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ASR Group

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ASR Group

Major Rating Factors

Strengths:

- Strong competitive position.
- Stabilizing and supportive ownership.

Weaknesses:

- Relatively low operating performance and risk-based capital.
- Concentration in the mature Dutch market.

Operating Companies Covered By This Report
Financial Strength Rating
Local Currency
A/Negative/--

Rationale

The ratings on operating entities ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (formerly Fortis ASR Levensverzekering N.V. and Fortis ASR Schadeverzekering N.V.) reflect their core status to the ASR Nederland Group (ASR). ASR enjoys a strong competitive position in The Netherlands, and Standard & Poor's Ratings Services views the Dutch state's current ownership of the group as stabilizing and supportive.

A relatively weak risk-based capital adequacy and operating performance and a concentration in the mature Dutch market partly offset these credit strengths.

The two rated entities represent 65% of ASR's consolidated premiums. Their direct parent is the holding company ASR Nederland N.V. (not rated), formerly Fortis Insurance Netherlands. The Dutch government has owned ASR since Oct. 3, 2008, following the dismantlement of the Fortis group.

In our view, the group's competitive position is strong, thanks to a diversified product range and distribution through generalist and niche brands. ASR has a top-three market share of the combined life and non-life markets by gross premiums written (GWP). That said, the business is concentrated in the highly competitive and mature Dutch market, and is mostly distributed through intermediaries.

We view state ownership as stabilizing in the current market environment, giving ASR time to establish itself as a stand-alone group and redefine its strategy after it was split off from Fortis group. The insurer financial strength ratings on ASR are equal to its stand-alone credit profile (SACP). As a government-related entity (GRE), we consider ASR's role as important for the Dutch government and that the link between them is strong, but give no explicit support in the rating.

We view ASR's risk-based capital adequacy as good, but also give qualitative credit to its outstanding hybrid debt and its prudent reserving policies, to consider capitalization overall as strong. Capitalization remains a relative weakness in the rating although we anticipate it being improved through earnings generation over the rating horizon.

Underlying operating performance is currently under pressure, but we believe it will be strong in the long term, as the group trims its cost base and adjusts its internal processes to support ASR as a stand-alone group.

Outlook

The negative outlook reflects the difficulties ASR faces in restoring its capitalization and operating performance to levels supportive of the current ratings.

The outlook may be revised to stable if underlying operating performance improves in 2010 and we expect it to continue to improve over the rating horizon to at least market-average levels, in excess of ASR's own targets for 2012.

We may lower the ratings if operating performance is not anticipated to show sufficient improvement over the rating horizon or if there is a deterioration in risk-based capital adequacy.

Corporate Profile: Large MultiLine Dutch Insurer

ASR Nederland N.V. (ASR N.V.), formerly Fortis Insurance Netherlands, has been owned by the Dutch government since Oct. 3, 2008, as a result of the break up of the Fortis group.

ASR N.V. acted as the consolidation vehicle for all the former Dutch insurance operations of Fortis apart from the former Fortis Corporate Insurance (now Amlin Corporate Insurance). ASR N.V.'s operations are organized into two generalist insurers, the rated entities ASR Levensverzekering N.V. and ASR Schadeverzekering N.V., and six other specialized insurers/brands: De Amersfoortse (accident and health; A&H), Falcon Leven (unit-linked business), Europeesche (travel insurance), Ardanta (funeral insurance), Ditzo (Direct Insurance), and ASR Vastgoed.

In 2009, ASR recorded €4.9 billion gross inflows, down from €5.8 billion in 2008. Distribution is mostly brokerage-oriented (81%), with the remainder being distributed directly (14%) and through bancassurance (5%). ASR's product profile comprises individual life (45%), group life (21%), A&H (15%), and non-life (19%).

Government Support And GRE Methodology Impact

The 'A' rating on ASR is based on the company's SACP, which Standard & Poor's assesses at 'a', as well as on our opinion that there is a "moderate" likelihood that the Dutch government would provide timely and sufficient extraordinary support to ASR in the event of financial distress.

In accordance with our criteria for GREs, our view of a "moderate" likelihood of extraordinary government support is based on our assessment of ASR's:

- "Important" role for the Dutch economy, and
- "Strong" link with the Dutch government.

Competitive Position: Strong, With A Diversified Product Range

In our view, ASR's competitive position is strong, owing to its diversified range of product and distribution channels. Offsetting this is the group's concentration in the highly competitive and mature Dutch market. We expect ASR to achieve moderate premium growth, noting that state ownership limits the extent to which it can engage in price competition.

ASR remains a top-three player in the Dutch insurance markets, with a reasonably stable market share (excluding health) of 11% to 12%. We regard this positively, given the upheaval ASR has been through in separating itself from Fortis group. Competition remains stiff in the Netherlands, but ASR is prevented by its state ownership from pricing too aggressively, so we expect market share to remain stable under the current structure.

In keeping with most other groups in the Netherlands, ASR operates a multibrand, multichannel strategy. This appears to be well managed and is not expected to disadvantage ASR in the changing distribution environment.

ASR is also a market leader in disability insurance and has a small presence in the health insurance market, mainly to complement its disability offering.

Management And Strategy: Capable Management Team, But Future Strategic Direction Remains Uncertain

ASR's management team is in the midst of an internal appraisal of its current and future structure, following its disentanglement from the Fortis group and with a view to its possible long-term ownership structure.

Strategy

ASR's strategy positioning remains unclear. It has successfully separated itself from the Fortis group and is busy on internal programs to prepare it for life as an efficient and profitable stand-alone group (broadly focusing on being "customer connected," "financially stable," and an "efficient market player"). However, until its future ownership structure is known, it will be difficult for ASR to fully commit itself to a comprehensive strategic view, in our opinion.

Operational management

In the first half of the year, ASR successfully implemented a number of cost and process efficiency savings. In the second half, it will focus on building a sustainable and efficient internal structure for the group. We believe it can achieve this, and some financial stability, without too detrimental an effect on their position in the market.

The role of the Dutch government is limited to ownership. The government is not involved in the day-to-day management of ASR and this ownership is viewed by us as a stabilizing factor in the rating.

Financial management

We believe it remains too early to set reliable financial targets for ASR, given the transformation that it is still undergoing. We view ASR's short-term goals of derisking the company and achieving financial stability as reasonable and attainable.

Enterprise Risk Management: Adequate, But Undergoing Significant Change

We view enterprise risk management (ERM) processes at ASR as adequate, mostly reflecting the processes put in place under the former Fortis Insurance division. We do not expect ASR to experience losses outside normal ranges from traditional risk areas. This assessment is supported by our view that there are adequate controls for all risks. ASR is now developing its ERM capability to suit it as a stand-alone group. This transition is likely to contain operational risks, but is expected to improve ERM as it progresses. Our current assessment of strategic risk management is weak and is likely to remain so until development of the new framework is more advanced.

Market and life insurance risks are the most important risks at ASR, and credit and non-life risks are also important. The importance of ERM to the ratings is moderate.

Accounting: Prepared Under IFRS

ASR's accounts are prepared under International Financial Reporting Standards (IFRS). The audit opinion is unqualified, and the accounting policies do not raise any rating concerns. Our analysis of capitalization is based on ASR's consolidated accounts, including data from the unrated niche players in The Netherlands. We have used supplementary embedded value (EV) information as part of our earnings and capital analysis.

Operating Performance: Consistently Strong, But Still A Relative Risk To The Rating

We view ASR's operating performance as strong, in spite of lower reported profitability in recent years. ASR is working hard to reduce its cost base and manage changes in process and service efficiency, which we expect to deliver strong operating performance going forward. However, operating performance does remain a relative weakness in the rating, along with risk-based capitalization, and a failure to improve performance may trigger a negative rating action.

The net result for 2009 improved to €255 million from a loss of €640 million in 2008, due primarily to a sharp reduction in impairments. We expect the net result for 2010 to improve on 2009.

ASR has set long-term financial targets for 2012. These include:

- Profitability in the range of 8-12% of total equity;
- Combined ratio for disability of 92% and non-life of 98%; and
- A margin on new business in life insurance with an average of at least 1.5%.

We consider these targets to be attainable, but do not expect ASR to meet them all in 2010.

ASR reported a high combined ratio in 2009, compared with the rest of the Dutch market, and is likely to report a combined ratio above 100% for 2010 as well. This is influenced by a conservative reserving strategy, which acts as a potential source of run-off profit in the future.

In life insurance, ASR is facing pressure on premium volumes in both individual and group business, which has a knock-on effect on operating performance through expense overruns. Reported value of new business (VNB) was negative in 2009, allowing for expense overruns. On a "normalized" level, ASR reported a VNB of €9 million, equating to a new business margin of 0.6%. VNB calculations are based on market-consistent embedded value, using the European Central Bank 'AAA' curve.

Investments: Strong Credit Quality

We view ASR's investment strategy as strong. It has no significant concentrations and uses interest rate and equity hedging instruments to control risks. We consider the credit quality of the bond portfolio to be strong. ASR has exposure to market risk through investments in real estate and equities.

Credit risk

We view the credit quality of ASR's bond portfolio as strong, with about one-third invested in 'AAA' sovereign debt and an average credit rating of at least 'A'.

Market risk

ASR has exposure to market risk, through real estate (8.4% as at March 31, 2010) and equity (4.7%) investments, but it remains manageable, in our view. Interest-rate guarantees on liabilities remain a material risk, although asset-liability management controls appear to be adequate and are supported through use of hedging derivatives.

Liquidity: Consistently Strong

We view liquidity as strong. Cash and deposits represent about 3% of the invested assets and bonds represent about two-thirds of nonlinked assets. A large proportion of the fixed income portfolio is invested in 'AAA' sovereign debt. Consolidated cash flow was positive in 2008 and 2009.

Capitalization: Strong, But A Relative Weakness In The Rating

We view capitalization as strong because of ASR's prudent reserving and adequate controls around market risk. Risk-based capital adequacy, as measured by our model, is only good, but qualitative credit is given for ASR's hybrid debt issued in 2009. We expect ASR's earnings retention capacity to bring its capital adequacy closer to a level consistent with its current ratings over the rating horizon. Failure to improve risk-based capital adequacy through earnings generation could trigger a negative rating action.

Quality of capital

Quality of capital is reasonable, with total adjusted capital supported by about one-third shareholders' equity, one-third future profits, and about one-quarter from unrealized revaluation on real estate.

Reserving

Reserving at ASR is conservative. Its policy is to reserve in excess of the 95th percentile on an undiscounted basis, a decision made when it was still part of the Fortis group.

Reinsurance

Reinsurance utilization at ASR is low owing to the short-tail nature of its non-life business and the importance of the A&H business.

Financial Flexibility: Minimal Capital Requirements In The Medium Term

Financial flexibility is strong, driven by the minimal requirement for additional external funding and limited capital needs to fund organic business growth and to support its capital adequacy.

In our view, ASR's main source of financial flexibility is its capacity to generate and retain earnings. We view the government ownership as a positive factor in that regard.

Ratings Detail (As Of October 28, 2010)*
Operating Companies Covered By This Report

Ratings Detail (As Of October 28, 2010)*(cont.)	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Counterparty Credit Rating	
Local Currency	A/Negative/--
Junior Subordinated (1 Issue)	BBB
Junior Subordinated (1 Issue)	BBB+
ASR Schadeverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer Credit Rating	
Local Currency	A/Negative/--
Domicile	Netherlands

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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