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Research Update:

France-Based Insurer SGAM AG2R La Mondiale's Core Entities Upgraded To 'A'; Outlooks Stable

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PRIMARY CREDIT ANALYST

Olivier J Karusisi
Paris
(33) 1-4420-7530
olivier.karusisi
@spglobal.com

SECONDARY CONTACTS

Taos D Fudji
Milan
+ 390272111276
taos.fudji
@spglobal.com

Ami M Shah
Mumbai
(91) 22-4040-8340
ami.shah
@spglobal.com

Overview

- We believe SGAM AG2R La Mondiale (AG2R LM) has successfully reduced its higher-than-average sensitivity to low interest rates, and will further decrease its average long-term guaranteed interest rate in line with that of rated French-based peers.
- We expect the group will maintain its robust capital position at 'AA' level as per S&P Global Ratings' capital adequacy requirements, despite COVID-19-related stress.
- We have therefore raised our ratings on AG2R LM's core operating entities AG2R Prévoyance, PRIMA, La Mondiale, and Arial CNP Assurances to 'A' from 'A-'.
- 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 at above 'AA' level.

Rating Action

On March 25, S&P Global Ratings raised its long-term insurer financial strength and issuer credit ratings on France-domiciled SGAM AG2R La Mondiale's (AG2R LM's) core subsidiaries AG2R Prévoyance, PRIMA, La Mondiale, and Arial CNP Assurances to 'A' from 'A-'. The outlook on all entities is stable.

At the same time, we raised issue rating on La Mondiale's junior subordinated debt to 'BBB+' from 'BBB' and its restricted tier 1 deeply subordinated notes to 'BBB' from 'BBB-'.

Rationale

We raised the ratings because, in our view, AG2R LM has been continuously reducing its sensitivity to interest rates by prioritizing capital efficient unit-linked insurance products. AG2R LM has a ratio of unit-linked to general accounts of 40%: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%.

We expect a further reduction to interest rate sensitivity given the insurer's plan to convert its long-term pension liabilities under Madelin contracts into new individual retirement pension plan (PERI) contracts. Recent French pension reforms offer policyholders the opportunity to terminate the pension contract when they reach pension age, and to take the pension either as a cash lump sum or in lifetime annuities. The company expects that over 80% of policyholders will opt in for a conversion to PERI in order to benefit from the lump sum exit. This is in line with peers who already offer this choice to policyholders. PERI contracts have a guaranteed 0% rate, whereas the Madelin portfolio that will be converted has a guaranteed rate of 0%-2%. In addition, cash lump sum pay-outs would shorten the duration of AG2R LM's life liabilities, therefore further reducing its sensitivity to interest rates.

AG2R LM's equity hedging and issuance of restricted Tier-1 notes reduced its sensitivity to COVID-19-related market shocks. A continuing shift to less capital-intensive unit-linked life policies has maintained the group's capital adequacy at 'AA' level. We expect AG2R LM's capital adequacy will remain comfortably above our 'AA' benchmark and that it will report net income of more than €300 million in the next three years. We believe AG2R LM's exposure to interest rate and long-term pension liabilities with guarantees is in line with that of French life rated peers, and hence we don't expect higher capital volatility.

AG2R LM enjoys prominent business positions in France, has a diverse distribution network, and displays stable operating performance, although we note its business concentration in French life market is higher than that of higher-rated peers.

Outlook

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 might consider lowering the ratings if, contrary to our expectations, the profitability and quality of the premiums base markedly weakens, causing the group to miss its earnings targets, and the capital adequacy declines sustainably below the 'AA' level.

Upside scenario

We consider that an upgrade is unlikely in the next 24 months. We may consider a positive rating action over time if we observe a successful and profitable product diversification outside life and health sectors.

Ratings Score Snapshot

	To	From
Financial strength rating	A/Stable	A-/Positive
Anchor	A	A-
Business risk	Strong	Strong
IICRA	Low	Low

	To	From
Competitive position	Strong	Strong
Financial risk	Very Strong	Strong
Capital and earnings	Very Strong	Very Strong
Risk exposure	Moderately Low	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 a lower anchor for AG2R LM is driven by relatively narrower product and geographical diversification.

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 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

Ratings List

Upgraded /Outlook Action

	To	From
La Mondiale		
Issuer Credit Rating	A/Stable/--	A-/Positive/--
Financial Strength Rating	A/Stable/--	A-/Positive/--
Subordinated	BBB+	BBB
Junior Subordinated	BBB+	BBB
Junior Subordinated	BBB	BBB-

	To	From
PRIMA		
Arial CNP Assurances		
AG2R Prevoyance		
Financial Strength Rating		
Local Currency	A/Stable/--	A-/Positive/--
AG2R Prevoyance		
PRIMA		
Arial CNP Assurances		
Issuer Credit Rating		
Local Currency	A/Stable/--	A-/Positive/--

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.