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SGAM AG2R La Mondiale

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SGAM AG2R La Mondiale

SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	Modifiers	0	a-		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A-/Stable/--
Strong								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Upper Adequate								

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- SGAM AG2R LA MONDIALE (AG2R LM) is a large and diversified French life and protection insurance group, with gross premiums written (GPW) totaling €10 billion.
- AG2R LM's core entity La Mondiale has a strong brand and leading positions in high-net-worth individual savings, self-employed, and group pension contract segments.
- La Mondiale has higher-than-domestic-peers' premium derived from unit-linked life policies.
- With the integration of Réunica, AG2R LM has consolidated its position as the No. 3 health insurance provider and No. 2 provider for long-term care in France.

Financial Risk Profile: Upper Adequate

- Capital and earnings are forecast to remain at moderately strong levels, supportive of current ratings, over the next three years.
- Sensitivity to interest rates deriving from pensions activity is higher than that of peers, which could lead to higher volatility in capital and earnings.
- AG2R LM's adequate financial flexibility reflects a proven ability to access debt markets.

Other Factors

- We consider AG2R LM to have adequate enterprise risk management and satisfactory management and governance.
- We believe AG2R LM has exceptional liquidity, in line with that of most peers.

Outlook: Stable

The stable outlooks on AG2R LM's subgroups AG2R Réunica Prévoyance and La Mondiale indicates that S&P Global Ratings expect both entities to become a full prudentially regulated group under Solvency 2 and gradually strengthen consolidated S&P capital adequacy above the 'A' level.

Downside scenario

We could lower the ratings over the next two years if:

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

Upside scenario

We could raise the ratings should AG2R LM demonstrate its capacity to reduce exposure to guaranteed interest rates as planned, and also significantly improve the quality of capital through increased earnings generation and wider issuance of equity-like mutualist certificates.

Base-Case Scenario

Macroeconomic Assumptions

- GDP growth in France of about 1.7% per year in 2017-2019; and
- A modest rise of less than 100 basis points in the 10-year French government bond yields between 2017 and 2019.

Company-Specific Assumptions

- We expect that AG2R LM will benefit from a shift in its policyholder strategy that will outweigh the expected decline in investment returns, which should translate into growing annual net earnings exceeding €320 million in 2017-2019.
- We also anticipate La Mondiale will continue to gradually strengthen policyholder bonus reserves above levels reached in 2016.
- We expect growth in risk-based capital requirements, based on our model, of about 3% per year, reflecting expected growth in volumes and in corporate credit risk.
- Overall, we estimate total internal capital generation of about €1 billion over 2017-2019, which should allow the group's risk-adjusted capital adequacy to exceed the 'A' benchmark according to our methodology.

Key Metrics

	2018F	2017F	2016	2015	2014	2013
Gross premiums written (mil. €)	>9,700	>9,600	9,976	10,215	10,541	9,221
Net income (mil. €)	~350	~330	320	299	309	243
Return on shareholders' equity (%)	>5.0	>5.0	5.8	6.1	7.4	6.7
P/C net combined ratio (%)	~106	~106	106.5	108.2	106.7	117.2
Net investment yield (%)	>2.7	>2.7	3.2	4.3	3.4	3.8
S&P capital adequacy	Strong	Strong	Moderately Strong	Moderately Strong	Moderately Strong	Upper Adequate
Financial leverage	19.0	20.0	16.0	17.6	17.8	15.3

F--Forecast. P/C--Property and casualty.

Company Description

AG2R LM reported about €10 billion in GPW at year-end 2016. This includes contributions from the two subgroups, La Mondiale, a mutual group, and AG2R Réunica Prévoyance, a protection and health group.

Group Gross Premium Written (GPW) By Business line

(Bil. €)	2016	2015	2014	2013	2012	2011
Life Savings	4.5	4.8	5.8	4.9	4	3.6
Life Pension	2	1.9	1.8	1.8	2	1.5
Health	2.2	2.1	1.8	1.4	1.3	1.2
Protection & Long-term care	1.3	1.5	1.2	1.2	1.1	1.1
Total Group GPW	10.0	10.3	10.6	9.3	8.4	7.4

Since 2008, AG2R LM has operated as a "Société de Groupe d'Assurance Mutuelle" (SGAM), a French legal framework that allows mutual and nonprofit insurers to create operational and financial solidarity links, and to act in group structures. AG2R LM has a common management, an aligned strategy, and unified management of capital and investments.

The La Mondiale subgroup is headed by La Mondiale (A-/Stable), a 100-year-old French insurer specialized in life insurance. La Mondiale sells pension products to independent workers and savings products to high-net-worth individuals through its subsidiaries, France-based La Mondiale Partenaire (not rated) and Luxembourg-based La Mondiale Europartner (not rated). Subsidiary Arial CNP Assurances (A-/Stable) sells group pensions for the private sector.

AG2R subgroup's largest entity is AG2R REUNICA Prevoyance (A-/Stable), a 70-year-old nonprofit protection institution "Institution de Prévoyance" specialized in renewable term covers, protection (including disability and workers' compensation) and group health. The subgroup also comprises individual health mutuals, and integrated Réunica in 2015, another nonprofit protection institution.

AG2R LM is also one of the main groups in France managing the compulsory, complementary pension schemes for private-sector employees (so-called ARRCO and AGIRC schemes). While this administrative activity is segregated from the insurance balance sheet and carries no risk for AG2R LM, it does, however, underline the important social role of AG2R LM in managing French workers health and pensions.

Business Risk Profile: Strong

Insurance industry and country risk: Low risk, reflecting that on France

We apply our French life insurance industry and country risk assessment (IICRA), which we view as low risk, owing to AG2R LM's large exposure to French pension and savings business, as well as the individual and group health businesses. We include the French health business in our view of France's life IICRA.

We have not explicitly assessed Luxembourg's life IICRA, but we assume that La Mondiale is exposed to risks closely linked to those we assess for the French life IICRA, as products are tailored and managed in the same way as products distributed in France, with similar tax treatment and policyholder clientele.

Table 1

Industry And Country Risk		
Insurance sector	**IICRA**	**Business mix (%)**
France life	2	100
Weighted-average IICRA	2	--

Competitive position: Strong, a diversified product offer backed by multi-brand approach

Our view of AG2R LM's strong competitive position is supported by its diversified set of product lines, including pensions, savings, group and individual protection, group and individual health, and long-term care. AG2R LM channels its products through 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 is a leader in these segments, thanks to its No. 2 positions in both the self-employed pension plans (called "Loi Madelin") and in corporate group pensions through Arial CNP Assurances (ACA). In 2016 ACA became a joint-venture: 60% owned by La Mondiale and 40% owned by CNP Assurances, and pooled both parent insurers' commercial teams to become the domestic leader in group pensions (see Research Update: "Arial CNP Assurances Rated 'A-'; SGAM AG2R La Mondiale's Affiliates 'A-' Ratings Affirmed, Outlook Stable," published Oct. 5, 2017).

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 30% of its life reserves, compared with 17% for the French life market.

On the AG2R Réunica Prévoyance side, the multi-professional focus and large scale are key competitive differentiators within a market that is undergoing deep regulatory changes. AG2R Réunica 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 Réunica Prévoyance's position is AG2R LM's ability to integrate smaller players, such as Réunica.

AG2R LM has been able to to manage the reshuffle in the health and protection sector from the Accord National Interprofessionnel (ANI). Although the liberalization of the insurer selection process for group term and disability coverage is virtually opening the doors to all insurers, the introduction with the ANI of mandatory group health coverage for small companies in 2016 has created compensating effects. In particular, we believe that AG2R Réunica Prévoyance's capacity to offer competitively priced packages that combine several types of coverages in a single relationship remains an attractive option for very small companies.

Matmut SAM (not rated) initiated exclusive discussions with AG2R La Mondiale on a possible partnership to begin in January 2019. Given the preliminary nature of the discussions, SGAM AG2LM's ratings are not immediately affected. Any such potential partnership would also be subject to approval by the general assembly of each group, as well as by regulatory authorities. Matmut is a French mutual insurer mainly active in property/casualty lines, collecting about €1.4 billion GPW and posting a 180% Solvency II ratio as of year-end 2016.

Table 2

Competitive Position						
	--Year ended Dec. 31--					
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Gross premiums written	9,976	10,215	10,541	9,221	8,444	7,346
Change in gross premiums written (%)	(3.2)	(3.1)	14.3	9.2	15.0	(8.8)
Net premiums written	9,111	9,336	9,781	8,081	7,545	6,548
Change in net premiums written (%)	(2.4)	(4.5)	21.0	7.1	15.2	(10.1)
Total assets under management	98,201	92,366	87,211	74,867	68,277	59,011
Growth in assets under management (%)	6.3	5.9	16.5	9.7	15.7	5.3
Reinsurance utilization (%)	8.7	8.6	7.2	12.4	10.6	10.9
Business segment (% of GPW)						
Life/health	69.6	70.3	76.3	77.2	81.5	79.3
P/C	30.4	29.7	23.7	23.0	23.5	25.7
Other	0.0	0.0	0.0	(0.2)	(5.0)	(5.0)

Financial Risk Profile: Upper Adequate

Capital and earnings: Moderately strong, largely supported by its capital position

We expect AG2R LM's capital adequacy to exceed our 'A' benchmark in the next three years, thanks to an estimated internal capital generation of about €1 billion over 2017-2019 and new hybrid debt issued in 2017. Nevertheless, our assessment of capital earnings remains constrained by the relative weakness the quality of the group's total adjusted capital (TAC), which are in majority composed of soft forms of capital.

AG2R LM is in the final steps of finalizing its governance structure to quality as a "prudentially regulated group." This has notably included a widening and deepening of the solidarity links between AG2R Réunica Prévoyance and La Mondiale, which are now unlimited; to subject to each member group to not risk breaching its own Solvency II regulatory capital requirement.

Our expectation of an overall growth rate in capital requirements of 3% in the next three years reflects our view that La Mondiale will continue to gradually grow its long-term retirement business. This reflects a business necessity to increase volumes in the face of structurally declining investment margins. It also allows La Mondiale to further dilute the weight of general account policies with relatively high guaranteed rates, which mainly stem from its individual supplementary pension business.

Our assessment of capital adequacy includes adjustments, such as the group's unrealized gains on real estate assets, policyholder bonus reserves, and value-in-force (VIF). While the very low interest rates should hinder investment yields, we expect that further declines in life insurance policyholder crediting rates will support AG2R LM's profits. We also expect La Mondiale to further gradually strengthen its buffer of policyholder bonus reserves (PPE), which exceed 3% of general account life reserves at the end of 2016.

We believe that the group's reliance on soft forms of capital (VIF, unrealized gains, and hybrid capital represented over 50% of TAC at year-end 2016) weighs on quality of capital and increases the group's susceptibility to market fluctuations.

The combined group AG2R-La Mondiale posted a combined Solvency 2 ratio (standard formula), of 218%, and 131% without transitional adjustments from Solvency, I on the valuation of technical provisions. AG2R-LM is targeting a Solvency 2 ratio without transitional adjustments of 150% by 2020.

Table 3

Capital

	--Year ended Dec. 31--					
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Common equity	5,724	5,257	4,622	3,732	3,547	2,780
Change in common equity (%)	8.9	13.7	23.8	5.2	27.6	5.4

Table 4

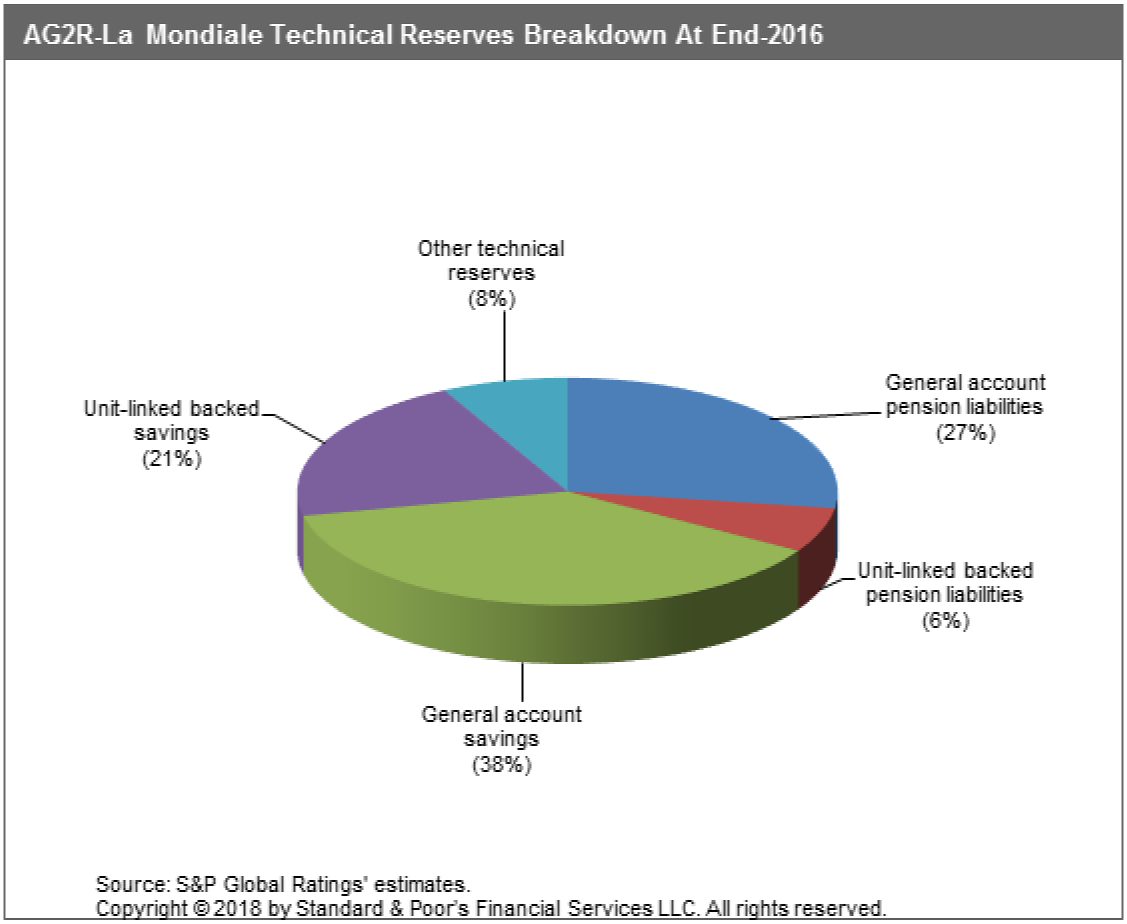
Earnings

	--Year ended Dec. 31--					
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Total revenues	11,267	11,369	11,830	10,091	9,539	8,463
Net income	320	299	309	243	327	242
Return on Shareholders' Equity (reported) (%)	5.8	6.1	7.4	6.7	10.4	8.9
P/C: Net expense ratio (%)	19.1	18.6	17.4	19.6	19.6	17.5
P/C: Net loss ratio (%)	87.4	89.7	89.3	97.6	95.2	93.8
P/C: Net combined ratio (%)	106.5	108.2	106.7	117.1	114.9	111.2
Life: Prebonus pretax earnings/total assets (%)	2.0	2.8	3.6	2.5	3.4	3.2
Life: Net expense ratio (%)	6.5	6.1	5.5	7.6	7.2	7.1

Risk position: Higher-than-average volatility, higher-than-peers' share of long-term guaranteed pension liabilities

In our opinion, AG2R LM's sensitivity to interest rates results in potential volatility of capital adequacy. The sensitivity to interest rates derives from La Mondiale's significant amount of long-term pension liabilities with guarantees. We calculate the general account pension liabilities amounted to about 27% of AG2R LM's total technical reserves at end-2016 (see chart 1) and a majority of which carry minimum guaranteed returns.

Chart 1



AG2R LM's risk management is taking steps to mitigate the negative impact of low interest rates, limiting the growth in guaranteed commitments, and gradually changing product mix toward one that is more unit linked. From end-2017, additional premium paid on pre-existing pension contracts will no longer carry minimum guaranteed rates as was done in the past. Also, over 2016 and in the first half of 2017, the decline in La Mondiale's premiums included a significant shift to growth in UL contracts against a fall in premium from traditional life insurance.

We also observe that the investment in higher-risk assets (equities, real estate, speculative-grade bonds, and loans) has slightly declined relative to AG2R LM's consolidated capital base. Overall credit risk is in line with peers, with an average rating in the upper 'A' range on the total bond portfolio at year-end 2016.

Table 5

Risk Position

	--Year ended Dec. 31--					
(Mil. €)	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Total invested assets	98,201	92,366	87,212	74,867	68,277	59,011
Net investment income	1,990	1,872	1,919	1,892	1,882	1,825
Net investment yield (%)	2.7	2.7	3.1	3.4	3.8	4.2
Net investment yield including realized capital gains/(losses) (%)	3.2	4.3	3.4	3.8	5.2	4.9
Investment portfolio composition (%)						
Cash and short-term investments	0.8	0.6	0.4	0.8	0.7	0.4
Bonds	77.0	77.4	78.8	78.5	79.7	79.8
Equity investments	11.3	11.1	10.2	10.1	9.5	9.2
Real estate	4.1	3.8	3.7	4.0	4.4	5.1
Loans	6.8	7.1	6.8	6.6	5.6	5.5

Financial flexibility: Adequate

Our view of AG2R LM's financial flexibility as adequate is supported both by La Mondiale's proven access to the debt market and the absence of dividend distribution due to the group's mutual status.

With the addition of the two latest hybrid debt issue made in January and December 2017, total financial debt has materially increased, to about €2.6 billion from €1.1 billion at year-end 2013. The negative impact on the financial leverage and fixed-charge cover ratio in these years was nevertheless mitigated by the large growth in the earnings generation and in capital base. In addition, we consider that the US$400 million debt issue launched in December 2017 pre-finances the next call in 2019 on a US$600 million issued in 2013, which, in our opinion, will likely not push-up the long-term financial leverage of the AG2R LM group.

We do not expect the group to materially recourse to institutional debt financing in the coming three years following the latest issues. We therefore expect a financial leverage ratio over 2017-2019 of approximately 20% and a fixed-charge cover ratio of about 5x, which is in line with our adequate assessment.

In September 2016, SGAM AG2R La Mondiale obtained the authorization to issue mutualist certificates, which are perpetual instruments akin to equities and accounted as Tier 1 instruments by the French regulator, and offer a return, generally below that of hybrid debt instruments. These will be gradually issued to the mutualist clients in small amounts, and as such are not expected to negatively impact financial leverage or fixed-charge cover.

Table 6

Financial Flexibility

	--Year ended Dec. 31--					
	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Fixed-charge coverage (x)	5.0	5.2	6.8	7.6	15.6	12.1
Financial leverage (%)	16.0	17.6	17.8	15.3	13.9	13.2

Other Assessments

We regard AG2R LM group's enterprise risk management (ERM) and management and governance practices as neutral rating factors.

Enterprise risk management: Adequate

The ERM of La Mondiale and AG2R Réunica Prévoyance has been centralized over the past few years. We consider that the group has a holistic view of the risks of the different business lines and the group's risk management culture, and controls are in line with our overall adequate assessment. We consider ERM to be of high importance to our assessment of the group's creditworthiness, owing to the risks stemming from its long duration pension and disability liabilities.

Management and Governance: Satisfactory

We view positively the group's management expertise and depth and breadth, as well as its strategic planning and ability to convert its strategy into actions. 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: Exceptional

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 in forming our opinion on 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 VIF. Our assessment of operating performance relies on published information and unpublished figures, such as La Mondiale's internal calculation of embedded value.

Related Criteria

- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012

- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- French Insurer La Mondiale's Proposed Subordinated Notes Rated 'BBB', Dec. 19, 2017
- Arial CNP Assurances Rated 'A-'; SGAM AG2R La Mondiale's Affiliates 'A-' Ratings Affirmed, Outlook Stable, Oct. 5, 2017

Ratings Detail (As Of January 8, 2018)	
Operating Company Covered By This Report	
La Mondiale	
Financial Strength Rating	
Local Currency	A-/Stable/--
Counterparty Credit Rating	A-/Stable/--
Junior Subordinated	BBB
Related Entities	
AG2R REUNICA Prevoyance	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
Arial CNP Assurances	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
PRIMA	
Financial Strength Rating	
Local Currency	A-/Stable/--
Issuer Credit Rating	
Local Currency	A-/Stable/--
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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