

# RatingsDirect®

---

## Research Update:

# French Protection Institution AG2R Prevoyance Affirmed At 'BBB+' After Insurance Criteria Change; Outlook Stable

### Primary Credit Analyst:

Gwenaelle Gibert, Paris (33) 1-4420-6693; gwenaelle.gibert@standardandpoors.com

### Secondary Contact:

Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@standardandpoors.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Rating Score Snapshot

Related Criteria And Research

Ratings List

## Research Update:

# French Protection Institution AG2R Prevoyance Affirmed At 'BBB+' After Insurance Criteria Change; Outlook Stable

## Overview

- Following a review of the French protection institution AG2R Prevoyance (AG2R) under our revised insurance criteria, we are affirming our 'BBB+' ratings on AG2R and its core subsidiary, PRIMA.
- The ratings reflect our view of AG2R's satisfactory business risk profile and moderately strong financial risk profile. In our view, the business risk profile balances a strong competitive position with potential volatility inherent to AG2R's business lines, while its financial risk profile is based on its moderately strong capital and earnings.
- The stable outlook reflects our anticipation that AG2R will continue to strengthen its underwriting and capital adequacy, which we believe will enable it to face potential uncertainties and evolving competing dynamics in its main markets, group protection and health.

## Rating Action

On June 6, 2013, Standard & Poor's Ratings Services affirmed its 'BBB+' insurer financial strength and counterparty credit ratings on French protection institution AG2R Prevoyance and its core subsidiary, PRIMA. The outlook on the long-term ratings on both entities is stable.

## Rationale

The ratings on AG2R and PRIMA reflect our view of the AG2R group's satisfactory business risk profile and moderately strong financial risk profile. AG2R's business risk profile is built on our view of its strong competitive position and the low industry and country risk in France in general. We assess AG2R's business risk profile as satisfactory, rather than strong, to reflect our view that AG2R's business lines, namely group protection and health, are subject to potential regulatory changes, as well as changes in competitive dynamics, which could create underwriting volatility. In our opinion, this translates into a higher business risk profile than other life players in the market.

AG2R's financial risk profile reflects our assessment of moderately strong capital and earnings, intermediate risk position, and adequate financial flexibility. We combine these factors to derive a 'bbb+' anchor for AG2R. We view the factors that could potentially lead us to modify the anchor--notably

ERM, management and governance, peer comparison, and liquidity--as neutral in our group analysis of AG2R at this rating level. The rating on AG2R is at the same level as the anchor, at 'BBB+'.

The ratings on AG2R's subsidiary, PRIMA, reflect our view of its core status within the AG2R group. PRIMA provides individual insurance and is mainly recognized for its long-term-care (LTC) products. PRIMA operates under AG2R's trademark and is highly integrated into AG2R, sharing its distribution network, staff, and investment management.

AG2R is exposed to the French life insurance market, which we assess as having low industry and country risk overall, based on our view of its very low country risk and intermediate industry risk. This is mitigated, however, by AG2R's concentration in the health and protection sectors, owing to evolving competitive dynamics and regulatory uncertainty in those sectors, particularly regarding retirement age and claims cost inflation.

AG2R benefits from a strong competitive position, in our view, which has enabled it to reach a No. 2 position in the French group protection market. AG2R operates in group life and health protection, individual life protection, and individual long-term health protection. The insurer writes group-term and workers' compensation disability (WCD) insurance for 68 professional sectors and has access to 6.5 million potential insureds. The company's strong expertise, developed through sectorwide agreements, also allows it to develop a comprehensive offering for large companies and small and midsize enterprises, which account for 60% of its premiums.

AG2R's leading position in LTC, stemming from more than 20 years of experience through PRIMA, also boosts its competitive position in its core market. AG2R's competitive position further benefits from its links with La Mondiale (LM) through the ongoing integration of their operational capabilities, enabling both LM and AG2R to show strong positioning in France as they target complementary client bases and carry out complementary activities, such as comprehensive offers in life, savings, accident, and health. As a result, we expect AG2R's gross premium written to increase to around 5% in 2013, mainly driven by the growth in its health business.

We view AG2R's capital and earnings as moderately strong. This is because we view its capital adequacy as a relative strength to its financial risk profile, particularly when we allow the company's significant equalization reserves to be used as equity credit to cover any potential shocks. In addition, we expect retained earnings to boost its capital base and match the solvency requirements of prospective business growth. In our base case, we expect capital adequacy to remain moderately strong over the next two years. We consider that AG2R's capital is supportive of its current ratings level, as demonstrated by the size of its total adjusted capital (TAC) and its diversified risk exposures. In addition, we view quality of capital as good, for example, 47% of its TAC is made up of core surpluses.

AG2R's risk position is intermediate, in our opinion, mainly reflecting our view that the company's credit risk is manageable and that it faces limited market risk compared with other French insurers. The average rating of the bond portfolio is 'A-', which in our view is well diversified by sector and geography. Real estate makes up about 6% of investments, which is in line with the market average. However, we consider that a legacy of higher-than-peer exposure to bank Tier 1 debt adds potential downside risk to the quality of the company's investments.

AG2R's financial flexibility is adequate, in our view. Its capital needs stem principally from its organic growth, which it covers with retained earnings, its main source of capital. Financial flexibility is underpinned by a relatively low level of subordinated debt on the balance sheet, with a 3% financial leverage ratio.

We view AG2R's ERM and management and governance practices as neutral rating factors. Our assessment of ERM as adequate is sustained by the company's risk management culture and controls for the most significant risks. ERM is of low importance to the ratings because AG2R is only exposed to group protection and health in the French market. The company's ERM culture is neutral for the ratings, in our view.

We view AG2R's management and governance as satisfactory. We view management's expertise positively, as well as its focused strategy toward business lines in which the group has substantial expertise. We consider that the combined strategy of AG2R and LM is appropriately focused because it builds on the two groups' complementary areas of expertise. AG2R's strategy focuses on maintaining its position in the mature group protection segment, while continuing to grow in accident and health. AG2R's strategy is closely linked with that of La Mondiale, which aims to expand in its historical niches of pensions and savings. We have a common view on the management and governance of AG2R and LM as the companies are strategically and managerially integrated.

We view AG2R's liquidity as exceptional, with aggregate outgoings largely covered by premium income on a net and gross of reinsurance basis. Should any cash needs arise, we believe that AG2R's investment assets are highly marketable and could provide liquidity.

## **Outlook**

The stable outlook reflects our anticipation that AG2R will continue to strengthen its underwriting and capital adequacy, which we believe will enable it to face potential uncertainties and evolving competing dynamics in its main markets, group protection and health.

An improvement in our view of the company's capital adequacy or earnings, to the extent that it would lead us to revise upward our assessment of capital and earnings, could result in a positive rating action.

We could lower the rating if negative developments in claims ratios caused the company's operating performance to deteriorate significantly, or if its capital adequacy were to weaken following significant underwriting or investment losses.

## Rating Score Snapshot

Financial Strength Rating	BBB+/Stable
Anchor	bbb+
Business Risk Profile	Satisfactory
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Moderately Strong
Capital and Earnings	Moderately Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	-1
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA—Insurance Industry And Country Risk Assessment.

## Related Criteria And Research

### Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

### Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments,

May 7, 2013

## **Ratings List**

Ratings Affirmed

AG2R Prevoyance

PRIMA

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Financial Strength Rating

Local Currency

BBB+/Stable/--

### **Additional Contact:**

Insurance Ratings Europe; [InsuranceInteractive\\_Europe@standardandpoors.com](mailto:InsuranceInteractive_Europe@standardandpoors.com)

Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

**McGRAW-HILL**