

Research Update:

Aegon Group's Dutch Subsidiary Aegon Levensverzekering N.V. Downgraded To 'A'; Outlook Stable

May 23, 2023

Overview

- Aegon Group (Aegon) intends to sell its Netherlands-based insurance and banking operations to ASR Nederland N.V. (ASR) for €4.9 billion through a combination of cash and equity shares in ASR.
- We consider Aegon Levensverzekering N.V. nonstrategic to Aegon Group and therefore no longer reflect any support from Aegon Group in our ratings on Aegon Levensverzekering.
- We lowered our ratings on Aegon Levensverzekering to 'A' from 'A+', removed them from CreditWatch negative, and assigned an 'a' stand-alone credit profile.
- The stable outlook reflects our view that Aegon Levensverzekering will maintain its competitiveness in the Dutch life market, robust earnings, and capital at least in the 'AA' range in the next 24 months in light of further market volatility and its integration into future parent ASR.

Rating Action

On May 23, 2023, S&P Global Ratings lowered its long-term issuer credit and financial strength ratings on Aegon Levensverzekering N.V. to 'A' from 'A+' and removed them from CreditWatch, where they were placed with negative implications on Oct. 28, 2022. The outlook is stable.

Rationale

In 2022, Aegon Group announced the sale of most of its Netherlands-based operations to ASR Nederland N.V. (ASR) for a total consideration of €4.9 billion. We understand that ASR is paying for the transaction via cash and a 29.99% equity stake in ASR. We expect the acquisition to close in second-half 2023 and believe it is highly likely to complete. Following the acquisition, the combination with ASR will create a leading Dutch insurance company.

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

RESEARCH CONTRIBUTOR

Nadeem Shaikh

CRISIL Global Analytical Center, an S&P affiliate, Mumbai

We previously stated that we could lower the ratings on Aegon Levensverzekering by one or more notches based on its future status vis-à-vis ASR (see "Aegon Group Affirmed At 'A+' On Announcement Of 2022 Results; Outlook Negative; Two Subsidiaries Stay On Watch Negative" published Feb. 22, 2023, on RatingsDirect). As the deal is not closed yet, we have assessed Aegon Levensverzekering's operations on a stand-alone basis and arrived at a stand-alone credit profile (SACP) of 'a'. This is based on a strong business risk profile, very strong financial risk profile, and the choice of the lower anchor between 'a+/a'.

Aegon Levensverzekering comprises Aegon Netherlands' life business. It makes up the bulk of the Dutch operations, which also include banking, general insurance, mortgages, and an asset management business. With about €1.2 billion in premium income and €66.7 billion of assets at year-end 2022, Aegon Levensverzekering is one of the most well-known brands in the Dutch financial sector. It is the No. 2 provider of group pensions and No. 5 in individual life in the Netherlands. We believe the subsidiary will maintain and generate sound profitability in line with historical levels for Aegon Netherlands, with a three-year average (2020-2022) return on equity of about 8.6%. However, we need further confirmation of Aegon Levensverzekering's competitive strengths under ASR.

The company is capitalized at the 'AA' level, under our capital model, and we expect it to remain so over the forecast period. That said, the post-acquisition capital structure is unclear under the future parent, which may affect our view of Aegon Levensverzekering's stand-alone capital adequacy.

Aegon Levensverzekering has a fairly conservative investment book with less than 1% of fixed-income securities at noninvestment grade ratings. We note that Aegon Levensverzekering's regulatory Solvency II ratio was 210% at year-end 2022.

Outlook

The stable outlook is based on our expectation that Aegon Levensverzekering will maintain its competitiveness in the Dutch life market, robust earnings, and capital at least in the 'AA' range in the next 24 months in light of further market volatility and its integration into the future parent.

Downside scenario

We could lower the ratings on Aegon Levensverzekering by one notch based on its future status under ASR, notably if we do not deem it a core entity of ASR.

Upside scenario

Any potential upgrade is currently remote and dependent on the rating on future parent ASR.

Ratings Score Snapshot

Financial strength rating	A/Stable/--
Anchor	a
Business risk	Strong
IICRA	Intermediate

Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0
IICRA--Insurance Industry And Country Risk Assessment.	

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology , July 1, 2019
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model , June 7, 2010

Related Research

- Aegon Group Affirmed At 'A+' On Announcement Of 2022 Results; Outlook Negative; Two Subsidiaries Stay On Watch Negative, Feb. 22, 2023

Ratings List

Downgraded

	To	From
AEGON Levensverzekering N.V.		
Issuer Credit Rating		
Local Currency	A/Stable/--	A+/Watch Neg/--

Downgraded

	To	From
Financial Strength Rating		
Local Currency	A/Stable/--	A+/Watch Neg/--

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