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ASR Nederland N.V.

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ASR Nederland N.V.

Rationale

Business Risk Profile: Strong

- Strong competitive position owing to the group's diverse position in the Dutch life and non-life markets.
- Low industry and country risk given the weight of Dutch non-life sales and ASR's shrinking life portfolio.
- A diversified player in the Dutch insurance market with top-five shares in a range of product lines in the non-life, disability, and individual life markets.
- In keeping with other Dutch peers, combined ratios (averaging 100.9% over the last five years) are elevated and new business margins are low.

Financial Risk Profile: Strong

- Very strong capital and earnings. Capital is in the 'A' range at present. However, given ASR's expected dividend policy and limited capital requirement growth from shrinking volumes combined with a stable investment profile, we believe capital and earnings will improve to the 'AA' range by 2016.
- We also anticipate that quality of capital will improve over time, with total adjusted capital continuing to rely mainly on shareholders' equity, with limited exposure to "softer" elements for which we give credit such as hybrid capital and future profits.
- Moderate risk position, which weakens our view of the financial risk profile. The group maintains material holdings in investments we consider high risk, such as equities and real estate. ASR also has a large defined benefit pension scheme obligation.

Other Factors

- Our combined views of ASR's strong business and strong financial risk profiles lead to an anchor of 'a' or 'a-' for the group. We choose the higher outcome based on our ongoing expectation that the balance sheet will remain resilient. This is predominantly due to the initiatives taken by the group to reduce sensitivity to interest rates through hedging.
- We consider ASR to have adequate enterprise risk management, which is a neutral rating factor.
- We assess ASR's management and governance as satisfactory, a neutral rating factor
- We believe ASR possesses exceptional liquidity owing to the strength of its available liquid resources.

Government support: Limited role and link

- We view ASR as a government-related entity (GRE) because it is owned by the Dutch state. We consider the likelihood of the government providing extraordinary support to ASR in the event of economic and financial stress as low. Therefore, the ratings do not benefit from any uplift from government support. We view government ownership as temporary and expect ASR to be privatized.
- Under our criteria for GREs, we see the likelihood of extraordinary government support 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'.

Factors specific to the holding company:

- The long-term counterparty credit rating on ASR Nederland N.V. is lower than the long-term counterparty credit ratings on its operating subsidiaries to reflect the structural subordination of holding company creditors to operating company policyholders.

Outlook: Stable

The stable outlook reflects the company's robust position in the Dutch insurance market and its balance sheet strength. Improving capital adequacy and a stable risk appetite are our key expectations for the financial risk profile remaining resilient.

Downside scenario

We could lower the ratings over the next 12-24 months if the financial risk profile were to prove less resilient than we currently anticipate. This might occur, for instance, if volatility in ASR's capital and earnings is more than we currently expect and if ASR fails to progress in improving its capital adequacy to the 'AA' range by 2016. As such, our expectations concerning net earnings, dividend policy, and the overall risk profile of the investment portfolio are critical to the maintenance of the stable outlook.

We may also lower the ratings if poor operating performance indicated weaknesses in the business risk profile. We would view the business risk profile as weakening if we believed that ASR could not draw sufficient profitability from its competitive position, seen, for instance, in combined ratios consistently above 100%, and negative new business margins.

Upside scenario

Given ASR's strategy and market dynamics, we see limited upside for the ratings over the next 12-24 months. Nevertheless, we could raise the ratings if we saw a material reduction in ASR's risk profile and a materially stronger-than-expected improvement in capital adequacy sustainably into the 'AAA' range.

The Dutch government's eventual sale of its shareholding in ASR could also affect the ratings. The outcome would depend on, among other variables, the nature of the government's exit strategy, the credit profile of any acquirer or combined group including ASR, and the capital structure. 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.

Base-Case Scenario

Macroeconomic Assumptions

We expect that The Netherlands will see a period of weak growth as domestic demand contracts. We forecast real GDP to grow by 0.8% in 2014 and 1.3% in 2015. We believe that unemployment rates will rise to 7.5% in 2014, before falling to 7.1% by 2016. The increase in economic activity may help boost sales of insurance products.

The Dutch life sector is closely linked to the property market. Insurers are significant mortgage issuers and investors, while some life products are linked to house sales. House prices fell sharply in 2012 (7.3%) and 2013 (4.5%). We expect this trend to slow to 1% in 2014 as consumer confidence improves, but a return to house price growth will be delayed until 2015.

Company-Specific Assumptions

Business mix: Overall gross written premium (GWP) will continue to fall. Life volumes will continue to decline and the balance toward non-life sales will continue to grow. We anticipate non-life premium growth of about 1%-2% a year at most.

Earnings: ASR will generate net earnings of about €200 million-€300 million annually in 2014-2016; combined ratios will be less than 99% and new business margins will be positive. We do not anticipate any further provision associated with disability business.

Dividend policy: We anticipate that ASR will maintain its dividend policy of distributing 40%-45% of profit attributable to holders of equity instruments after payment of the coupons on the hybrid Tier 1 instruments.

Investments: The overall risk profile of the investment portfolio will be stable. In particular, we do not expect further increases in allocations to equities and real estate.

Financial flexibility: We anticipate that financial leverage will remain low at below 15% and that fixed charge coverage will be over 5x.

Key Metrics

Key Metrics	2011	2012	2013	F2014	F2015
Gross premium written (€ mil.)	4,437	4,290	3,923	<3,700	<3,600
Net income (€ mil.)	205	248	276	200 to 300	200 to 300
S&P capital adequacy	N.M.	N.M.	Strong	Strong	Very Strong
Financial leverage (%)	N.M.	N.M.	11	<15	<15
Fixed charge coverage (x)	4.2	3.5	6.5	>5.0x	>5.0x

N.M.--Not meaningful.

Company Description

ASR is a composite insurer domiciled in the Netherlands. It has two core operating entities, ASR Schadeverzekering N.V. and ASR Levensverzekering N.V. ASR was the seventh-largest insurance group in The Netherlands, by GWP in 2012 according to the Dutch Insurance Association.

ASR was nationalized in 2008 as part of the break-up of Fortis Group. The Dutch government has temporarily suspended the privatization of ASR. This is to allow the group to make a bid for SNS REAAL's insurance operations, which are also state-owned. Subsequent to a bid being made, if any, we believe the privatization process will continue. We also note that given the requirement to make a cash bid for SNS' insurance operations, a bid may see a partial sell-down in the Dutch government stake to external investors.

At this stage, for us to factor a potential acquisition of SNS REAAL's insurance operations into our ratings would be too speculative. However, as we note on Feb. 11, 2013 (see "Dutch Government's Eventual Exit From The Insurance Sector May Reshuffle Market Dynamics,") we believe that the combination of ASR with another insurer in the Dutch market would bring significant competitive disruption to the sector.

Business Risk Profile: Strong

We assess ASR's business profile position in the Dutch insurance market as strong. By market share ASR is a major player in the highly concentrated Dutch life and non-life markets. ASR possesses meaningful diversification by line of business, bringing the group strategic flexibility.

Insurance industry and country risk: Low

We assess ASR's industry and country risk as low. The combination of shrinking individual life volumes as well as ASR's decision to reduce sales of group pensions business has led to an increased weight of non-life business in the overall balance of the group's GWP. We therefore anticipate that ASR's industry and country risk profile will gradually shift toward health and property/casualty.

We consider that the Dutch non-life sector is fiercely competitive, placing pressure on average market returns. However, we anticipate that returns should improve on a technical basis, given strategic actions within the market concerning disability business. We believe the Dutch health insurance sector will show stable, albeit low, margins. Product risks are elevated for this product line given the extent to which premiums and coverage are subject to political scrutiny. We consider the Dutch life market to carry intermediate risk and therefore higher risk than the Dutch health and non-life markets.

Table 1

Insurance Industry And Country Risk		
	IICRA	Mix (%)
Netherlands P&C	Low	45
Netherlands Life¶	Intermediate	41
Netherlands Health	Low	14
Weighted average IICRA assessment	Low	

*Gross written premium. ¶Includes premium on own pension scheme.

Competitive position: Strong

We consider that ASR benefits from a strong competitive position. ASR has more or less stopped writing some lines of business, such as group pensions, because of the low interest environment, and has re-priced others (fire and property). The group is willing to lose market share in the process. ASR has maintained earnings due to its large back book, cost-cutting initiatives, and the breadth of its competitive position. New business margins on life sales are now positive, and combined ratios have steadily improved on an underlying basis.

We see limited upside to volumes, which are predominantly sold through intermediaries. Overall we anticipate continued declines in GWP. The published combined ratio for 2013 was 104.6%. However, this included a large provision associated with disability business. Excluding this, the published combined ratio was 96.5%. We believe ASR may use its ongoing cost reduction program and claims management to improve pricing for new and existing customers: retaining customers and maintaining volumes. Claims ratios for disability will remain high while economic growth is low. Our expectation is that the combined ratio will be around 99% through 2016.

Life premiums fell by 12% in 2013 due to industry-wide issues: in particular, the impact of the commission ban, lapses relating to compensation of unit-linked products, and competition from bank savings products. The existing business is now mainly regular premiums. We expect life GWP will continue to decline by around 7% a year.

Life new business sales will be minimal; they were only €65 million in 2013 as measured by annual premium equivalent. Where ASR does write new business we expect margins will be positive, but low. While interest rates remain low--our expectation for the rating horizon---we believe ASR will only write limited group pension contracts. A possible source of volume upside will be the sale of group defined contribution contracts as a result of the structural shift in The Netherlands for companies to move away from defined benefit contracts. However, the market and margins for these remain modest at present.

Table 2

ASR Nederland Competitive Position

	2009	2010	2011	2012	2013
Gross premium written (€ mil.)	4,914	4,738	4,437	4,290	3,923
Change in gross premium written (%)	N.M.	(3.6)	(6.4)	(3.3)	(8.6)
Net written premium (€mil.)	4,623	4,518	4,285	4,220	3,760
Change in net written premium (%)	N.M.	(2.3)	(5.2)	(1.5)	(10.9)
Annualized premium equivalent (€mil.)	188	196	125	87	65
Total assets under management (€mil.)	36,693	38,117	38,514	40,785	39,734
Change in assets under management (%)	N.M.	3.9	1.0	5.9	(2.6)
Reinsurance utilization (%)	5.9	4.6	5.1	3.8	4.2

N.M.--Not meaningful.

Financial Risk Profile: Strong

We assess ASR's financial risk profile as strong.

Capital and earnings

In our view, ASR possesses very strong capital and earnings.

Table 3

ASR Nederland Capital					
	2009	**2010**	**2011**	**2012**	**2013**
Total shareholder's equity (€ mil.)	1,389	1,931	1,854	2,433	2,518
Change in shareholder's equity (%)	N.M.	39.0	(4.0)	31.2	3.5
Regulatory solvency (%)*	232	221	230	293	268
Dividend (€ mil.)	0	0	71	88	99

*In 2012, the Dutch National Bank changed its approach for calculating the ultimate forward rate. N.M.--Not meaningful.

We believe net earnings, the main source of new capital for the group, will remain in the region of €200 million to €300 million a year. There is limited scope for the business to increase sales in the Dutch market. As such, the focus will remain on ongoing operating expense improvements. These are likely to be in the range of €10 million to €30 million over 2014 and 2015.

Table 4

ASR Nederland Earnings					
	2009	**2010**	**2011**	**2012**	**2013**
Net income (€ mil.)	260	318	205	248	276
Return on shareholder's equity (%)	N.M.	19.2	10.8	11.6	11.1
Claims ratio (%)	71.6	73.0	70.9	73.4	78.3
Cost ratio (%)	13.7	12.0	11.0	9.1	10.5
Commission ratio (%)	16.1	15.3	17.0	16.7	15.8
Combined ratio (%)	101.4	100.3	98.9	99.2	104.6

In 2013, net results of €276 million were negatively affected due to a €137 million provision (2012: €67 million) on a specific line of the group's disability business as well as a €22 million net impact associated with the exceptional autumn storms experienced in The Netherlands. In our view, the removal of these items could bring around €160 million of upside to net earnings. That said, the 2013 results on the life side were also bolstered by significant realized gains (2013: €486 million; 2012: €285 million) as the group shifted its portfolio away from fixed income securities and real estate toward equities and residential mortgages. We believe that the quality of earnings will improve for ASR, with a greater reliance on underwriting.

In terms of uses of capital we make the following assumptions:

- The dividend declared in 2013 was €99 million, representing a 12.5% increase on the prior year. We anticipate that ASR will maintain its current dividend policy of distributing 40% to 45% of profit attributable to holders of equity instruments after distribution to holders of hybrid Tier 1 instruments.
- We anticipate stable capital requirements in respect of the group's market risk given the recalibration of the portfolio in 2013. In particular, we do not anticipate further increases toward equities.
- The limited non-life book volume growth will ensure that the capital requirements associated with this block of business will remain flat. It is anticipated that the life business will continue to shrink due to net outflows.

Risk position: Intermediate

In our view, ASR has a moderate risk position, which we consider weakens our view of the financial risk profile. Though the group has worked to reduce the interest rate sensitivity of the existing life insurance liabilities on an economic basis and writes little in the way of new group pensions business, which usually contains investment guarantees, ASR continues to have an appetite for investment risk and a large defined benefit scheme.

In 2013, ASR materially changed the allocations in its investment portfolio. The group has reduced its exposure to fixed income assets (in particular away from The Netherlands' sovereign and financial institution debt) and real estate; moving instead toward equities as well as Dutch mortgages, which have a partial guarantee from the Dutch state.

ASR has a large defined benefit pension scheme. In keeping with many of its peers in the sector, the group reinsures the past service liabilities into the main life operating entity. As such, the past service liability and assets are captured in our risk-adjusted capital model. The main source of volatility in the balance sheet is therefore the unfunded future service liability associated with the scheme remaining open to future accrual, which is not included in regulatory solvency calculations. As at Dec. 31, 2013, ASR had funded assets of €1,915 million versus liabilities of €2,426 million.

Table 5

ASR Nederland Risk Position					
(%)	**2009**	**2010**	**2011**	**2012**	**2013**
Investment portfolio composition					
Fixed income securities	70	69	73	71	66
Equities	7	8	4	6	7
Real estate	14	13	11	10	9
Mortgages and other loans	8	9	11	12	17
Other	1	1	1	1	1
Total investments (€ bil.)	25.3	26.5	27.3	30.0	28.7
Investments on behalf of policyholders	8.8	9.5	8.6	8.2	8.0

Financial flexibility: Adequate

We believe ASR's financial flexibility is adequate. The group has accessed the debt capital markets in the past, but has not done so in recent years. ASR also has the capacity to increase its reinsurance utilisation as retentions are high. At present, ASR has not accessed the equity markets directly for capital, which also serves to constrain our assessment.

Table 6

ASR Nederland Financial Flexibility					
(%)	**2009**	**2010**	**2011**	**2012**	**2013**
Financial leverage	N.M.	N.M.	N.M.	N.M.	11
EBITDA	396	466	293	242	385
Fixed-charge coverage	5.3	6.9	4.2	3.5	6.5

N.M.--Not meaningful.

ASR has four tranches of junior subordinated notes. These were issued in 2009 as a result of an exchange and consent exercise. There are two tranches of "new" securities:

- €386 million of step-up fixed-floating rate perpetual securities with first call in 2019; and
- €38 million of non-step-up fixed rate perpetual securities also with a first call in 2019.

Two tranches of "comparable" securities, whose first call date is now passed, were also issued:

- €85 million of step-up fixed-floating rate perpetual securities; and
- €12 million of non-step-up fixed-rate perpetual securities.

We do not assign intermediate equity content to the €386 million of notes, the first call dates of which are in 2019. This is because the step-up, which is 50% of the original credit spread, is greater than 100 basis points. All the other instruments are eligible for intermediate equity content and are included in our assessment of total adjusted capital.

Other Assessments

Enterprise risk management: Adequate

We consider ASR's enterprise risk management (ERM) as adequate. That said, we note the significant progress made by the group to establish and improve control processes since the split with Fortis. Increasingly, ASR is making use of its internal economic capital model to make investment decisions, which we view positively.

The importance of ERM is high, reflecting the composite nature of the group's risk profile and the high levels of investment leverage.

Management and Governance: Satisfactory

ASR has strategies that are generally consistent with its capabilities and the group is cognizant of market place conditions. In particular, this is demonstrated by the group's decision to step back early from group single premium business where it views pricing as uneconomic. Meanwhile, ASR continues to develop new products on the life side as well as to reduce expenses. ASR has also, over recent years, successfully recruited and expanded its management team. Recently it recruited a new CFO. At this stage we do not anticipate a material change in risk appetite or financial strategy as a result.

Liquidity: Exceptional

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

Accounting Considerations

ASR does not publicly report embedded value. However, we do give credit for the present value of future profits on an MCEV basis in our assessment of TAC.

ASR makes extensive use of shadow accounting in its IFRS reporting. As such, ASR is able to minimize volatility to the P&L resulting from movements in interest rates where its assets and liabilities are sufficiently well matched. The capital model is adjusted for this accounting treatment.

Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013

- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of August 15, 2014)		
ASR Nederland N.V.		
Counterparty Credit Rating		
Local Currency		BBB+/Stable/--
Counterparty Credit Ratings History		
15-May-2014	*Local Currency*	BBB+/Stable/--
Related Entities		
ASR Levensverzekering N.V.		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Local Currency		A/Stable/--
Junior Subordinated		BBB
Junior Subordinated		BBB+
ASR Schadeverzekering N.V.		
Financial Strength Rating		
Local Currency		A/Stable/--
Issuer Credit Rating		
Local Currency		A/Stable/--

*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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