S&P Global Ratings

Research

ASR Nederland N.V.

Primary Credit Analyst:
Manuel Adam, Frankfurt (49) 69-33-999-199; manuel.adam@spglobal.com

Secondary Contact:
Mark D Nicholson, London (44) 20-7176-7991; mark.nicholson@spglobal.com

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ASR Nederland N.V.

Credit Highlights

None

Overview

Strengths	Risks
Diversified business lines in the Dutch financial service sector with prominence in life and non-life insurance in The Netherlands.	Material holdings in riskier class of investments, small and midsize bolt-on acquisitions, and a large amount of pension obligations exposes to potential volatility on balance sheet.
Stable earnings with healthy return on equity despite challenging market conditions.	Concentration in the Dutch market, which is highly competitive and unlikely to see significant growth..
Likely to remain well capitalized under S&P Global Ratings' capital model at the 'AAA' level.	

Our ratings on ASR and its core insurance operating entities reflects the company's prominent position in The Netherlands' insurance market, and its diversified business product lines. For 2020 and 2021, GWP growth will slightly increase, mainly driven by an increase in non-life premiums, reflecting ASR's strong market position in the competitive Dutch market. In life insurance we expect a slight decrease due to the conscious decline in individual life and pension defined benefit business. We do not expect any further acquisitions of the size of Loyalis or Generali Nederland in the next two years.

ASR has demonstrated a resilient and strong operating performance compared with its peers in the Dutch market and we anticipate that the group will continue to perform strongly. Despite the unfavorable business environment for the Dutch life and non-life insurance market, ASR's earnings performance has remained resilient, with stable return on equity in recent years. ASR has maintained its earnings due to its large life back book, cost-cutting initiatives, and the breadth of its competitive position.

Capitalization remains excellent, protected by sound and sustainable earnings. S&P Global Ratings expects ASR Group to remain well capitalized through our three-year forecast period based on ongoing sustainable earnings generation capacity and a dividend pay-out ratio of 45%-55% of net operating results per year to shareholders (net of hybrid costs). Furthermore, we do not expect a material change to the overall risk profile of the investment portfolio. Specifically, we do not expect material increases in allocations to equities and real estate.

Outlook

The stable outlook reflects our expectation that ASR will maintain strong market position and its resilient capitalization levels over the next 12-24 months. We expect this will be supported by: stable earnings, with net income exceeding €500 million annually in 2018-2020; 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 rises higher than 102%, or net income falls 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.

Key Assumptions

- The Netherland's experiencing GDP growth of around 1.7 % in 2019 and 1.3 % in 2020.
- Long-term interest rates to remain structurally low at -0.2% in 2019 and -0.4% in 2020.
- Dutch unemployment levels gradually reducing over the next 12-24 months to 3.4% in 2019 and 2020.

Table 1

ASR Nederland N.V.--Key Metrics

	2020F	2019F	2018	2017	2016
Gross premium written (Mil. €)	>4.400	>4.400	4,459	3,920	4,328
Net income (Mil. €)	>500	>500	657	908	658
Return on shareholders' equity (%)	>12	>12	14.7	22.1	18.0
P/C: Net combined ratio (%)	<100	<100	99.2	98.1	100.2
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Very Strong
Financial Leverage(%)	28-29	~30	26.7	25.3	25.2
Fixed-Charge Coverage (x)	>5	>5	8.8	12.4	10.3

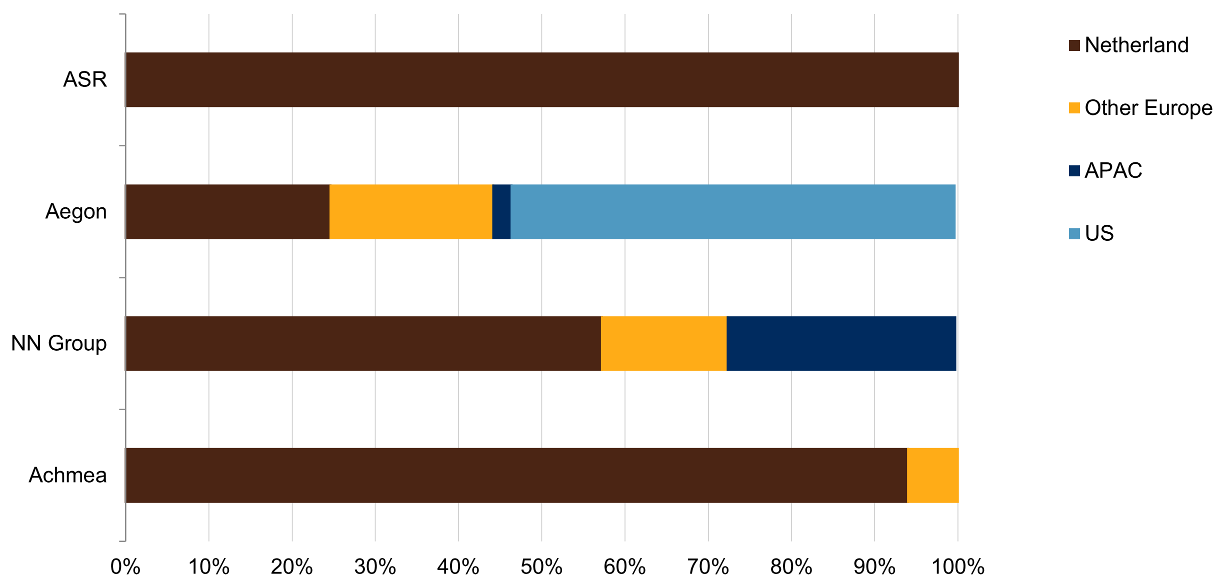
F--S&P Global Ratings forecast.

Business Risk Profile

ASR is one of the major players in the highly concentrated life and non-life Dutch insurance market, with meaningful diversification by line of business affording the group strategic flexibility. ASR business remains concentrated in The Netherlands and we do not anticipate any major change to this strategy.

Chart 1

Geographical Concentration



Source: S&P Global Ratings.

ASR acquired Generali Nederland and Loyalis in 2017 and 2018, respectively. These acquisitions enabled ASR to improve its market positions in P/C and disability business. We do not expect any further acquisitions of the size of Loyalis or Generali Nederland in the next two years.

ASR has been successful in shifting its new business generation in life insurance toward less-interest-rate-sensitive products with lower capital requirements. Since 2016, new business for life insurance drastically decreased for defined benefit solutions and ASR is focusing on defined contributions plans, which will gradually reduce interest sensitivity in the life back-book. However, we see limited organic growth opportunities in the Dutch insurance market and do not expect the operating environment to improve materially for any sector (non-life, health, or life) in 2019-2020. In the non-life segment, we anticipate that premium levels will marginally increase due to an efficient distribution network and a strong market position in non-life, in particular in the disability business.

Overall, ASR has demonstrated a stable performance with strong profitability, showing a return on equity (RoE) of

18.2% on average for the last five years in a challenging market environment. We believe ASR's net earnings will be in excess of €500 million a year in 2019-2021. As a result, we expect ASR to further focus on sustainable and profitable business growth over 2019-2021 and generate RoE above 12%.

Financial Risk Profile

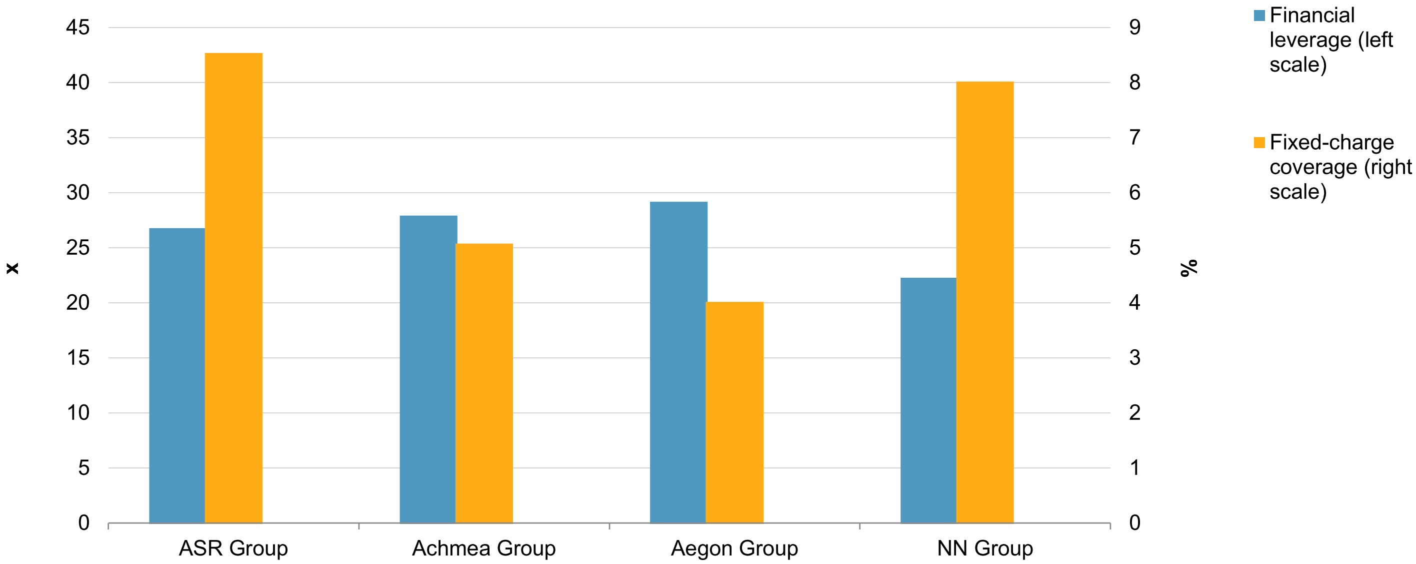
ASR holds capital redundancy at the 'AAA' level, according to our risk-based capital model. ASR was able to sustainably build-up organic capital in the past to finance its organic and inorganic growth strategy. Furthermore, ASR has a strong track record of accessing capital markets to issue restricted tier 1 and tier 2 hybrids. That said, reliance on softer forms of capital (a high proportion of hybrid capital and value of in-force business) and inorganic growth from small and midsize acquisitions somewhat constrains our assessment of its capital and earnings. Material investments in riskier assets such as equities and real estate and existing large defined benefit pension scheme obligations weaken its financial risk profile. Also, if we see material change in its risk profile resulting from the accumulation of small bolt-on acquisitions, we may revise our assessment of capital adequacy and overall capital and earnings.

The overall risk profile of the investment portfolio will not change materially. In particular, we do not expect material increases in allocations to equities and real estate.

We anticipate that financial leverage will increase to about 30% for year-end 2019 mainly driven by the tier 2 issue in May to finance the Loyalis acquisition. We expect leverage to gradually decrease in 2020 and 2021 by about 1%-2% per year driven by capital growth. The fixed-charge coverage will remain comfortably above 5x.

Chart 2

Peer Comparison--Financial Leverage And Fixed-Charge Coverage
As of year-end 2018



Source: S&P Global Ratings.

Other Key Credit Considerations

Governance

ASR's management and governance assessment is supported by its progress in executing its strategic plans, which are generally consistent with its capabilities. The group is cognizant of market place conditions. It also has a highly experienced management team that complements its operational needs. At this stage, we do not anticipate a material change in risk appetite or financial strategy. In our opinion, ASR has demonstrated a clear path, focusing on its key areas, and has successfully implemented strategic initiatives particularly in terms of maintaining its strong market position in the Dutch insurance market.

Liquidity

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.

Factors specific to the holding company

We rate ASR Nederland N.V two notches below the core companies of ASR Group. This reflects our view of the structural subordination as the holding company does not generate any operative insurance cash flows.

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.

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 Detail (As Of October 29, 2019)*	
ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-

Ratings Detail (As Of October 29, 2019)*(cont.)	
Related Entities	
ASR Levensverzekering N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
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.