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Bulletin:

ASR Insurance Group's Capitalization Should Deflect COVID-19 Fallout

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FRANKFURT (S&P Global Ratings) June 22, 2020--S&P Global Ratings said today that Netherlands-domiciled ASR Insurance Group (A/Stable/--) will avoid significant COVID-19 fallout thanks to its strong capitalization. Despite an expected earnings decline in 2020, we believe the company will maintain its capital strength in line with our current assumptions. ASR's Solvency II ratio shows low sensitivities; it had risen to 235% as of March 31, 2020, from 194% at end-2019, primarily because the increase of volatility adjustment was overcompensating the negative impact of widening spreads.

In our view, ASR's bottom-line result for 2020 will mainly be hit by lower investment income, compared with 2019, which will be most notable in ASR's life business. Similar to its peers, ASR is exposed to capital market volatilities, particularly to the severe declines in equity share prices, lower interest rates, and spread widening in first-quarter 2020. Fluctuations could also stem from potential impairments and credit losses in real estate and fixed income within the next months.

We expect ASR's diversified business with non-life insurance, life insurance, and asset management will moderate the earnings losses linked to the pandemic in 2020. We believe support stems from the steady profitability in motor and fire insurance throughout the pandemic, since these lines make up about 80% of the company's property and casualty book. Indeed, the motor division has seen favorable claims development given the low traffic volumes during the lockdown. Furthermore, ASR is only minimally exposed to travel insurance and has no exposure to potential high severity claims as business interruption, event-cancellation, and credit insurance. This removes the risk of a sizable drawdown of underwriting profitability.

We forecast an increase in disability claims mainly due to higher sickness leave claims. Given the strong underlying performance with a combined (loss and expenses) ratio of 88.3% for disability in 2019, the disability business is far from becoming unprofitable, in our opinion. The somewhat higher cost from intensive care unit linked to COVID-19 treatment have been offset by lower regular medical costs so far. However, the company's year-end results hinge on the impact of a potential second wave of infections and if delayed medical treatments increase the health costs later in the year.

In our view, ASR benefits from a strong competitive position. With a return on equity of 19% on average over 2015-2019, ASR has historically outperformed its Dutch peers. As a result, ASR has managed to build-up capital in line with its organic and inorganic growth strategy, strengthening the company's resilience to capital market volatilities. We believe ASR is well positioned to recover its net income to levels above €500 million and a double-digit return on equity in 2021.

We will continue to closely monitor the possible credit implications of COVID-19 for ASR, particularly regarding investments and developments in non-life and life insurance claims.

This report does not constitute a rating action.