

## Research

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# SGAM AG2R La Mondiale

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# SGAM AG2R La Mondiale

## Credit Highlights

**Operating Company Covered  
By This Report**

**Financial Strength Rating**

Local Currency

A-/Positive/--

### Overview

#### Strengths

Well-known brand with leading market position in life and protection business in France.

Diversified set of products and complementary distribution vehicles, including proprietary salaried network, private banks, and brokers.

Higher share of unit-linked products compared to French life market.

#### Risks

Potential capital and earnings volatility due to higher sensitivity to interest rates than rated peers, deriving from pension activity.

Higher business concentration in life market in France.

**We expect that SGAM AG2R La Mondiale (SGAM LM) will maintain its top-tier ranking in life and protection business in France.** We believe SGAM LM will benefit from its renowned brand name, multi-channel distribution strategy, and diversification by business line in the French life insurance market.

**We estimate that the group will generate annual net earnings of €300 million-€325 million in 2019-2021.** SGAM LM should continue to benefit from a shift in its policyholder strategy that will outweigh the expected decline in investment returns.

**Capitalization is likely to remain strong, despite the lower interest rate environment.** Based on our risk-based capital model, we expect SGAM LM's capital will remain strong through 2021, based on annual earnings of €300 million-€325 million. The company's not-for-profit nature is favorable compared to peers. However, earnings' sensitivity to interest rates could create a potential source of volatility.

## Outlook

The positive outlook on AG2R Prévoyance, PRIMA, La Mondiale, and Ariel CNP Assurances indicates that we could raise the ratings in the next 12 months if AG2R LM continues to reduce its sensitivity to persisting low interest rates. An upgrade would also be predicated on AG2R-LM maintaining S&P Global Ratings' capital adequacy around the 'AA' level, and a satisfactory operating performance.

### Downside scenario

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

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

## Key Assumptions

- Average GDP growth of 1.4% in France for 2019 and 2020.
- ECB unlikely to raise rates before 2020 and get out of the negative territory before the end of 2023 given its new stimulus package.

**Table 1**

SGAM AG2R La Mondiale--Key Metrics				
	2020f	2019f	2018	2017
S&P Global Ratings capital adequacy	Strong	Strong	Strong	Very Strong
Gross premium written (mil. €)	>9,000	>9,000	9,575	9,679
Net income (mil. €)	>300	>300	324	362
Return on shareholders' equity (%)	> 4.0	> 4.0	5.33	6.21

f--S&P Global Ratings forecast.

## Business Risk Profile

France-based SGAM LM is the fourth-largest health insurance provider, second-largest for long-term care, and has a strong brand and leading positions in high-net-worth individual savings, self-employed (called "loi Madelin"), and group pension contract segments.

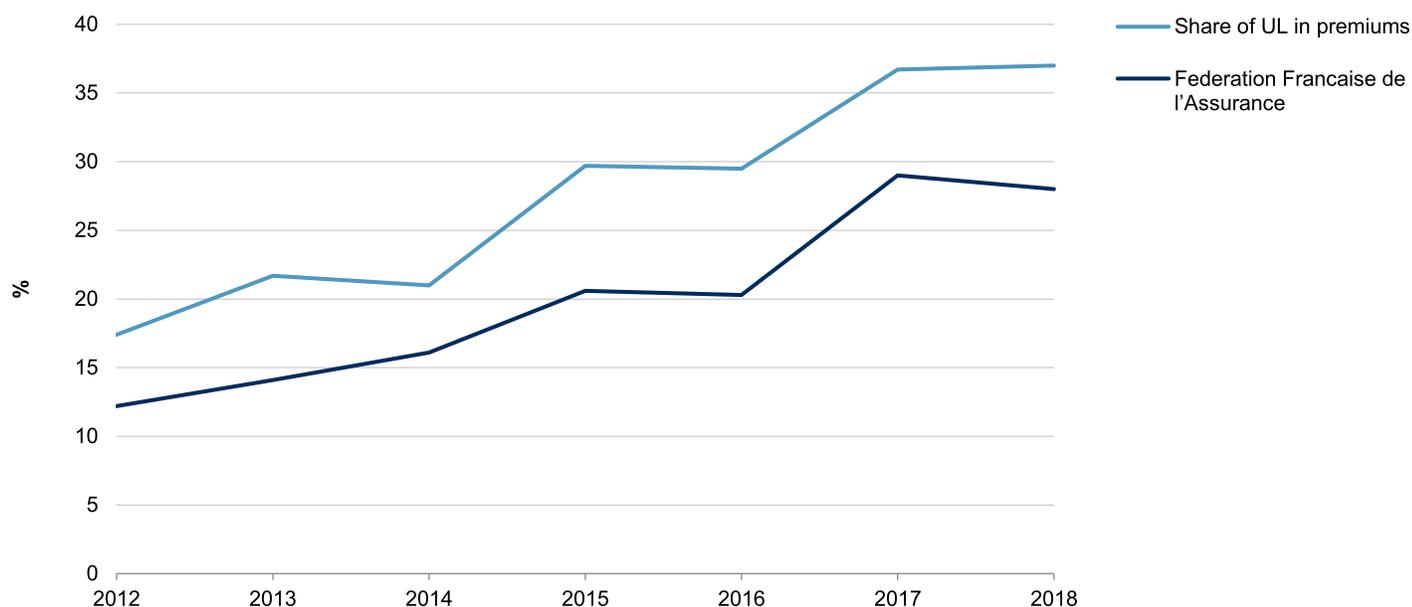
Our view of SGAM LM's competitive position is supported by its diversified set of product lines and complementary distribution vehicles, including proprietary salaried network, private banks, and brokers.

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, the 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 unit-linked (UL) savings, which we consider to be more profitable products for insurers. UL accounted for about 37% of its premiums, compared with 28% for the French life market.

**Chart 1**

**SGAM AG2R La Mondiale Share Of Unit-Linked Premiums**



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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 Réunica.

**Financial Risk Profile**

We expect AG2R LM's capital adequacy to remain comfortably above our 'A' 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 €52 million equity-like mutualist certificates, which are treated as core equity, have increased total available capital (TAC) at year-end 2018. The policyholder surplus reserves are currently equivalent to 4.2% 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 unit-linked life policies, decreasing the capital requirement. It has gradually shifted its focus on UL products and has a higher ratio of unit-linked to general accounts of 30%:70%, 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. Our assessment of the general account pension liabilities amounts to about 30% of AG2R LM's total technical reserves at end-2018. With the maturing of policies, the share of liabilities with a guaranteed rate above 2% is shrinking, albeit remaining higher than that of other rated French life insurers.

## Other Key Credit Considerations

### Governance

SGAM LM's management has demonstrated its expertise and depth and breadth, as well as its strategic planning and ability to convert 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 the group to maintain its 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 accounts of the SGAM. 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).

## Ratings Score Snapshot

Table 2

SGAM AG2R La Mondiale--Ratings Score Snapshot	
<b>Business Risk Profile</b>	<b>Strong</b>
Competitive position	Strong
IICRA	Low Risk
<b>Financial Risk Profile</b>	<b>Satisfactory</b>
Capital and earnings	Strong

**Table 2**

SGAM AG2R La Mondiale--Ratings Score Snapshot (cont.)	
Business Risk Profile	Strong
Risk exposure	Moderately High
Funding structure	Neutral
Anchor*	a-
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A-

\*This is influenced by our view of the strong brand and leading position in France supported by improved capital as per S&P Global Ratings' model as well as on a regulatory basis.

## 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

**Table 3**

SGAM AG2R La Mondiale--Credit Metrics History		
Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy*	Strong	Very Strong
Total invested assets	101,169	102,396
Total shareholder equity	6,240	5,947
Gross premiums written	9,575	9,679
Net premiums written	8,654	8,785
Net premiums earned	8,655	8,785
Reinsurance utilization (%)	9.6	9.2

Table 3

SGAM AG2R La Mondiale--Credit Metrics History (cont.)		
Ratio/Metric	2018	2017
EBIT	568	572
Net income (attributable to all shareholders)	324	362
Return on revenue (%)	5.3	5.3
Return on assets (including investment gains/losses) (%)	0.5	0.5
Return on shareholders' equity (reported) (%)	5.3	6.2
P/C: net combined ratio (%)	103.5	102.4
P/C: net expense ratio (%)	20.4	19.4
P/C: return on revenue (%)	1.1	4.2
EBITDA fixed-charge coverage (x)	4.9	5.1
Financial obligations / EBITDA adjusted	4.9	4.3
Financial leverage including pension deficit as debt (%)	30.8	29.2
Net investment yield (%)	2.4	2.5

### Ratings Detail (As Of October 3, 2019)\*

#### Operating Company Covered By This Report

##### La Mondiale

Financial Strength Rating

*Local Currency*

A-/Positive/--

Issuer Credit Rating

A-/Positive/--

Junior Subordinated

BBB

##### Related Entities

##### AG2R Prevoyance

Financial Strength Rating

*Local Currency*

A-/Positive/--

Issuer Credit Rating

*Local Currency*

A-/Positive/--

##### Arial CNP Assurances

Financial Strength Rating

*Local Currency*

A-/Positive/--

Issuer Credit Rating

*Local Currency*

A-/Positive/--

##### PRIMA

Financial Strength Rating

*Local Currency*

A-/Positive/--

Issuer Credit Rating

*Local Currency*

A-/Positive/--

##### 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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