

Insurance Markets

Research Update:

ASR Nederland NV Assigned 'BBB+' Rating; Ratings On Core Insurance Operations Affirmed; Outlook Stable

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Overview

- We are affirming our 'A' ratings on ASR Nederland's (ASR) core insurance operations, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V.
- We are assigning a counterparty credit rating of 'BBB+' to ASR Nederland N.V., the group's holding company.
- The stable outlook reflects our expectation that ASR's insurance operations will maintain a resilient financial risk profile and that the group will continue to rebuild capital adequacy.

Rating Action

On May 15, 2014, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on ASR Nederland's (ASR) core insurance operations, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. At the same time, we assigned a counterparty credit rating of 'BBB+' to ASR Nederland N.V. The outlook is stable.

Rationale

The affirmation of the ratings on ASR's core insurance operations reflects our view that the group maintains a strong business and financial risk profile. Under our criteria, we combine these factors to derive an anchor of 'a' or 'a-'. Based on our view of the strength and resilience of ASR's financial risk profile we apply the higher of the two to derive our ratings.

Given the anticipated continued improvements in the group's capital adequacy to very strong levels by 2016 and our view of improving quality of capital, we have revised our assessment of capital and earnings to very strong from strong. We expect the group to strengthen the absolute amount and quality of capital through retained earnings and its present dividend policy. We believe that ASR will generate net earnings of €200 million-€300 million in 2014-2016. We expect uplift to earnings from improved underwriting profits, in particular a combined (loss and expense) ratio of less than 99%, and no material additional provisioning associated with the occupational disability business. ASR has a track record of maintaining earnings through realizing gains in the investment portfolio. We expect this contribution to fall in 2014 with more stable income generated from its investment portfolio. The dividend policy is to distribute 40%-45% of profit attributable to holders of equity instruments

after payment of the coupons on the hybrid Tier 1 instruments.

Our improving view of ASR's capital adequacy is also based on limited growth in risk-based capital requirements. Requirements associated with life technical provisions are unlikely to grow due to outflows and a shrinking book of regular premium business; meanwhile, non-life liabilities are likely to grow only modestly with expected gross written premium increases of at most 1% or 2%. We expect the risk profile of the investment portfolio to remain stable with no further increases in the allocation to equities or real estate.

We have revised down our assessment of ASR's risk position to moderate from intermediate. Over 2012 and 2013, ASR shifted its investment portfolio away from fixed income and real estate, investing instead in Dutch mortgages and equities. In our view, ASR now carries higher levels of investment risk and possesses limited capacity given the nature of life insurance products in The Netherlands to share volatility in the capital markets with policyholders. Another contributing factor is the size of the pension scheme relative to total adjusted capital.

The 'BBB+' rating on ASR Nederland N.V. is based on a two-notch differential from the ratings on the core operating entities and reflects the standard structural subordination of the holding company creditors to the operating company policyholders.

We consider ASR a government-related entity (GRE) because the Dutch state owns 100% of its shares, but we consider the likelihood of the government providing extraordinary government support to ASR in the event of economic and financial stress to be low. Therefore, the ratings do not benefit from any government support. We view government ownership as temporary and expect ASR to be privatized. Under our criteria for GREs, we see the likelihood of extraordinary government support as "low" based on our assessment of the "limited" importance of ASR's role to the government and the "limited" link between ASR and the government.

Outlook

The stable outlook reflects ASR's robust position in the Dutch insurance market and its balance sheet strength. Improving capital adequacy and a stable risk appetite are key expectations to maintain the resilience of ASR's financial risk profile.

We might lower the ratings over the next 12-24 months if the financial risk profile were to prove less resilient than we anticipated. This might occur, for instance, if we saw greater-than-expected volatility in ASR's capital and earnings and if ASR fails to progress in improving its capital adequacy to the 'AA' range by 2016. As such, our expectations concerning net earnings, dividend policy, and the overall risk profile of the investment portfolio are critical to the maintenance of the stable outlook.

We may also lower the ratings if poor operating performance indicated weaknesses in the business risk profile because we believed that ASR could not draw sufficient profitability from its competitive position. Evidence for this could include combined ratios consistently above 100%, and negative new business margins.

Based on ASR's strategy and on market dynamics we see limited upside for the ratings over the next 12-24 months. Nevertheless, we could raise the ratings if we saw a material reduction in ASR's risk profile and a materially stronger than expected improvement in capital adequacy sustainably into the 'AAA' range.

The Dutch government's eventual sale of its shareholding in ASR could also affect the ratings. The effect would depend on, among other variables, the nature of the government's exit strategy, the credit profile of any acquirer or combined group including ASR, and the capital structure. A partial sale of ASR Levensverzekering's back book could also lead us to change our assessment that the life operations are core to the group.

Ratings Score Snapshot

Holding Company Rating	BBB+/Stable/--
Financial Strength Rating	A/Stable
Anchor	a
Business Risk Profile	Strong
IICRA*	Low Risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital & Earnings	Very Strong
Risk Position	Moderate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Group Rating Methodology, Nov. 19, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

New Rating

ASR Nederland N.V.

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Ratings Affirmed

ASR Levensverzekering N.V.

ASR Schadeverzekering N.V.

Counterparty Credit Rating

Local Currency

A/Stable/--

Financial Strength Rating

Local Currency

A/Stable/--

ASR Nederland N.V.

Junior Subordinated*

BBB+

Junior Subordinated*

BBB

*Guaranteed by ASR Levensverzekering N.V.

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