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ASR Nederland N.V.

Primary Credit Analyst:

Tatiana Grineva, London (44) 20-7176-7061; tatiana.grineva@standardandpoors.com

Secondary Contact:

Mark D Nicholson, London (44) 20-7176-7991; mark.nicholson@standardandpoors.com

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ASR Nederland N.V.

Rationale

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Business Risk Profile

- Strong competitive position owing to the group's diverse position in the Dutch life and non-life markets.
- Low industry and country risk given the weight of Dutch non-life sales and ASR's shrinking life portfolio.
- A diversified player in the Dutch insurance market with top-five shares in a range of product lines in the non-life, disability, and individual life markets.
- In keeping with other Dutch peers, combined ratios (averaging 102.5% over the last five years) are elevated and new business margins are very low.

Financial Risk Profile

- Very strong capital and earnings. Capital is in the 'A' range at present. However, given ASR's expected limited growth through bolt-on acquisitions translating into moderate growth in capital requirements, stable earnings and dividend policy, we believe capital and earnings will improve to the 'AA' range by 2016.
- We also anticipate that observed deterioration of quality of capital will decelerate over time, with total adjusted capital (TAC) starting to rely more on shareholders' equity rather than "softer" elements for which we give credit such as hybrid capital, unrealized gains on property, and future profits.
- Moderate risk position, which weakens our view of the financial risk profile. The group maintains material holdings in investments we consider high risk, such as equities and real estate. ASR also has a large defined benefit pension scheme obligation.

Other Factors

- Our combined views of ASR's strong business and strong financial risk profiles lead to an anchor of 'a' or 'a-' for the group. We select the higher of the two to derive our ratings on ASR, reflecting our view that its balance sheet retains a sufficient capital cushion.
- We consider ASR to have adequate enterprise risk management (ERM), which is a neutral rating factor.
- We assess ASR's management and governance as satisfactory, a neutral rating factor.
- We believe ASR possesses exceptional liquidity owing to the strength of its available liquid resources.

Factors Specific to the Holding Company

- The long-term counterparty credit rating on ASR Nederland N.V. is lower than the long-term counterparty credit ratings on its operating subsidiaries to reflect the structural subordination of holding company creditors to operating company policyholders.

Government Support: Limited role and link

- We view ASR as a government-related entity (GRE) because it is owned by the Dutch state. We consider the likelihood of the government providing extraordinary support to ASR in the event of economic and financial stress as low. Therefore, the ratings do not benefit from any uplift from government support. We view government ownership as temporary and expect ASR to be privatized.
- Under our criteria for GREs, we see the likelihood of extraordinary government support 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'.

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' expectation that ASR will maintain its very strong capital adequacy over the next two years, supported by improved earnings, while preserving a healthy capacity to service its debt costs amid suboptimal underwriting conditions in a low-interest-rate environment.

Upside scenario

We consider it unlikely that we will raise the ratings over the next 12-24 months. Nevertheless, we could raise the ratings if we saw a material reduction in ASR's investment risk profile and a materially stronger-than-expected improvement in capital adequacy sustainably into the 'AAA' range.

Downside scenario

We could lower the ratings if:

We revised our capital and earnings assessment to strong from very strong, if capital adequacy is not maintained at the very strong level.

If ASR's profitability does not improve in line with our expectations. This could be the case if the property/casualty (P/C) combined ratio is above 102%, new business value remains negative, or net income falls sustainably below €330 million annually in 2015-2017.

If fixed-charge coverage ratios fall below 4x.

Base-Case Scenario

Macroeconomic Assumptions

We expect The Netherlands to see a marginal improvement in growth supported by improvement in GDP growth to 1.6% in 2015 and 1.7% in 2016 from 0.9% in 2014. We also anticipate unemployment rates to improve to 6.5% and 6.3% in 2015 and 2016 respectively, and stable interest rates at 0.05% in 2016 and 2017. The increase in economic activity may help boost sales of insurance products.

The Dutch life sector is closely linked to the property market. Insurers are significant mortgage issuers and investors, while some life products are linked to house sales. We expect the revival of the Dutch housing market, which started last year, to continue over the next two years (with forecasts year-on-year of price gains of 1.5% in 2015 and 2.5% in 2016 on the back of improving economic conditions).

Company-Specific Assumptions

Business mix: Overall gross written premiums (GWP) will marginally increase due to acquisitions in 2015, driven by an increase in premium on the life side, while non-life premiums are expected to remain flat. We expect life premiums to continue to decline in 2016, in line with market trends, while non-life premiums continue to remain flat due to high levels of competition.

Earnings: ASR will generate net earnings in excess of €330 million annually in 2015-2017; combined ratios will be below 102% and new business margins will start improving in a positive direction.

Dividend policy: We anticipate that ASR will maintain its dividend policy of distributing about 40%-45% of profit attributable to holders of equity instruments after payment of the coupons on the hybrid Tier 1 instruments.

Investments: The overall risk profile of the investment portfolio will be stable. In particular, we do not expect further increases in allocations to equities and real estate.

Financial flexibility: We anticipate that financial leverage will continue to remain below 20% and that fixed charge coverage will be above 4x.

Key Metrics

	2011	2012	2014	F2015	F2016
Gross premium written (Mil. €)	4,290	3,923	3,787	<3,700	<3,600
Net income (Mil. €)	248	276	378	>330	>330
S&P capital adequacy	N.M.	Strong	Very Strong	Very Strong	Very Strong
Financial leverage (%)	N.M.	11	13	<20	<20
Fixed charge coverage (x)	3.5	6.5	8.7	>4	>4

F--Forecast. N.M.--Not meaningful.

Company Description

ASR is a composite insurer domiciled in the Netherlands. It has two core operating entities, ASR Schadeverzekering N.V. and ASR Levensverzekering N.V.

ASR was nationalized in 2008 as part of the break-up of Fortis Group. The Dutch government has temporarily suspended the privatization of ASR.

Business Risk Profile

We assess ASR's business profile position in the Dutch insurance market as strong. By market share, ASR is a major player in the highly concentrated Dutch life and non-life markets. ASR possesses meaningful diversification by line of business, bringing the group strategic flexibility.

Insurance industry and country risk: Low

We assess ASR's industry and country risk as low. The combination of shrinking individual life volumes as well as ASR's decision to reduce sales of group pensions business has led to an increased weight of non-life business in the overall balance of the group's GWP. We therefore anticipate that ASR's industry and country risk profile will gradually shift toward health and P/C.

We consider that the Dutch non-life sector is fiercely competitive, placing pressure on average market returns. However, we anticipate that returns should improve on a technical basis, given strategic actions within the market concerning disability business. We believe the Dutch health insurance sector will show stable, albeit low, margins. Product risks are elevated for this product line given the extent to which premiums and coverage are subject to political scrutiny. We consider the Dutch life market to carry intermediate risk and therefore higher risk than the Dutch health and non-life markets.

Table 1

ASR Nederland Insurance Industry And Country Risk		
	IICRA	Premium Mix 2014 (%)
Netherlands P&C	Low	46
Netherlands Life¶	Intermediate	38
Netherlands Health	Low	16
Weighted average IICRA assessment	Low	

*Gross written premium. ¶Includes premium on own pension scheme.

Competitive position: Strong

We consider that ASR benefits from a strong competitive position. ASR has shrunk some of its lines of business, such as group pensions, in 2014-2015 because of the low interest environment, and has re-priced others (fire and property). The group is willing to lose market share in the process. ASR has maintained earnings due to its large back book, cost-cutting initiatives, and the breadth of its competitive position.

We see limited upside to volumes, which are predominantly sold through intermediaries. Overall, we anticipate stabilization in GWP. We believe ASR may use its ongoing cost reduction program and claims management to improve pricing for new and existing customers, thus retaining customers and maintaining volumes. Our expectation is that the combined ratio will remain about 100%-102% (based on Standard & Poor's calculations) through 2017.

Life premiums continued to fall by 7% in 2014, although to a lesser extent than in 2013 (12%) due to industrywide

issues. Premiums have been affected in particular by the impact of the commission ban, lapses relating to compensation of unit-linked products, and competition from bank savings products. The existing business is now mainly regular premiums. We expect life GWP to increase by about 6% in 2015 due to acquisitions, decline by around 3% in 2016, and stabilize in 2017.

Life new business sales will be minimal. They accounted for only €99 million in 2014, although improved from €65 million in 2013, as measured by annual premium equivalent. While interest rates remain low, we think ASR will only write limited group pension contracts. A possible source of volume upside will be the sale of group defined contribution contracts, as a result of the structural shift in The Netherlands for companies to move away from defined benefit contracts. However, the market and margins for these remain modest at present.

Table 2

ASR Nederland Competitive Position					
	2010	2011	2012	2013	2014
Gross premium written (Mil. €)	4,756	4,437	4,290	3,923	3,787
Change in gross premium written (%)	(2.94)	(6.4)	(3.3)	(8.6)	(3.47)
Net written premium (Mil. €)	4,536	4,211	4,128	3,760	3,643
Change in net written premium (%)	(2.3)	(5.2)	(1.5)	(10.9)	(3.11)
Total assets under management (Mil. €)	38,118	38,514	40,785	39,734	45,708
Change in assets under management (%)	3.9	1.0	5.9	(2.6)	15.03
Reinsurance utilization (%)	4.63	5.1	3.8	4.2	3.8

Financial Risk Profile

We assess ASR's financial risk profile as strong.

Capital and earnings: Very strong

In our view, ASR possesses very strong capital and earnings.

We believe net earnings will be in excess of €330 million a year. There is limited scope for the business to increase sales in the Dutch market. As such, the focus will remain on ongoing operating expense improvements.

In 2014, net results of €381 million were supported by realized gains in the range of €200 million. We expect the quality of earnings to improve for ASR, with a greater reliance on underwriting in 2015-2017.

In terms of uses of capital we make the following assumptions:

- The dividend for 2015-2017 will be in-line with the dividend declared in 2014 of €139 million.
- We anticipate stable capital requirements in respect of the group's market risk, given the recalibration of the portfolio in 2013. In particular, we do not anticipate further increases toward equities.
- The limited non-life book volume growth will ensure that the capital requirements associated with this block of business will remain flat. It is anticipated that the life business will continue to shrink, the following absorption of the announced acquisitions.

Table 3

ASR Nederland Capital					
	2010	2011	2012	2013	2014
Total shareholder's equity (Mil. €)	1,935	1,854	2,433	2,518	2,326
Change in shareholder's equity (%)	34.4	(4.4)	30.81	3.31	(6.96)
Regulatory solvency (%)*	221	230	293	268	285
Dividend (Mil. €)	0	0	71	88	99

*In 2012, the Dutch National Bank changed its approach for calculating the ultimate forward rate.

Table 4

ASR Nederland Earnings					
	2010	2011	2012	2013	2014
Net income (Mil. €)	318	205	248	276	378
Return on shareholder's equity (%)	18.8	10.8	11.6	11.1	15.7
P/C claims ratio (%)	73.0	70.8	77.0	81.5	74.56
P/C cost ratio (%)	27.6	28.4	26.7	27.0	25.8
P/C commission ratio (%)	15.3	17.0	16.7	15.8	15.51
P/C combined ratio (%)	100.67	99.19	103.67	108.47	100.36
Life: net admin exp ratio (%)	11.61	12.69	12.81	13.44	12.27
Life: net acquisition expense ratio(%)	5.12	7.22	7.24	4.28	3.39
Life: net exp ratio (%)	16.74	19.91	20.04	17.72	15.66

P/C--Property/casualty.

Risk position: Moderate

Though the group has worked to reduce the interest rate sensitivity of the existing life insurance liabilities on an economic basis and writes little in the way of new group pensions business--which usually contains investment guarantees--ASR continues to have an appetite for investment risk and a large defined benefit scheme. ASR's moderate risk position weakens our view of its financial risk profile.

ASR has a large defined benefit pension scheme. In keeping with many of its peers in the sector, the group reinsures the past service liabilities into the main life operating entity. As such, the past service liability and assets are captured in our risk-adjusted capital model. The main source of volatility in the balance sheet is therefore the unfunded future service liability associated with the scheme remaining open to future accrual, which is not included in regulatory solvency calculations.

Table 5

ASR Nederland Risk Position					
(%)	2010	2011	2012	2013	2014
Investment portfolio composition					
Fixed income securities & cash	69	73	71	66	71
Equities	8	4	6	7	5
Real estate	13	11	10	9	9
Mortgages and other loans	9	11	12	17	14
Other	1	1	1	1	1

Table 5

ASR Nederland Risk Position (cont.)					
Total investments (Bil. €)	26.5	27.3	30.0	28.7	38.1
Investments on behalf of policyholders	9.5	8.6	8.2	8.0	9.1

Financial flexibility: Adequate

We believe ASR's financial flexibility is adequate. The group has accessed the debt capital markets in the past, including in 2014. ASR also has the capacity to increase its reinsurance utilization as retentions are high. At present, ASR has not accessed the equity markets directly for capital, which also serves to constrain our assessment.

ASR has three tranches of junior subordinated notes.

Table 6

ASR Nederland Junior Subordinated Notes						
	Size of issue (Mil. €)	Rating	Maturity	First Call Date	S&P Equity Credit	
Hybrid Tier 1 instrument 10% fixed interest	187	BBB+	Perpetual	26/10/2019	Minimal	
Hybrid Tier 1 instrument 7.25 fixed interest	17	BBB+	Perpetual	30/09/2019	Intermediate	
Hybrid Tier 2 instrument 5% fixed interest	497	BBB-	Perpetual	30/09/2024	Intermediate	

We do not assign intermediate equity content to the €187 million of step-up fixed-floating rate perpetual securities with first call in 2019. This is because the step-up, which is 50% of the original credit spread, is greater than 100 basis points. All the other instruments are eligible for intermediate equity content and are included in our assessment of TAC.

Table 7

ASR Nederland Financial Flexibility					
(%)	2010	2011	2012	2013	2014
Financial leverage	N.M.	N.M.	N.M.	11	13
EBITDA	466	293	242	385	496
Fixed-charge coverage	6.9	4.2	3.5	6.5	8.7

N.M.--Not meaningful.

Other Assessments**Enterprise risk management: Adequate**

We consider ASR's ERM as adequate, however, we note the significant progress made by the group to establish and improve control processes since the split with Fortis. Increasingly, ASR is making use of its internal economic capital model to make investment decisions, which we view positively.

The importance of ERM is high, reflecting the composite nature of the group's risk profile and the high levels of investment leverage.

Management and governance: Satisfactory

ASR has strategies that are generally consistent with its capabilities and the group is cognizant of market place

conditions. In particular, this is demonstrated by the group's decision to step back early from group single premium business where it views pricing as uneconomical. Meanwhile, ASR continues to develop new products on the life side, as well as to reduce expenses. ASR has also, over recent years, successfully recruited and expanded its management team. Recently it recruited a new CFO. At this stage we do not anticipate a material change in risk appetite or financial strategy as a result.

Liquidity: Exceptional

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.

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 TAC.

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 & 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.

Related Criteria And Research

Related Criteria

- Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Related Research

- Credit Conditions: The Eurozone Is Looking Up, For Now, March 31, 2015
- Low Interest Rates Are Only Slowly Reviving Europe's Housing Markets, Feb. 5, 2015

Ratings Detail (As Of August 24, 2015)

ASR Nederland N.V.

Counterparty Credit Rating

Local Currency

BBB+/Stable/--

Junior Subordinated

BBB-

Counterparty Credit Ratings History

15-May-2014

Local Currency

BBB+/Stable/--

Ratings Detail (As Of August 24, 2015) (cont.)

Related Entities

ASR Levensverzekering N.V.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Junior Subordinated

BBB+

ASR Schadeverzekering N.V.

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

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