

Research Update:

France-Based Insurer SGAM AG2R La Mondiale's Core Entities Affirmed At 'A-'; Outlook Positive

November 18, 2019

Overview

- We believe SGAM AG2R La Mondiale (AG2R LM) has reduced the sensitivity of its earnings to equity risk and improved its capitalization following the issuance of restricted tier 1 notes and other strategic actions.
- In turn, we foresee the group's capital buffer strengthening beyond our 'AA' benchmark and stable earnings over the next three years.
- We are affirming our 'A-' ratings on AG2R LM's core subsidiaries AG2R Prévoyance, PRIMA, La Mondiale, and Arial CNP Assurances.
- The positive outlooks indicate that we could raise the ratings in the next 12 months if the group maintains a satisfactory operating performance and continues to reduce its sensitivity to low interest rates.

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Rating Action

On Nov. 18, 2019, S&P Global Ratings affirmed its 'A-' financial strength and issuer credit ratings on French insurer AG2R LM's core subsidiaries AG2R Prévoyance, PRIMA, La Mondiale, and Arial CNP Assurances. Our outlooks on these entities remain positive.

At the same time, we affirmed our 'BBB' and 'BBB-' issue ratings on La Mondiale's junior subordinated debt.

Rationale

AG2R LM enjoys prominent business positions in France, has an extensive product range and distribution network, and displays stable operating performance. We note however AG2R LM's business concentration in volatile long-term guaranteed back books.

We expect AG2R LM will maintain its newly strengthened capital adequacy at levels above 'AA' under our capital model over the next three years. 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 and its impact on the group's solvency ratio. Examples of actions taken are the recent issuance of €500 million of restricted tier 1 notes and the reduction of equity exposure.

Outlook

The positive outlooks indicate that we could raise our ratings on the four entities over the next 12 months if the group continues to reduce its sensitivity to low interest rates. An upgrade would also be predicated on AG2R LM maintaining S&P Global Ratings' capital adequacy above the 'AA' level and stable earnings, with net income exceeding €300 million annually in 2019-2021.

Downside scenario

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

- AG2R LM's capital adequacy unexpectedly deteriorated 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 weakened as a result of stiffer competition or adverse market developments, causing the group to miss its earnings targets.

Ratings Score Snapshot

	To	From
Financial strength rating	A-	A-
Anchor*	a-	a-
Business risk	Strong	Strong
IICRA	Low risk	Low risk
Competitive position	Strong	Strong
Financial risk	Strong	Satisfactory
Capital and earnings	Very strong	Strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity		
Comparable ratings analysis	0	0
Support		
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment. *The selection of the lower anchor is influenced by our view of AG2R LM's sensitivity to interest rates compared to European peers.

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

Ratings List

Ratings Affirmed

La Mondiale

Issuer Credit Rating	
Foreign Currency	A-/Positive/--
Junior Subordinated	BBB
Junior Subordinated	BBB-

La Mondiale

PRIMA

Arial CNP Assurances

AG2R Prevoyance

Financial Strength Rating	
Local Currency	A-/Positive/--
Issuer Credit Rating	
Local Currency	A-/Positive/--

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