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SECTOR COMMENT

French life Insurers: Varied Trends in 2012 Outflows Highlight Varied Strategies and Diverging Future Challenges

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In 2012, the French life insurance industry reported for the first time negative aggregate net flows, reflecting a combination of structural and temporary trends.[1] However, the reported net flows varied significantly by company (see Exhibit 1). While the overall market reported net flows deterioration, (1) the negative net flows were mainly concentrated to a limited number of players; and (2) some companies improved their position.

These differences partly reflect different strategies, but also differences in business profiles (i.e., targeted clients, distribution mix and product mix) and imply different challenges various companies face in adapting to the evolving French life market. In particular, life insurers whose current business mix is skewed to the savings business may see their overall franchise continue to weaken.

The ratings we assign to French insurers currently reflect the trends we outline in this report.

EXHIBIT 1
Life insurance net flows reported by selected large French life insurance players

€ billion	2010	2011	2012
CNP*	7.9	2.6	0.1
AXA France**	2.8	0.7	1.1
Generali France**	4.4	-2.1	-2.2
Allianz France**	0.4	-0.7	-0.4
Groupama Gan*	n/a	0.1	-1.2
Covea*	n/a	n/a	0.1
Aviva France*	n/a	-0.4	-0.9
French market*	***51.1***	***7.6***	***-3.4***

* Life only / ** Life, health and protection

Colour code: green shading denotes improvement from the previous year, orange denotes deterioration.

Sources: companies' annual reports, financial presentations and press releases

[1] As we have discussed in our previous research "French Insurance: P&C Stable; Life Negative", 28 February 2013; "French life insurers see continued outflows in 2012: a profitability challenge, but not yet a liquidity issue", 4 June 2012; "French Insurance: Turnaround of P&C results, continued pressures for the life sector", 31 January 2012.

Different levels of outflows partly reflect different strategies

We believe the differences in the levels of outflows partly result from different strategies. For example, the largest net outflows were reported by players willing to de-emphasise traditional savings products associated with a low return on capital. This would seem to be the case for the subsidiaries of the main international groups such as AXA France Vie [2] (Aa3 negative), Allianz Vie (Aa3 negative), Generali Vie (Baa1 negative) and Aviva Vie (not rated).

At the same time, some insurance companies with lower profitability targets, such as some mutuals, have reported positive net flows in 2012, despite lower market shares.[3]

Different trends highlights different franchise strengths and business profiles

Amongst the companies willing to de-emphasise traditional savings business, three companies reported large net outflows relative to their market position: Generali Vie, Groupama Gan Vie and Aviva Vie.

These companies are also amongst those that reported deteriorating outflows between 2011-12, while companies such as AXA France and Allianz France reported improved net flows in 2012.

Although we continue to believe that outflows do not pose any liquidity risk and have little negative impact on French insurers' profitability at this stage, these outflows may indicate potential franchise deterioration in the savings business for Generali Vie, Groupama Gan Vie and Aviva Vie.

Furthermore, in the case of Generali Vie and Aviva Vie, this also reflects their product and distribution strategy. Generali Vie, suffers from a high weight of large capitalisation policies sold through non-proprietary channels such as financial advisors and banks, which are more likely to propose alternative providers than traditional-tied distributors. Aviva Vie suffers from a high reliance on a specific product promoted by an independent association, which although tied to Aviva, acts to defend policyholders' interests.[4]

Different trends also highlight varied challenges in adapting to the new environment

The French life insurance industry is currently at a turning point. While market growth has been fuelled by a boom in traditional savings products up to 2010, life insurers now have to develop new products to generate revenues and earnings, including savings-type products which increase the level of differentiation between insurers and banks, as well as health and protection products.

One of the key challenges for traditional insurance players in the health and protection field is competition with more specialised players such as health mutuals and provident associations, which have strong positions and may benefit from future legislation to seize most new business opportunities.[5]

2 Although AXA reported positive net flows in France for its life and protection business, the company reported negative net flows on its savings business.

3 Mutuals belonging to the GEMA (Groupement des Entreprises Mutuelles d'Assurance) collectively reported net outflows of €120 million.

4 Association Française d'Epargne et de Retraite (AFER). AFER is promoting products exclusively guaranteed by Aviva.

5 Please refer to "Compulsory Health Insurance for French Workers Would Be Credit Negative for Most Traditional Insurers", 17 January 2013.

We believe that the traditional insurers best positioned to benefit from future opportunities are those which (1) are already involved in the health and protection segment; and (2) have strong proprietary channels in order to gain market shares in these segments.

Exhibit 2 shows that Aviva France also has a relatively lower presence in the protection and health market, and therefore may continue to see some deterioration in its overall life franchise, which it has historically built on the traditional savings business.

Subsidiaries of banks and CNP, which sells its products through banking channels, have also reported significant deterioration in their net flows position since 2010, mainly as they have suffered from direct competition between banking and insurance savings products and from banks' willingness to attract more deposits to improve their liquidity position. As their business mix was also largely skewed to the savings business, their overall life franchise may also weaken. However, bancassureurs are already present in the health and protection segment and the banking channel should be able to compete efficiently with traditional insurers in this segment.

EXHIBIT 2:

2011 French life insurance premiums for selected insurance groups

€ billion	Life and Savings	Health and Protection	Total	Health and Protection as a % of Total
CNP	21,404	1,390	22,794	6%
AXA France	9,483	2,600	12,083	22%
Generali France	7,893	1,383	9,276	15%
Allianz France	5,555	1,695	7,250	23%
Groupama Gan	3,964	2,541	6,505	39%
Covea	4,291	906	5,197	17%
Aviva France	3,990	324	4,314	8%
French market	***124,476***	***17,603***	***142,079***	***12%***

Source: FFSA, données clés assurances de personnes

AXA France and Allianz France also already have strong positions in health and protection, and have dedicated proprietary networks to further develop these activities. We believe this has largely contributed to improvements in their life, health and protection net flows in 2012.

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