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Ratings

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Research Update:

Reinsurer CCR Re Upgraded To 'A' On Core Group Status; Parent Affirmed At 'AA'; Outlooks Stable

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Overview

- CCR Re has reported a steady improvement in its technical results over the past two years. It is 100%-owned by Caisse Centrale de Reassurance (CCR) and we now consider it to be core to the group, rather than highly strategic. We equalize our ratings on core subsidiaries with the unsupported group credit profile (GCP)--in the case of CCR group, this is 'a'.
- Although CCR Re and its parent CCR will suffer some investment losses following the COVID-19 pandemic, we still expect the group to maintain a robust capital buffer at the 'AAA' level in 2020-2021, while CCR will remain supported by a state guarantee because it is a provider of unlimited reinsurance coverage for natural catastrophes in France.
- We are affirming our 'AA' rating on CCR based on its public policy role and upgrading CCR Re to 'A' because of its change in group status.
- The stable outlook on CCR mirrors that on France and the stable outlook on CCR Re is supported by the group's unique position in the French natural catastrophe insurance market and its strong capitalization.

Rating Action

On May 4, 2020, S&P Global Ratings affirmed its 'AA' long-term insurer financial strength and issuer credit ratings on Caisse Centrale de Reassurance (CCR) and raised its ratings on CCR Re to 'A' from 'A-'. The outlook for both companies is stable.

Rationale

S&P Global Ratings equalizes its long-term rating on CCR with the unsolicited long-term sovereign rating on France (AA/Stable/A-1+). We believe the reinsurer shares an integral link with the French government and that there is an almost-certain likelihood of government support if CCR experiences any financial distress.

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 90% of the equalization and special reserve built up for this type of business.

The French government recently announced a special plan to aid French businesses, especially SMEs, to continue their activities and remain afloat despite the uncertainty created by current COVID-19 pandemic. This plan includes setting up a public reinsurance program, guaranteed by the state, for trade credit insurance, to the tune of €10 billion. The government has charged CCR with implementing this scheme. We consider that this confirms the critical role CCR plays for the government and for the national economy.

We consider that CCR Re's prudent underwriting has enabled it to improve its technical results--its net combined ratio stood at 98.1% at the end of 2019. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) Furthermore, CCR Re has progressively widened its geographical presence and increased its diversification between life and non-life lines of business. We anticipate that CCR Re may be affected by COVID-19-related claims in 2020, but if we see a global economic recovery, it could achieve a combined ratio below 98% in 2021-2022.

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. Given CCR Re's growing contribution to group business and overall strategy, we expect the group to support the subsidiary in times of stress. It has demonstrated this in the past, when CCR Re experienced significant losses. CCR Re is not state-backed, so the group support came in the form of reassessment of exposures.

CCR Re's close operational and financial integration with the rest of the group further supports our assessment of CCR Re's group status. The group's two entities share the same administrative functions and risk management framework. Costs are 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. The company has set an internal and regulatory target capital level consistent with the group's targets. Furthermore, we believe the parent would downstream funds to CCR Re if the subsidiary fails to achieve regulatory or internal capital targets. Our base case assumes that CCR and CCR Re will maintain a robust capital buffer at the 'AAA' level in 2020-2021.

Outlook

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 unsupported group 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 limited CCR's financial flexibility to support CCR Re in adverse market conditions, causing us to revise downward the unsupported group credit profile.
- CCR Re's profitability deteriorated for a prolonged period, causing us revise downward its group status, or we considered CCR Re's importance to the group's overall strategy had changed.

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 raise our ratings on CCR Re if we took a similar action on the group, and we expected CCR Re to maintain its core status within the CCR group.

Ratings Score Snapshot

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Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate
Financial Risk Profile	Strong
Capital and earnings	Excellent
Risk exposure	High
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Additional notches to strengthen or weaken the rating because of parental support or sovereign rating considerations	3
Financial Strength Rating	AA

*This is influenced by our view of Caisse Centrale de Reassurance's unique position in the French natural catastrophe market and its strong capacity to generate strong earnings through the cycle.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group 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

Ratings List

Ratings Affirmed		
Caisse Centrale de Reassurance		
Issuer Credit Rating		
Local Currency	AA/Stable/--	
Financial Strength Rating		
Local Currency	AA/Stable/--	
Upgraded; Outlook Action		
	To	**From**
CCR RE		
Issuer Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--