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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, health, and general insurance sectors.
- In keeping with other Dutch peers, combined ratios averaging 102.2% based on S&P Global Ratings' calculation over the last five years (98% on a reported basis), and 15% return on equity.

Financial Risk Profile: Strong

- Very strong capital and earnings supported by capital adequacy improving to the 'AAA' range in 2018, a moderate decline in capital requirements as life's book premiums decrease, stable earnings, and rational dividend policy.
- Moderate risk position, which weakens our view of the financial risk profile. The group maintains material, although reducing, 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 has 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: ASR is no longer viewed as a government-related entity.

- We no longer view ASR as a government-related entity (GRE) after NLFI ("stichting admistratiekantoor beheer financiële instellingen"; Dutch government and historically major shareholder) reduced its holding to 20.1% in June 2017. Historically the ratings did not benefit from any uplift from government support due to its limited importance to the government and low likelihood of extraordinary government support in the event of economic and financial stress. The 'A' rating on ASR was therefore based solely on its SACP of 'a' and this revision does not have any impact on the ratings on ASR.

Factors Specific to the Holding Company

- The long-term counterparty credit rating on ASR Nederland N.V. is the standard 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 at least very strong capital adequacy (potentially increasing to the 'AAA' range in 2018) over the next 12-24 months. This will be supported by stable earnings with net income in excess of €400 million annually in 2017-2019; a 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 consider it unlikely that we will lower the ratings over the next 12-24 months. Nevertheless, we could lower the ratings if:

- We revised our capital and earnings assessment to strong.
- ASR's profitability does not meet our expectations. This could be the case if the non-life segment net combined ratio is above 102%, or net income falls sustainably below €400 million annually in 2017-2019.
- 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 faster growth--amid more subdued growth prospects generally for eurozone--with GDP growth of 2.2% in 2017 and 1.9% in 2018, up from 2.1% in 2016. We anticipate unemployment rates to improve to 5.0% in 2017 and 4.6% in 2018, and also foresee an increase in 10-year government bond yields to 0.6% in 2017 and 0.9% in 2018 from 0.3% in 2016. 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 continuous revival of the Dutch housing market, which started in 2014, to continue over the next two years, with forecast year-on-year of price gains of 5% in 2017 and 3% in 2018 on the back of improving economic conditions (2016: 6% growth; 2015: 4.8%; 2014: 2%, after a prolonged price correction of 20% between 2008 and 2013). This may give some relief to falling premium volumes observed over the past four consecutive years in the Dutch life insurance market.

Company-Specific Assumptions

Business mix: Overall gross written premiums (GWP) will remain flat without further acquisitions, driven by a 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 €400 million annually in 2017-2019; combined ratios will not exceed 100% (based on S&P Global Ratings' calculations) and new business margins on life business expected to be positive.

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

	2013	2014	2015*	2016	2017F	2018F
Gross premium written (Mil. €)	3,923	3,787	4,092	4,328	>4,200	>4,200
Net income (mil. €)	276	378	604	658	>450	>450
S&P Global Ratings capital adequacy	Strong	Very Strong	Very Strong	Very Strong	Very Strong	Extremely Strong
Financial leverage (%)	11	13	17	18	<20	<20
Fixed charge coverage (x)	6.5	8.7	12.8	10.3	>4	>4

F--Forecast. N.M.--Not meaningful. *The figures for 2015 have been restated, we did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years.

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. Since the IPO in June 2016, the Dutch government still retains a 20.1% stake in the insurer in June 2017 that they intend to sell in due course.

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: Intermediate

ASR generates all its premiums from The Netherlands. We assess its overall 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 property/casualty market as carrying intermediate 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.

Table 1

ASR Nederland Insurance Industry And Country Risk

	IICRA 2014	Premium mix 2014 (%)	IICRA 2015	Premium mix 2015 (%)	IICRA 2016	Premium mix 2016 (%)
Netherlands P/C	Low	46	Low	42	Intermediate	43
Netherlands Life§	Intermediate	38	Intermediate	44	Intermediate	43
Netherlands Health	Low	16	Intermediate	15	Intermediate	14
Weighted average IICRA assessment	Low		Intermediate		Intermediate	

*Gross written premium. §Includes premium on own pension scheme. P/C--Property/casualty. IICRA--Insurance industry country and risk assessment.

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 low interest rates, 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 2017-2019. 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 without fresh acquisitions. 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 2019.

After more than four years of declining volumes in the life insurance industry, ASR's life premiums grew by 10% in 2016 due to acquisitions and the decline in the individual life portfolio was more than offset by growth in the funeral business (AXENT and NIVO) and pension business (De Eendragt). 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 4% year on year in

2017-2019 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

	2012	2013	2014	2015*	2016
Gross premium written (mil. €)	4,290	3,923	3,787	4,092	4,328
Change in gross premium written (%)	(3.3)	(8.6)	(3.5)	8.1	5.8
Net written premium (mil. €)	4,128	3,760	3,643	3,749	4,202
Change in net written premium (%)	(1.5)	(10.9)	(3.1)	2.9	12.1
Total assets under management (mil. €)	40,785	39,734	45,708	48,337	50,930
Change in assets under management (%)	5.9	(2.6)	15.0	5.8	5.4
Reinsurance utilization (%)	3.8	4.2	3.8	8.38	2.91

*The figures for 2015 have been restated, we did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years. Source: AG Key Metrics.

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 €400 million a year in 2017-2019. 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 2016, net results of €658 million were significantly higher than we expected: by about €200 million. This leap was primarily due to improved operating performance (in excess of €60 million), realized capital gains on equity (about €100 million). We project net income for 2017-2019 without taking into account a historic level of realized gains distributed to shareholders. Over the next two years, we expect the quality of earnings to improve for ASR, with a greater reliance on underwriting and continuing cost reductions.

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

- The dividend for 2017-2019 will be about €170 million, representing 45%-55% of net income.
- 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.
- We also anticipate that ASR will grow third-party assets under management in 2017-2019

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. 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 adequacy and overall capital and earnings downward.

Table 3

ASR Nederland Capital

	2012	2013	2014	2015*	2016
Total shareholder's equity (mil. €)	2,433	2,518	2,326	3,558	3,770
Change in shareholder's equity (%)	30.8	3.3	(7.0)	53.0	6.0
Regulatory solvency (%)§	293	268	285	185†	189
Dividend (mil. €)	71	88	99	170	187

*The figures for 2015 have been restated. We did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years. §In 2012, the Dutch National Bank changed its approach for calculating the ultimate forward rate. †In 2015, the regulatory solvency ratio is on a Solvency II basis; the prior years on a Solvency I basis. Source: AG.

Table 4

ASR Nederland Earnings

	2012	2013	2014	2015*	2016
Net income (mil. €)	248	276	378	604	658
Return on shareholder's equity (%)	11.6	11.1	15.7	20.5	18.0
P/C claims ratio (%)	77.0	81.5	74.6	74.5	76.0
P/C cost ratio (%)	26.7	27.0	25.8	24.9	24.2
P/C commission ratio (%)	16.7	15.8	15.5	15.0	15.3
P/C combined ratio (%)	103.7	108.5	100.4	99.5	100.2
Life: net admin exp ratio (%)	12.8	13.4	12.3	12.5	9.9
Life: net acquisition expense ratio(%)	7.2	4.3	3.4	0.5	0.1
Life: net exp ratio (%)	20.0	17.7	15.7	13.0	10.1

P/C--Property/casualty. *The figures for 2015 have been restated, we did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years.

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 employee pension scheme. The main source of volatility in the balance sheet, in our view, is therefore the unfunded future service liability associated with the scheme remaining open to future accrual. As a result, ASR's moderate risk position assessment weakens our view of its financial risk profile.

Table 5

ASR Nederland Risk Position

(%)	2012	2013	2014	2015	2016
Investment portfolio composition					
Fixed income securities and cash	71	66	71	69	71

Table 5

ASR Nederland Risk Position (cont.)					
(%)	2012	2013	2014	2015	2016
Equities	6	7	5	6	5
Real estate	10	9	9	8	8
Mortgages and other loans	12	17	14	16	14
Other	1	1	1	1	2
Total investments (bil. €)	30.0	28.7	38.1	40.7	42.3
Investments on behalf of policyholders	8.2	8.0	9.1	7.9	7.7

*The figures for 2015 have been restated, we did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years.

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 through equity issuance on several occasions following its IPO in June 2016. ASR also has the capacity to 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 Global Ratings 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					
(%)	2012	2013	2014	2015	2016
Financial leverage	N.M.	11	13	17	18
EBITDA	242	385	496	809	890
Fixed-charge coverage	3.5	6.5	8.7	12.8	10.3

N.M.--Not meaningful. *The figures for 2015 have been restated, we did not use restated data in our analysis of published tables, therefore 2016 financial information is not directly comparable to prior years.

Other Assessments

Enterprise risk management: Adequate

We consider ASR's ERM to be adequate. 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, 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 based on the reconciliation of net assets value on an IFRS and Solvency II basis in our assessment of total adjusted capital.

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 and 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

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria - Financial Institutions - General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria - Financial Institutions - Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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

Related Research

Ratings Detail (As Of August 10, 2017)	
Holding Company: ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BBB-
Operating Company Covered By This Report	
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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