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ASR Nederland Group

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ASR Nederland Group

Major Rating Factors

Strengths:

- Strong competitive position.
- Strong investments.
- Supportive government ownership, albeit temporary.

Weakness:

- Strong operating performance, but not in line with the rating.

Operating Companies Covered By This Report
Financial Strength Rating
None

Rationale

The ratings on the core operating entities of Netherlands-based multiline insurer ASR Nederland N.V. (ASR Nederland group, ASR, or the group) reflect Standard & Poor's Ratings Services' view that the group benefits from a strong competitive position, strong investments, and supportive (if temporary) government ownership. These factors are tempered by an operating performance that, although strong, is not in line with the rating.

In our view, the group's competitive position is strong, benefitting from a diversified product range and distribution through generalist and niche brands. ASR is the third-largest insurer by gross premium written (GPW) in the Dutch combined life and non-life markets (excluding health). That said, the group's business is concentrated in the highly competitive, mature Dutch market and is mostly distributed through intermediaries.

ASR's investment strategy is 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 relatively small exposure to market risk through investments in real estate and equities.

We consider the likelihood of extraordinary government support to ASR as low. We have not assigned any uplift to the group's stand-alone credit profile (SACP). This reflects the increasing probability that the Dutch government will relinquish its majority ownership of ASR within the next two years. Nonetheless, we continue to view state ownership as a supportive element given the current market environment, as it gives ASR time to establish itself as a stand-alone group and refine its strategy following its split from the Fortis group in 2008.

The group 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, since the operating performance is not commensurate with this rating level, it remains a relative weakness in the rating; a failure to improve performance may trigger a negative rating action.

Outlook

All else being equal, a return to a stable outlook would be considered if the group's operating performance continues to improve to the extent that it is no longer considered a relative weakness. This could occur if ASR can demonstrate that it can meet its own return on equity, net combined ratio, and life profitability targets by the end of 2012, or be in a position to do so in 2013.

We may lower the ratings if operating performance does not improve sufficiently over the rating horizon, or if the risk-based capital adequacy deteriorates.

Corporate Profile: A Dutch Multiline Insurer

In 2010, it wrote gross premiums of €4.84 billion, which made it one of the leading insurers in the country (see table 1). Life insurance accounted for 51% of these premiums and non-life insurance 49%.

Table 1

Peer Group Premium Analysis

(Bil. €)	ASR	Delta Lloyd	Eureko	SNS REEAL
2010 gross premium written	4.84	4.83	19.85	3.73
Change in 2010 gross premium written (%)	(3.6)	7.6	1.1	(14.5)
The Netherlands market share (%)*	6.6	6.6	27.1	5.1

*We assume that all premiums reported by these companies are written in the Netherlands. Source: Annual reports, Swiss Re sigma studies.

Of the reported life insurance gross premiums in 2010, the lines of business were individual life (72%) and group life (28%). Of the non-life insurance GPW in 2010, the main lines of business were accident and health (55%), motor (21%), and fire and property damage (14%).

In 2010, all of ASR's GPW came from business underwritten in the Netherlands. Distribution is mainly through brokers and agents (81%), with the remainder being distributed directly (14%) and through banks (5%).

In addition to insurance, ASR has banking and property development interests in the Netherlands, which accounted for 8% of its total reported assets at year-end 2010, combined with other noninsurance entities.

The Dutch government has been ASR's sole shareholder since Oct. 3, 2008, following the dismantling of the Fortis group: ASR acted as the consolidation vehicle for all the former Dutch insurance operations of the Fortis Group, apart from Amlin Corporate Insurance (formerly known as Fortis Corporate Insurance).

Government-Related Entity Status: Low Likelihood Of Extraordinary Government Support

Although we previously saw the likelihood of extraordinary government support in the event of economic and financial stress as "moderate," we now assess the likelihood as "low." Government ownership is not anticipated to last much longer; privatization looks increasingly likely within the next two years.

In accordance with our criteria for government-related entities (GREs), our view of a "low" likelihood of extraordinary government support is based on our assessment of the "limited" importance of ASR's role to the government and the "limited" link between ASR and the government. Nevertheless, the change in the group's GRE status has no effect on the rating because no explicit support had previously been given. At the same time, although the 'A' rating on ASR is based solely on its SACP of 'a', we continue to believe that the Dutch government remains supportive of the group.

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Competitive Position: Strong, Reflecting Its Position As A Leading Dutch Insurer

We believe ASR's competitive position is strong and a strength for the ratings. The group is the one of the largest insurers in the Netherlands, with a domestic market share of 6.6% in 2010. Moreover, ASR asserts that it is the third largest in the market, excluding health insurance, with an estimated 11.8% market share in 2010. This comprises a market share of 11.0% in life insurance, where it was the fifth largest, and 12.0% in non-life insurance, where it was the second largest. It also has a strong presence in its four main lines of business (property/casualty, 8% market share; occupational disability, 23%; individual life, 14%; and group life, 7%).

Table 2

ASR Nederland N.V. Competitive Position		
	--Year-ended Dec. 31--	
(Mil. €)	**2010**	**2009**
Net premium earned	4,518	4,623
Annual change in net premium earned (%)	(2.3)	N.M.
Total assets under management	36,784	35,315
Growth in assets under management (%)	4.2	N.M.

N.M.--Not meaningful.

In addition to its broad product range, ASR is increasing its distribution capabilities; it has a clear branding strategy and focuses on customer satisfaction. In keeping with most other groups in the Netherlands, ASR operates a multibrand, multichannel strategy. This appears to be well-managed and is not likely to disadvantage ASR in the changing distribution environment. The group's concentration in the highly competitive, mature Dutch market offsets this. We expect ASR's premium growth to be largely dependent on the health of the Dutch economy; it will likely track the change of the Netherlands insurance market over the long term. Over the next year or two, we believe ASR will concentrate on profitability ahead of growth. We note that state ownership limits the extent to which it can engage in price competition.

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. The group's total banking and other noninsurance activities are small and of limited significance to our assessment of its competitive position.

Table 3

The Netherlands Market Share Development		
(%)	**2009**	**2010**
ASR's gross premium written (GPW) (bil. €)*	5.024	4.842
Change in ASR's GPW	(13.5)	(3.6)
The Netherlands market GPW (bil. €)	74.2	73.2
Change in GPW in the Netherlands market	(4.7)	(1.3)
ASR's market share (Netherlands)	6.8	6.6

*We assume that all premiums reported by ASR are written in the Netherlands, unless otherwise disclosed publicly. Source: Annual reports, Swiss Re sigma studies.

Management And Corporate Strategy: Marginally Negative, Reflecting Mainly Neutral Assessments

We view the management and corporate strategy of ASR as marginally negative for the rating. This reflects our mainly neutral assessments under our criteria (see "Management And Corporate Strategy Of Insurers: Methodology And Assumptions", Jan. 20, 2011). Significantly, there are no negative assessments and no deficiencies in corporate governance.

Having separated from the Fortis group in October 2008, ASR has been preparing to become a privatized company, which we believe will occur within the next two years. While many aspects of its management and corporate strategy have improved over the past three years or so, a more positive assessment will develop over time as the group builds its track record.

Strategic positioning

ASR's strategy is clearly outlined in its 2010 annual report and is based on three pillars: customer interests, financial robustness, and efficiency. Despite uncertainty about its future ownership structure, we assume that the current strategy will remain in place because we see it as sensible for a group operating in the competitive Dutch market.

Operational effectiveness

The management team appears experienced and knowledgeable across all its significant business units. It continues to implement a number of cost and process efficiency programs. However, in our opinion, management has not yet built a track record of success in carrying out its plans, particularly its long-term financial targets.

The role of the Dutch government is limited to ownership; it is not involved in the day-to-day management of ASR. We view this ownership as a stabilizing factor in the rating.

Financial management

ASR has set three specific long-term financial targets (see "Operating Performance"), which we believe are achievable where not already achieved. We classify ASR as having moderately conservative risk tolerances and an improving set of financial standards and risk tolerances.

Enterprise Risk Management: Adequate And Improving

We view ASR's enterprise risk management (ERM) processes as adequate, but we also note the progress being made to establish and improve control processes throughout the group. While the ERM processes previously followed those put in place under the former Fortis Insurance division, we note that ASR has made significant strides to develop its ERM capability to suit it as a stand-alone group. 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. Controls for a number of development areas are to be implemented in 2011 and 2012. Satisfactory execution of these controls and subsequent proof of their efficacy may lead us to hold a more positive view of the group's ERM in future.

Market and life insurance risks are the most important risks at ASR, followed by credit risks. The ERM is moderately important to the ratings.

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Accounting: Conservative, With Generally Good Public Disclosure

ASR prepares its consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the European Union. We view the group's accounting as conservative. Public disclosure overall (including ASR's Web site, interim reports, and investor presentations) is considered reasonable from a rating perspective, but with some notable exceptions; for example, the publication of an embedded value report was discontinued for 2010. KPMG audited the group's financial statements for 2010, for which the audit opinion was unqualified.

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

We view ASR's operating performance as generally strong; the group 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, since the operating performance is not commensurate with this rating level, it remains a relative weakness in the rating; a failure to improve performance may trigger a negative rating action.

The reported net result in 2010 was a profit of €317 million, an increase of about €62 million or 24.3% since 2009; this is in line with our forecasts. The net result for 2009, in turn, had improved to a profit of €255 million from a loss of €640 million in 2008, primarily due to a sharp reduction in impairments. We estimate the underlying and reported net result for 2011 will improve slightly on 2010, since the net result for the first half of 2011 was €163 million.

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

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

We consider these targets to be attainable, but consider it less likely that ASR will meet all of them by 2012.

The group achieved ROE of 10.3% in 2010, meeting its profitability target. However, the combined ratios for disability (92.9%), non-life (104.9%), and life margin are not being met. We believe the target for the combined ratios for disability and non-life will be achieved by the end of 2012, but the life margin may not. Given the generally positive underlying improvement in underwriting performance, we could remove the negative outlook if further progress is achieved.

ASR non-life performance in 2010 was in line with our forecasts and better than 2009 (see table 5). We anticipate a ratio below 100% for 2011. A conservative reserving strategy, a potential source of run-off profit in the future, will help bring this about. The combined ratio for disability insurance is also likely to be well below 100% in 2011.

Results for life insurance weakened in 2010: Based on confidential information, the new business margin for 2010 on a market consistent embedded value (MCEV) basis was not only worse than that of 2009, but also fell well short of the 2012 target. MCEV also declined by year-end 2010 from year-end 2009 (ASR uses the European Central Bank 'AAA' curve). We forecast the value-added of new business will improve, but remain negative in 2011. As with the rest of the industry, there are significant obstacles for life insurers in the Netherlands: these include a loss of consumer confidence in traditional life products, growing life expectancy, a limited ability to offer attractive guaranteed products, and the increasing competition from banks. Although ASR is adapting to these market challenges, its results remain under pressure.

Table 4

Reported Premiums And Profits		
(Mil. €)	2009	2010
Life insurance gross premium written (GPW)	2,692	2,514
Non-life insurance GPW	2,332	2,328
Pre-tax profit: Life insurance	316	356
Pre-tax profit: Non-life insurance	103	152
Pre-tax profit: Other	(89)	(87)

Source: ASR 2010 annual report.

Table 5

Non-Life Insurance (Excluding Disability)		
(Mil. €)	2009	2010
Gross premiums earned	1,089	1,118
Combined ratio (%)	107.5	104.9

Source: ASR.

Table 6

Disability Insurance		
(Mil. €)	2009	2010
Gross premiums earned	908	841
Combined ratio (%)	92.2	92.9

Source: ASR.

Table 7

Life Insurance		
(Mil. €)	2009	2010
Gross premiums earned	2,692	2,514

Source: ASR.

Investments: Strong, Reflecting 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 relatively small exposure to market risk through investments in real estate and equities.

Credit risk

Fixed-income assets were the biggest asset class on the balance sheet, representing 41% of reported total assets and 61% of invested assets at year-end 2010. A program of de-risking in 2010 slightly improved the credit quality of the bond portfolio, which we continue to see as strong. At year-end 2010, 53% of the €17.63 billion fixed income portfolio was held in 'AAA' rated assets (43% at year-end 2009) and 96% in investment-grade assets (96% in 2009). The picture was largely unchanged by the end of the first half of 2011.

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Reinsurance credit risk is small, with just €427 million of exposure to reinsurers at year-end 2010 (€545 million in 2009), 99% of which was to counterparties rated at least 'A-' or higher (97% in 2009). Similarly, cash of €489 million was nearly all held in 'A' rated institutions.

Market risk

ASR is exposed to market risk through real estate (equal to 7.6% of invested assets as of Dec. 31, 2010; this excludes a pre-tax unrealized gain of €1.39 billion, equal to 5.0% of invested assets) and equity investments of 8.6%. However, it remains manageable, in our view. Interest rate guarantees on liabilities remain a material risk, although asset-liability management (ALM) controls appear to be adequate and are supported by the use of hedging derivatives.

ALM is controlled; the duration of assets (6.5 years) was shorter than the duration of liabilities (10.5 years) at year-end 2010. Despite mitigating actions, the sensitivity of the regulatory solvency ratio to interest rate shifts was greater at year-end 2010 than a year earlier. However, ASR took further risk-mitigating measures at the beginning of the first quarter of 2011. These measures included scaling down its interest rate risk by purchasing interest rate swaps and lengthening the duration of bonds, selling equities, and further reducing exposure to specific structured instruments.

Liquidity: Strong, Reflecting Strong Balance Sheet Liquidity

We believe ASR's liquidity is strong. This is mainly due to the strong liquidity of the balance sheet, which is dominated by liquid financial assets. Of the total reported assets at year-end 2010, 89.0% were accounted for by reported financial assets (87.3% at year-end 2009), of which we estimate 78.4% was relatively liquid (78.9% in 2009). Nonlinked investments were 73.7% of total reported financial assets at year-end 2010 (down from 74.3% in 2009). We estimate 70.6% of nonlinked investments were relatively liquid in that period (70.8% in 2009).

Table 9

ASR Nederland N.V. Liquidity And Investments

	--Year-ended Dec. 31--	
(%)	**2010**	**2009**
Invested assets to total assets	67.9	68.5
General account invested assets (mil. €)	27,410.0	26,644.0
Separate accounts/unit linked assets (mil. €)	9,491.0	8,808.0
Investment portfolio composition		
Cash and cash equivalents	1.9	2.7
Total bonds	61.1	60.3
Common stock	8.6	7.4
Real estate	7.2	8.1
Total mortgages and loans	19.9	19.1
Investments in affiliates	0.1	0.2
Portfolio composition: Investments in partnerships, joint ventures, and other alternative investments	0.5	0.6
Other investments	0.7	1.5
Total portfolio composition	100.0	100.0

In addition to its liquid investments, ASR can access up to €2 billion of secured financing in the form of securities lending and repo finance. Consequently, the group forecasted that if a €1.25 billion stress scenario were to occur on April 30, 2011, its available net liquidity would be about €4.0 billion two weeks later. We view this as evidence of satisfactory liquidity management.

Capitalization: Strong, And No Longer A Relative Weakness

ASR's capitalization is viewed as strong and is no longer a relative weakness for the ratings. Its capital adequacy (as measured according to Standard & Poor's risk-based capital model) was strong at year-end 2010 and is expected to remain so. Quality of capital is also strong and we consider the group to have prudent reserving, and adequate controls, around market risk.

Risk-based capital adequacy, as measured by our model, is now strong (being previously good), but qualitative credit is also given for the larger part of ASR's hybrid debt issued in 2009. We believe ASR's earnings retention capacity will help it maintain its capital adequacy at a level consistent with its current ratings over the rating horizon. In order to support ASR's capital adequacy, the Dutch government has not required any dividend payments so far.

Solvency coverage was 235% for the group on June 30, 2011 on a statutory basis, which is up from 221% at year-end 2010 (232% at year-end 2009), but still below its target of 250%.

Quality of capital

Quality of capital is reasonable: total adjusted capital is supported by over two-thirds shareholders' equity and one-quarter future profits.

Reserving

Non-life reserving at ASR is conservative. The group's 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

The short-tail nature of ASR's non-life business leads to low non-life reinsurance utilization, being just 9.3% in 2010. The largest risk retention is €2.5 million per risk and €15.0 million per event. A loss of €15 million equates to less than 1% of year-end 2010 reported shareholders' equity.

Life reinsurance utilization is also low. The largest risk retention is €0.75 million per risk and €3.0 million per event.

Financial Flexibility: Strong, If Largely Untested

In our opinion, ASR's financial flexibility is strong, if largely untested. We do not anticipate that the group will require additional short-term liquidity or long-term capital over the rating horizon. We believe the group would more likely need to replenish capital following a severe adverse movement arising from its market risk. However, as a GRE--albeit one with a low likelihood of support--we currently expect ASR to benefit from the financial support of its owner, if needed.

Sources of capital (see "Liquidity") may include an equity issue, an increase in the use of reinsurance, or further borrowing (including hybrid debt, which ASR last issued in August 2009 as part of a financial restructuring).

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Table 10

ASR Nederland N.V. Financial Flexibility		
	--Year-ended Dec. 31--	
	2010	2009
EBITDA fixed-charge coverage (x)	3.1	4.6
Financial leverage including additional pension deficit as debt (%)	41.7	45.7

Related Criteria And Research

- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Use Of CreditWatch and Outlooks, Sept. 14, 2009
- Holding Company Analysis, June 11, 2009
- Group Methodology, April 22, 2009
- Interactive Ratings Methodology, April 22, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15,2008
- Counterparty Credit Ratings And The Credit Framework, April 14, 2004

Ratings Detail (As Of November 16, 2011)	
Operating Companies Covered By This Report	
ASR Nederland N.V.	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Negative/--
Issuer 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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