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Ratings

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Caisse Centrale de Reassurance

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Caisse Centrale de Reassurance

Anchor	a	+	Modifiers	0	=	SACP	a

Business Risk	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Excellent
Risk exposure	High
Funding structure	Neutral

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

\+

Support	0
Group support	0
Government support	3

=

AA/Stable/--
Financial strength rating

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Backed by the French government, Caisse Centrale de Reassurance (CCR) is the sole provider of unlimited reinsurance coverage for natural catastrophe risks in France.	Earnings volatility due to CCR's exposure to high-severity, low- frequency natural catastrophe risks.
Robust capital buffer at the 'AAA' level, coupled with an explicit state guarantee for the French natural catastrophe business written by CCR.	
CCR RE, the group's private reinsurance subsidiary, diversifies the activities of the group outside of France.	

S&P Global Ratings believesCCR will continue to play a key public policy role in insuring against major adverse large-scale events in France Like during the 2008-2009 financial crisis, the French government has entrusted CCR to support the economy by taking part in three programs, Cap, Cap+, and Cap Relais, which provide cover for trade-credit activities. We equalize our long-term rating on CCR with the long-term rating on France (AA/Stable/A-1+).

CCR will continue to maintain its market leadership position in the French natural catastrophe reinsurance market. CCR commands a market share of about 90% in this market. Backed by the French government, the reinsurer is the lone provider of unlimited insurance coverage against drought, flood, earthquake and terrorism-related risks in France. This unique position in the market and its capacity to generate strong earnings through the cycle, leads us to select the higher anchor of 'a'.

CCR group will continue to exhibit excellent capital levels, with some potential volatility arising from exposure to the natural catastrophe business and the COVID-19 outbreak. We expect capital will continue to be a key strength for the group, remaining at the 'AAA' level over 2020-2022. CCR RE's issuance of €300 million of subordinated notes in July 2020 reinforced the group's capital and supported CCR RE's sustained development, without deteriorating the overall level of capital. It also demonstrated CCR RE's access to the capital market. This issuance does not hinder the group's financial flexibility, in our view, given the debt level remains limited. CCR's material exposure to natural catastrophes could lead to some additional earnings and capital volatility. However, we believe these risks are mitigated by commitment of the French government to support CCR in times of extreme financial stress.

CCR RE will remain core to the CCR group. CCR RE has reported steady improvement in its technical results over the past two years. It is 100%-owned by the CCR group and is fully integrated into the strategy and operations.

Outlook: Stable

The stable outlook on CCR mirrors the stable outlook on France. This reflects our expectation that the company 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 incorporates our view of the group's stable underlying credit quality before taking into account government support. As long as we continue to view CCR RE as a core subsidiary, the rating on CCR RE will move in tandem with the group's stand-alone credit profile.

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 the company's critical role for or integral link with the French government might also prompt us to consider lowering the long-term rating on CCR, potentially by several notches.

We could lower the ratings for CCR RE if:

- Increased claims severity limit CCR group's financial flexibility to support CCR RE in adverse market conditions, causing us to revise downward the group's SACP;
- CCR RE's profitability deteriorates for a prolonged period, causing us to revise downward its group status; or if we consider CCR RE's importance to the group's overall strategy has changed.

Upside scenario

We could raise our ratings on CCR if we were to raise our ratings on France, assuming CCR maintains its critical role for and integral link with the French government.

We could raise our ratings on CCR RE if we were to revise upward our assessment of the group SACP, assuming CCR RE would maintain its core status within the CCR group.

Key Assumptions

- 9.0% contraction in real GDP for France in 2020, followed by recovery of 6.2% in 2021.
- Inflation in France of 0.5% for 2020 and 0.7% in 2021.
- Unemployment rate of 8.0%-9.5% in France over the next two years.

- Negative French long-term risk-free rates over the next two years.

Caisse Centrale de Reassurance--Key Metrics

	2021f	2020e	2019	2018	2017	2016	2015
Gross premium written (mil. €)	~1900	~1850	1,506.9	1,371.2	1,287.7	1,315.2	1,287.2
Net income (mil. €)	~100	70-90	104.1	132.5	45*	140.5*	215.5
Return on shareholders' equity (%)	~3.5	2.7-3.5	4.1	5.5	1.9	6.1	10.1
P/C: Net combined ratio (%)	~90	>100	94.5	100.3	196.3	103.5	68.2
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	1.0	1.1	1.2	1.4	1.3	1.5	1.5

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

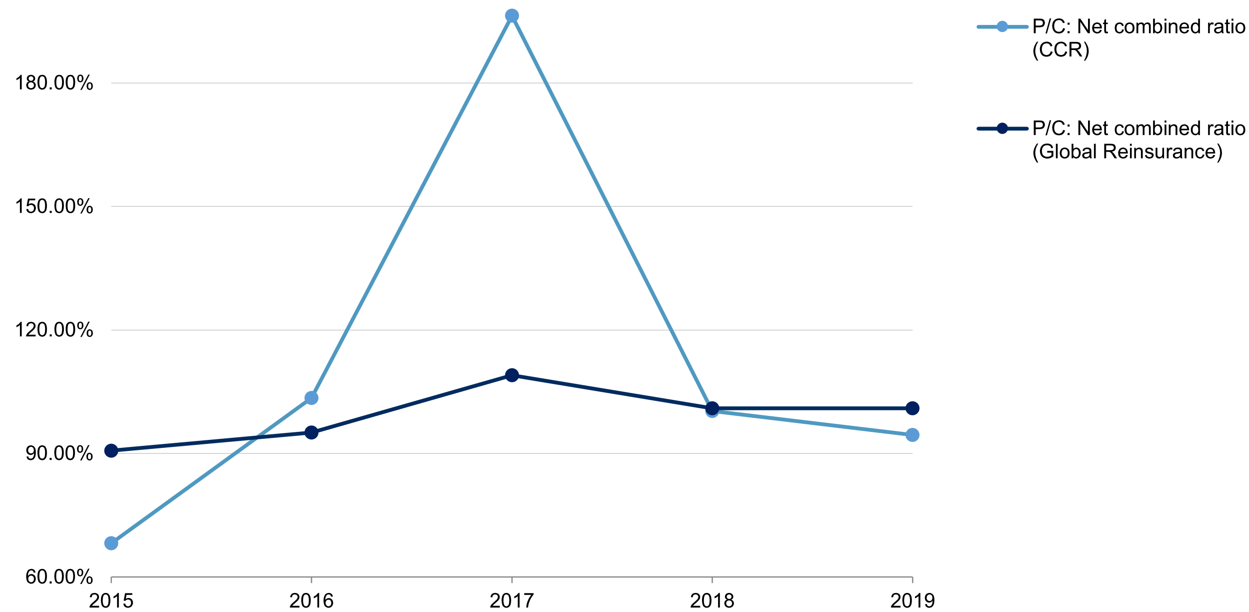
Business Risk Profile: Strong

CCR demonstrates strong market credentials in the French natural catastrophe reinsurance business. We believe CCR's competitive advantage mainly stems from the group being the only insurer backed by the French government, offering unlimited coverage against natural catastrophe losses. Unlike private reinsurers, CCR's business model relies on a government-determined program to formalize the policy terms. In addition, the business written by CCR in France is based on a national law-driven natural catastrophe scheme that includes mutualized, uniformly set rates. We believe this arrangement limits the group's capacity to drive policy prices and adjust policy terms and conditions in comparison withprivate players in the market. This somewhat constrains our view on the group's overall business risk profile.

We believe CCR's premium collection for state-backed natural catastrophe business is directly linked to the French property insurance market. We expect premium growth for this cover will mirror growth in this market. We also expect additional growth from the collection of premiums for the participation in Cap,Cap+, and Cap Relais programs. The 2019 combined ratio continued to improve to 94.5% versus 196% in 2017, where Hurricane Irma affected CCR's performance. We expect droughts and COVID-19-related claims will affect the combined ratio, which we estimate will be slightly over 100% for 2020.

Chart 1

CCR's Combined Ratio Versus That Of The Global Reinsurance Market



P/C--Property/casualty. Source: S&P Global Ratings.

In our opinion, CCR RE remains mostly a follower on reinsurance programs owing to it's medium size and marginal market position as compared with global peers.

CCR RE has reported a steady improvement in its technical results over the past two years. It is 100%-owned by CCR and is fully integrated to the strategy and operations, and we consider it core to the group. It plays a key role in diversifying the risk exposures to outside of France. CCR RE generates business globally, of which most stems from Europe, Asia, Canada, the Middle East, and North Africa. Its business contributed approximately 36% of the group's gross premium written in 2019, up from 33% in 2016.

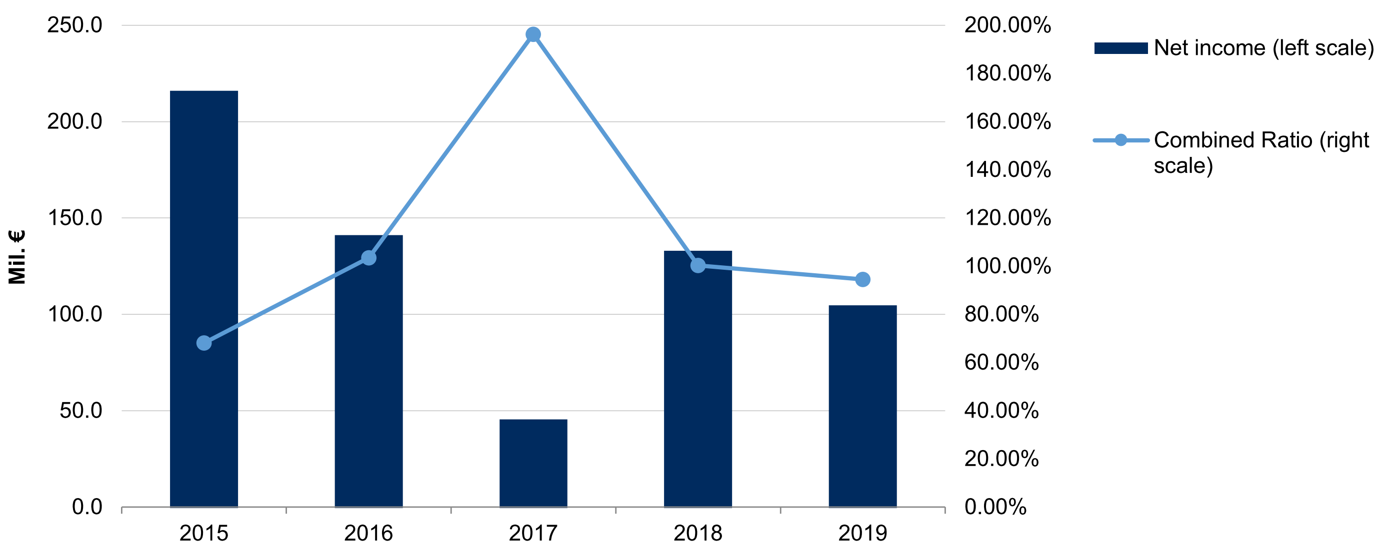
CCR RE does not benefit from the guarantee of the French State. As such, we equalize the ratings on CCR RE with the group's SACP.

Financial Risk Profile: Strong

CCR group's level of capital exceeded our 'AAA' benchmark at year-end 2019, and we expect it will continue to retain a comfortable capital cushion over 2020-2022. Our assumptions are mainly backed by the group's historically strong earnings generation, in spite of being exposed to natural catastrophe losses. CCR RE's issuance of €300 million of subordinated notes in July 2020 reinforced the group's capital, helping sustain CCR RE's development without deteriorating the overall capital level. The issuance demonstrated CCR RE's access to the capital market, and does not hinder our view on the group's financial flexibility given its debt level remains limited.

Chart 2

CCR's Earnings Have Remained Strong In Spite Of Natural Catastrophe Losses



Source: S&P Global Ratings.

We view CCR's capital quality favorably given the majority of capital comprises permanent forms such as shareholders' funds and equalization reserves. As a reinsurer, the main source of potential volatility of earnings and capital arises from significant exposure to catastrophe risk, which is characterized by low frequency but high severity claims. 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. In addition to natural catastrophe risks, we also expect some pressure on earnings in 2020 due to the capital market volatility caused by the COVID-19 outbreak. Nonetheless, CCR follows a conservative investment strategy with majority of investments in fixed income securities, having an average credit quality in the 'AA' category. Furthermore, we don't see any significant obligor or sector concentrations.

Additionally, CCR can draw on financial support from the government in case of extreme financial stress.

Other Key Credit Considerations

Governance

CCR group's risk controls are well embedded in the overall framework. The group has also introduced new tools to assess underwriting risk and its total catastrophe exposure in France.

Although CCR's management demonstrates strong expertise and experience in its major lines of business, it is somewhat less independent because its strategy is set by the French government and fixed in a mission letter.

Liquidity

CCR has ample liquidity available to face the sizable cash calls it may face due to its exposure to large catastrophe losses in France.

Government support

According to our criteria for government related entities, 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 catastrophic risks in France. CCR insures exceptional risks such as terrorism and nuclear events. It can also act with a government mandate when there is a cover shortage in the market. It was the case in 2020, when the government implemented programs Cap, Cap+, and Cap Relais to support trade-credit insurance to face the impact of the pandemic on economy; 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 an agreement between the government and the company 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 reserves built up for this type of business.

Environmental, social, and governance

We consider that CCR is more exposed to environmental risk factors than the industry average. At the same time, we recognize the social role that CCR plays in France. Therefore, we view the company as a positive outlier regarding its social contribution, relative to the industry. CCR's main source of potential earnings and capital volatility is its significant exposure to extreme weather events, such as flood or drought, which may see an increase in frequency and severity because of climate change.

CCR offers unlimited coverage for state-backed business, which exposes its balance sheet to material losses if a 1-in-250-year event were to occur. Losses following such an event are likely to exceed CCR's current equalization reserves, at which time, unlimited financial support from the French government would be available. However, CCR plays a vital social role in enabling solidarity across French territories by assuming these catastrophe risks for all French citizens. Indeed, CCR's natural disaster reinsurance enables every household and business across the country, especially in catastrophe-prone areas, to be insured against this risk at an affordable price. This social benefit underpins our assessment of CCR's integral link with the French state. Governance factors are in line with those we see across France.

Related Criteria

- 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
- Criteria | Insurance | Property/Casualty: Assessing Property/Casualty Insurers' Loss Reserves, Nov. 26, 2013
- 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

Related Research

- Reinsurer CCR RE Upgraded To 'A' On Core Group Status; Parent Affirmed At 'AA'; Outlooks Stable, May-04-2020

Appendix

Caisse Centrale de Reassurance--Credit Metrics History

Ratio (%)/Metric (mil. €)	2019	2018	2017
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	8,016	7,800	8,379
Total shareholder equity	2,550	2,461	2,345
Gross premiums written	1,507	1,371	1,288
Net premiums written	1,362	1,247	1,171
Net premiums earned	1,331	1,226	1,167
Reinsurance utilization (%)	9.6	9.1	9.1
EBIT	185	197	228
Net income (attributable to all shareholders)	104.1	132.5	45.0
Return on shareholders' equity (reported) (%)	4.1	5.5	1.9
P/C: net combined ratio (%)	94.5	100.3	196.3
P/C: net expense ratio (%)	9.7	9.3	10.2
P/C: return on revenue (%)	9.8	10.8	15.7
Life: Net expense ratio (%) *	19.5	16.5	15.1
Net investment yield (%)	1.2	1.4	1.3
Net investment yield including investment gains/(losses) (%)	1.8	2.0	1.9

*In 2018, there was a change in accounting methods with the reallocation of Health business from Life to P&C business.

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of February 16, 2021)*

Operating Company Covered By This Report	
Caisse Centrale de Reassurance	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer 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.