

Research Update:

Netherlands-Based NN Group Rating Raised To 'A+' From 'A'; Outlook Stable

December 21, 2023

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of the revised criteria has positively affected the financial strength of NN Group N.V.
- We raised our long-term issuer credit and financial strength ratings to 'A+' on NN Group and its related core subsidiaries.
- The stable outlook reflects our view that under our risk-based model, NN Group can sustainably maintain an excellent level of capital during the next two years, alongside a diversified business mix and profitability in line with that of peers'.

Rating Action

On Dec. 21, 2023, S&P Global Ratings raised our long-term insurer financial strength and issuer credit ratings to 'A+' from 'A' on NN Group and its core subsidiaries. The issuer credit rating on NN Bank N.V. was raised to 'A'. The outlook is stable.

In addition, we raised our long-term issuer credit rating to 'A-' from 'BBB+' and affirmed our short-term issuer credit rating at 'A-2' on nonoperating holding company NN Group N.V. The outlook is also stable.

We raised all outstanding debt ratings in parallel (see the Ratings List for full details).

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy primarily reflects NN Group's strengthened total adjusted capital due to the removal of discounts and absence of deductions on its contractual service margin (CSM) under International Financial Reporting Standard (IFRS) 17, which we consider an equity-like reserve.

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- We also capture the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.
- The recalibration of our capital charges to higher confidence levels somewhat offsets these improvements.

Credit Highlights

Overview

Key strengths

Well-diversified business and earnings mix leading to generally improved capitalization.

Domestic market leader with a strong brand and reputation.

Effective asset-liability management.

Key risks

Geopolitical tensions, interest rate volatility, and rising inflation could affect earnings.

Limited organic growth opportunities in the highly penetrated Dutch insurance market.

Outlook

The stable outlook reflects our belief that according to our risk-based model, NN Group can sustainably maintain an excellent level of capital during the next two years, alongside a diversified business mix and profitability in line with peers'.

Downside scenario

Although unlikely at this stage, we could lower our rating during the next 24 months if, according to our risk-based model, the company's capitalization does not remain excellent over a prolonged period, or if the company takes excessive risk, for instance in the form of elevated dividends, share buybacks, or exposure to investments.

Upside scenario

We see an upgrade as remote but we could consider a positive rating action on NN Group and its core operating companies within the next 24 months if it achieves profitability and earnings diversification in line with 'AA-' rated peers, and does not increase earnings volatility or reduce its excellent capitalization.

Rationale

The upgrade mainly reflects that after implementing our revised capital model, we view NN Group's capital adequacy as significantly strengthened, and believe the company can maintain an excellent level of capital in 2023-2025. The company's capital adequacy has improved to the 99.99% confidence level under our model. Moreover, in our view, NN Group's capital adequacy will further strengthen under IFRS 17, which gives greater visibility of future profits for the insurance sector through the CSM. After implementing IFRS 17, NN Group reported a pre-tax CSM of €6.85 billion as of year-end 2022, rising to €6.89 billion as of June 30, 2023.

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Our assessment of NN Group's capitalization and risk management is further supported by the company's strong solvency position, reflected by its solid Solvency II ratio of 201% as of June 30, 2023. We consider the company's asset allocation to be very conservative, since 80% of its total investments are in fixed-income assets, of which 28% are mortgages (NN Bank excluded). Even though NN Group has invested in assets with higher yields, we still consider its credit quality as high on average.

We believe NN Group will maintain its leading position in the life, property, and casualty insurance markets in the Netherlands. We also note the company's efficiency and sound underwriting profitability. The company reported a net income of €586 million in the first half of 2023 based on IFRS-17 accounting. This was slightly lower than the same period in the previous year (IFRS-17 comparative figures), mostly due to lower realized gains, which offset higher operating results. For 2023-2024, we anticipate annual net income of about €1.2 billion–€1.5 billion, supported by a non-life insurance combined (loss and expense) ratio of below 95%. We estimate this will lead to a return on equity of about 5% over the next two-to-three years.

We believe the company has a favorable funding structure and good access to capital markets, as demonstrated by its regular issuances.

Our long-term issuer credit rating on NN Group is two notches below that on NN's core insurance companies. This reflects our view of structural subordination because the holding company does not generate any operative insurance cash flows.

Environmental, Social, And Governance

Environmental, social, and governance credit factors have no material impact on our analysis of NN Group.

Ratings Score Snapshot

	To	From
Financial strength rating	A+/Stable	A/Positive
Anchor*	a+	a
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Excellent	Very Strong
Capital and earnings	Excellent	Very Strong
Risk exposure	Moderately Low	Moderately Low
Funding structure	Neutral	Neutral
Modifiers	0	0
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0

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	To	From
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

* This reflects our view on the group's earnings diversification being somewhat weaker compared to higher rated peers'.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

***** NN Group N.V. *****

Upgraded

	To	From
NN Bank N.V.		
Senior Unsecured	A	A-
Senior Subordinated	A-	BBB+

NN Group N.V.

Senior Unsecured	A-	BBB+
Subordinated	BBB	BBB-
Junior Subordinated	BBB	BBB-

Upgraded; Outlook Action

	To	From
NN Re (Netherlands) N.V.		
Issuer Credit Rating		
Local Currency	A+/Stable/--	A/Positive/--
Financial Strength Rating		
Local Currency	A+/Stable/--	A/Positive/--

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Upgraded; Outlook Action; Ratings Affirmed

	To	From
NN Bank N.V.		
Issuer Credit Rating	A/Stable/A-1	A-/Positive/A-1
NN Group N.V.		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2

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