

Research Update:

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

June 9, 2020

Overview

- We believe SGAM AG2R La Mondiale (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 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 S&P Global Ratings' capital adequacy above the 'AA' level, earnings are stable, and we see reduced financial-market uncertainties that increase volatility of capitalization.

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Rating Action

On June 9, 2020, S&P Global Ratings affirmed its 'A-' financial strength and issuer credit ratings on French insurer SGAM AG2R La Mondiale's (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's credit metrics remain in line with our expectations. However, given current market uncertainties we believe the company's balance sheet is exposed to volatility that could affect its capital base.

In our view, the group's limited exposure to equities thanks to hedging, limits its sensitivity to market shocks due to COVID-19-related lockdowns. However, spread-widening in particular has increased financial-market uncertainty and negatively affected the market value of AG2R LM's investments and, as a consequence, the mutual group's capital adequacy has become more

volatile.

AG2R LM suffered significant COVID-19-related losses in its health and protection segment, although we believe lower noncritical healthcare consumption during the lockdown will offset this somewhat. AG2R Prévoyance suffered higher-than-expected losses in protection activity because it voluntarily 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. COVID-19 has had a limited impact on the pension and saving segments, with premium collection in line with first-quarter 2019.

AG2R LM enjoys prominent business positions in France, has an extensive product range and distribution network, and displays stable operating performance, although we note its business concentration in volatile long-term guaranteed back books. We expect the losses and market volatility due to COVID-19 will impact the group's 2020 performance.

We expect AG2R LM will maintain its capital adequacy at levels above 'AA' under our capital model over the next three years. 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 notes and reduced its equity exposure.

Outlook

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-markets uncertainties that increase volatility of capitalization.

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 weaken 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

	To	From
Financial strength rating	A-	A-
Competitive position	Strong	Strong
Financial risk	Strong	Strong
Capital and earnings	Very strong	Very Strong
Risk exposure	Moderately high	Moderately high
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
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

AG2R Prevoyance

Arial CNP Assurances

La Mondiale

PRIMA

Financial Strength Rating A-/Positive/--

Ratings Affirmed

AG2R Prevoyance

Arial CNP Assurances

La Mondiale

PRIMA

Issuer Credit Rating	A-/Positive/--
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La Mondiale

Junior Subordinated	BBB
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Junior Subordinated	BBB-
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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