

SGAM AG2R La Mondiale

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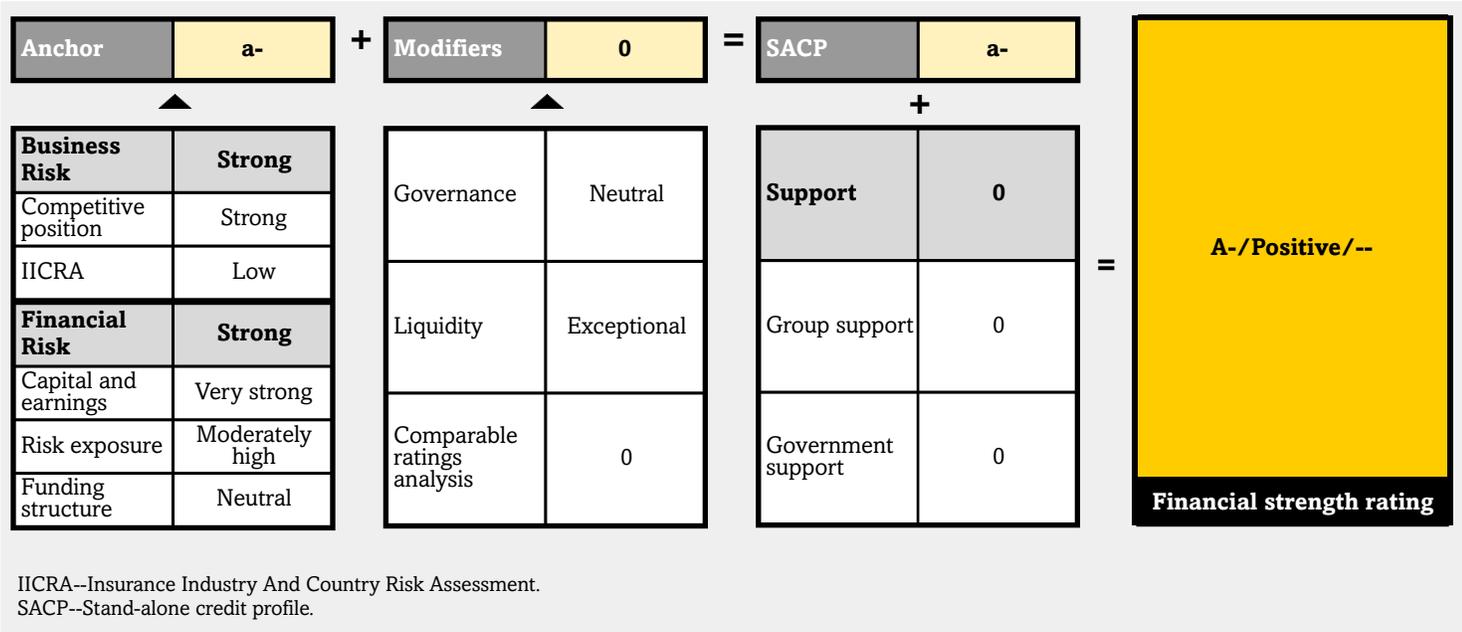
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SGAM AG2R La Mondiale



The selection of a lower anchor for AG2R LM is driven by sensitivity to interest rates compared with European rated peers.

Credit Highlights

Overview	
Strengths	Risks
Well-known brand with leading market position in life and protection business in France.	Potential capital and earnings volatility due to higher sensitivity to interest rates than rated peers, deriving from pension activity.
Diversified set of products and complementary distribution vehicles, including proprietary salaried network, private banks, and brokers.	Higher business concentration in the life market in France.
Higher share of unit-linked (UL) products compared to the French life market.	Increased capital volatility from losses and market instability due to COVID-19.

S&P Global Ratings expects that SGAM AG2R La Mondiale (AG2R LM) will maintain its top-tier ranking in life and protection business in France. We believe AG2R LM will benefit from its renowned brand name, multi-channel distribution strategy, and diversification by business line in the French life insurance market. We believe AG2R LM has, for example, by hedging the equity portfolio and issuing restricted Tier-1 notes, reduced its sensitivity to COVID-19-related market shocks. Therefore, we expect the group will maintain its capital buffer above our 'AA' benchmark, despite subdued earnings in 2020, given we expect a recovery over 2021-2022.

We estimate the group will generate an annual normalized net income exceeding €300 million in 2021-2022 with 2020 net income affected by COVID-19-related losses and market shocks. AG2R LM should continue to benefit from a shift in its policyholder strategy that will outweigh an expected decline in investment returns. However, this year AG2R LM suffered significant COVID-19-related losses in its health and protection segment

We expect AG2R LM will maintain its capital adequacy at levels above 'AA' through 2022. In 2019, the group's management took several actions that improved both our capital adequacy assessment to 'AA' and the regulatory solvency ratio following the drop of the European Insurance and Occupational Pensions Authority's yield curve. For example, the company issued €500 million of restricted Tier 1 (RT1) notes and reduced its equity exposure. The company's not-for-profit nature is favorable compared with peers. However, earnings' sensitivity to interest rates could create a potential source of volatility.

Outlook: Positive

The positive outlooks indicate that we could raise the ratings in the next 12 months if the group maintains S&P Global Ratings capital adequacy above the 'AA' level, earnings are stable, and we see reduced financial-market uncertainties that increase capital volatility.

Beyond that, we expect AG2R LM will maintain an annual normalized net income exceeding €300 million.

Downside scenario

We could revise the outlook to stable over the next two years if:

- AG2R LM's capital adequacy unexpectedly deteriorates to materially below the 'A' benchmark for a sustained period--for example, due to lower long-term bond yields than we assume in our base case, more aggressive volume growth than expected, or higher asset risk; or
- The profitability and quality of the premiums base markedly weakens as a result of stiffer competition or adverse market developments, causing the group to miss its earnings targets.

Key Assumptions

- French GDP will fall about 8% due to the economic fallout from the pandemic, with an increase in unemployment to 9.5% and a drop in inflation to 0.7% in 2020. However, we expect a recovery in 2021 with GDP growth forecast at 6.1%.
- Low interest rates remain a key risk to Europe, Middle East, and Africa-based insurers, with French 10-year government bond yields of about negative 0.08% in 2020 and 2021, based on our economic estimates.

Key Metrics

	2021F	2021F	2020F	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	>9,000	9,433	9,575	9,679
Net income (mil. €)	>300	>300	~150	350	324	362
Return on shareholders' equity (%)	>4.0	> 4.0	~3	5.13	5.32	6.21

F--S&P Global Ratings forecast.

Business Risk Profile: Strong

AG2R LM is France's fourth-largest health insurance provider, and second-largest for long-term care, with a strong brand and leading positions in high-net-worth-individual savings, self-employed (loi Madelin), and group pension contract segments.

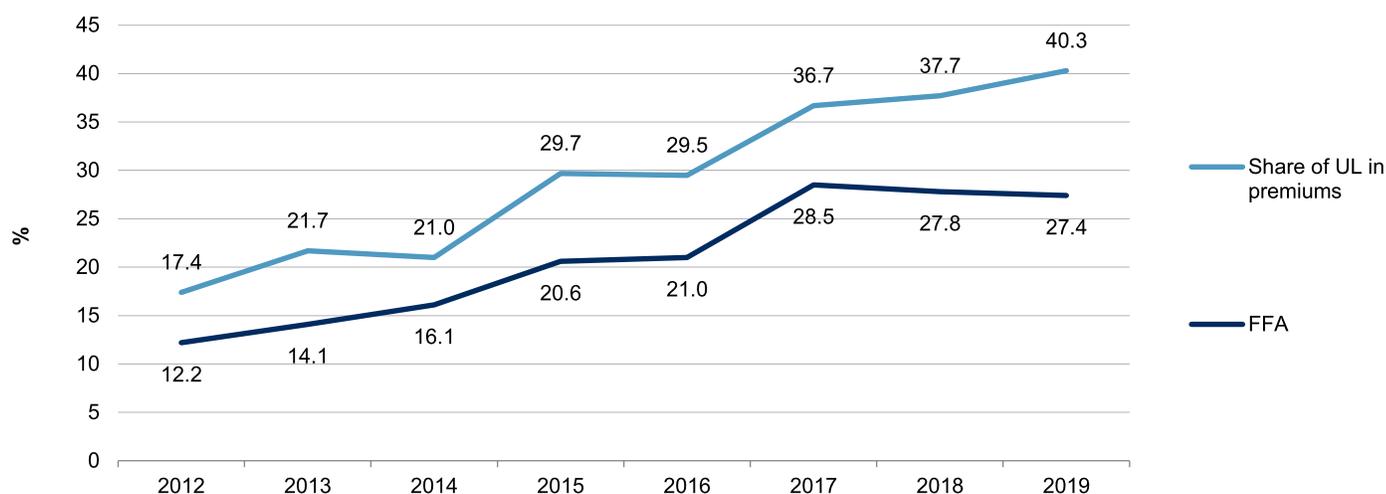
Our view of AG2R LM's competitive position is supported by its diversified set of product lines and complementary distribution vehicles, including proprietary salaried networks, private banks, and brokers.

On the La Mondiale subgroup side, the relatively low aggregate market share masks an established, 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 also allowed the group to markedly outperform the market in terms of UL savings, which we consider to be more profitable products for insurers. UL accounted for about 40% of group premiums, compared with 27% for the French life market.

Chart 1

La Mondiale's Share Of Unit-Linked In Premiums



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

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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 access to 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 Réunionica.

AG2R Prévoyance suffered significant COVID-19-related losses in its in protection activity because it paid more to its

policyholders than it is contractually obliged to. Instead of paying 70% of salaries for partial unemployment related to COVID-19, it has covered 100%. Although limited, we also expect AG2R Prévoyance will suffer from defaults on premium payments from failing insured companies. However, we believe this will be partially offset by lower noncritical health care consumption during the lockdown.

COVID-19 has had a limited effect on the pension and saving segments, with premium collection in line with first-quarter 2019.

Financial Risk Profile: Strong

We expect AG2R LM's capital adequacy will remain comfortably above our 'AA' benchmark in the next three years. We see above-average potential volatility of capital adequacy from a significant amount of long-term pension liabilities, some of them bearing a high guaranteed rate.

AG2R LM's retained earnings and issuance of €500 million of RT1 notes increased total available capital (TAC) at year-end 2019. The policyholder surplus reserves are currently equivalent to 4.1% of insurance technical reserves, and we believe that the group will maintain this level over the forecast horizon.

AG2R LM has gradually shifted to less capital-intensive UL life policies, decreasing capital requirements. It has a higher ratio of UL to general accounts of 40%:60%, which is above the average of French life insurers.

In our opinion, AG2R LM's sensitivity to interest rates also results in potential capital-adequacy volatility. The sensitivity to interest rates derives from La Mondiale's significant amount of long-term pension liabilities with guarantees. With the maturing of policies, the share of liabilities with a guaranteed rate above 2% is shrinking, but remains higher than other rated French life insurers'.

Other Key Credit Considerations

Governance

AG2R LM's management has demonstrated its expertise, depth, and breadth, as well as its strategic planning and ability to put its strategy into action. We view AG2R LM's strategy as focused, because it builds on the group's complementary expertise, which is likely to continue helping it to maintain a stable business profile.

Liquidity

We believe AG2R LM has exceptional liquidity, sustained highly liquid assets, and positive net inflows. The group's pension business, which cannot be surrendered easily, is positive for its liquidity, in our view. Should any cash needs arise, we believe that AG2R LM's investment assets are highly marketable and 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. These include particularly eligible hybrid capital not recognized as equity under IFRS, unrealized capital gains on property assets, and an adjustment for the value in

force (VIF).

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- France-Based Insurer SGAM AG2R La Mondiale Affiliates 'A-' Ratings Affirmed; Outlook Positive, Sept. 25, 2019

Appendix

Credit Metrics History			
Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy*	Very Strong	Strong	Very Strong
Total invested assets	110,838	101,169	102,396
Total shareholder equity	7,410	6,240	5,947
Gross premiums written	9,433	9,575	9,679
Net premiums written	8,604	8,654	8,785
Net premiums earned	8,604	8,655	8,785
Reinsurance utilization (%)	8.8	9.6	9.2
EBIT	569	568	572
Net income (attributable to all shareholders)	350	324	362
Return on revenue (%)	5.4	5.3	5.3
Return on assets (excluding investment gains/losses) (%)	0.5	0.5	0.5
Return on shareholders' equity (reported) (%)	5.1	5.3	6.2
P/C: net combined ratio (%)	105.5	103.5	102.4
P/C: net expense ratio (%)	22.9	20.4	19.4
P/C: return on revenue (%)	0.8	1.1	4.2
EBITDA fixed-charge coverage (x)	5.6	4.9	5.1
Financial obligations / EBITDA adjusted	4.9	4.9	4.3
Financial leverage including pension deficit as debt (%)	27.3	30.8	29.2
Net investment yield (%)	2.2	2.4	2.5

Credit Metrics History (cont.)

Ratio/Metric	2019	2018	2017
Net investment yield including investment gains/(losses) (%)	7.7	(0.6)	5.0

P/C--Property/casualty.

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-/bbb	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 July 1, 2020)*

Operating Company Covered By This Report

La Mondiale

Financial Strength Rating

Local Currency

A-/Positive/--

Issuer Credit Rating

A-/Positive/--

Junior Subordinated

BBB

Junior 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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