Research Update:

Outlook On Insurer ASR Nederland Revised To Positive On Expected Capital And Earnings Improvement; 'A' Ratings Affirmed

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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

Overview

- ASR Nederland's consolidated capital and earnings position has strengthened and is comfortably redundant at the '99.99%' confidence interval according to our capital model. We expect it to remain at this level.
- However, implementation risks remain until the full integration of Aegon Nederland's insurance business and the announced sale of Aegon's former banking entity, Knab N.V., is completed.
- We therefore revised our outlook on ASR's operating entities to positive from stable and affirmed our 'A' long-term insurer financial strength and issuer credit ratings on the core operating entities of the ASR group.
- The positive outlook reflects that we could raise the ratings over the next 12-24 months by one notch if ASR continues to show capital adequacy comfortably at the '99.99%' confidence interval as per our capital model while the group maintains its strong competitive position in the Dutch life and nonlife insurance market following the acquisition of Aegon's Dutch insurance business and the announced sale of Knab.

Rating Action

On Sept. 12, 2024, S&P Global Ratings revised its outlook on ASR's operating entities to positive from stable. At the same time, we affirmed our 'A' long-term insurer financial strength and issuer credit ratings on the core operating entities including ASR Levensverzekering, Aegon Levensverzekering, ASR Schadeverzekering. We also affirmed our 'BBB+' long-term issuer credit rating on the non-operating holding company, ASR Nederland N.V.

We continue to view banking entity Knab N.V. as strategically important to ASR Nederland until the upcoming completion of the sale to BAWAG.

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Rationale

We revised our assessment of ASR's capital and earnings to excellent from very strong based on our view of the comfortably redundant capital adequacy on the '99.99%' confidence interval in our capital model. Capital is now based on consolidated International Financial Reporting Standard (IFRS) 17 accounts and fully includes the balance sheet of acquired Aegon Nederland. We expect capital adequacy to remain at this level over the forecast period through 2026 with sufficient cash, earnings, and capital generation and the strong track record of accessing capital markets to issue restricted tier 1 and tier 2 hybrids. However, until the merger of the Aegon business and the sale of the banking entity Knab is fully completed, some integration risk remains. We expect that strong retained earnings will continue to support the group's capital adequacy, while the cost of driving organic and inorganic growth, as well as financing expected dividend payouts, is expected to rise by 4%-9% annually until 2026.

ASR's Solvency II ratio is resilient to interest rates and credit spreads, as reflected in the solid 176% solvency ratio as of December 2023 and 181% as of June 2024. Following the completion of the sale of Knab, we expect the solvency ratio to further improve.

ASR's enlarged balance sheet continues to carry additional risks, mainly related to a large and illiquid Dutch mortgage loan book, and its significant defined-benefit employee pension scheme.

At half-year 2024, ASR reported a net loss of €70 million but this was mainly driven by revaluation effects on the investment portfolio and a negative result related to the announced sale of banking operation Knab to BAWAG Group. The increased operating result and the sound combined ratio of 95% over the same period support our expectation that ASR will generate an operating result of over €1 billion and return on equity (ROE) of 13%-15% for 2024-2026. We furthermore expect the net combined ratio to remain below 100%.

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

Historically, ASR has, in our opinion, demonstrated stable performance with strong profitability outperforming its Dutch peers in a challenging market environment, with a reported ROE of 16% for 2023. We expect ASR's ROE to remain at 13%-15% for 2024-2026 or even to improve slightly when the synergies of the merged entities materialize.

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

Outlook

The positive outlook reflects our expectation that ASR will continue to show capital adequacy comfortably at the '99.99%' confidence interval as per our capital model over the next 12-24 months, while the group maintains its strong competitive position in the Dutch life and nonlife insurance market following the acquisition of Aegon Netherlands' insurance business and the sale of the Knab banking business.

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Downside scenario

We could revise our outlook back to stable over the next 12-24 months if unexpected integration risks arise or capital adequacy reduces significantly and sustainably below the '99.99%' confidence interval in our model.

Upside scenario

We could raise the ratings over the next 12-24 months by one notch if the acquired Aegon operations are successfully integrated and capital adequacy remains comfortably above the '99.99%' confidence level, or if investment risks and employee pension scheme risks linked to the combined ASR and Aegon life operations materially diminish.

Ratings Score Snapshot

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

*Based on the relatively short track record of improved capital adequacy and the remaining implementation risks until the integration of the Aegon Nederland insurance business is completed.
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

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- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

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

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