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Company Article

ASR Levensverzekering N.V.

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CCR: A/Negative/-- CCR Date: 20-May-09 Sector: Life Insurance

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Rationale

On May 20, 2009, Standard & Poor's Ratings Services affirmed its 'A' counterparty credit and financial strength ratings on ASR Levensverzekering N.V. and ASR Schadeverzekering N.V. (formerly Fortis ASR Levensverzekering N.V. and Fortis ASR Schadeverzekering N.V.). The outlook is negative. At the same time, we removed the ratings from CreditWatch, where they were placed on Oct. 6, 2008, with developing implications.

The ratings on the operating entities reflect their core status to ASR Nederland Group (ASR). ASR enjoys a strong competitive position in The Netherlands, and we view the Dutch state's current ownership of the group as stabilizing and supportive. Partly offsetting these credit strengths is a weakened capitalization and operating performance and a concentration in the mature Dutch market.

The negative outlook reflects the possibility that ASR may not be able to restore capitalization to levels consistent with the ratings in a difficult operating environment and uncertainties regarding its future strategy and ultimate ownership.

The two rated entities represent 67% of ASR Group's consolidated premiums. Their direct parent is the holding company ASR Nederland N.V. (not rated), formerly Fortis Insurance Netherlands. The Dutch government has owned ASR since Oct. 3, 2008, following the dismantlement of Fortis group. Before that date, we based our ratings on the core status of these subsidiaries to Fortis group.

Major rating factors:

- The group's competitive position is strong, thanks to a diversified product range and a distribution through generalist and niche brands. ASR holds a sound position in its home market, with an aggregate market share of 12% and a No. 4 position. ASR is a leading insurer in accident and health (A&H; No. 1) and property/casualty (P/C; No. 3). In life business, the group ranks No. 4 in individual life and No. 6 in pensions. Amid challenging conditions, premiums grew 10% in 2008. Offsetting these strengths is business concentration in the highly competitive and mature Dutch market, and a mostly brokered distribution (accounting for 81% of premiums written).

- We view State ownership as stabilizing in the current market environment, giving ASR time to establish itself as a stand-alone group and redefine its strategy after it was split off from Fortis group. However, we do not expect state ownership to become a competitive strength for ASR but we do reflect it in our assessment of financial flexibility since we expect the State to allow earnings retention at ASR.

- Weakened capitalization. Risk-based capital adequacy suffered amid the decline in investment markets in 2008. An exceptional dividend to Fortis group in 2007 exposed net assets to market volatility, due to excessive reliance on items such as unrealized capital gains, present value of future profits, and hybrid debt. However, capital adequacy remains good, albeit lower than the levels we usually expect for the current ratings. Capitalization is also supported by prudent claims reserving and hedging strategies. ASR has announced it will not call but exchange its €650 million hybrid debt in the coming months. While this shows ASR's aim to balance prudent capital management and investor expectations, this exchange if done, may carry some execution risk depending on the conditions, which could negatively affect ASR's financial strength.

- Underlying operating performance is currently under pressure but strong over the long term, in our view. The bottom line dropped to minus €640 million in 2008 from a positive €889 million in 2007. However, long-term underlying performance remains sound: over the past five years, the combined ratio has averaged 95% and life new business margin has averaged 1.8%. However, although the fall in net earnings came mostly from depressed markets and one-off effects, it indicated some intrinsic weaknesses such as a high sensitivity to interest rates, high interest guarantees, and a high cost base.

Outlook

The negative outlook reflects the challenges that ASR could face in restoring its capitalization and operating performance to levels supportive of the current ratings.

We expect gross premiums to remain stable in 2009, with slightly declining volumes in life and P/C, and a positive trend in A&H. We expect ASR to maintain its volumes in bancassurance and mortgages thanks to new banking partnerships.

We expect operating performance in 2009 to recover because of sound underwriting in A&H and the absence of the one-off items that depressed year-end 2008 earnings. We expect the net non-life combined ratio to remain lower than 95%. We also expect life new business margin to increase to more than 1% in 2009 and 1.5% in 2010. Finally, we expect ASR to favor earnings retention to improve capital adequacy to levels in line with the current ratings by year-end 2010.

We may lower the ratings within the next 24 months if we believe that ASR may not meet the above targets. We may also downgrade ASR if we believe its financial strength is threatened by a change in ownership, a change in its risk profile, an unclear strategy, or further structured asset losses. A failure in ASR's plan to exchange the current hybrid debt with equity-like instruments may also result in a downgrade.

We may revise the outlook to stable by 2010 if ASR exceeds all of our abovementioned business and financial expectations.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
ASR Levensverzekering N.V.		
ASR Schadeverzekering N.V.		
Counterparty Credit Rating		
Local Currency	A/Negative/--	A/Watch Dev/--
Financial Strength Rating		
Local Currency	A/Negative/--	A/Watch Dev/--

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