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Research Update:
AG2R Prévoyance And PRIMA Outlook Revised To Negative On Weakening Underwriting Performance; 'A-' Rating Affirmed

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Overview

- We view France's AG2R Prévoyance's underwriting performance prospects as dampened because the insurer is likely to face challenges in restoring it through commensurate increases in policyholder contributions and tighter risk selection.
- We are consequently revising the outlook to negative from stable.
- We are affirming the ratings at 'A-'.
- The negative outlook reflects uncertainties about AG2R's ability to sufficiently shift its underwriting performance to more solid ground.

Rating Action

On Nov. 25, 2011, Standard & Poor's Ratings Services revised the outlook to negative from stable on French protection insurer AG2R Prévoyance (AG2RP), the main entity of AG2R group (AG2R) and its core subsidiary PRIMA. At the same time, Standard & Poor's affirmed the insurer financial strength and counterparty credit ratings on both companies at 'A-'.

Rationale

The negative outlook reflects uncertainties about AG2R's ability to sufficiently turn around its underwriting performance to positive, and whether it can make a stable contribution to its earnings, particularly through tighter risk selection, increased cross subsidies within its portfolio of risks, and increased contributions from its policyholders.

We believe that the insurer's earnings generation ability will remain constrained in the medium term. We view AG2R's operating performance as having deteriorated since year-end 2010, due to its limited ability to fund rising claims experience with commensurate contribution increases and risk management actions. Exacerbating this is the cost of French pension reform, which we believe will be challenging to fully fund through increased contributions. Furthermore, we expect AG2R's underwriting earnings this year to be negative as a result of increasing claims in the accident & health (A&H) and worker's compensation/disability (WCD) segment. The long-tail WCD line, which still reports very high loss ratios, is hampering the loss ratio in A&H. The profitability of group protection is also generally limited by granular profit-sharing policies that limit cross subsidies at the company's aggregate level, which in turn limits the ability to source surpluses from this business.

The ratings continue to reflect AG2R's strong competitive position and strong investment profile. Partially offsetting these factors are only good operating performance and financial flexibility.

AG2R has built a strong foothold in multiple industries thanks to its historical roots in the sectorwide agreement business ("conventions collectives"). The AG2R-La Mondiale Group is a well-recognized brand in France, covering complementary client bases and product ranges in life, savings, and A&H. However, we believe that AG2R's concentration in France and a high reinsurance cession rate partially offset its strong competitive position.

We view AG2R's investment profile as strong with manageable market and credit risks. However, we believe that a legacy of high exposure to hybrid debt issued by financial institutions hampers the company's quality of investments.

We view financial flexibility as "good" relative to its our assessment of its needs. The insurer's capital needs stem principally from organic growth, which we do not expect to be highly capital-demanding in the next two years. We believe, however, that the most important source of funding is earnings generation and retention. Therefore, AG2R's flexibility is dependent on generating strongly profitable business to maintain strong capital adequacy.

Outlook

The negative outlook reflects uncertainties about AG2R's ability implement a tighter selection of risks, increase contributions from its policyholders, and increase the cross-subsidy benefits across its portfolio. Such challenges weigh on the insurer's possibilities to quickly and sufficiently turn around underwriting performance to positive and to ensure a stable contribution to its earnings, particularly in the current operating environment.

Our rating factors in our expectations that A&H's combined ratio--the percentage of premiums paid out in claims and expenses--would not exceed 110% in 2011 and get back to less than 105% in 2012. We expect term guarantees to remain profitable with a loss ratio at 70% by 2012. We estimate that cost ratios for A&H administration and acquisitions will remain lower than 22%. We expect AG2R to reach breakeven in 2011 and to post operating income of more than €50 million over 2012 and 2013.

We would consider lowering the ratings if the expectations above are not met. We could also lower the ratings if we were to witness a material deterioration of capital adequacy, as measured by Standard & Poor's risk-based capital model.

We could revise the outlook to stable if AG2R exceeds the expectations above through actions that have long-term and sustainable effects.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Interactive Ratings Methodology, April 22, 2009
- Group Methodology, April 22, 2009
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
AG2R Prevoyance		
PRIMA		
Counterparty Credit Rating		
Local Currency	A-/Negative/--	A-/Stable/--
Financial Strength Rating		
Local Currency	A-/Negative/--	A-/Stable/--

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