S&P Global
Ratings

Research

Research Update:

ASR Core Insurance Subs Affirmed At 'A'; Outlook Stable; Restricted Tier 1 Debt Upgraded To 'BB+' Under Revised Criteria

July 18, 2019

Overview

- Dutch insurance group ASR has a diverse portfolio of life and non-life business, with a presence in health insurance and third-party asset management, and generates strong earnings despite fierce competition in the mature insurance market.
- We are affirming our 'A' ratings on ASR Nederland N.V.'s core subsidiaries ASR Schadeverzekering and ASR Levensverzekering.
- In addition, we are raising our rating on ASR's restricted tier 1 (RT1) instrument to 'BB+' from 'BB' under our revised criteria.
- The outlook is stable because we project that ASR can maintain its current strong market position and capital, alongside results that are at least in line with those of its Dutch peers.

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Rating Action

On July 18, 2019, S&P Global Ratings affirmed its 'A' long-term insurer financial strength and issuer credit ratings on the core subsidiaries of Netherlands-domiciled ASR Insurance Group (see the ratings list below for further details). At the same time, we affirmed our 'BBB+' issuer credit rating on holding company ASR Nederland N.V. The outlook on these entities is stable.

We upgraded the RT1 instrument issued in October 2017, to 'BB+' from 'BB', following our review of ASR Nederland N.V.'s hybrid instruments under our revised criteria "Hybrid Capital: Methodology and Assumptions," published July 1, 2019. As a result, we are removing the rating from under criteria observation, where we placed it on July 2.

Outlook

The stable outlook reflects our expectation that ASR will maintain its strong competitive position and at least very strong capital adequacy over the next 12-24 months. We expect this will be supported by stable earnings, with net income exceeding €500 million annually in 2019-2021; a net combined (loss and expense) ratio below 100% according to our calculation; and a rational dividend policy. This will help ASR preserve its healthy capacity to service its debt costs amid challenging underwriting conditions in the low-interest-rate environment.

Downside scenario

We are unlikely to lower the ratings over the next 12-24 months. However, we could do so if:

- ASR is not able to restore its capital position at least to the 'AA' level in our model.
- ASR's profitability does not meet our expectations, for example because the non-life net combined ratio rose higher than 102%, or net income fell below €400 million annually for a prolonged period.

Upside scenario

An upgrade is unlikely over the next 12-24 months. Nevertheless, we could raise the ratings if we are convinced that the potential for volatility in capital adequacy, currently at the 'AAA' level, had reduced. This could result from receding risks related to ASR's ongoing merger and acquisition activity, its large defined-benefit pension scheme, or the environment for life insurers in the Netherlands.

Rationale

ASR Nederland and its core operating entities have a prominent position in the Netherlands' insurance market, very strong capitalization, stable earnings, and low financial leverage. ASR has meaningful diversification by line of business, which affords the group strategic flexibility. ASR's business remains concentrated in the Netherlands, however, and we do not anticipate any major change to this strategy.

The ratings are constrained by the group's acquisitiveness, which creates uncertainty that capital adequacy will remain within the 'AAA' range, and by its large defined-benefit employees' pension scheme, which may expose the balance sheet to volatility.

Following the application of our new hybrid criteria, we raised our rating on the RT1 issue to 'BB+', which is three notches below the issuer credit rating (ICR) on ASR Nederland N.V.:

- One notch reflects the notes' subordination to the company's senior obligations;
- One notch is due to the risk of a potential temporary write-down of principal; and
- One further notch to incorporate the payment risk created by the mandatory and optional coupon-cancellation features.

The rating on the notes was previously four notches below the ICR because we saw higher payment risk than for the group's other hybrid instruments. We now believe that the payment risk on the RT1 notes is not materially greater than for the group's Tier 2 hybrids, which would also be required to defer coupons upon a breach of ASR's solvency capital requirement (SCR). We believe that one notch is sufficient to reflect the payment risk on these notes and on the other hybrids, partly because the group's SCR coverage has been strong and is expected to remain so, with limited sensitivity or volatility. SCR coverage stood at 197% on Dec. 31, 2018.

We will monitor ASR's SCR coverage and capital plans to assess whether the ICR adequately incorporates the payment risk associated with ASR's hybrid instruments. An unexpected deterioration of the group's regulatory solvency position (not accompanied by an ICR change) or increased sensitivity to stress could lead us to lower the rating on the notes. We would do this by widening the notching from the ICR to ensure the hybrid instrument ratings follow a measured transition to default.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Intermediate risk
Financial Risk Profile	Strong
Capital and earnings	Very Strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Financial Strength Rating	A

*This is influenced by our view of ASR's capital levels and underwriting margins compared with most of its 'A-' rated peers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed	
ASR Nederland N.V.	
Issuer Credit Rating	BBB+/Stable/--

Junior Subordinated	BBB+	
Junior Subordinated	BBB-	
ASR Levensverzekering N.V.		
ASR Schadeverzekering N.V.		
Issuer Credit Rating	A/Stable/--	
Financial Strength Rating	A/Stable/--	
Upgraded		
	To	**From**
ASR Nederland N.V.		
Junior Subordinated	BB+	BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.