

Insurance Markets

Research Update:

ASR Nederland Group Core Entities Outlook Revised To Stable On Improved Balance Sheet Resilience; 'A' Ratings Affirmed

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Overview

- Since 2008, Netherlands-based multiline insurer ASR Nederland Group has strengthened the resilience of its financial risk profile through de-risking actions and retained earnings.
- Management actions to de-risk the balance sheet have helped capital remain resilient over 2011, positioning the company well for ongoing volatility.
- This has mitigated the requirement for improvements in earnings to support the financial risk profile.
- We are therefore revising the outlook on ASR Nederland Group's core operating subsidiaries to stable from negative and affirming the ratings.

Rating Action

On Aug. 23, 2012, Standard & Poor's Ratings Services revised the outlook on Netherlands-based multiline insurer ASR Nederland Group's core operating entities, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V., to stable from negative. At the same time, we affirmed our 'A' long-term counterparty credit and insurer financial strength ratings on the two entities.

Rationale

The outlook revision reflects our assessment that the core operating entities of ASR Nederland Group. (ASR), ASR Levensverzekering N.V., and ASR Schadeverzekering N.V., have benefited from the re-building of capital and the de-risking of the balance sheet. Since breaking up with Fortis and being purchased by the Dutch government, the management team has taken steps to improve the financial risk profile of ASR. We have previously recognized the improvements in capitalization at ASR (see "ASR Nederland Group," published Nov. 16, 2011 on the Global Credit Portal).

ASR has taken steps to improve the resilience of the balance sheet as well as the stability of operating performance. The track record of achievement in this area has led us to revise our assessment of management and corporate strategy from marginally negative to marginally positive. Operating performance remains a weakness to the rating, but management actions have reduced the extent to which this drives our view of the financial risk profile.

ASR will not fully achieve its operating performance targets for 2012, which were set in 2009. Though considered strong, operating performance remains a relative weakness to the rating; in particular in the life operations where new business margins will remain low relative to peers. However, we do not expect to revise down our assessment of operating performance from strong to good, as our criteria define these terms, nor do we expect it will be detrimental to the balance sheet.

The group has de-risked its balance sheet through changes to the composition and profile of the asset portfolio, and by reducing the interest rate sensitivity of its liabilities. ASR has also improved the efficiency of its processes and its claims handling capability. Given that the one-offs associated with these measures are mostly implemented we expect greater resilience in the financial risk profile against ongoing volatility.

ASR has taken a number of important steps to improve the strength and stability of the balance sheet. We believe that this will continue to support the rating. As such we anticipate:

- A dividend is likely to be paid in respect of 2012 and 2013 as the company builds a track record on its path to an anticipated IPO. However, we believe capitalization as measured by Standard & Poor's risk-adjusted capital model will remain strong;
- ASR will continue to prudently manage capital and investments, predominantly using the stressed Solvency I metric.

Operating performance will continue to be hampered by the macroeconomic environment, which is increasing claims and claim duration in the disability portfolio in particular; causing significant investment volatility and the guarantees in the pensions business to bite. Our expectations are that:

- Profits before tax will remain in the €200 million to €300 million range;
- Unit-linked policyholder compensation will not have any further earnings implications in 2012;
- Embedded value margins on new business will remain low relative to peers, but are likely to improve slightly as operating expense efficiencies are implemented; and
- Company published combined ratios are likely to remain about 99%-100% during 2012 and 2013 as disability claims stay high and the company increases its focus on the low margin health sector.

The macroeconomic context in the Dutch market and strategic decisions regarding the exit of single premium business will continue to weigh heavily on the competitive position of ASR:

- The pace of decline in life gross written premium should slow as ASR completes its withdrawal from single premium business;
- We anticipate that the reliance on regular premium business will also mitigate the impact of changes in customer remuneration;
- Annual premium equivalent (APE) will rely almost exclusively on regular

premium business and will trend down to between €30 million to €40 million in 2012 and 2013; and

- Non-life premiums will see modest increases driven predominantly by sales of the health proposition. We anticipate they should rise to above €2.5 billion in 2012 and 2013.

ASR is classified as a government-related entity under our criteria, but this does not provide additional rating support above the stand-alone credit profile. This is based on our view of the "limited" link between ASR and the government of the State of the Netherlands (AAA/Negative/A-1+) and the "limited" importance in the role the company plays. This implies a "low" likelihood of timely and sufficient support if the need arises.

Outlook

The stable outlook reflects our view that the de-risking of the balance sheet and improvements in capitalization have increased financial-risk-profile resilience, mitigating the relative weakness of the operating performance.

The key rating triggers relate to ASR's capitalization, competitive position, and operating performance.

The Dutch market presents significant downside risk to the rating. Were our assessment of ASR's capitalization to weaken from strong this may lead us to reappraise the financial risk profile of the group. If ASR were unable to achieve company reported returns on equity greater than 7% over 2012 and 2013 this would indicate to us that management had failed to achieve its long-term aim to improve operating performance.

On the life side, we may negatively reevaluate our view of ASR in the event that APE fell below €30 million per annum and margins did not rise, as this would indicate to us that the company had failed to improve profitability by withdrawing from certain poorly performing markets.

From a non-life perspective, downside risk may arise from a worse operating performance than we currently expect as well as a failure to modestly increase non-life gross written premium. In particular we may take a negative view of ASR's operating performance if we see combined ratios rising above 101% in 2012 and 2013.

Based on ASR's stated strategy and on market dynamics, we see limited upside for the ratings, although we do believe that ASR has positive momentum in these areas. We could consider raising the ratings if we saw a continuing strengthening of the balance sheet accompanied by material profitable growth in volume of premium written.

The event risk associated with the Dutch government selling its shareholding in ASR may also change our assessment of the group's credit strength. Any partial sales of ASR Levensverzekering's back book may lead us to change our

assessment that these operations are core to the group.

Related Criteria And Research

All articles listed below are available on the Global Credit Portal, unless otherwise stated.

- Principles Of Credit Ratings, Feb. 16, 2011
- Interactive Ratings Methodology, April 22, 2009
- Counterparty Credit Ratings And the Credit Framework, April 14, 2004
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Group Methodology, April 22, 2009
- Holding Company Analysis, June 11, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
ASR Levensverzekering N.V.		
ASR Schadeverzekering N.V.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A/Negative/--
Financial Strength Rating		
Local Currency	A/Stable/--	A/Negative/--
ASR Nederland N.V.		
Junior Subordinated*	BBB	
Junior Subordinated*	BBB+	

*Guaranteed by ASR Levensverzekering N.V.

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

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