S&P Global
Ratings

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Caisse Centrale de Reassurance

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Table Of Contents

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.

Major Rating Factors

Strengths

- Caisse Centrale de Reassurance (CCR's) plays a critical role for and has an integral link with the French government, given its public policy role as a provider of unlimited reinsurance coverage for natural catastrophes. It also covers terrorism, space, and nuclear risk in France.
- Very strong capitalization on an S&P Global Ratings-adjusted basis (above the 'AAA' level) and on a regulatory basis, taking into account the state guarantee for French natural catastrophe business, which we expect will continue over the next three years.

Weaknesses

- The group results are subject to high volatility risk due to its exposure to high-severity, low-frequency risk.
- CCR Re, the traditional reinsurance business, which accounts for one-third of group premiums, does not exhibit the same profitability levels as the state-backed business.

Rationale

S&P Global Ratings equalizes its long-term rating on French state-owned reinsurer Caisse Centrale de Réassurance (CCR) with our unsolicited long-term sovereign rating on France (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 CCR were in financial distress. More generally, we do not consider the government's general propensity to support the government-related entity (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, nuclear, terrorism, and other exceptional risks. The details of the law's implementation were reaffirmed in a recent 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 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.

Outlook: Stable

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

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 or if we were to review our view of CCR Re's strategic importance to CCR to core from the current highly strategically important.

Base-Case Scenario

Macroeconomic Assumptions

- French real GDP growth of 1.6% per year on average in 2018-2020.
- A gradual increase in long-term interest rates to about 2% by 2020.

Key Metrics

Table 1

Key Metrics

	--Year ended Dec. 31--					
	2019f	**2018f**	**2017**	**2016**	**2015**	**2014**
Gross premiums written (Mil. €)	~1300	~1300	1,288	1,315	1,287	1,323
Net income (Mil. €)	~150	~150	45*	141*	216	193
Return on shareholders' equity (%)	~6	~6	1.9	6.1	10	9.5
P/C net combined ratio (%)	70-80	70-80	196.3	103.5	68.2	69.4
Net investment yield (%)	1.25-1.75	1.25-1.75	1.3	1.5	1.5	1.8
S&P Global Ratings capital adequacy	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong	Extremely Strong
Fixed-charge coverage (x)	N/A	N/A	N/A	N/A	N/A	N/A
Financial leverage (%)	0.1	0.1	0.1	0.1	0.1	0.1

*Negative prior to equalization reserves release mechanism followingthe flooding of the Seine and Loire basins in May 2016, and Hurricane Irma in 2017. f--Forecast. N/A--Not applicable.

Business Risk Profile: Strong

CCR benefits from its role and recognition as the only provider of unlimited coverage against 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 because its business model 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 limited pricing power or ability to adjust terms and conditions.

CCR's premium collection for state-backed natural catastrophe business is linked to the French property insurance market. We therefore expect collection to mirror growth in this market. This provides CCR with a basis for premium income growth and profitable underwriting over the cycle, as demonstrated by its average combined (loss and expense) ratio of 75% over the past five years (excluding 2017, when the combined ratio was 196.3% due to Hurricane Irma's exceptional impact to Saint-Martin and Saint-Barthelemy).

A small portion of CCR's state-backed business (8%) 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 is a follower because of CCR Re's medium size and marginal market position. CCR's capacity to influence pricing and treaty conditions is therefore somewhat limited.

Financial Risk Profile: Strong

Analysis of our capital model indicates that CCR has, and is likely to retain, capital levels consistent with a 'AAA' level under our model. 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 caused by 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 consider the main source of potential volatility of earnings and capital is the company's significant exposure to catastrophe risk, which is characterized by low frequency, but high severity. 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. Such an event is likely to exceed CCR's current amount of equalization reserves and would trigger financial support from the French government.

We view CCR's investment risk profile as neutral to the rating, with average credit quality in the 'AA' category. There are no notable concentration exposures to any sector or obligor, which enhances our view of diversification of investments.

Other Assessments

CCR demonstrates a sound risk management culture and risk controls, reflected in our assessment of adequate with strong risk control. We acknowledge the investments made in recent years to strengthen the risk management framework. CCR's risk controls have also 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.

The company's management demonstrates strong expertise and experience in its major lines of business. It 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. However, we acknowledge CCR's capacity to transform these strategic targets into action plans and to achieve the goals set in those plans.

We regard CCR's liquidity as strong given its ample available liquidity sources. However, these are counterbalanced by the sizable cash calls it might face due to its exposure to large catastrophe losses in France.

Ratings Score Snapshot

Table 2

Ratings Score Snapshot	
Financial Strength Rating	AA/Stable

Table 2

Ratings Score Snapshot (cont.)	
Anchor	a
Business Risk Profile	Strong
IICRA	Low
Competitive Position	Strong
Financial Risk Profile	Strong
Capital and Earnings	Extremely Strong
Risk Position	High Risk
Financial Flexibility	Adequate
Modifiers	
ERM and Management	0
Enterprise Risk Management	Adequate with strong risk controls
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Strong
Support	3
Group Support	0
Government Support	Almost Certain

IICRA--Insurance Industry And Country Risk Assessment.

Other Considerations

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

Ratings Detail (As Of November 12, 2018)
Operating Company Covered By This Report

Ratings Detail (As Of November 12, 2018) (cont.)	
Caisse Centrale de Reassurance	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
Related Entities	
CCR RE	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/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.

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