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Ratings

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Caisse Centrale de Reassurance

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Caisse Centrale de Reassurance

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

*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 Reassurance (CCR) with our long-term sovereign rating on the Republic of France (unsolicited AA/Negative/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 current legal framework, 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 in a specific agreement between the government and the company, made in 1993. 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 approval to provide financial assistance for CCR's guaranteed business, and there is no limit to the amount of support. CCR benefits from a track record of exceptional government intervention as seen in 2000 through an around €450 million cash advance or in the early 80s through a direct and explicit state guarantee on bank loans granted to CRR.

Rationale

Business Risk Profile: Strong

- A strong competitive position, particularly in France, supported by positive operating performance stemming from CCR's public policy role as provider of unlimited reinsurance coverage for natural catastrophes, as well as covering terrorism, space, and nuclear risk in France.
- Traditional reinsurance business, which accounts for one-third of premiums, does not exhibit the same competitive position as the state-backed business and has demonstrated lower profitability than peers' and 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, a sector we assess as having low insurance industry and country risk.

Financial Risk Profile: Strong

- Extremely strong capital and earnings, also taking into account the state guarantee for French natural catastrophe business, which we expect will continue over the next two years.
- High risk position because of 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.

Outlook: Negative

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

Downside scenario

We could lower the ratings on CCR if we were to lower the sovereign 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 might notably arise from a possibly adverse decision from the European Commission on CCR's business model.

Upside scenario

We could revise the outlook to stable if we took a corresponding action on the sovereign and we expect that CCR will maintain its critical role for and integral link with the French government.

Base-Case Scenario

Macroeconomic Assumptions

- French real GDP growth of 1.4% per year on average in 2016-2018, with risks to debt stabilization in the context of an uncertain recovery, low inflation, and possible renewed fiscal slippage.

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 2016-2018.
- Operating loss and combined ratio of 120%-130% in 2016, prior to usage of equalization reserve, due to claims from floods in the Seine and Loire basins last May; followed by stable earnings and combined ratio of 70%-80% in 2017-18, 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

	2017f	2016f	2015	2014	2013
Gross premiums written (Mil. €)	1250-1350	1250-1350	1,287	1,323	1,256
Net income (Mil. €)	170-180	~100*	216	193	210
Return on shareholders' equity (%)	ca. 10	ca. 5	10	9.5	10.9
P/C net combined ratio (%)	70-80	125	68.2	69.4	71
Net investment yield (%)	ca. 2.0	ca. 2.0	1.5	1.8	2.1
S&P Global Ratings capital adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong

f--Forecast. *Negative prior to equalization reserves release mechanism following Seine and Loire basins' floods last May.

Company Description

CCR is a state-owned reinsurer in France whose reported gross written premiums stood at €1.28 billion in 2015. 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.

CCR is also active in the traditional reinsurance market in France and abroad, but has reduced its exposure over recent years by pulling out of markets like Thailand and Australasia and refocusing on Europe and a few selected markets. This traditional business accounted for 33% of CCR's total premiums at year-end 2015, a slight decrease compared to 34% in 2014. About 78% of the traditional business consists of non-life reinsurance and 22% life reinsurance. Among the biggest business lines in this book are property (26%), life (22%), motor (18%), and transport (8%).

Business Risk Profile: Strong

We regard CCR's business risk profile as strong, reflecting its strong competitive position and low industry and country risk.

Insurance industry and country risk

We assess CCR's industry and country risk as low, based on the company's significant exposure to the French property/casualty (P/C) market. However, we factor into CCR's risk position the potentially higher earnings volatility than for a typical P/C insurer, due to CCR's high exposure to natural catastrophe claims. We also consider the risks from traditional reinsurance operations, similar to those faced by global reinsurers, given CCR's exposure to natural catastrophes and the competitive landscapes of multiple markets worldwide.

Table 1

Industry And Country Risk		
Insurance sector	**IICRA**	**Business mix (%)**
Global life reinsurance	Low	3
France Life	Low	3
France P/C	Low	72
Global P/C reinsurance	Intermediate	22
Overall	Low	100

Competitive position

In our view, 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 70% 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, in our view.

A small portion of CCR's state-backed business (7.6%) is derived from the coverage of space, nuclear, and terrorism risks, partly under the GAREAT ("Gestion de l'Assurance et de la Réassurance contre les Attentats") pool. We expect the premiums from this segment to increase only slightly, as in previous years.

In the traditional reinsurance market, CCR's position is that of a follower due its small scale and its market position remains marginal. 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 to remain a weakness relative to CCR's competitive position and operating performance.

Table 2

Competitive Position					
	--Year ended Dec. 31--				
(Mil. €)	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written	1,287	1,323	1,256	1,346	1,385
Change in gross premiums written (%)	(2.7)	5.3	(6.6)	(2.8)	1.2
Net premiums written	1,253	1,281	1,212	1,300	1,338
Change in net premiums written (%)	(2.2)	5.8	(6.8)	(2.8)	0.8
Total assets under management	8,695	8,254	7,876	7,686	7,210
Growth in assets under management (%)	5.4	4.8	2.5	6.6	4.9
Reinsurance utilization (%)	2.7	3.2	3.6	3.4	3.4

Table 2

Competitive Position (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Business segment (% of GPW)					
Life/health	7.2	7.5	6.8	7.5	6.9
P/C	92.8	92.5	93.2	92.5	93.1

Financial Risk Profile: Strong

We regard CCR's financial risk profile as strong overall, particularly reflecting extremely strong capital adequacy that is partly offset by a high risk position.

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. We expect some decline in retained earnings in 2016 due to operating losses incurred from claims from the floods in the Seine and Loire basins last May. However, we believe CCR's capital buffers to be sufficient to withstand the potential loss without having a material impact on the capital position. We expect stable earnings and combined ratio of 70%-80% in 2017-2018, assuming the absence of extreme natural catastrophe events. In our base case the company will be able to generate capacity commensurate to its funding needs and maintain an extremely strong capital adequacy.

Table 3

Capital					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Common equity	2,186	2,069	1,975	1,863	1,699
Change in common equity (%)	5.6	4.8	6.0	9.7	1.3
Total capital (reported)	2,188	2,072	1,978	1,866	1,701
Change in total capital (reported) (%)	5.6	4.7	6.0	9.7	1.3

Table 4

Earnings					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Total revenues	1,401	1,407	1,402	1,540	1,486
EBIT adjusted	383	337	407	396	128
Net income	216	193	210	242	119

Table 4

Earnings (cont.)					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2011
Return on shareholders' equity (reported) (%)	10.0	9.5	10.9	13.6	7.0
P/C: Net expense ratio (%)	14.7	13.3	10.4	12.0	12.3
P/C: Net loss ratio (%)	53.2	55.7	60.4	52.5	64.8
P/C: Net combined ratio (%)	68.2	69.4	71.0	64.9	77.4

Risk position

In our view, CCR's risk position is high. 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 on CCR and thus warrants a high risk position, in our opinion.

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

Risk Position					
	--Year ended Dec. 31--				
(Mil. €)	2015	2014	2013	2012	2010
Total invested assets	8,695	8,254	7,876	7,686	6,876
Net investment income	127	145	166	214	204
Net investment yield (%)	1.5	1.8	2.1	2.9	3.0
Net investment yield including realized capital gains/(losses) (%)	2.1	2.3	2.5	4.1	3.2
Investment portfolio composition (%)					
Cash and short-term investments	9.8	7.3	8.8	11.3	11.1
Bonds	71.0	73.0	72.0	71.4	73.2
Equity investments	5.8	7.1	7.3	7.3	7.8
Real estate	3.8	4.1	4.1	4.2	2.5
Loans	3.0	2.2	1.7	0.2	0.0
Investments in affiliates	0.1	0.1	0.3	0.3	0.1
Other investments	6.5	6.2	5.8	5.2	5.5

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 exceeding 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.

Other Assessments

Enterprise risk management

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 and the importance of ERM as high to the rating, given the company's large exposure to natural catastrophe risk. 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, in our opinion. 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. The company maintains a strict separation between government-guaranteed and traditional reinsurance business in terms of management, but there is no segregation between assets and liabilities, which remain on a single balance sheet.

Related Criteria And Research

Related Criteria

- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of August 16, 2016)	
Operating Company Covered By This Report	
Caisse Centrale de Reassurance	
Financial Strength Rating	
Local Currency	AA/Negative/--
Counterparty Credit Rating	
Local Currency	AA/Negative/--
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.