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Research Update:

French Mutual Insurer La Mondiale Outlook Revised To Stable And 'BBB+' Ratings Affirmed After Insurance Criteria Change

Primary Credit Analyst:
Gwenaelle Gibert, Paris (33) 1-4420-6693; gwenaelle.gibert@standardandpoors.com

Secondary Contact:
Taos D Fudji, Milan (39) 02-72111-276; taos.fudji@standardandpoors.com

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Overview

- Following a review of French mutual insurer La Mondiale (LM) under our revised insurance criteria, we are revising the outlook to stable from negative and affirming our 'BBB+' ratings on LM.
- The ratings reflect our view of LM's strong business profile and only lower adequate financial risk profile. In our view, the business risk profile is based on LM's strong competitive position, mainly driven by its brand differentiation. The financial risk profile is based on LM's upper adequate capital and earnings and adequate financial flexibility.
- The stable outlook reflects our anticipation that LM will continue to display profitable growth and continue to strengthen its risk-adjusted capital adequacy over the next three years.

Rating Action

On June 6, 2013, Standard & Poor's Ratings Services revised the outlook on French mutual insurer La Mondiale (LM) to stable from negative. At the same time, we affirmed the 'BBB+' insurer financial strength and counterparty credit ratings on LM.

Rationale

The ratings on LM reflect our view of its strong business risk profile, partly offset by its lower adequate financial risk profile. LM's business risk profile is built on a strong competitive position and our view that LM faces low industry and country risk owing to its position in the French life insurance sector. Its financial risk profile reflects our view of its upper adequate capital and earnings, adequate financial flexibility, and only moderate risk position. We consider enterprise risk management (ERM) and management and governance to be neutral for the ratings, while we view liquidity as exceptional. We combine these factors to derive a 'bbb+' anchor for LM. The rating on LM is therefore 'BBB+'.

LM is exposed to the French life insurance market, which we assess as having low industry and country risk overall, based on our view of its very low country risk and intermediate industry risk. In our view, LM faces intermediate industry risk owing to the competitive nature of the life insurance market and the limited risk of new entrants. Our assessment is supported by the long-standing growth potential for life insurance in France.

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LM has a strong competitive position, in our view, thanks to its long-standing focus on life, pensions, and savings businesses; diversified distribution networks; and product offering. LM has established leading positions in its chosen niches, namely high-net-worth savings, the individual pension scheme for independent workers, and group pensions. LM's ability to tailor products for specialized networks and its partnership-oriented strategy also support our view of its competitive position. LM's competitive position further benefits from its links with AG2R. LM and AG2R have gradually strengthened their operational links as they target complementary client bases and carry out complementary activities, such as comprehensive offers in life, savings, accident, and health. We factor into our base-case scenario our view that LM will continue to outpace growth in the French life market in the coming years, while maintaining a return on equity above 10%.

We view LM's capital and earnings as upper adequate, which we view as a rating weakness. Capital adequacy is supported by LM's earnings retention, which in our view is likely to outpace capital needs over the next three years. Capital adequacy was reinforced by recent management actions to improve its capital adequacy by strengthening policyholders' reserves and issuing an additional €430 million hybrid debt to which we give credit in our risk-based capital model. In our base case, we expect capital adequacy to be further reinforced over the next three years, mainly because we expect operating earnings to be consistently above €200 million, all else being equal, but to continue to put pressure on the ratings.

LM's risk position is moderate, in our opinion, reflecting our view of the company's exposure to high market and asset-liability mismatch (ALM) risk, which translates into high investment leverage. Our view of high market risk reflects the company's material exposures to equities and real estate relative to total adjusted capital (TAC) and ALM exposure owing to its long-term liabilities. High investment leverage is also due to the material volatility through the significant portion of soft, market-sensitive capital items. Concentrations in LM's equity portfolio are limited, however, thanks to geographic and sector diversity.

LM's financial flexibility is adequate, in our view, as we believe that the company has sufficient access to sources of capital and liquidity to fund its growth. LM's capital needs stem principally from organic growth, which we expect the group to monitor relative to its funding abilities. LM's financial flexibility is constrained, however, by its limited ability to further raise debt, having already reached regulatory limits on debt eligibility.

We view LM's enterprise risk management (ERM) and management and governance practices as neutral rating factors. Our assessment of ERM as adequate is sustained by LM's risk management culture and controls for the most significant risks. We consider ERM to be of high importance to the ratings, owing to the company's ALM exposure, particularly coming from its pension business. We view the company's ERM culture as neutral for the ratings.

We view LM's management and governance as satisfactory. We view management's expertise positively, as well as its consistent strategy and ability to translate this into operational effectiveness. We consider that LM and AG2R together have a focused strategy, which is likely to continue helping the group to maintain its stable business profile. LM's strategy is to grow organically in its historical niches of pensions and savings and is closely linked with that of AG2R, which aims to expand in accident and health.

We view LM's liquidity as exceptional, supported by positive annual net inflows. Liquidity issues could arise from very high lapses or increased mortality rates, although we believe that strong balance-sheet liquidity, as demonstrated by publicly traded assets representing more than 80% of technical reserves, would mitigate this.

Outlook

The stable outlook reflects LM's slightly strengthened risk-adjusted capital adequacy following recent actions taken by management to improve it, mainly by strengthening its policyholders' reserves and issuing hybrid debt. The stable outlook also factors in our expectations that LM will continue to display profitable growth and strengthen its risk-adjusted capital adequacy over the next three years.

We could raise the ratings if LM's capital adequacy improves more than we currently anticipate in our base-case scenario, resulting in a sustainable strengthening of its financial risk profile.

We could lower the ratings if LM's capital adequacy weakens to such an extent that we revise down our assessment of capital and earnings, or if operating performance weakens below our expectations, which could result in a weakening of its business risk profile.

Ratings Score Snapshot

Financial Strength Rating	BBB+/Stable/--
Anchor	bbb+
Business Risk Profile	Strong
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Lower Adequate
Capital and Earnings	Upper Adequate
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	0

ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry Country And Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
La Mondiale		
Counterparty Credit Rating	BBB+/Stable/--	BBB+/Negative/--
Financial Strength Rating		
Local Currency	BBB+/Stable/--	BBB+/Negative/--

Ratings Affirmed

La Mondiale	
Junior Subordinated	BBB-

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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