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Research Update:

ASR Nederland And Core Subsidiaries Ratings Affirmed; Outlook Stable

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Research Update:

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Overview

- Our change in our industry and country risk assessment (IICRA) for the Dutch health sector has led us to revise our IICRA score for Netherlands-based ASR Nederland Group's (ASR) to intermediate from low.
- However, the insurer's strong competitive position and resilient financial profile continue to support ASR's 'a' anchor.
- We are therefore affirming our 'A' ratings on ASR's core insurance operating entities, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V.
- The stable outlook reflects our expectation that ASR will maintain its very strong capital adequacy over the next two years, supported by strong earnings, while preserving a healthy capacity to service its debt costs amid suboptimal underwriting conditions in a low-interest-rate environment.

Rating Action

On July 21, 2016, S&P Global Ratings affirmed its 'A' insurer financial strength and counterparty credit ratings on Netherlands-based ASR Nederland's (ASR's) core insurance operating entities, ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. At the same time, we affirmed our 'BBB+' counterparty credit rating on holding company ASR Nederland N.V. The outlook on all three entities is stable.

We also affirmed the ratings on all outstanding hybrid instruments (see list below).

Rationale

The affirmation reflects our view of the group's ongoing strong business and financial risk profiles and the resilience of its balance sheet amid suboptimal underwriting conditions in a low-interest-rate environment.

Under our criteria, we combine our business and financial risk profile assessments to derive an anchor of 'a' or 'a-'. We select the higher of the two to derive our ratings on ASR, reflecting our view that its balance sheet retains a sufficient capital cushion.

We have revised our assessment of the multi-line insurer's overall industry and country risk assessment (IICRA) to intermediate from low. This reflects

our change in IICRA for the Dutch health insurance sector to intermediate from low, due to aggressive competition and a business model that is highly sensitive to political decisions (see "Dutch Health Insurance Sector Carries An Intermediate Industry And Country Risk Assessment," published April 15, 2015, on RatingsDirect). We also consider the Dutch life sector to have an intermediate IICRA, reflecting pressures from low interest rates and declining market prospects. While the Dutch non-life sector carries a low IICRA, ASR's combined life and health premiums form over half the total premiums and lead to an overall intermediate industry risk profile.

ASR's operating earnings have improved year-on-year since 2011. Earnings in 2015 of €601 million exceeded our expectation of €330 million. This leap was primarily due to improved operating earnings, as well as exceptional earnings on equity investments and realized gains on property. We now forecast earnings at normalized levels of around €400 million annually in 2016-2018. This is based on our expectation that the non-life combined ratio will not exceed 100%, according to our calculations, combined with a strong profit stream from life operations. Although ASR has recently underwritten unprofitable defined benefit pension business, which could mean weaker earnings and higher risks, we expect any negative effects to remain limited as ASR will have scaled down this business by about end-2016 in favor of defined contribution business.

We therefore continue to assess ASR's capital and earnings as very strong in 2016-2018. We expect quite limited growth in capital requirements stemming from flat organic growth in the non-life segment and a continuing premium decline in the life segment (excluding acquisitions) in line with the trend in the Dutch market. We expect that ASR will maintain its current asset risk profile and that growth in earnings will cover capital requirements. Both factors support our capital and earnings assessment.

In 2015, ASR completed two acquisitions--AXENT (No. 3 in the Dutch market funeral insurer) and De Eendragt (No. 7 in the Dutch market pension insurer)--thereby increasing total invested assets by about €3.6 billion and gross premiums written by about €100 million, which we viewed neutrally overall for the group's competitive position and financial risk profile. Our base-case scenario is that ASR will continue to add small bolt-on acquisitions to improve diversification in its portfolio and underpin growth, and these acquisitions will not materially change the risk profile of the group. Should the risk profile alter as the result of accumulation of small bolt-on acquisitions, we may revise our assessment of capital and earnings downward.

The successful IPO in June 2016 of 36.3% of the Dutch government's holdings in ASR could, in the future, add an additional source of financial flexibility on top of proven access to debt markets. The IPO has also strengthened our view that government ownership is temporary and expect ASR to be fully privatized in the next 12-24 months.

Outlook

The stable outlook reflects our expectation that ASR will maintain its strong competitive position and very strong capital adequacy (in the 'AA' range) over the next 12-24 months, supported by stable earnings with net income of about €400 million annually in 2016-2018; net combined ratio below 100% (based on S&P Global Ratings' calculations), which will preserve a healthy capacity to service its debt costs amid suboptimal underwriting conditions in a low-interest-rate environment; and a rational dividend policy.

Downside scenario

We could lower the ratings if:

We revised our capital and earnings assessment to strong from very strong if capital adequacy is not maintained at the very strong level; or ASR's profitability is not in line with our expectations. This could be the case if the property/casualty combined ratio is above 102%, new business value remains negative, or net income falls sustainably below €400 million annually in 2016-2018; or Fixed-charge coverage ratios fall below 4x.

Upside scenario

We consider it unlikely that we will raise the ratings over the next 12-24 months. Nevertheless, we could raise them if we saw a material reduction in ASR's investment risk profile and a materially stronger-than-expected improvement in capital adequacy sustainably into the 'AAA' range.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable	A/Stable
Anchor	a	a
Business Risk Profile	Strong	Strong
IICRA*	Intermediate Risk	Low Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital and Earnings	Very Strong	Very Strong
Risk Position	Moderate Risk	Moderate Risk
Financial Flexibility	Adequate	Adequate
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate	Adequate
Management and Governance	0	0
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional

Support

Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010

Ratings List

Ratings Affirmed

ASR Nederland N.V.

Counterparty Credit Rating

Local Currency BBB+/Stable/--

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.

Certain terms used in this report, particularly certain adjectives used to

express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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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