

Research

ASR Nederland N.V.

Primary Credit Analyst:

Silke Sacha, Frankfurt + 49 693 399 9195; silke.sacha@spglobal.com

Secondary Contact:

Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

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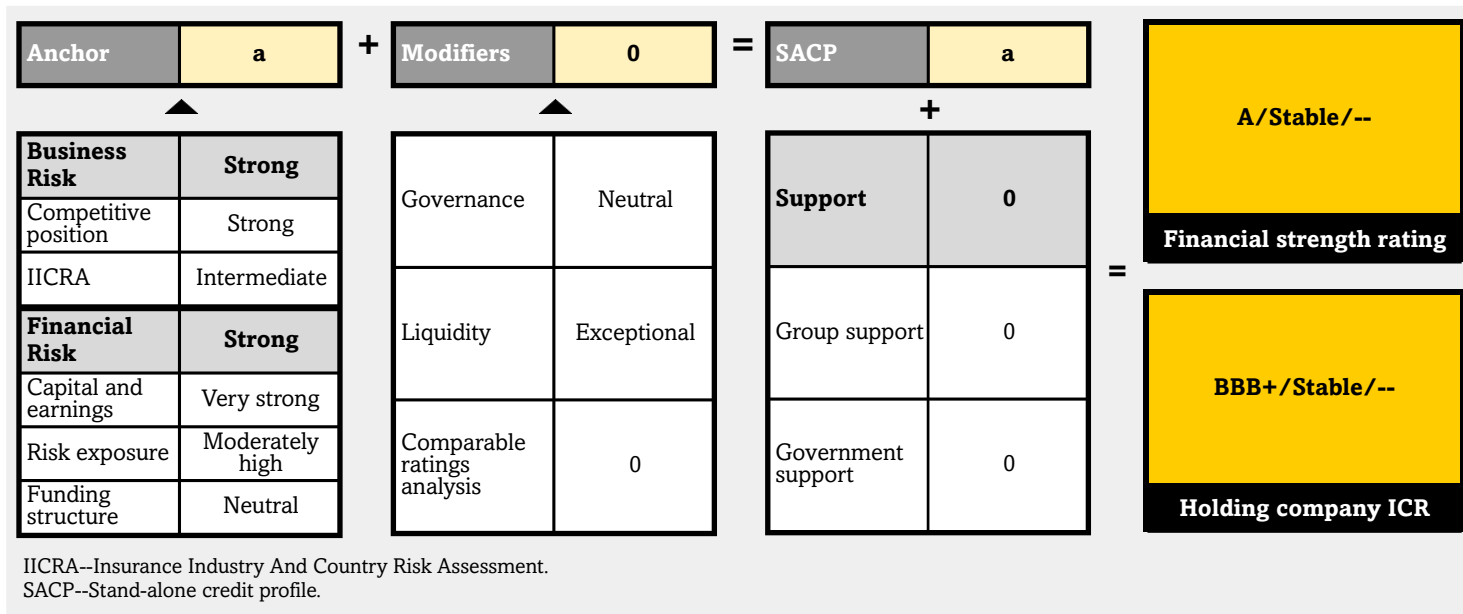
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ASR Nederland N.V.



Credit Highlights

Overview	
Key strengths	Key risks
Diversified business lines in the Dutch financial services sector, with increasing disability and health insurance business in Netherlands.	Higher reliance on soft forms of capital and potential small and midsize bolt-on acquisitions, which could increase earnings and capital volatility.
One of the best-performing domestic insurers, with a return on equity (ROE) of 16%.	Limited organic growth potential in the highly penetrated and competitive Dutch insurance market.
Expected to remain well capitalized under S&P Global Ratings' capital model, at the 'AAA' level, as well as under Solvency II.	Sizable exposure of investments via property, equity, and speculative-grade fixed income bonds where asset quality could be pressured in the current macroeconomic environment.

ASR Nederland N.V. (ASR) is one of the top five life, non-life, and disability insurers in Netherlands. We expect ASR will remain one of the main players, writing both life and non-life business in the Netherlands where the top five players cover more than two-thirds of the insurance market. ASR's business is concentrated in the Netherlands and we don't expect major changes in its business strategy.

Despite volatile capital markets, we expect ASR's capitalization will remain at the 'AAA' confidence level based on our risk-based capital model. We expect ASR's capital will stay solidly above the 'AAA' benchmark over 2022–2024 despite potential volatilities stemming from unstable debt and equity markets. However, softer forms of capital and a series of bolt-on midsize acquisitions constrain our assessment of ASR's capital adequacy.

We expect ASR will maintain its strong underwriting profitability with higher returns than domestic peers'. For 2021, ASR's net income of €942 million and ROE of 16% exceeded our expectations and returns were higher than those of domestic peers. We continue to expect ASR will generate net income of over €500 million annually in 2022-2024,

supporting the buildup of capital in line with its growth targets.

Outlook : Stable

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

- Robust earnings and capital at least in the 'AA' range, despite the volatile macroeconomic environment;
- A net combined (loss and expense) ratio below 100% according to our calculations; 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.

Downside scenario

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

- ASR is unable 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 above 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, has 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.

Assumptions

- The Netherlands' GDP increases to 2.6% in 2022, 1.6% in 2023, and 1.9% in 2024.
- Long-term interest rates in the Netherlands turns positive to 1.2% in 2022, 1.7% in 2023, and 1.9% in 2024.
- Dutch unemployment levels stabilize at 3.3% in 2022-2024.

ASR Nederland N.V.--Key Metrics

	2024f	2023f	2022f	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent	Excellent	Excellent	Excellent
Gross premiums written	>6400	>6200	>6000	5,859.0	5,276.0	4,666.0
Net income (attributable to all shareholders)	500-600	500-600	500-600	942.0	657.0	972.0
Return on shareholders' equity (%)	8-10	8-10	8-10	16.1	12.6	20.3

ASR Nederland N.V.--Key Metrics (cont.)

	2024f	2023f	2022f	2021	2020	2019
P/C: net combined ratio (%)	<95	<95	<95	95.7	97.8	97.5
EBITDA fixed-charge coverage (x)	6-8	6-8	6-8	10.1	6.9	9.8
Financial leverage adjusted including pension deficit as debt (%)	<25	<25	<25	24.8	28.3	29.2

f--S&P Global Ratings forecast.

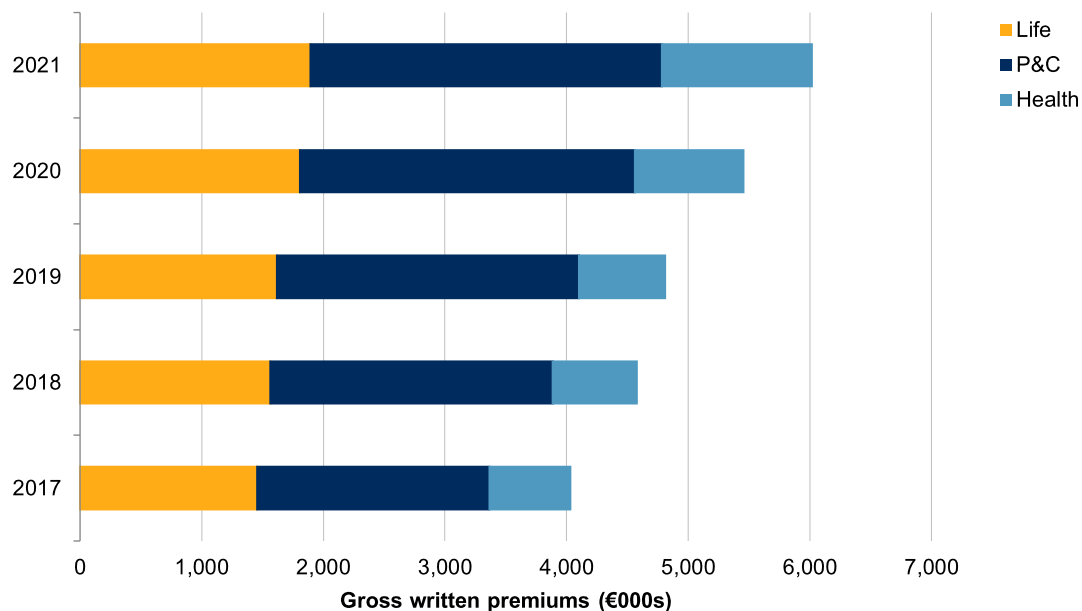
Business Risk Profile: Strong

ASR's strategy is to gain and maintain meaningful market shares in Netherlands where it operates. Its gross written premium increased by a compound average growth rate (CAGR) of 10.6% to €5.9 billion over the past five years. We think ASR has built a well-established market position and a comprehensive product portfolio within the insurance business through a focused organic and inorganic growth strategy. In 2021, the company introduced a benefit-in-kind health insurance product. It has also diversified into asset management and distribution services, but the earnings contribution from these businesses is not material.

ASR's bolt-on acquisition strategy creates opportunities to further consolidate the Dutch insurance market. The company's acquisitions of VVaa life, Generali Nederland, and Loyalis have further improved its market positions, particularly in the historically profitable disability segment. We believe this focused approach and build-up of local expertise will enable ASR to deliver above-average growth in the saturated and highly competitive Dutch insurance market. In the first half of 2022, ASR's non-life business expanded 8%, demonstrating continued strong growth in health and disability insurance. Health earned premiums reflecting pricing discipline and the pursuit of value over volume in a more competitive environment but continued contributing 30% of overall non-life earned premiums.

Chart 1

ASR Nederland--Share Of P&C And Health Business Is Rising Alongside Growth In All Segments

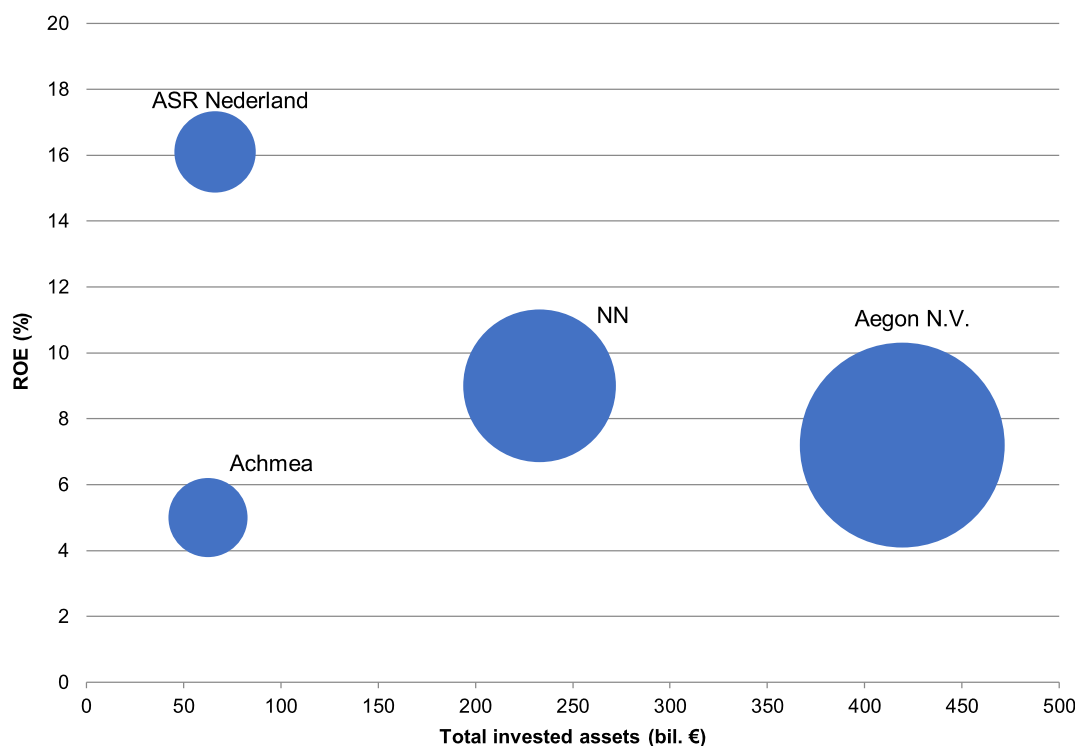


P&C--Property/casualty. Source: S&P Global Ratings.

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In life insurance, ASR has become the second largest insurer in the Netherlands with a market share of 15%. This increase is due to a rise in defined-contribution pension plans and acquisitions (Loyalis and VvAA), which have partly offset a decrease in defined-benefit pension solutions. ASR has successfully shifted its new life insurance business toward less-interest-rate-sensitive products with lower capital requirements. Since 2016, new life insurance business drastically decreased for defined benefit solutions and ASR is focusing on defined contribution plans, which will gradually reduce the interest sensitivity of the life insurance back book. Therefore, we expect its risk/return profile to improve further.

Overall, ASR has, in our opinion, demonstrated stable performance with strong profitability, outperforming its Dutch peers in a challenging market environment with an ROE of 16% on average for the past five years. The operating ROE was 13.7% in the first half of 2022, which is at the upper end of the company's 12%-14% target range and compares well against peers'.

Chart 2**ASR's Invested Assets Are Smaller Than Aegon's And NN's But ROE Outperforms**

Bubble size represents relative asset-investment size. Source: S&P Global Ratings.

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Despite premium diversification within the Netherlands, the group's earnings are less diversified than those of higher-rated peers, in terms of geographic presence. The group also generates about 20% of premiums from health insurance business, which faces indirect political pressure and intense competition, leading to volatile earnings.

Financial Risk Profile: Strong

ASR currently holds a substantial excess of capital at the 'AAA' confidence level, according to our risk-based capital model. Furthermore, it 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 constrain our assessment of its capital and earnings.

ASR's Solvency II ratio is resilient to interest rate and credit spreads, as reflected in a solid 214% in first-half 2022, compared with 196% at year-end 2021. We expect that strong retained earnings will continue to support the group's capital adequacy, while financing organic and inorganic growth and expected dividend payouts of at least 45% of the net operating result.

Material investments in riskier assets, such as equities and real estate, and existing large defined-benefit pension scheme obligations somewhat weaken ASR's financial risk profile, in our opinion. Also, if we see material changes 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.

As of year-end 2021, financial leverage stood at about 25% and we expect it to remain at a similar level. ASR's coverage ratio was around 10x given the strong underlying earnings. We expect fixed-charge coverage will remain comfortably higher than 6x.

Other Key Credit Considerations

Governance

ASR's management and governance is supported by its progress in executing 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 position in the Dutch insurance market.

Liquidity

We regard ASR's liquidity as exceptional. Although the company has material real estate and equity exposures, it maintains significant liquidity in the form of 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 the ASR group. This reflects our view of structural subordination, since the holding company does not generate any operating cash flows.

Accounting considerations

ASR does not publicly report embedded value. However, we 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 IFRS reporting. As such, it 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.

Environmental, social, and governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors have no material influence on our credit rating analysis of ASR Nederland.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, 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

Appendix

ASR Nederland N.V.--Credit Key Metrics			
Ratio/Metric	2021	2020	2019
S&P Global Ratings capital adequacy	Excellent	Excellent	Excellent
Total invested assets	66,112.0	65,371.0	60,923.0
Total shareholder equity	6,363.0	5,309.0	5,089.0
Gross premiums written	5,859.0	5,276.0	4,666.0
Net premiums written	5,760.0	5,176.0	4,551.0
Net premiums earned	5,777.0	5,200.0	4,625.0
Reinsurance utilization (%)	1.7	1.9	2.5
EBIT	1,292.0	918.0	1,284.0
Net income (attributable to all shareholders)	942.0	657.0	972.0
Return on shareholders' equity (%)	16.1	12.6	20.3
P/C: net combined ratio (%)	95.7	97.8	97.5
P/C: net expense ratio (%)	20.1	21.9	23.6
P/C: return on revenue (%)	7.5	5.8	6.1
Life: Net expense ratio (%)	10.2	10.3	13.7
EBITDA fixed-charge coverage (x)	10.1	6.9	9.8
Financial obligations / EBITDA adjusted (x)	1.6	2.2	1.6
Financial leverage adjusted including pension deficit as debt (%)	24.8	28.3	29.2
Net investment yield (%)	3.0	2.8	3.1
Net investment yield including investment gains/(losses) (%)	4.1	3.2	3.7

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-/bbb	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 9, 2022)*

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/--

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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