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Ratings

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ASR Group

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ASR Group

SACP* Assessments				SACP*		Support		Ratings
Anchor	a	+ Modifiers	0	= a		+ 0		= Financial Strength Rating: A/Stable/--
Business Risk: Strong		ERM and Management	0	Liquidity	0	Group Support	0	Holding Company Rating: BBB+/Stable/--
Financial Risk: Strong		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Strong

- Strong competitive position owing to the group's diverse profile in the Dutch financial services sector through significant presence in non-life, and life insurance segments, exposure to health insurance segment, banking, and asset management activities.
- Intermediate industry and country risk driven by challenging market conditions in the Dutch life and health sectors marginally offset by the low risk environment in the non-life insurance sector.
- In keeping with other Dutch peers, combined ratios (averaging 102.2% (S&P Global Ratings' calculation) over the last five years) are elevated and value of new business in life segment on average over the past years was minus €1.3 million.

Financial Risk Profile: Strong

- Very strong capital and earnings supported by improving capital adequacy to the 'AA' range, moderate growth in capital requirements, stable earnings, and rational dividend policy.
- 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 select the higher of the two to derive our ratings on ASR, reflecting our view that its balance sheet retains a sufficient capital cushion.
- We consider ASR to have adequate enterprise risk management (ERM), 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 still majority owned by the Dutch state following the first tranche of the IPO in June 2016 of 36.3% of the Dutch government holdings. 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. 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 in line with the standard notching of two notches 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 our expectation that ASR will maintain its strong competitive position and very strong capital adequacy (in the 'AA' range) over the next 12-24 months, supported by stable earnings with net income of about €400 million annually in 2016-2018, net combined ratio below 100% (based on S&P Global Ratings' calculation), which will preserve its healthy capacity to service its debt costs amid suboptimal underwriting conditions in a low-interest-rate environment; and a rational dividend policy.

Downside scenario

We could lower the ratings if:

We revised our capital and earnings assessment to strong from very strong, if capital adequacy is not maintained at the very strong level.

If ASR's profitability does not meet our expectations. This could be the case if the non-life segment net combined ratio is above 102%, new business value remains negative, or net income falls sustainably below €400 million annually in 2016-2018.

If fixed-charge coverage ratios fall below 4x.

Upside scenario

We consider it unlikely that we will raise the ratings over the next 12-24 months. Nevertheless, we could raise the ratings if we saw a material reduction in ASR's investment risk profile and a materially stronger-than-expected improvement in capital adequacy sustainably into the 'AAA' range.

Base-Case Scenario

Macroeconomic Assumptions

We expect The Netherlands to see slower growth--amid more subdued growth prospects generally for Europe following the U.K.'s Brexit vote--with GDP growth of 1.8% in 2016 and 1.4% in 2017, down from 2.0% in 2015. We anticipate unemployment rates to improve to 6.2% and 6.0% in 2016 and 2017, but we also foresee interest rates dropping to 0.01% in 2016 and zero in 2017 from 0.05% in 2015. An increase in economic activity generally correlates with a boost to the 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. We expect the revival of the Dutch housing market, which started last year, to continue over the next two years (with forecasts year-on-year of price gains of 1.5% in 2015 and 2.5% in 2016 on the back of improving economic conditions. This may give some relief to falling premium volumes observed over the past three years in the Dutch market.

Company-Specific Assumptions

Business mix: Overall gross written premiums (GWP) will remain flat, driven by an decrease in premium on the life side in line with the market trends, while non-life premiums are expected to grow marginally, despite high levels of competition in the market.

Earnings: ASR will generate net earnings in excess of €380 million annually in 2016-2018; combined ratios will not exceed 100% (based on S&P Global Ratings' calculations) and new business margins will show slight improvement.

Dividend policy: We anticipate that ASR will maintain its dividend policy of distributing about 45%-55% of net operating result attributable to shareholders (i.e. net of hybrid costs).

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 continue to remain below 20% and that fixed charge coverage will be comfortably above 4x.

Key Metrics

	2012	**2013**	**2014**	**2015**	**2016F**	**2017F**
Gross premium written (Mil. €)	4,290	3,923	3,787	4,092	<4000	<3,900
Net income (Mil. €)	248	276	378	604	>380	>400
S&P capital adequacy	N.M.	Strong	Very Strong	Very Strong	Very Strong	Very Strong
Financial leverage (%)	N.M.	11	13	17	<20	<20
Fixed charge coverage (x)	3.5	6.5	8.7	12.8	>4	>4

F--Forecast. 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 nationalized in 2008 as part of the break-up of Fortis Group. The Dutch government sold a 36.3% stake in the insurer though an IPO in June 2016.

Business Risk Profile: Strong

We assess ASR's business profile position in the Dutch insurance market as strong. ASR is one of the major players in the highly concentrated Dutch life and non-life markets. ASR has meaningful diversification by line of business, which affords the group strategic flexibility.

Insurance industry and country risk: Low

We assess ASR's industry and country risk as intermediate.

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 therefore view the Dutch P&C market as carrying low industry and country risk.

Shrinking premium volumes in the Dutch life industry and aggressive competition in the Dutch health sector support an intermediate industry and country risk for both of these market segments. Low interest rates and declining market prospects are factors weighing on the Dutch life market, in our opinion. The health sector is also under pressure from close scrutiny from policymakers and premiums and coverage are highly sensitive to political decisions. With over half of ASR's premiums generated from these two sectors combined, our overall industry and country risk assessment for ASR is intermediate.

Table 1

ASR Nederland Insurance Industry And Country Risk

	IICRA 2014	Premium Mix 2014 (%)	IICRA 2015	Premium Mix 2015 (%)
Netherlands P&C	Low	46	Low	42
Netherlands Life¶	Intermediate	38	Intermediate	44
Netherlands Health	Low	16	Intermediate	15
Weighted average IICRA assessment	Low		Intermediate	

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

Competitive position: Strong

We consider that ASR benefits from a strong competitive position. ASR has shrunk some of its lines of business, such as group pensions, in the last two years because of the low interest rate environment, and has re-priced others (fire and property). The group is willing to lose market share in the process. We expect the non-life book to be in a stable condition and maintain its volume over 2016-2018. ASR has maintained earnings due to its large life back book, cost-cutting initiatives, and the breadth of its competitive position.

We see limited upside to volumes, which are predominantly sold through intermediaries. Overall, we anticipate stabilization in gross written premium. We believe ASR may use its ongoing cost reduction program and claims management to improve pricing for new and existing customers, thereby retaining customers and maintaining volumes. Our expectation is that the combined ratio will remain about 100% (based on S&P Global Ratings' calculations) through 2018.

After more than four years of declining volumes, life premiums grew by 8% in 2015, benefitting from a pension buy-out deal and acquisitions. Barring future acquisitions, we expect industrywide issues to continue to negatively affect the life business. Premiums have been affected in particular by 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 to decrease by about 5% in 2016 and 8% in 2017 and 2018 in line with the market trends and without any further acquisitions on the back of industry pressures.

Life new business sales will be minimal. While interest rates remain low, we think 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 as competition rapidly intensifies.

Table 2

ASR Nederland Competitive Position						
	2010	**2011**	**2012**	**2013**	**2014**	**2015***
Gross premium written (Mil. €)	4,756	4,437	4,290	3,923	3,787	4,092
Change in gross premium written (%)	(2.9)	(6.4)	(3.3)	(8.6)	(3.5)	8.1
Net written premium (Mil. €)	4,536	4,211	4,128	3,760	3,643	3,749
Change in net written premium (%)	(2.3)	(5.2)	(1.5)	(10.9)	(3.1)	2.9
Total assets under management (Mil. €)	38,118	38,514	40,785	39,734	45,708	48,337
Change in assets under management (%)	3.9	1.0	5.9	(2.6)	15.0	5.8
Reinsurance utilization (%)	4.6	5.1	3.8	4.2	3.8	8.4

*As of 1 Jan 2015 ASR made voluntary changes in its accounting policies for investment property, property for own use and deferred acquisition costs (DAC). We did not restate prior years, therefore financials may not be directly comparable.

Financial Risk Profile: Strong

We assess ASR's financial risk profile as strong.

Capital and earnings: Very strong

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

We believe net earnings will be in excess of €380 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.

In 2015, net results of €601 million were significantly higher than we expected: by more than €330 million. This leap was primarily due to improved operating earnings, as well as exceptional earnings on equity investments and realised gains on property. We anticipate net income to return closer to 2014 levels in 2016-2018. Over the next two years, expect the quality of earnings to improve for ASR, with a greater reliance on underwriting and continuing cost reductions in 2016-2018.

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

- The dividend for 2016-2018 will be about €175 million, representing 45%-55% of net income.
- We anticipate moderate 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, without fresh acquisitions.

In 2015, ASR completed a number of bolt-on acquisition. Two were more material--AXENT (No. 3 in the Dutch funeral insurance market) and De Eendragt (No. 7 in the Dutch pension insurance market)--thereby increasing total invested assets by about €3.6 billion and gross premiums written by about €100 million, which we viewed neutrally overall for the group's competitive position and financial risk profile. Our base-case scenario is that ASR will continue to add small bolt-on acquisitions to improve diversification in its portfolio and underpin growth, and these acquisitions will not materially change the risk profile of the group. Should the risk profile alter as the result of accumulation of small bolt-on acquisitions, we may revise our assessment of capital and earnings downward.

Table 3

ASR Nederland Capital

	2010	2011	2012	2013	2014	2015*
Total shareholder's equity (Mil. €)	1,935	1,854	2,433	2,518	2,326	3558
Change in shareholder's equity (%)	34.4	(4.4)	30.8	3.3	(7.0)	53.0
Regulatory solvency (%)¶	221	230	293	268	285	185§
Dividend (Mil. €)	0	0	71	88	99	170

¶In 2012, the Dutch National Bank changed its approach for calculating the ultimate forward rate. *As of 1 Jan 2015 ASR made voluntary changes in its accounting policies for investment property, property for own use and deferred acquisition costs (DAC). We did not restate prior years, therefore financials may not be directly comparable. §In 2015 Regulatory Solvency Ratio is on Solvency II basis, prior years are on Solvency I basis.

Table 4

ASR Nederland Earnings

	2010	2011	2012	2013	2014	2015*
Net income (Mil. €)	318	205	248	276	378	604
Return on shareholder's equity (%)	18.8	10.8	11.6	11.1	15.7	20.5
P/C claims ratio (%)	73.0	70.8	77.0	81.5	74.6	74.5
P/C cost ratio (%)	27.6	28.4	26.7	27.0	25.8	24.9
P/C commission ratio (%)	15.3	17.0	16.7	15.8	15.5	15.0
P/C combined ratio (%)	100.7	99.2	103.7	108.5	100.4	99.5
Life: net admin exp ratio (%)	11.6	12.7	12.8	13.4	12.3	12.5
Life: net acquisition expense ratio(%)	5.1	7.2	7.2	4.3	3.4	0.5
Life: net exp ratio (%)	16.7	19.9	20.0	17.7	15.7	13.0

P/C--Property/casualty. *As of 1 Jan 2015 ASR made voluntary changes in its accounting policies for investment property, property for own use and deferred acquisition costs (DAC). We did not restate prior years, therefore financials may not be directly comparable.

Risk position: Moderate

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. ASR's moderate risk position weakens our view of its financial risk profile.

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 in 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.

Table 5

ASR Nederland Risk Position

(%)	2010	2011	2012	2013	2014	2015*
Investment portfolio composition						
Fixed income securities & cash	69	73	71	66	71	69

Table 5

ASR Nederland Risk Position (cont.)						
(%)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015***
Equities	8	4	6	7	5	6
Real estate	13	11	10	9	9	8
Mortgages and other loans	9	11	12	17	14	16
Other	1	1	1	1	1	1
Total investments (Bil. €)	26.5	27.3	30.0	28.7	38.1	40.7
Investments on behalf of policyholders	9.5	8.6	8.2	8.0	9.1	7.9

*As of 1 Jan 2015 ASR made voluntary changes in its accounting policies for investment property, property for own use and deferred acquisition costs (DAC). We did not restate prior years, therefore financials may not be directly comparable.

Financial flexibility: Adequate

We believe ASR's financial flexibility is adequate. The group has accessed the debt capital markets in the past, including in 2014 and 2015 through hybrid issuance, and in June 2016 through equity issuance. ASR also has the capacity raise additional hybrid debt and increase its reinsurance utilization.

ASR has four tranches of junior subordinated notes (see table).

Table 6

ASR Nederland Junior Subordinated Notes					
	Size of issue (Mil. €)	**Rating**	**Maturity**	**First Call Date**	**S&P Equity Credit**
Hybrid Tier 1 instrument 10% fixed interest	187	BBB+	Perpetual	26/10/2019	Minimal
Hybrid Tier 1 instrument 7.25 fixed interest	17	BBB+	Perpetual	30/09/2019	Intermediate
Hybrid Tier 2 instrument 5% fixed interest	497	BBB-	Perpetual	30/09/2024	Intermediate
Hybrid Tier 2 instrument 5.125% fixed interest	500	BBB-	30NC10	29/09/2025	Intermediate

Table 7

ASR Nederland Financial Flexibility						
(%)	**2010**	**2011**	**2012**	**2013**	**2014**	**2015***
Financial leverage	N.M.	N.M.	N.M.	11	13	17
EBITDA	466	293	242	385	496	809
Fixed-charge coverage	6.9	4.2	3.5	6.5	8.7	12.8

N.M.--Not meaningful. *As of 1 Jan 2015 ASR made voluntary changes in its accounting policies for investment property, property for own use and deferred acquisition costs (DAC). We did not restate prior years, therefore financials may not be directly comparable.

Other Assessments

Enterprise risk management: Adequate

We consider ASR's ERM as adequate, however 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 uneconomical. 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. 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 a market consistent embedded value basis in our assessment of TAC.

ASR makes extensive use of shadow accounting in its International Financial Reporting Standards reporting. As such, ASR is able to minimize volatility to the Profit & Loss account 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

Related Criteria

- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010

Related Research

- ASR Nederland And Core Subsidiaries Ratings Affirmed; Outlook Stable, July 21, 2016

Ratings Detail (As Of August 8, 2016)	
Holding Company: ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Operating Company Covered By This Report	

Ratings Detail (As Of August 8, 2016) (cont.)	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Counterparty Credit Rating	
Local Currency	A/Stable/--
Related Entities	
ASR Schadeverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Domicile	Netherlands

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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