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

Research Contributor:
Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

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Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

=

SACP	a
Support	**0**
Group support	0
Government support	0

=

A/Stable/--	**Financial strength rating**
BBB+/Stable/--	**Holding company ICR**

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key Strengths	**Key Risks**
Diversified business lines in the Dutch financial service sector with prominence in life and non-life insurance in The Netherlands.	Earnings will be mainly negatively impacted by lower investment income after the outbreak of COVID-19.
Stable earnings with healthy return on equity despite challenging market conditions.	Small and midsize bolt-on acquisitions, and a large amount of pension obligations exposes ASR to potential volatility on the balance sheet.
We expect ASR Nederland N.V. (ASR) to remain well capitalized under S&P Global Ratings' capital model at the 'AAA' level as well as at Solvency II level.	Concentration in the Dutch market, which is highly competitive.

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, we expect ASR to deliver a sound growth despite the current challenging market environment. In both non-life and life, we expect a combination of organic and inorganic growth. In non-life, a large amount of growth still stems from the Loyalis acquisition in 2019 which, in our opinion, continus to further strengthen the position of ASR in the attractive disability insurance market in The Netherlands. In life insurance, ASR will strengthen its position within the 'capital light' pensions defined contribution (DC) market with the full acquisition of Brand New Day Premiepensioeninstelling N.V. This acquisition has increased the market share for pensions DC plans of ASR Group to about 15% in the Dutch market.

We anticipate that overall negative effects from the COVID-19 pandemic will impact ASR earnings. In the past couple of years, ASR's earnings performance has remained resilient, with stable return on equity of 19% on average for 2015-2019. ASR has historically outperformed peers. However, due to economic slowdown and lower interest rates, we expect investment income will be depressed in 2020, and therefore we expect net income of less than €500 million for 2020. We believe ASR is well positioned to recover its net income to levels above €500 million and a return on equity of 8%-10% in 2021, and about 10%-12% return on equity (RoE) from 2022 onwards in a normalized environment.

We expect that ASR's capital position will remain robust (currently above the 'AAA' level) and will likely remain so in the foreseeable future. We expect ASR Group to remain well capitalized both as per S&P Global Ratings capital and as per the company's solvency II level, based on ongoing sustainable earnings generation capacity. Even though we anticipate pressure on earnings for 2020, we do believe the earnings level will be sufficient to maintain solid capital levels. We have also considered a dividend pay-out ratio of 45%-55% of net operating results per year to shareholders (net of hybrid costs) and share buybacks. Furthermore, we do not expect a material change to the overall risk profile of ASR's investment portfolio. Specifically, we do not expect material increases in allocations to equities and real estate.

Outlook: Stable

The stable outlook reflects our expectation that ASR will maintain its strong market position in the life and non-life Dutch insurance segment, while also maintaining resilient capitalization levels over the next 12-24 months. We expect the stable outlook on ASR to be supported by:

- Robust earnings and capital levels at least in the 'AA' range, despite the COVID-19 crisis;
- A net combined (loss and expense) ratio below 100% according to our calculation; and
- A rational dividend policy.

These factors will, in our opinion, 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 GDP to fall by 6.7% in 2020, and to grow again by 6.2% in 2021, and 4.0% in 2022.
- Long-term interest rates in The Netherlands staying structurally low at -0.25% in 2020, -0.28% in 2021, and -0.1% in 2022.
- Dutch unemployment levels stabilizing at 3.8% in 2020, 3.9% in 2021, and 3.7% in 2022.

ASR Nederland N.V.--Key Metrics

	2021f	2020f	2019	2018	2017
Gross premium written (mil. €)	>4.800	>4.700	4,666	4,459	3,920
Net income (mil. €)	>500	<500	972	669	908
Return on shareholders' equity (%)	8-10	>6	20.3	15.1	22.1
P/C: Net combined ratio (%)	98-100	97-99	97.5	99.4	98.1
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent
Financial leverage (%)	27-29	27-29	29.2	26.7	25.3
Fixed-charge coverage (x)	>5	>5	9.8	8.8	12.4

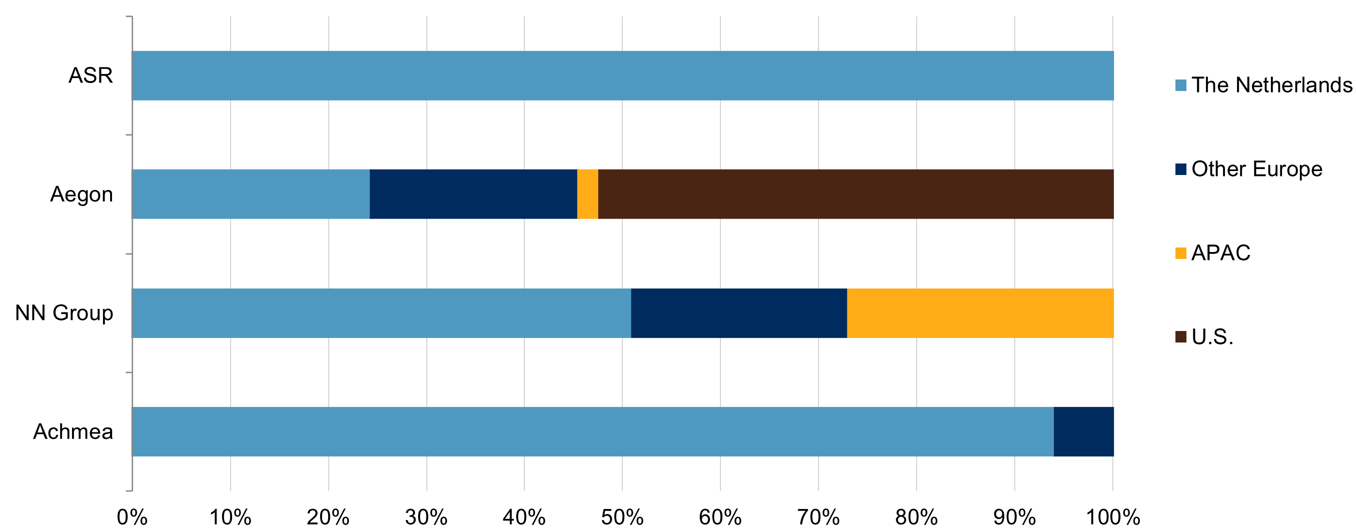
f--S&P Global Ratings forecast.

Business Risk Profile: Strong

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 company strategic flexibility. ASR's business remains concentrated in The Netherlands and we do not anticipate any major change to this strategy.

Chart 1

Geographical Concentration--ASR And Peers



Source: S&P Global Ratings.

ASR acquired Generali Nederland and Loyalis in 2017 and 2019, respectively. These acquisitions enabled ASR to improve its market positions, in particular in the historically profitable disability business. On the one hand, ASR's concentration in The Netherlands exposes it to any adverse developments in the Dutch economy. However, on the other hand, we believe the focused approach and the build-up of local expertise will enable ASR to deliver above market average growth in a saturated and highly competitive Dutch insurance market. In the first half of 2020, ASR's non-life business grew by 18.8%, mainly by the acquisition of Loyalis and Veherex. But also the organic growth has been healthy at 6.9%, demonstrating the strong brand and distribution network of ASR.

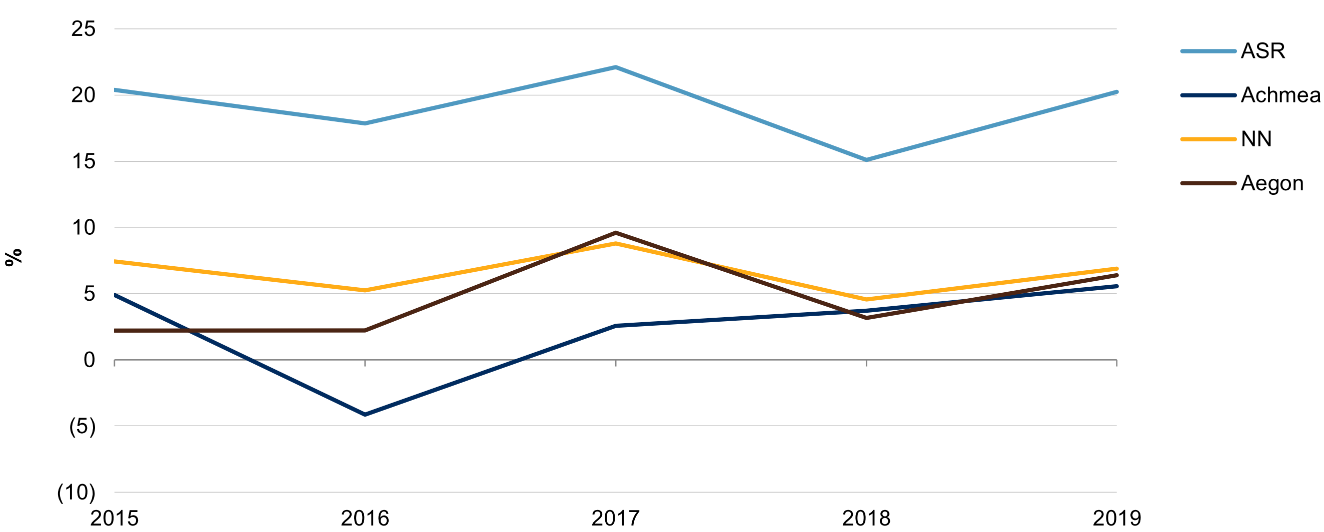
In life insurance, ASR's market share has grown by 18.8%. This increase is due to a rise in pension DC and acquisitions (Loyalis and VvAA), which has offset the decrease in pensions-defined benefit solutions. In August 2020, ASR announced the acquisition of the remaining interest in Brand New Day Premiepensioeninstelling N.V. to further improve its market position in the Dutch pension DC market. 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 insurance back-book. Therefore, we expect the risk/return profile for ASR to improve.

As we expect The Netherland's GDP to contract in the face of the current economic slow-down and recession environment after the COVID-19 outbreak, we anticipate premiums to be stagnant or decline in 2020 following marginal growth in 2021-2022.

Overall, ASR has, in our opinion, demonstrated a stable performance with strong profitability, outperforming its Dutch peers in a challenging market environment showing a RoE of 19% on average for the last five years (see chart 2).

Chart 2

Return On Equity--ASR And Peers



Source: S&P Global Ratings.

However, in 2020, we expect, like peers, ASR's earnings will be impacted by the erosion of unrealized gains on investments combined with lower direct investment income and impairments, which will be most notable in ASR's life business.

We don't see a COVID-19-related material increase in claims from ASR's non-life business. The company 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, in our view.

ASR benefits from its business diversification in the non-life segment. Disability showed a weaker performance year-on-year because of individual disability and sickness leave as caused by the outbreak of COVID-19 in the first half of 2020. But property and casualty (P&C) performed significantly better year-on-year given the lower claims in motor and fire, since these lines make up about 80% of the ASR's P&C book. Overall, the combined ratio in non-life (based on ASR's calculation) even improved to 92.9% in the first half of 2020, from 93.5% in the first half of 2019.

Financial Risk Profile: Strong

ASR holds capital redundancy at the 'AAA' level, according to our risk-based capital model. The company 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.

Based on recommendations of EIOPA and DNB, ASR has, as of April 2020, postponed its dividend distributions and suspended its share buyback activities but resumed the dividend payments and restarted the share buyback program as of the beginning of August. We continue to assume that ASR will pay the dividend and conclude its remaining buyback activities for 2020 as planned.

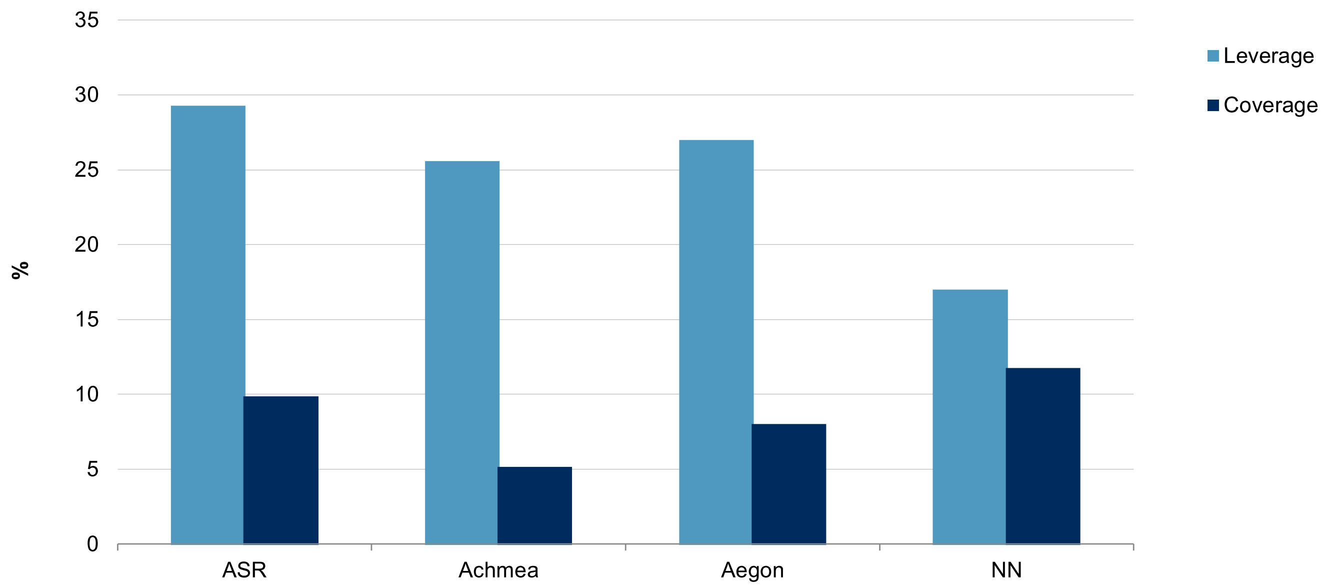
We also consider favorable that ASR Group's Solvency II ratio stood at 199% at the end of the first half of 2020, compared with 234% at the end of the first quarter of 2020, and 194% at year-end 2019. Increase in the Solvency II ratio compared with year-end 2019 is primarily driven by the increase in the volatility adjustment, but we expect the Solvency II ratio to keep its relatively low sensitivities.

Material investments in riskier assets such as equities and real estate and existing large defined benefit pension scheme obligations somewhat weaken ASRs financial risk profile, in our opinion. Also, if we see material change in the company's risk profile resulting from the accumulation of small bolt-on acquisitions, we may revise our assessment of capital adequacy and overall capital and earnings. We do not expect the overall risk profile of the investment portfolio to change materially. In particular, we do not expect material increases in allocations to equities and real estate.

For year-end 2019, financial leverage increased to 29.2%, mainly driven by the tier 2 issue in May 2019 to finance the Loyalis acquisition. However we expect leverage to gradually decrease in 2020 and 2021 by about 1%-2% per year driven by capital growth.

Chart 3

Peer Comparison -Financial Leverage And Fixed Charge Coverage
As of year-end 2019



Source: S&P Global Ratings.

ASR's coverage ratio for 2020 remains sound at about 10x given the strong underlying earnings. We expect the fixed-charge coverage will remain comfortably above 5x going forward.

Other Key Credit Considerations

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.

Environmental, social, and governance

We believe ASR's exposure to environmental and social risks are in line with the Dutch insurance industry and its peers. Climate change could cause an increase in the frequency and severity of claims in the P&C segment from extreme weather events, such as windstorms and hail. In life insurance, ASR's back book includes long-running contracts that contain a guarantee although most of its new business is capital-light. In these traditional life and savings business lines and also in the health segment, ASR is somewhat more exposed to social factors than it is through capital-light products, such as unit-linked or protection products. For example, demographic trends relating to improved longevity or rising chronic diseases could increase its insurance liabilities as well as insurance claims. Overall, we see ASR as well diversified by business lines and having no environmental and social risk factor as excessively over weighted.

ASR's management and governance assessment is supported by its progress in executing its strategic plans, which are, in our opinion, generally very transparently communicated. The company 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 building-up its strong market position in the Dutch insurance market.

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 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.

ASR Nederland N.V--Credit Metrics History

Ratio/Metric	2019	2018
S&P Global Ratings capital adequacy	Excellent	Excellent
Total invested assets	60,923	51,693
Total shareholder equity	5,090	4,478
Gross premiums written	4,666	4,459
Net premiums written	4,551	4,352
Net premiums earned	4,625	4,386
Reinsurance utilization (%)	2.5	2.4
EBIT	1,284	955
Net income (attributable to all shareholders)	972	669
Return on shareholders' equity (reported) (%)	20.3	15.1
P/C: net combined ratio (%)	97.5	99.4
P/C: net expense ratio (%)	23.6	24.3
P/C: return on revenue (%)	6.1	4.4
Life: Net expense ratio (%)	13.7	13.5
EBITDA fixed-charge coverage (x)	9.8	8.8
Financial obligations / EBITDA adjusted	1.6	1.7
Financial leverage including pension deficit as debt (%)	29.2	26.7
Net investment yield (%)	3.1	3.2
Net investment yield including investment gains/(losses) (%)	3.7	3.7

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

Business And Financial Risk Matrix

Business risk profile	**Financial risk profile**							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of September 23, 2020)*

ASR Nederland N.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-
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/--

Ratings Detail (As Of September 23, 2020)*(cont.)	
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.