Insurance Markets

Research Update:

ASR Nederland's Core Insurance Operations Ratings Affirmed At 'A' After Insurance Criteria Change; Outlook Stable

Primary Credit Analyst:
Oliver Herbert, London (44) 20-7176-7054; oliver.herbert@standardandpoors.com

Secondary Contact:
Simon Ashworth, London (44) 20-7176-7243; simon.ashworth@standardandpoors.com

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Overview

- Following a review of ASR Nederland's insurance operations under our revised insurance criteria, we are affirming our 'A' ratings on the group's core operating subsidiaries.
- The ratings reflect our view of the group's strong business risk profile in the Dutch market and its strong financial risk profile, supported by strong capital and earnings.
- Although the group is owned by the Dutch government, we do not factor government support into our ratings.
- The stable outlook reflects our view that the group will maintain its competitive position and balance sheet strength over the next two years.

Rating Action

On June 19, 2013, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on ASR Nederland's core insurance operations: ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (collectively, ASR). The outlook is stable.

Rationale

The ratings reflect our view that ASR exhibits strong business and financial risk profiles. The strong business risk profile is founded on the group's strong competitive position in the Dutch market. Our view of the group's financial risk profile is based upon our strong assessment of capital and earnings; intermediate risk position, and adequate financial flexibility. Under our criteria, we combine these profiles to derive an anchor of 'a' or 'a-'; based on our view of the resilience of ASR's financial risk profile, we applied the higher of the two to derive our stand-alone credit profile (SACP). The anchor and the long-term ratings are at a similar level because we view management and governance and enterprise risk management (ERM) as a neutral rating factor and liquidity as exceptional.

We consider ASR a government-related entity because the Dutch state owns it, but we consider the likelihood of the government providing extraordinary government support to ASR in the event of economic and financial stress to be low. Therefore, the ratings do not benefit from any government support. We view government ownership as temporary and expect ASR to be privatized in the next two years, subject to market conditions.

Under our criteria for government-related entities (GREs), we see the likelihood of extraordinary government support being offered as "low," based on our assessment of the "limited" importance of ASR's role to the government and the "limited" link between ASR and the government. The 'A' rating on ASR is therefore based solely on its SACP of 'a'.

We assess ASR's industry and country risk as low. The company has deliberately sought to reduce life new business sales and, as a result, its gross premium written (GPW) for life insurance increasingly relies on the shrinking regular premium book. We therefore anticipate that ASR's insurance and industry risk profile will gradually shift toward the health and property/casualty (P/C) sectors. We anticipate that health volumes will continue to grow, but P/C GPW will be broadly flat. That said, we do not expect this to change our low overall assessment of industry and country risk.

We consider ASR's competitive position in the Dutch market to be strong. Based on market share, ASR is a significant player in a highly consolidated market and the company possesses meaningful diversification by line of business. This diversification increases the group's strategic options in a heavily competitive environment, as demonstrated by management's maintenance of strict new business pricing discipline. ASR has chosen to partially withdraw from group pensions business because the company believes that pricing does not meet internal targets. Instead, ASR has sought to expand into the health sector--where margins are low, but stable--through its direct distribution brand.

We assess ASR's capital and earnings as strong. Using Standard & Poor's risk-adjusted capital model, we assess capital adequacy as very strong. However, our overall view of capital and earnings is constrained by the quality of capital, specifically the contribution to total adjusted capital of weaker capital items. We expect that the company will continue to generate profit before tax of €200 million-€300 million a year. Given we expect only limited sales growth, the company's risk-adjusted capital requirements are unlikely to increase significantly. We anticipate that the company's combined (loss and expense) ratios will improve over 2013, but only to about 98%-99%. We also anticipate that where ASR chooses to write life business it will only do so where it can obtain positive new business margins.

In our view, ASR has an intermediate risk position. Overall, we expect that the company's balance sheet will exhibit average volatility compared with peers. The company maintains significant investments in the real estate sector, but has managed down the proportion of invested assets allocated to equities. The company's has managed the credit risk in its mortgage portfolio by issuing mortgages that are state-guaranteed. We also consider that ASR has actively taken steps to hedge the interest rate risk on its balance sheet, which helps to limit the volatility associated with low interest rates. These positives are off-set, however, by ASR's large pension scheme obligations, which we think may increase volatility in capital and earnings. Although past service benefits are reinsured into ASR Levensverzekering, the future service benefits may be a source of volatility in reported equity and therefore our view of total adjusted capital.

We consider ASR's financial flexibility to be adequate. The company has limited capital needs at present. Were the company to require more capital, we anticipate that it would do this by accessing the debt capital markets, as it has done in the past. A potential issuance may put pressure on our coverage metrics, however.

We regard ASR's enterprise risk management (ERM) and management and governance practices as neutral to the ratings. We consider ASR's ERM as adequate and its importance high given the composite nature of the group's risk profile. Further risk controls were implemented in 2011 and 2012. Satisfactory execution of these controls and continued evidence as to their efficacy may lead us to hold a more positive view of the group's ERM in future.

We consider management and governance as satisfactory. The management team is successfully rebuilding ASR's balance sheet since the split from Fortis in 2008. The team is implementing a number of cost and process efficiency programs. In our view, management is building a track record of success in carrying out its strategic initiatives and operational improvements in a difficult economy.

We regard ASR's liquidity as exceptional. Although the company has material real estate exposures, ASR also maintains significant liquidity in the form of its large cash holdings and highly rated bond portfolio, which provide a buffer against liquidity stresses.

Outlook

The stable outlook reflects the company's robust position in the Dutch insurance market and its balance sheet strength. Reducing risk in the balance sheet and improving capitalization have increased the resilience of ASR's financial risk profile. However, based on ASR's stated strategy and on market dynamics, we see limited upside for the ratings at present.

We might downgrade the ratings if:

- The financial risk profile were to prove less resilient than we anticipated; for instance, if we saw greater-than-expected volatility in ASR's capital and earnings; or
- Poor operating performance indicated weaknesses in the business risk profile because we felt that ASR could not draw sufficient profitability from its competitive position. Evidence for this could include combined ratios consistently above 100%, negative new business margins, or a return on equity of less than 8%.

The Dutch government's eventual sale of its shareholding in ASR could also affect our assessment of the group's credit strength. The effect would depend on the nature of the government's exit strategy, the credit profile of any acquirer, and the capital structure in an IPO scenario. A partial sale of ASR Levensverzekering's back book could also lead us to change our assessment that the life operations are core to the group.

Rating Score Snapshot

Financial Strength Rating	A/Stable
SACP	a
Anchor	a
Business Risk Profile	Strong
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital & Earnings	Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed

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.

Additional Contact:
Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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