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SGAM AG2R La Mondiale

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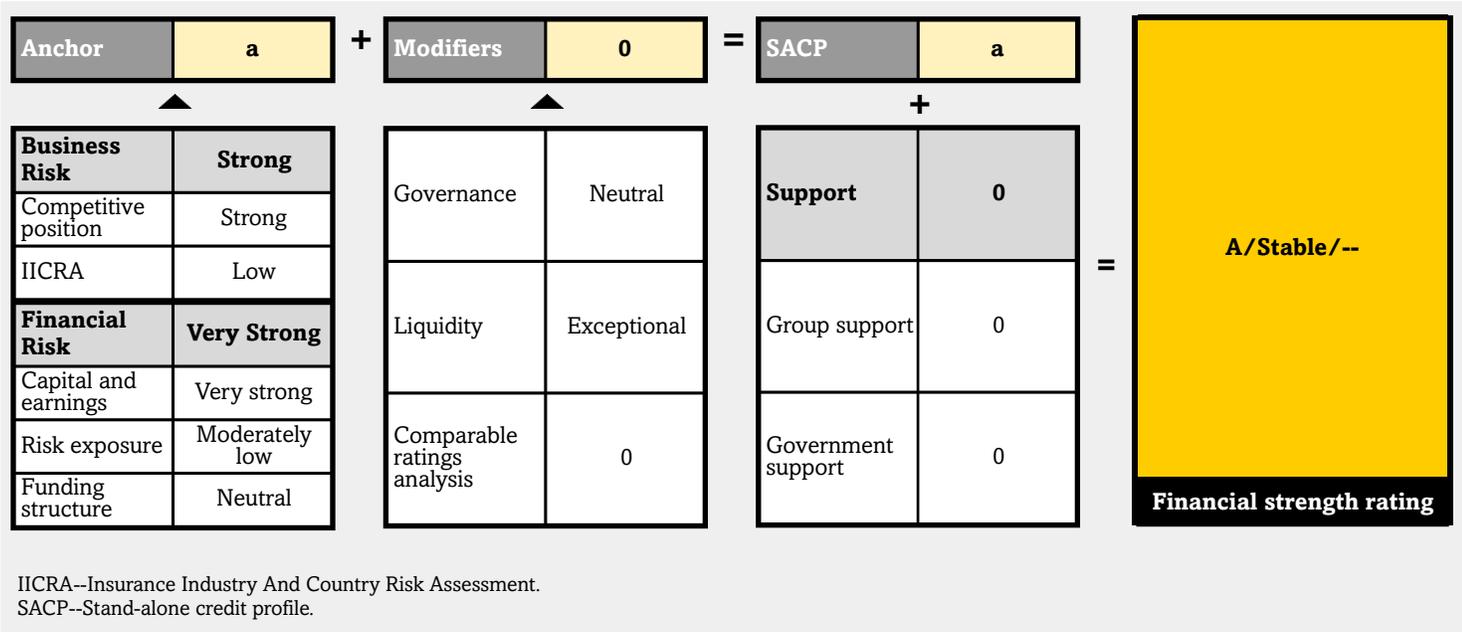
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SGAM AG2R La Mondiale



Credit Highlights

Overview	
Strengths	Risks
Well-established market position in French life, pension, and health insurance markets.	Limited business and geographical presence outside of France.
Higher share of capital-light, unit-linked (UL) products compared with peers and the French insurance market.	Relatively low return on equity compared with peers.
Robust capital adequacy at 'AA' level, despite the pandemic.	

We expect that SGAM AG2R La Mondiale (AG2R LM) will remain one of the leading life insurers in France. AG2R LM is a well-known French insurer and enjoys a market leading position in life insurance, and protection business in France. The group's long-standing presence, established brand image, and multichannel distribution have been a great benefit to its market success. Additionally, AG2R LM's plan to convert its long-term pension liabilities under Madelin contracts into new, individual retirement pension plan contracts will aid its diversification in the pension market.

AG2R LM has improved its capital position to the high end of the 'AA' level, according to S&P Global Ratings capital adequacy requirements, despite pandemic-related stress. Owing to the continuous increase in capital-light products, we expect that AG2R LM's capital adequacy will remain above our 'AA' benchmark and that it will report a net income of more than €300 million in the next three years.

In our view, AG2R LM has successfully reduced its higher-than-average sensitivity to low interest rates. AG2R LM has been reducing its sensitivity to interest rates by prioritizing capital-efficient, UL insurance products. The group has a ratio of UL to general accounts of 40% to 60%, which is above the average for French life insurers. This is in line with its strategic decision to strengthen the resilience of capital and earnings and maintain a Solvency II ratio, excluding transitional measures, of above 150%.

Outlook: Stable

The stable outlook reflects our view that the group will achieve its target of generating a cumulative €1 billion in three years, and will maintain its S&P Global Ratings capital adequacy above the 'AA' level.

Downside scenario

We could lower our rating on AG2R LM if, contrary to our expectations, the profitability and quality of the group's premium base markedly weakens, leading to missed earnings targets, and if capital adequacy declines sustainably below the 'AA' level.

Upside scenario

We consider an upgrade to be unlikely in the next 24 months. We may consider raising the rating if, over time, we observe a successful and profitable product diversification outside of the life and health sectors.

Key Assumptions

- France GDP to bounce back and grow at 5.6% in 2021 and 4.2% in 2022. We expect growth to slow to 2% in 2023.
- An increase in unemployment to 8.9% in 2021, and 9.3% in 2022.
- Rise in inflation to 1.4% in 2021, 1.2% in 2022, and 1.3% in 2023.
- Low interest rates are a key risk to Europe, Middle East, and Africa-based insurers, with the 10-year French government bond likely to remain negative in 2021. We anticipate that this will be positive in 2021 and 2022.

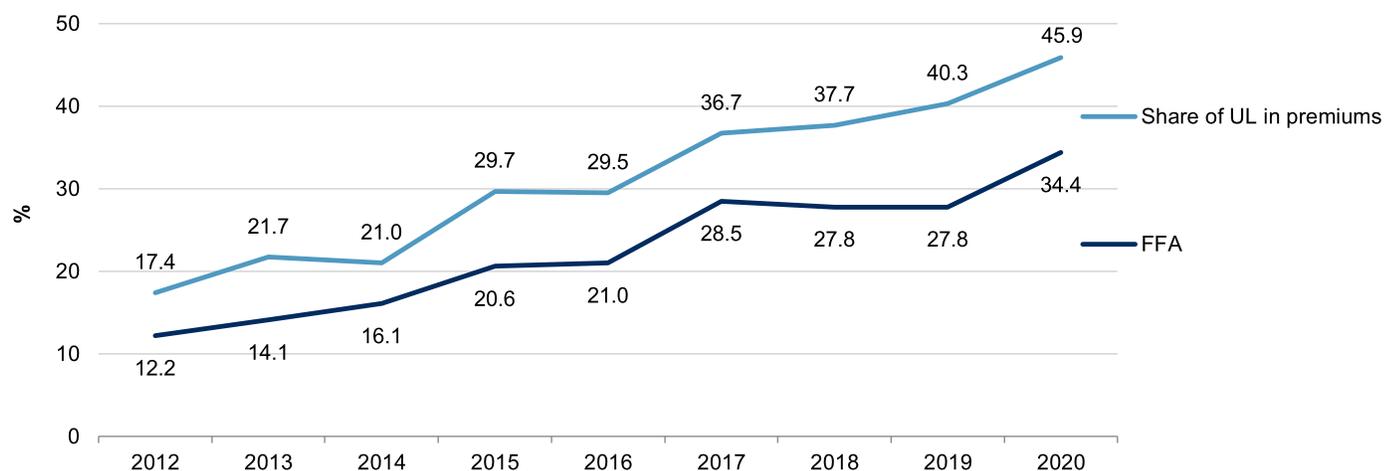
AG2R LM--Key Metrics

	2021f	2021f	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Strong	Very Strong
Gross premium written (Mil. €)	>9,000	>9,000	9,168.8	9,433.0	9,575.0	9,679.0
Net income (Mil. €)	>300	>300	222.5	350.0	324.0	362.0
Return on shareholders' equity (%)	>4	>4	2.9	5.1	5.3	6.2

f--Forecast.

Chart 1

La Mondiale's Share Of Unit-Linked In Premiums



FFA--French insurance federation rate. UL--Unit-linked. Source: S&P Global Ratings.

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Business Risk Profile: Strong

AG2R LM has a prominent business position in France, as well as a diverse distribution network, and displays stable operating performance. That said, we note that its business concentration in the French life market is higher than that of higher-rated peers. The company primarily writes life and health insurance business in France and has a presence in Italy and Luxembourg.

The La Mondiale subgroup has a leading position in its strategically chosen niches, namely high-net-worth savings, Madelin pensions, and group pensions. La Mondiale Partenaire and La Mondiale Europartner's affluent client base has allowed the group to markedly outperform the market in terms of UL savings, which we consider to be the more profitable products for insurers. UL accounted for about 46% of group premium, compared with 34% for the French life market.

At AG2R Prévoyance, the multi-professional focus and large scale are key competitive differentiators within a market that is undergoing deep regulatory changes. AG2R Prévoyance writes group-term and workers' compensation disability insurance for 59 professional sectors and has a large population of 6.5 million insured. Further solidifying AG2R Prévoyance's position is AG2R LM's ability to join forces with, and integrate, smaller players, such as Réunica.

In 2020, AG2R LM's gross premium declined by 3% to €9.1 billion and its net income declined to €222 million from €350 million, mainly caused by pandemic-related adverse financial markets, increased claims, and loss of premium.

Financial Risk Profile: Very Strong

The shift to less capital-intensive UL life policies caused a decline in capital requirements that improved the group's capital adequacy at the 'AA' level, according to our capital model. We expect AG2R LM's capital adequacy will remain comfortably above our 'AA' benchmark and that it will report a net income of more than €300 million in the next three years. AG2R LM's equity hedging, combined with its issuance of restricted Tier 1 notes, reduced its sensitivity to pandemic-related market shocks. The policyholder surplus reserves are currently equivalent to 4.1% of insurance technical reserves, and we anticipate that the group will maintain this level over the two-year forecast horizon.

In response to low interest rates, AG2R is reducing its exposure to insurance products that carry guarantees. SGAM's average guaranteed interest rate on in-force business reduced to 0.58% and on new business to 0.00% in 2020, which is similar to its local peers AXA, Generali, and Groupama. AG2R LM is increasing its share of UL insurance products. We believe AG2R LM's exposure to interest rate and long-term pension liabilities with guarantees as in line with that of rated peers among the French life insurers, and we do not expect higher capital volatility.

SGAM LM's financial leverage increased to 32% in 2020, from 27% in 2019, after the issuance of Tier 3 notes of €500 million and Tier 2 notes of €500 million in 2020. Fixed charge coverage is 4.4x and is likely to remain above 4x in 2021-2023.

Other Key Credit Considerations

Governance

AG2R LM's management has demonstrated the depth and breadth of its expertise in governance, as well as its ability to make strategic plans and execute them. We view AG2R LM's strategy as focused, because it builds on the group's complementary expertise, which is likely to help it to maintain a stable business profile.

Liquidity

In our view, AG2R LM has exceptional liquidity, as it has sustained highly liquid assets, and positive net inflows. The group's pension business, which cannot be easily surrendered, is positive for its liquidity, in our view. Should any cash needs arise, we think that AG2R LM's highly marketable investment assets could provide liquidity.

Accounting considerations

We base our analysis of AG2R LM on the consolidated group accounts. AG2R LM reports according to International Financial Reporting Standards (IFRS). Starting from the published figures, we perform certain adjustments when forming our opinion of capital adequacy and operating performance. In particular, we adjust to include eligible hybrid capital not recognized as equity under IFRS, unrealized capital gains on property assets, and for the value in force.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

AG2R LM--Credit Metrics History				
Ratio/Metric	2020	2019	2018	2017
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Strong	Very Strong
Total invested assets	116,528.4	110,838.0	101,169.1	102,395.9
Total shareholder equity	7,832.9	7,409.7	6,240.0	5,946.7
Gross premiums written	9,168.8	9,433.0	9,574.6	9,679.3
Net premiums written	8,309.7	8,603.7	8,653.8	8,784.6
Net premiums earned	8,309.7	8,603.9	8,655.0	8,784.6
Reinsurance utilization (%)	9.4	8.8	9.6	9.2
EBIT	399.5	568.7	568.4	572.0
Net income (attributable to all shareholders)	222.5	350.1	323.9	361.5
Return on revenue (%)	3.9	5.4	5.3	5.3
Return on assets (excluding investment gains/losses) (%)	0.3	0.5	0.5	0.5
Return on shareholders' equity (reported) (%)	2.9	5.1	5.3	6.2
P/C: net combined ratio (%)	109.4	105.5	103.5	102.4
P/C: net expense ratio (%)	21.2	22.9	20.4	19.4
P/C: return on revenue (%)	(3.2)	0.8	1.1	4.2
EBIT fixed-charge coverage (x)	4.4	5.6	4.9	5.1
Financial obligations / EBIT adjusted	9.3	4.9	4.9	4.3
Financial leverage including pension deficit as debt (%)	32.1	27.3	30.8	29.2
Net investment yield (%)	1.9	2.2	2.4	2.5
Net investment yield including investment gains/(losses) (%)	3.2	7.7	(0.6)	5.0

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of October 4, 2021)*

Operating Company Covered By This Report

La Mondiale

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

A/Stable/--

Junior Subordinated

BBB

Junior Subordinated

BBB+

Subordinated

BBB+

Domicile

France

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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