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Research Update:

# France-Based Credit Agricole Assurances Group Entities Ratings Raised To 'A+' From 'A'; Outlook Stable

**November 29, 2023**

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of revised criteria has a positive impact on the financial strength of the Credit Agricole Assurances (CAA) group.
- We raised our long-term issuer credit and financial strength Ratings to 'A+' from 'A' on CAA's main operating subsidiaries Predica and Pacifica.
- The stable outlook reflects our view that, over the next two years, CAA group will consolidate its profitable leadership in French life insurance and maintain capital adequacy at the 99.95% confidence level, under our model.

PRIMARY CREDIT ANALYST

**Taos D Fudji**
Milan
+ 390272111276
taos.fudji
@spglobal.com

SECONDARY CONTACTS

**Marc-Philippe Juilliard**
Paris
+ 33 14 075 2510
m-philippe.juilliard
@spglobal.com

**Viviane Ly**
Frankfurt
+ 49 693 399 9120
viviane.ly
@spglobal.com

ADDITIONAL CONTACT

**Pratik C Giri**
Pune
pratik.giri
@spglobal.com

## Rating Action

On Nov. 29, 2023, S&P Global Ratings raised its long-term insurer financial strength and issuer credit ratings to 'A+' from 'A' on the core operating subsidiaries of France-domiciled Credit Agricole Assurances (CAA). We also raised the long-term issuer credit rating on CAA to 'A' from 'A-'. The outlooks on all entities are stable.

In addition, we raised all our issue ratings on the subordinated debt issued by CAA to 'BBB+' from 'BBB'.

## Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy primarily reflects an increase in total adjusted capital (TAC). This is owing to the removal of haircuts and absence of capital charges on the contractual service margin (CSM), which we consider an equity-like life reserve.

- We've also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.
- The inclusion of noneligible hybrid instruments as debt-funded capital in TAC also benefits capital adequacy.

## Credit Highlights

### Overview

| Key strengths | Key risks |
| --- | --- |
| Leadership in the French life insurance market and fast-expanding position in the property/casualty (P/C) market. | Limited diversification because French life insurance activity generates about 80% of profits. |
| Extensive distribution network and brand recognition of Crédit Agricole group benefits CAA's revenue growth. | Moderately high financial leverage. |
| Well-diversified investment portfolio with no obligor or sector concentrations. | Relatively high level of dividend distributions. |

## Outlook

The stable outlook reflects our view that, over the next two years, CAA group will consolidate its profitable leadership in French life insurance and continue to strengthen its French P/C insurance position, posting a P/C combined ratio (loss and expense) well below 100%. We also forecast capital adequacy will remain at the 99.95% confidence level, under our model, after an estimated dividend payout of 90% of profits and a moderate reduction in policyholder capital reserves. This is because both policyholder reserves and life future profits should remain at high levels.

### Downside scenario

We could lower the ratings on CAA if we lower the ratings on Crédit Agricole or if we forecast a prolonged weakening of capital adequacy under our model below the 99.95% confidence level. This could be due to a combination of factors including a very material drop in life future profits or policyholder capital reserves, repeated extraordinary capital upstreaming, or a major deterioration in the quality of CAA's investment portfolio.

### Upside scenario

An upgrade of CAA is highly unlikely since it would require that we simultaneously raise the ratings on parent Crédit Agricole group and revise up the group stand-alone credit profile (SACP) on CAA. CAA's limited geographical and business line diversification constrains our view of the group SACP.

## Rationale

The upgrade mainly reflects our view that CAA group's capital adequacy has significantly strengthened with the enhanced transparency under International Financial Reporting Standard (IFRS) 17, which gives greater visibility of future profits for the insurance sector through the CSM. After implementing IFRS 17, CAA group disclosed a CSM of €21.8 billion as of year-end 2022, rising to €23.6 billion by June 30, 2023. Under our revised capital model, we no longer apply haircuts or capital charges to equity-like life reserves such as the CSM. As a result, the group's capital adequacy has improved to the 99.95% confidence level under our model.

Considering CAA's capital management policy as a member of Group Credit Agricole (GCA), we adjust our view of CAA's overall capital and earnings to a strong level. This reflects our view that CAA could upstream capital to GCA based on the parent group's capital management requirements, as happened with the exceptional €2 billion dividend paid in June 2022. We also expect CAA to maintain its policy of a 90% dividend payout ratio, which we consider relatively high. That said, we consider CAA able to reduce its upstream dividends, if necessary.

At year-end 2022, CAA's CSM was more than three times the group's shareholders' equity of €6.9 billion (net of perpetual debt accounted as equity), highlighting the significant impact of the CSM on capital adequacy. The high level of CSM also underlines CAA group's strong capacity to generate profits in the future. We estimate that CAA's financial leverage ratio is above 40%, mainly due to the temporary drop in the value of CAA's fixed-income investments. Including CSM, the ratio would be much smaller, and therefore we maintain our neutral assessment of CAA's funding structure.

We consider CAA well placed to maintain its leading 15% market share in the French insurance market and to continue to gain market share in the French P/C business, where it currently ranks No. 5. In P/C, Pacifica exceeded the average for the French industry in technical profitability for 2022, with a combined ratio of 98.5%. In life, CAA posted an 8% increase in CSM as of June 30, 2023, thanks to an increase in new business and higher investment rates. We also forecast that CAA will continue to expand its international activities, as evidenced by the new exclusive joint venture agreement in P/C with Italy's third-largest bank, Banco BPM.

While CAA group displays a balanced split of insurance revenue as of June 30, 2023--between France life insurance (56%), France P/C (37%), and international operations (7%)--80% of profits come from French life insurance. As such, we view that CAA is less diversified than other insurers with a similar business risk profile.

The SACP on CAA is now 'a+', one notch higher than the SACP on parent GCA but in line with the long-term ratings on GCA's core bank operating entities, which benefit from one notch of uplift from additional loss-absorbing capacity.

Our long-term issuer credit rating on CAA is one notch below our ratings on the group entities, reflecting its status as an intermediary nonoperating holding company (NOHC) owned by a bank. Although CAA relies on dividends upstreamed from Predica and Pacifica, which creates a degree of structural subordination, its ownership by a large banking group implies potential for the NOHC to receive parent support.

## Environmental, Social, And Governance

Environmental, social and governance credit factors have no material impact on our analysis of Credit Agricole Assurances.

## Ratings Score Snapshot

| | To | From |
|---|---|---|
| Financial strength rating | A+/Stable/-- | A/Stable/-- |
| Anchor* | a+ | a |
| Business risk | Very Strong | Very Strong |
| IICRA | Low Risk | Low Risk |
| Competitive position | Very Strong | Very Strong |
| Financial risk | Strong | Satisfactory |
| Capital and earnings | Strong | Satisfactory |
| Risk exposure | Moderately Low | Moderately Low |
| Funding structure | Neutral | Neutral |
| Modifiers | 0 | 0 |
| Governance | Neutral | Neutral |
| Liquidity | Exceptional | Exceptional |
| Comparable ratings analysis | 0 | 0 |
| Support | 0 | 0 |
| Group support | 0 | 0 |
| Government support | 0 | 0 |

IICRA--Insurance Industry And Country Risk Assessment. *Our choice of the lower anchor reflects our view of CAA's limited geographical and business line diversification.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- Credit Agricole Assurances Group Entities Affirmed At 'A' On Sound Profitability; Outlook Stable, Oct. 16, 2023

## Ratings List

**Upgraded**

| | To | From |
|---|---|---|
| **Credit Agricole Assurances** | | |
| Issuer Credit Rating | A/Stable/-- | A-/Stable/-- |
| **Pacifica IARD** | | |
| **Predica** | | |
| Issuer Credit Rating | | |
| Local Currency | A+/Stable/-- | A/Stable/-- |
| Financial Strength Rating | | |
| Local Currency | A+/Stable/-- | A/Stable/-- |
| **Credit Agricole Assurances** | | |
| Subordinated | BBB+ | BBB |

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.