

Insurance Markets

Research Update:

ASR Nederland's Core Insurance Operations Ratings Affirmed At 'A' After Insurance Criteria Change; Outlook Stable

Primary Credit Analyst:

Oliver Herbert, London (44) 20-7176-7054; oliver.herbert@standardandpoors.com

Secondary Contact:

Simon Ashworth, London (44) 20-7176-7243; simon.ashworth@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Rating Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

ASR Nederland's Core Insurance Operations Ratings Affirmed At 'A' After Insurance Criteria Change; Outlook Stable

Overview

- Following a review of ASR Nederland's insurance operations under our revised insurance criteria, we are affirming our 'A' ratings on the group's core operating subsidiaries.
- The ratings reflect our view of the group's strong business risk profile in the Dutch market and its strong financial risk profile, supported by strong capital and earnings.
- Although the group is owned by the Dutch government, we do not factor government support into our ratings.
- The stable outlook reflects our view that the group will maintain its competitive position and balance sheet strength over the next two years.

Rating Action

On June 19, 2013, Standard & Poor's Ratings Services affirmed its 'A' insurer financial strength and counterparty credit ratings on ASR Nederland's core insurance operations: ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (collectively, ASR). The outlook is stable.

Rationale

The ratings reflect our view that ASR exhibits strong business and financial risk profiles. The strong business risk profile is founded on the group's strong competitive position in the Dutch market. Our view of the group's financial risk profile is based upon our strong assessment of capital and earnings; intermediate risk position, and adequate financial flexibility. Under our criteria, we combine these profiles to derive an anchor of 'a' or 'a-'; based on our view of the resilience of ASR's financial risk profile, we applied the higher of the two to derive our stand-alone credit profile (SACP). The anchor and the long-term ratings are at a similar level because we view management and governance and enterprise risk management (ERM) as a neutral rating factor and liquidity as exceptional.

We consider ASR a government-related entity because the Dutch state owns it, but we consider the likelihood of the government providing extraordinary government support to ASR in the event of economic and financial stress to be low. Therefore, the ratings do not benefit from any government support. We view government ownership as temporary and expect ASR to be privatized in the

next two years, subject to market conditions.

Under our criteria for government-related entities (GREs), we see the likelihood of extraordinary government support being offered as "low," based on our assessment of the "limited" importance of ASR's role to the government and the "limited" link between ASR and the government. The 'A' rating on ASR is therefore based solely on its SACP of 'a'.

We assess ASR's industry and country risk as low. The company has deliberately sought to reduce life new business sales and, as a result, its gross premium written (GPW) for life insurance increasingly relies on the shrinking regular premium book. We therefore anticipate that ASR's insurance and industry risk profile will gradually shift toward the health and property/casualty (P/C) sectors. We anticipate that health volumes will continue to grow, but P/C GPW will be broadly flat. That said, we do not expect this to change our low overall assessment of industry and country risk.

We consider ASR's competitive position in the Dutch market to be strong. Based on market share, ASR is a significant player in a highly consolidated market and the company possesses meaningful diversification by line of business. This diversification increases the group's strategic options in a heavily competitive environment, as demonstrated by management's maintenance of strict new business pricing discipline. ASR has chosen to partially withdraw from group pensions business because the company believes that pricing does not meet internal targets. Instead, ASR has sought to expand into the health sector--where margins are low, but stable--through its direct distribution brand.

We assess ASR's capital and earnings as strong. Using Standard & Poor's risk-adjusted capital model, we assess capital adequacy as very strong. However, our overall view of capital and earnings is constrained by the quality of capital, specifically the contribution to total adjusted capital of weaker capital items. We expect that the company will continue to generate profit before tax of €200 million-€300 million a year. Given we expect only limited sales growth, the company's risk-adjusted capital requirements are unlikely to increase significantly. We anticipate that the company's combined (loss and expense) ratios will improve over 2013, but only to about 98%-99%. We also anticipate that where ASR chooses to write life business it will only do so where it can obtain positive new business margins.

In our view, ASR has an intermediate risk position. Overall, we expect that the company's balance sheet will exhibit average volatility compared with peers. The company maintains significant investments in the real estate sector, but has managed down the proportion of invested assets allocated to equities. The company's has managed the credit risk in its mortgage portfolio by issuing mortgages that are state-guaranteed. We also consider that ASR has actively taken steps to hedge the interest rate risk on its balance sheet, which helps to limit the volatility associated with low interest rates. These positives are off-set, however, by ASR's large pension scheme obligations, which we think may increase volatility in capital and earnings. Although past

service benefits are reinsured into ASR Levensverzekering, the future service benefits may be a source of volatility in reported equity and therefore our view of total adjusted capital.

We consider ASR's financial flexibility to be adequate. The company has limited capital needs at present. Were the company to require more capital, we anticipate that it would do this by accessing the debt capital markets, as it has done in the past. A potential issuance may put pressure on our coverage metrics, however.

We regard ASR's enterprise risk management (ERM) and management and governance practices as neutral to the ratings. We consider ASR's ERM as adequate and its importance high given the composite nature of the group's risk profile. Further risk controls were implemented in 2011 and 2012. Satisfactory execution of these controls and continued evidence as to their efficacy may lead us to hold a more positive view of the group's ERM in future.

We consider management and governance as satisfactory. The management team is successfully rebuilding ASR's balance sheet since the split from Fortis in 2008. The team is implementing a number of cost and process efficiency programs. In our view, management is building a track record of success in carrying out its strategic initiatives and operational improvements in a difficult economy.

We regard ASR's liquidity as exceptional. Although the company has material real estate exposures, ASR also maintains significant liquidity in the form of its large cash holdings and highly rated bond portfolio, which provide a buffer against liquidity stresses.

Outlook

The stable outlook reflects the company's robust position in the Dutch insurance market and its balance sheet strength. Reducing risk in the balance sheet and improving capitalization have increased the resilience of ASR's financial risk profile. However, based on ASR's stated strategy and on market dynamics, we see limited upside for the ratings at present.

We might downgrade the ratings if:

- The financial risk profile were to prove less resilient than we anticipated; for instance, if we saw greater-than-expected volatility in ASR's capital and earnings; or
- Poor operating performance indicated weaknesses in the business risk profile because we felt that ASR could not draw sufficient profitability from its competitive position. Evidence for this could include combined ratios consistently above 100%, negative new business margins, or a return on equity of less than 8%.

The Dutch government's eventual sale of its shareholding in ASR could also affect our assessment of the group's credit strength. The effect would depend

on the nature of the government's exit strategy, the credit profile of any acquirer, and the capital structure in an IPO scenario. A partial sale of ASR Levensverzekering's back book could also lead us to change our assessment that the life operations are core to the group.

Rating Score Snapshot

Financial Strength Rating	A/Stable
SACP	a
Anchor	a
Business Risk Profile	Strong
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Strong
Capital & Earnings	Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013

Ratings List

Ratings Affirmed

ASR Levensverzekering N.V.

ASR Schadeverzekering N.V.

Counterparty Credit Rating

Local Currency

A/Stable/--

Financial Strength Rating

Local Currency

A/Stable/--

ASR Nederland N.V.

Junior Subordinated*

BBB

Junior Subordinated*

BBB+

*Guaranteed by ASR Levensverzekering N.V.

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2013 by Standard & Poors Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.