national, law-driven natural catastrophe scheme that includes mutualized, uniformly set rates. It therefore has no pricing power or ability to adjust terms and conditions in this regard.

CCR's premium collection for state-backed natural catastrophe business is linked to the French property insurance market. We therefore expect that collection will likely mirror the growth in this market. This provides CCR with a basis for premium income growth and profitable underwriting over the cycle, as its average combined ratio of 75% over the past five years demonstrates. Such profitability over the cycle differentiates CCR from other French insurers and global reinsurers. Stable operating earnings and measured growth back this underwriting performance.

A small portion of CCR's state-backed business (9.4%) is derived from the coverage of space, nuclear, and terrorism risks, partly under the GAREAT ("Gestion de l'Assurance et de la Réassurance des risques Attentats et actes de Terrorisme") pool. We expect the premiums from this segment to stabilize.

In the traditional reinsurance market, CCR group's position is that of a follower due to CCR Re's small scale and marginal market position. CCR's capacity to influence pricing and treaty conditions is therefore very limited. Given the company's historical performance and the continuing soft pricing cycle in this segment, we expect this business will remain a weakness relative to CCR's competitive position and operating performance.

Table 2

Caisse Centrale de Reassurance Competitive Position

	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Gross premiums written	1,315	1,287	1,323	1,256	1,346

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Table 2

Caisse Centrale de Reassurance Competitive Position (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Change in gross premiums written (%)	1.7	(2.7)	5.3	(6.6)	(2.8)
Net premiums written	1,283	1,253	1,281	1,212	1,300
Change in net premiums written (%)	2.4	(2.2)	5.8	(6.8)	(2.8)
Growth in assets under management (%)	0.0	5.4	4.6	0.4	6.6
Reinsurance utilization (%)	2.5	2.7	3.2	3.6	3.4
Business segment (% of GPW)					
Life/health	9.5	7.2	7.5	6.8	7.5
P/C	90.5	92.8	92.5	93.2	92.5

GPW--Gross premium written. P/C--Property/casualty.

Financial Risk Profile: Strong, Thanks To Solid Equalization Reserves Built Over Time And To The French Government's Guarantee

Capital and earnings

CCR's capital and earnings are extremely strong, supported by capital adequacy in the 'AAA' range. Our assessment incorporates the financial support of the French government in the event of extreme natural catastrophe losses.

Capital adequacy has demonstrated strong stability over the past few years, which we consider necessary given the potential for volatility in earnings and capital due to the high exposure to natural catastrophes. We regard the quality of capital as good, given that the majority of CCR's total adjusted capital consists of more permanent forms of capital such as shareholders' funds and equalization reserves.

Table 3

Caisse Centrale de Reassurance Capital					
	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Common equity	2,400	2,186	2,069	1,975	1,863
Change in common equity (%)	9.8	5.6	4.8	6.0	9.7
Total capital (reported)	2,402	2,188	2,072	1,978	1,866
Change in total capital (reported) (%)	9.8	5.6	4.7	6.0	9.7

Table 4

Caisse Centrale de Reassurance Earnings					
	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenues	1,384	1,401	1,407	1,402	1,540
EBIT adjusted	248	383	337	407	396
Net income	141	216	193	210	242
Return on shareholders' equity (reported) (%)	6.1	10.0	9.5	10.9	13.6

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Table 4

Caisse Centrale de Reassurance Earnings (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
P/C: Net expense ratio (%)	14.1	14.7	13.3	10.4	12.0
P/C: Net loss ratio (%)	89.2	53.2	55.7	60.4	52.5
P/C: Net combined ratio (%)	103.5	68.2	69.4	71.0	64.9

P/C--Property/casualty.

Risk position

We consider the company's significant exposure to catastrophe risk, characterized by a low frequency but high severity, to be the main source of potential volatility of earnings and capital. The unlimited coverage for state-backed business that CCR offers exposes its balance sheet to material losses if a 1 in 250 year event were to occur, which is likely to more than exceed CCR's equalization reserves and would trigger financial support from the French government. This would subsequently affect our capital analysis of CCR and thus warrants a high risk position.

We view CCR's investment risk profile as neutral to the rating, with average credit quality in the 'AA' category. About 71% of the assets consist of fixed-income instruments, with 6% invested in equities, 4% in real estate, and 10% in cash and cash equivalents. There are no notable concentration exposures to any sector or obligor, which enhances our view of diversification of investments. In addition, CCR benefits from a closely matched foreign exchange exposure. We do not expect the overall risk profile to change materially in the coming years.

Table 5

Caisse Centrale de Reassurance Risk Position					
	--Year ended Dec. 31--				
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**
Net investment income	126	127	145	166	214
Net investment yield (%)	1.5	1.5	1.8	2.1	2.9
Net investment yield including realized capital gains/(losses) (%)	2.1	2.1	2.3	2.5	4.1
Investment portfolio composition (%)					
Cash and short-term investments	11.1	10.0	7.6	9.0	11.3
Bonds	68.6	70.4	72.4	71.4	71.4
Equity investments	6.1	5.9	7.2	7.5	7.3
Real estate	4.3	3.9	4.2	4.2	4.2
Loans	3.2	3.1	2.2	1.7	0.2
Investments in affiliates	0.1	0.1	0.1	0.3	0.3
Other investments	6.6	6.6	6.3	5.9	5.2

Financial flexibility

We consider CCR's financial flexibility to be adequate, reflecting a supportive earnings retention policy. In addition, we do not expect that CCR's growth will require additional capital to exceed its retained earnings. That said, CCR could also take on debt if necessary, given its debt-free balance sheet, but we consider this scenario unlikely because of the state's guarantee and ownership of the company.

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Other Assessments

We consider that ERM and management and governance practices are neutral for the ratings on CCR.

We view CCR's ERM to be adequate with strong risk controls. Given the company's large exposure to natural catastrophe risk, ERM has an important role in our assessment of CCR's credit profile. Our assessment is based on our positive view of risk management culture and risk controls at CCR. We acknowledge the investments CCR has made in recent years to strengthen its risk management framework. CCR's risk controls have been enforced by introducing new tools to assess underwriting risk and its total catastrophe exposure in France. The risk management culture has been bolstered by strengthening the position of the risk department and its more prevalent involvement in the decision-making process.

Management and governance

CCR's management and governance are satisfactory. The company's management demonstrates strong expertise and experience in its major lines of business. The company is somewhat less independent in the definition of its strategic goals than private-sector peers because its strategy is set by the government and fixed in a mission letter. We acknowledge, however, CCR's capacity to transform these strategic targets into action plans and to achieve the goals set in those plans.

Liquidity

We regard CCR's liquidity as strong, but lower than that of other French and European insurers. We base our view on CCR's ample available liquidity sources, which are however counterbalanced by the sizable cash calls CCR might face and its exposure to large catastrophe losses in France.

Accounting considerations

CCR reports under French generally accepted accounting principles, and we do not anticipate the company moving toward International Financial Reporting Standards in the medium term.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- 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
- 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

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Related Research

- French Reinsurer CCR Re Assigned 'A-' Rating As Highly Strategic Subsidiary Of CCR Group; Outlook Stable, Jan. 9, 2017

Ratings Detail (As Of October 27, 2017)	
Operating Company Covered By This Report	
Caisse Centrale de Reassurance	
Financial Strength Rating	
Local Currency	AA/Stable/--
Counterparty Credit Rating	
Local Currency	AA/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.

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@spglobal.com

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