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Research Update:

CCR Re Assigned Prelim 'A-' Rating As Highly Strategic Subsidiary Of CCR Group; Outlook Stable

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Overview

- French state-owned reinsurer Caisse Centrale de Reassurance (CCR) will be establishing a subsidiary, CCR Re, that will underwrite all group business not backed by the state.
- CCR Re will be 100% owned by the CCR group and we will assess it as a highly strategic subsidiary. We rate highly strategic subsidiaries one notch below the unsupported group credit profile--which for the CCR group is 'a'.
- We are therefore assigning CCR Re preliminary ratings of 'A-'.
- The stable outlook reflects our view of the stable underlying credit quality of the CCR group, before taking into account government support.

Rating Action

On Sept. 8, 2016, S&P Global Ratings assigned its preliminary 'A-' issuer credit and financial strength ratings to CCR Re, which is being incorporated by French state-owned reinsurer Caisse Centrale de Reassurance (CCR) to underwrite all group business not backed by the state. The outlook is stable.

The preliminary ratings are subject to regulatory approval of the proposed group structure and our review of the final documentation. If we do not receive the final documentation within a reasonable time frame, or if the final documentation or implementation departs from the materials we have already reviewed, we reserve the right to withdraw or revise our ratings.

Rationale

The CCR group has announced its intention to spin off its market reinsurance business, following which CCR Re--a longstanding department within CCR--will be incorporated. The rating reflects our assumption that CCR Re will be highly strategic to the CCR group, its full owner. Non-state-backed business produced approximately 33% of the group's gross premium written in 2015. The wide range of expertise contained in CCR Re enables the group to fill the role of writing market reinsurance in France when the markets close unexpectedly, as was the case in 2001 for airlines insurance or in 2008 for credit protection. As a highly strategic subsidiary, CCR Re is therefore rated one notch below CCR's unsupported group credit profile of 'a', before taking into account government support.

We anticipate that regulatory approval for the transaction will be received by Jan. 1, 2017, following which we would expect to assign the final ratings to CCR Re.

CCR Re will be a 100%-owned subsidiary of the CCR group. It has been operating as a department within the group in the traditional reinsurance international market since 1979, in France (32%) and abroad (68%). 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 (25%), motor (21%), and credit and guarantees (7%).

Our view of CCR Re's highly strategic status is supported by its importance to the group's overall strategy. CCR Re allows the group to strengthen its service offering and underwriting capabilities in cases where the French state would contemplate adding new risks to the state-guaranteed business.

We expect that, given CCR Re's contribution to group strategy, the CCR group will support the subsidiary in time of stress. This was the case in 2011 where the market reinsurance division experienced significant losses following the floods in Thailand and earthquakes in New Zealand, resulting in a loss ratio of 149%. CCR Re is not state-backed, so the group support came in the form of reallocation of the dedicated capital and reassessment of exposures.

Our assessment of CCR Re's group status is reinforced by its close operational and financial integration with the rest of the group. The two entities of the CCR group will share the same administrative functions such as offices, management, technical account, human resources, and enterprise risk management. The cost will be allocated across CCR Re and the state-guaranteed business. CCR Re also utilizes both the group's name and logo and is therefore closely linked to the reputation of the group.

CCR Re has set an internal and regulatory target capital level consistent with the group's targets. In our own risk-based capital model, CCR Re's capital adequacy is commensurate with the overall CCR group rating of 'AA'. We would expect the parent to downstream funds to CCR Re if the subsidiary fails to achieve regulatory or internal capital targets.

CCR Re does not exhibit the same competitive position as the state-backed business, and has demonstrated lower profitability than peers and state-backed business in the past five years. This factor limits our assessment of its group status.

We expect CCR Re to maintain its highly strategic status within the group due to its integral role in the group's strategy.

Outlook

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 it as a highly strategic subsidiary, the rating on CCR Re will move in lock-step with the unsupported group credit profile (GCP).

Downside scenario

Although unlikely, a weakening in group support could result in us lowering the rating on CCR Re. This could occur following an unexpected change in the CCR group's strategy.

Upside scenario

An upgrade could occur as a result of an upward revision of the unsupported GCP.

A reassessment of CCR Re's group status to core would also lead us to raise the rating as we would equalize the rating on CCR Re with the group's unsupported GCP. Over the medium term, we might revise the group status if CCR Re consistently achieves underlying results similar to the state-backed business.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Group Rating Methodology, Nov. 19, 2013
- 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
- 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 List

CCR RE	
Counterparty Credit Rating	A- (prelim)/Stable/--
Financial Strength Rating	A- (prelim)/Stable

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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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.