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## Research Update:

# Outlooks On French Insurers AG2R And La Mondiale To Positive On Likely Stronger Integration Benefits; 'BBB+' Affirmed

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## Research Update:

# Outlooks On French Insurers AG2R And La Mondiale To Positive On Likely Stronger Integration Benefits; 'BBB+' Affirmed

## Overview

- AG2R Prévoyance and La Mondiale have become increasingly integrated, in our view, and we now consider them core to insurance group AG2R LA MONDIALE (AG2R LM). We expect the links between the two companies to deepen further.
- In addition, we believe the merger of Protection Institution Réunica with AG2R LM in 2015 will strengthen the group's capital buffers and business position.
- We are therefore revising our outlooks on AG2R Prévoyance and La Mondiale to positive from stable and affirming our 'BBB+' ratings.
- The positive outlooks indicate that we could raise the ratings on AG2R Prévoyance and La Mondiale over the next 24 months if group integration deepens and the group weathers material regulatory changes in France's health and protection insurance markets, while safeguarding its financial risk profile.

## Rating Action

On Nov. 21, 2014, Standard & Poor's Ratings Services revised, to positive from stable, its outlooks on AG2R Prévoyance, PRIMA, and La Mondiale, core entities of French insurance group AG2R LM. At the same time, we affirmed our 'BBB+' long-term counterparty credit and financial strength ratings on these entities.

## Rationale

The outlook revision reflects our view that AG2R LM's capital will benefit from the merger with Réunica and that integration within AG2R LM is strengthening the financial risk profiles of AG2R Prévoyance and La Mondiale.

We now base the ratings on a consolidated group approach, under which we consider AG2R Prévoyance and La Mondiale to be core entities to AG2R LM. In our view, AG2R LM has a strong business risk profile and an upper adequate financial risk profile, the combination of which results in an anchor of 'a-' for AG2R Prévoyance and La Mondiale.

However, we assess the group credit profile (GCP) at 'bbb+', one notch below the anchor. This is because we believe the difference between the legal

structures of AG2R Prévoyance and La Mondiale still constrains the full fungibility of capital within the group. Furthermore, the French regulator still monitors AG2R Prévoyance's and La Mondiale's solvency on a stand-alone basis. Also, regulatory changes to health and protection business in France create challenges to AG2R Prévoyance's business model and could reduce the potential benefits of its integration with La Mondiale.

The change in our rating approach to our group rating methodology, despite the constraints on fungibility of the entities' capital, resulted from the following considerations:

- AG2R Prévoyance and La Mondiale have been members of a common mutual holding company (Société de Groupe d'Assurance Mutuelle) since 2008;
- Since Jan. 1, 2014, taxation has been based on the combined group's results. This has allowed AG2R Prévoyance to activate previously unrecoverable tax credits from La Mondiale's profitability;
- Also, since Jan. 1, 2014, excess cash for liquidity purposes has been centralized at a joint subsidiary, creating a cash pool for the combined group; and
- The group has a common management, an increasingly aligned strategy, and multiple cross-company projects implemented over the years to align the entities' commercial approaches. Enterprise risk management and investment strategies have also been unified.

Our view of AG2R LM's financial risk profile as upper adequate reflects the benefits of AG2R Prévoyance's higher capital adequacy than La Mondiale's and the upcoming mergers with Via Santé in 2014 and Réunica in 2015. Via Santé and Réunica will contribute an additional €900 million of core equity to the group, an increase of about 25%. Via Santé and Réunica are strongly capitalized, with regulatory Solvency I ratios of 603% and 584%, respectively, at year-end 2013, compared with AG2R LM's 244% on the same date.

We also expect La Mondiale to strengthen its policyholder bonus reserves over the next three years to take into account the sharp drop in bond yields in 2014, which will weigh on future investment returns. We also consider that AG2R LM's potential buyout of Aegon N.V.'s minority interest in La Mondiale Participations, if it occurs, would not have a materially negative impact on the group's capital adequacy.

Our base-case assumptions include total internal capital generation of €0.7 billion-€0.9 billion over 2014-2016, in addition to the benefits of the integration of Via Santé and Réunica. We expect these earnings to help position the group's risk-adjusted capital adequacy, according to our methodology, closer to the 'A' benchmark. Our forecast is based on an assumption of stable credit spreads on fixed-income assets and a modest rise of less than 50 basis points in the 10-year French government bond yields between 2014 and 2016.

## Outlook

The positive outlooks indicate that we could raise the ratings on AG2R Prévoyance and La Mondiale over the next 24 months if group integration deepens and the group weathers material regulatory changes in France's health and protection insurance markets, while safeguarding its financial risk profile.

### Upside scenario

We could raise the ratings on AG2R Prévoyance and La Mondiale in the next 24 months if we considered that all of the following were likely to occur:

- Deeper group integration and capital fungibility, with evidence that constraints on the flow of capital between AG2R Prévoyance and La Mondiale have been alleviated;
- Strengthening of policyholder reserves, with lower crediting rates to address continuously depressed long-term bond yields;
- Demonstration of the group's operational capacity to manage the effect of regulatory changes in France's health and protection insurance market, without a material reduction in earnings; and
- Successful completion of the merger with Réunica, which would facilitate future cost and revenue synergies beneficial to AG2R LM's operating performance.

### Downside scenario

We could revise the outlooks to stable if:

- AG2R Prévoyance's and La Mondiale's group integration and the fungibility of their capital were unlikely to increase;
- The combined group's capital adequacy unexpectedly and materially deteriorated, such as from smaller increases of policyholder reserves or lower long-term bond yields than we currently assume in our base case; or
- Regulatory changes hampered performance more than we expected.

## Ratings Score Snapshot

Financial Strength Rating                      BBB+/Positive/--

Anchor	a-
Business Risk Profile	Strong
IICRA	Low risk
Competitive Position	Strong
Financial Risk Profile	Upper Adequate
Capital and Earnings	Moderately Strong
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	-1
ERM and Management	0

Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	-1

Liquidity Exceptional

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria And Research

### Related Criteria

- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Ratings List

Ratings Affirmed; Outlook Action

	To	From
AG2R Prevoyance		
PRIMA		
La Mondiale		
Counterparty Credit Rating	BBB+/Positive/--	BBB+/Stable/--
Financial Strength Rating	BBB+/Positive/--	BBB+/Stable/--
La Mondiale		
Junior Subordinated	BBB-	BBB-

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