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Caisse Centrale de Reassurance

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Caisse Centrale de Reassurance

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

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a

+

Support	3
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

Strengths	Risks
The sole provider of unlimited reinsurance coverage for natural catastrophe risks in France, with the backing of the French government.	Earnings volatility due to Caisse Centrale de Reassurance's (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.	
Diversification of activities outside France through reinsurance subsidiary CCR Re.	

We expect CCR to remain a key part of the French government's strategy to insure the population against natural catastrophe risks in France. CCR plays a key part in public policy to cover large-scale adverse events affecting the population of France. We expect CCR to keep providing such cover under the existing national natural catastrophe scheme. In addition, the French government may entrust CCR to provide cover for other types of risk, as it did with trade credit insurance during the COVID-19 pandemic and up until the end of 2021. We equalize our long-term rating on CCR with the long-term rating on France (AA/Stable/A-1+).

CCR will maintain its leadership position in the French natural catastrophe insurance market. CCR has a share of about 90% of the French natural catastrophe reinsurance market. Backed by the French government, the reinsurer is the only provider of unlimited insurance coverage against the risk of drought, floods, earthquakes, and terrorism in France. CCR's unique position in the market and its capacity to generate strong earnings throughout the cycle influence our choice of the 'a' anchor for the group stand-alone credit profile (SACP).

The CCR group will maintain excellent levels of capital, with potential volatility arising from its exposure to natural catastrophe business. We expect that capital will remain a key strength for the group, remaining at the 'AAA' level over 2022-2024. In 2021, the group demonstrated very strong profitability that reinforced its capital adequacy.

Nonetheless, CCR's material exposure to natural catastrophes can lead to additional volatility in earnings and capital. This is mitigated by the agreement between CCR and the French government for unlimited support for all the public reinsurance risks that CCR takes on, as well as by a commitment of assistance from the government in times of extreme financial stress.

CCR Re will remain core to the CCR group. CCR Re reported a strong improvement in its technical results in 2021. It is 100% owned by CCR and fully integrated into the group's strategy and operations. We consider CCR Re to be core to the group. CCR Re generates business globally, most of which stems from Europe, Asia, Canada, the Middle East, and North Africa. Its business contributed approximately 44% of the group's gross premium written in 2021, up from 35% in 2020. The anchor of 'a' reflects CCR's unique position in the French natural catastrophe insurance market and its capacity to generate strong earnings throughout the cycle.

Outlook: Stable

The stable outlook on CCR mirrors the stable outlook on France. This reflects our expectation that the group will maintain its critical role for 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 government support into account. As long as we continue to view CCR Re as a core subsidiary of CCR, our rating on it will move in tandem with the group SACP.

Downside scenario

We could lower our ratings on CCR if we lowered our ratings on France. Although unlikely at this stage, any indication of a weakening of the group'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 on CCR Re if:

- We considered that CCR Re's importance to the group's overall strategy had changed.
- Increased claims severity limited CCR's financial flexibility to support CCR Re in adverse market conditions, causing us to revise the group SACP downward; or
- CCR Re's profitability deteriorated for a prolonged period, causing us to revise its group status downward.

Upside scenario

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

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

Key Assumptions

- Real GDP for France to rise by 2.7% in 2022 and 1.8% in 2023.
- Inflation in France to peak at 5.1% in 2022 and stabilize at around 2.5% in 2023.
- Unemployment rate to be around 7% in France over the next two years.
- French long-term risk-free rates to continue to rise above negative levels over the next two years.

Caisse Centrale de Reassurance--Key Metrics

	2022f	2021	2020	2019	2018	2017	2016
Gross premium written (mil. €)	>1900	1,893	1,866	1,507	1,371	1,288	1,315
Net income (mil. €)	~135	196	90	104	132	45*	140*
Return on shareholders' equity (%)	~4%	7%	3%	4%	6%	2%	6%
P/C: Net combined ratio (%)	~90%	67%	110%	95%	100%	196%	103%
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Net investment yield (%)	1.1%	0.9%	1.1%	1.2%	1.4%	1.3%	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. f--Forecast. N/A--Not applicable. f--S&P Global Ratings' forecast.

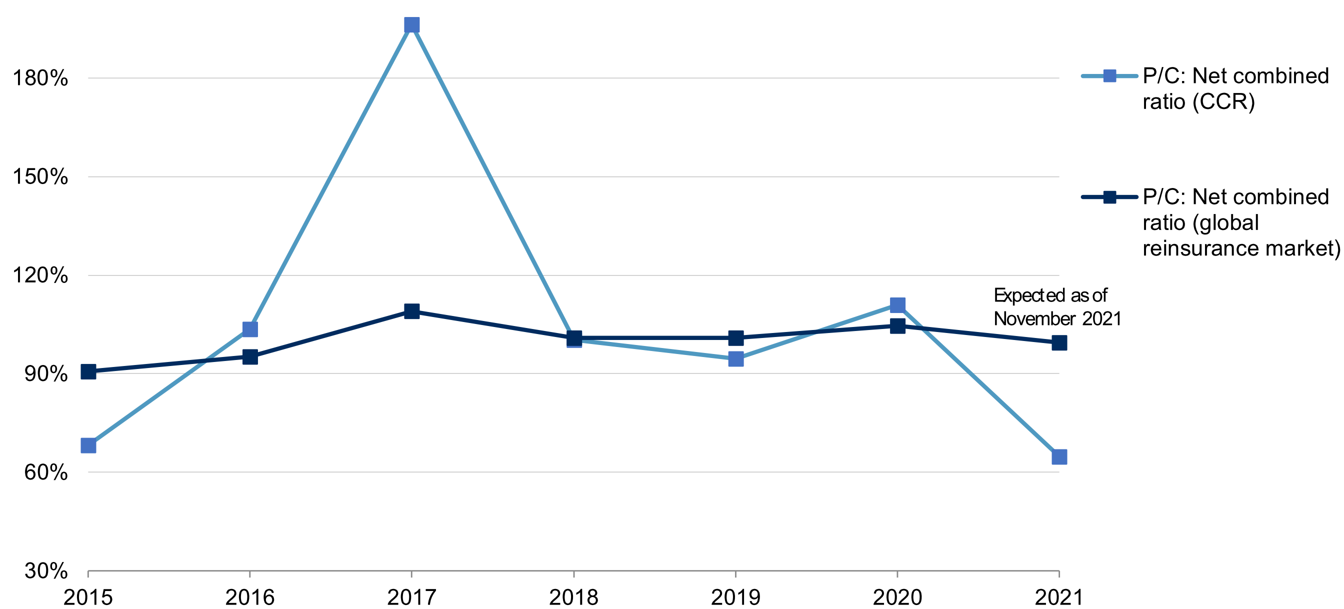
Business Risk Profile: Strong

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

We believe that CCR's premium collection for its state-backed natural catastrophe business is directly linked to the French property insurance market. We expect premium growth to mirror the growth in this market. The combined ratio stood at 66.9% in 2021, which reflected excellent profitability thanks to fewer natural catastrophe events that year. We expect the average combined ratio to stand at around 90% in 2022-2024.

Chart 1

Combined Ratio--CCR Versus The Global Reinsurance Market



P/C--Property/casualty.

In our opinion, CCR remains a follower in the traditional reinsurance business owing to CCR Re's medium size and marginal market position compared to global peers. CCR Re reported a strong improvement in premium growth over the past two years, with 30% growth in 2021 amounting to €843 million at year-end. CCR Re is 100%-owned by CCR, and is fully integrated within CCR's strategy and operations. CCR Re generates business globally, most of which stems from Europe, Asia, Canada, the Middle East, and North Africa. Its business contributed approximately 44% of the group's gross premium written in 2021, up from 35% in 2020.

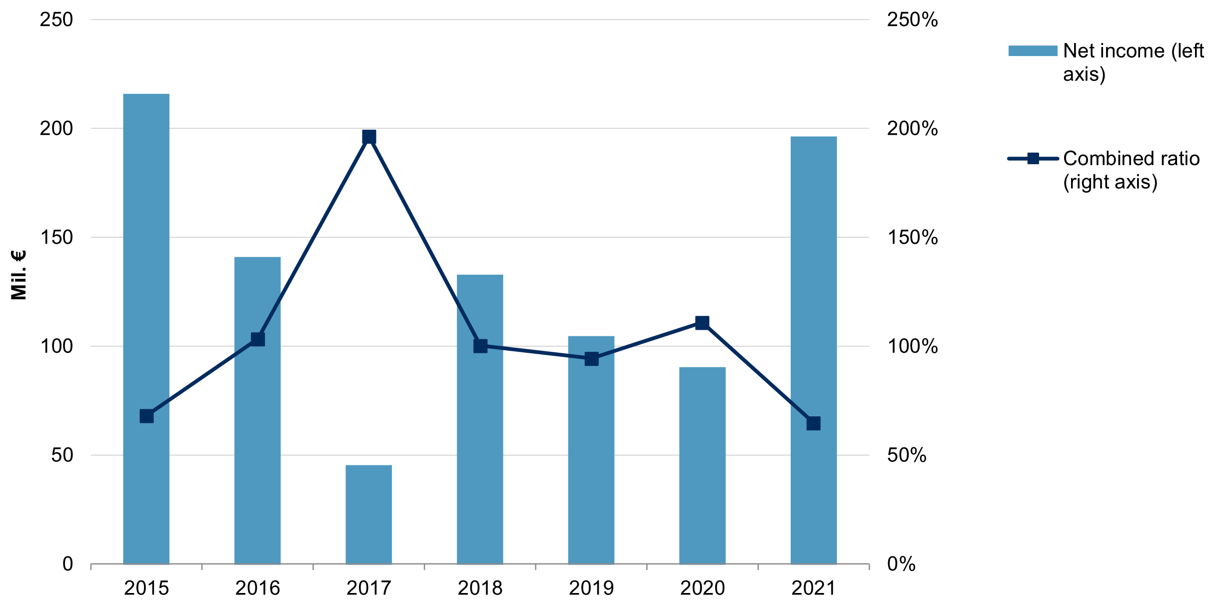
CCR Re is core to the CCR group. The subsidiary plays a key role in the group's strategy to diversify risks and reduce the concentration of exposures in France. CCR Re does not benefit from the guarantee from the French state. As such, we equalize our ratings on CCR Re with the group SACP.

Financial Risk Profile: Strong

The CCR group's level of capital exceeded our 'AAA' benchmark as of year-end 2021, and we expect it to retain a comfortable capital cushion over 2022-2024. Our assumptions are mainly backed by the group's historically strong earnings generation despite its exposure to natural catastrophe losses.

Chart 2

CCR Has Historically Strong Earnings Despite Natural Catastrophe Losses



May 2016: Flooding of the Seine and Loire basins. 2017: Hurricane Irma. 2020: COVID-19. Sources: S&P Global Ratings and company financials.

We view CCR's quality of capital favorably, as most of it is permanent, taking the form of shareholders' funds and equalization reserves. Being a reinsurer, the main source of volatility in earnings and capital arises from significant exposure to catastrophe risk, which is characterized by 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.

CCR's profitability has been on a downward trend over the past few years, but we expect it to remain strong throughout the cycle. CCR's profitability was exceptionally good in 2021, with lower-than-average natural catastrophe losses. We expect CCR's overall profitability to trend toward solid historical levels but not be as high as in 2021. CCR follows a conservative asset-allocation investment strategy, with most of its investments being in fixed-income securities and having average credit quality in the 'AA' category. Furthermore, we do not see any significant obligor or sector concentration. Ultimately, CCR can rely on financial support from the government in the event of extreme financial stress.

Other Key Credit Considerations

Governance

The CCR group's risk controls are well embedded in the overall framework. The group regularly strengthens its tools to assess underwriting risk and 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 as its strategy is set by the French government and fixed in a mission letter.

Liquidity

CCR has ample liquidity available to meet 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 CCR 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. In addition, it can act with a government mandate when there is a shortage of cover in the market. This was the case in 2020 and 2021, when the government implemented the Cap and Cap+ programs to support trade credit insurance and help mitigate 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 group.

CCR's government-guaranteed businesses are stated in 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 that CCR and the government signed in 2017. The government has to provide financial assistance to CCR when claims in one accounting year exceed 90% of the equalization and special reserve 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 group's social contribution as a positive outlier in the insurance industry. CCR's main source of earnings and capital volatility is its significant exposure to extreme weather events, such as floods 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 point, unlimited financial support from the French government would be available.

CCR plays a vital social role in enabling solidarity across French territories by assuming catastrophe risks for all inhabitants of France. Indeed, CCR's natural disaster reinsurance enables every household and business across the country, especially in catastrophe-prone areas, to insure themselves against these risks 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 French businesses.

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 4, 2020

CCR Group--Credit Metrics History

(Mil. €)	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	9,520	8,664	8,016
Total shareholder equity	2,817	2,640	2,550
Gross premiums written	1,893	1,866	1,507
Net premiums written	1,712	1,703	1,362
Net premiums earned	1,827	1,664	1,331
Reinsurance utilization	10%	9%	10%
EBIT	284	144	185
Net income (attributable to all shareholders)	196	90	104
Return on shareholders' equity (reported)	7%	3%	4%
P/C: net combined ratio	67%	110%	95%
P/C: net expense ratio	17%	15%	10%
P/C: return on revenue	15%	6%	10%
Life: Net expense ratio	12%	16%	19%
Net investment yield	0.9%	1.1%	1.2%
Net investment yield including investment gains/(losses)	1.5%	1.7%	1.8%

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 June 29, 2022)*

Operating Companies Covered By This Report	
Caisse Centrale de Reassurance	
Financial Strength Rating	
Local Currency	AA/Stable/--
Issuer Credit Rating	
Local Currency	AA/Stable/--
CCR RE	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Subordinated	BBB+
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.