S&P Global
Ratings

RatingsDirect®

Research Update:

ASR Nederland And Core Subsidiaries Ratings Affirmed Following Revised Capital Model Criteria; Outlook Stable

February 26, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised criteria have no material impact on our ratings on ASR Nederland and its related core subsidiaries.
- We affirmed all our ratings on ASR and its related core subsidiaries.
- The stable outlooks reflect our view that ASR will sustain its competitiveness and maintain very strong capitalization.

PRIMARY CREDIT ANALYST

Silke Sacha
Frankfurt
+ 49 693 399 9195
silke.sacha
@spglobal.com

SECONDARY CONTACT

Mark D Nicholson
London
+ 44 20 7176 7991
mark.nicholson
@spglobal.com

RESEARCH CONTRIBUTOR

Pratik C Giri
CRISIL Global Analytical Center, an S&P affiliate, Mumbai

Rating Action

On Feb. 26, 2024, S&P Global Ratings affirmed its 'BBB+' long-term issuer credit rating on ASR Nederland N.V. (ASR) and 'A' long-term financial strength and issuer credit ratings on the group's core subsidiaries. This includes the newly acquired Aegon Levensverzekering N.V.

The outlooks on ASR and its subsidiaries remain stable.

We also affirmed all our issue ratings on the group's debt.

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy primarily reflects an increase in total adjusted capital (TAC) owing to the removal of haircuts to equity-like life reserves and hybrid equity.
- We have also captured the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements. For ASR, this in particular relates to interest rate risk charges.

Credit Highlights

Overview

Key strengths	Key risks
The acquisition of Aegon's Dutch operations will strengthen ASR's market position in its home market.	The acquisition will scale up volume and product diversification in the Netherlands, but business will remain concentrated in its home market, which is in line with the company's business strategy.
We expect ASR's capital levels to remain very strong over the forecast period through 2025. This is due to partial equity funding, negative goodwill on the acquisition, and a reduced appetite for additional transactions.	ASR's enlarged balance sheet after the acquisition continues to carry additional risks. This relates mainly to a large and illiquid Dutch mortgage loan book, the market risks linked to managing the interest-rate exposure of ASR and Aegon's life operations, and its significant defined-benefit employee pension scheme.

Outlook

The stable outlook reflects our expectation that ASR will maintain its strong competitive position in the Dutch life and nonlife insurance market. Furthermore, we expect resilient capitalization with capital adequacy at the 99.95% confidence level over the next 12-24 months following the acquisition of Aegon, the Netherlands' insurance and banking business.

Downside scenario

We could lower our ratings on ASR over the next 12-24 months if at least one of these issues materialize:

- Unexpected integration risks arise.
- ASR did not maintain its capital position at the 99.95% level in our model.
- The company's profitability did not meet our expectations for a prolonged period.

Upside scenario

An upgrade is unlikely over the next 12-24 months. Nevertheless, we could raise the ratings if capital adequacy materially improves to the 99.99% confidence level; or investment risks, employee pension scheme risks, and the market risks linked to the combined ASR and Aegon life operations materially diminished.

Rationale

ASR's strong business risk profile is underpinned by its meaningful market share in the Netherlands, its home market. Following the acquisition of Aegon Group's Netherlands-based insurance and banking operations, ASR will be the second largest Dutch insurer in the country after NN Group, with a leading position in the pension and disability business. Likewise, its market share in the property and casualty (P/C) business will also improve. The Netherlands' insurance market is a highly concentrated market with the top three players covering more than two-thirds of the market share.

Historically, ASR has demonstrated stable performance with strong profitability, outperforming its Dutch peers in a challenging market environment. It reported a return on equity (ROE) of 13.5% in the first half of 2023. With the material increase in the balance sheet after the acquisition of Aegon's Dutch operations, we expect ASR's ROE to decline and will remain at 7%-8% for 2024-2025.

Despite premium diversification within the Netherlands, the group's earnings are less diversified than those of higher-rated peers in terms of geography. The group also generates about 20% of premiums from the health insurance business, which faces indirect political pressure and intense competition, leading to volatile earnings.

In 2023, we expect ASR's capitalization will decline from current capital levels. This reflects the materiality of the transaction, with a cash payout of about €2.25 billion to fund the cash consideration related to the acquisition cost of €4.9 billion, as well as the addition of the Aegon balance sheet. However, we expect ASR to improve to a 99.95% level of capital adequacy over the forecast period through 2025. This considers the group's capital management plan and earnings. The group has a strong track record of accessing capital markets to issue restricted Tier 1 and Tier 2 hybrids.

ASR's Solvency II ratio is resilient to interest rates and credit spreads, as reflected in a solid 215% as of June 2023. We expect that strong retained earnings will continue to support the group's capital adequacy. This will enable financing for organic and inorganic growth, alongside expected annual dividend payouts of 4%-9% until 2025.

We expect ASR will generate net income of more than €800 million and an ROE of 7%-8% for 2024-2025. We expect a net combined ratio of below 100%, according to our calculations.

Ratings Score Snapshot

Financial strength rating	A/Stable
Anchor*	a
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Strong
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

*Based on the strengthened competitive position after the acquisition of Aegon Nederland. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
AEGON Levensverzekering N.V.	
ASR Schadeverzekering N.V.	
ASR Levensverzekering N.V.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
ASR Nederland N.V.	
Senior Unsecured	BBB+
Junior Subordinated	BB+
Junior Subordinated	BBB-

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.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.