

Research Update:

# Dutch Insurance Group NN 'A' Ratings Affirmed On Resilience To COVID-19 Fallout; Outlook Stable

May 27, 2020

## Overview

- We believe NN Group's earnings and premium income will be hurt by COVID-19 fallout, in line with peers, but it benefits from sound capital buffers to absorb the losses.
- NN's earnings should improve in 2021, on the back of a strong market position, and its capitalization will likely settle in the 'A' range of our risk-based capital model.
- We are therefore affirming our 'A' ratings on NN and its core operating subsidiaries.
- The outlook remains stable.

## Rating Action

On May 27, 2020, S&P Global Ratings affirmed its 'A' long-term issuer credit and insurer financial strength ratings on NN Group (NN) and its core operating entities.

We also affirmed the 'BBB+' issuer credit ratings on NN's nonoperating holding company NN Group N.V.

The outlook on all entities is stable.

## Rationale

The affirmation reflects our view that NN is able to withstand the recessionary conditions emerging from the COVID-19 pandemic, thanks to its capital buffers and sound prospective earnings.

According to our risk-based capital model, NN's capitalization improved to the 'A' range at year-end 2019--in line with our previous forecast--thanks to sound earnings retention. In recent months, we estimated that its capitalization dropped but remained in the 'A' range. This decline was mainly driven by the general fall of global stock markets in March 2020, and partly offset by the company's capital buffers. We understand NN's solvency position remains robust with a solvency ratio of about 225% as at April 2020, and will strengthen further by about 17 percentage points thanks to a transfer of longevity risk that the group announced on May 19.

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We assume NN will continue to benefit from its leading position in its Dutch home market and ample diversification across regions and business lines. Its position in the Netherlands is enhanced by its acquisition of Vivat non-life, which was completed by April 1. This should further improve underwriting profitability due to scale effects.

In addition, the strength of NN's geographic diversification increases on the back of the company's meaningful presences in Belgium, Central and Eastern Europe, and Japan, as well as a sizable international asset-management operation and a bank, which contributed about 9% and 8%, respectively, of the group's operating earnings in 2019. We view NN Bank as relatively well capitalized, with a regulatory Tier 1 ratio of 15.7% at year-end 2019, and regard potential risks stemming from the banking subsidiary to the entire group as rather limited.

Due to the expected economic recession following the COVID-19 pandemic, we expect a lower net income in 2020 of about €1 billion, mainly due to depressed investment results. Nonetheless, following our overall expectation of an improved macroeconomic environment in 2021 and 2022, and NN's strong market position, we anticipate net income will strengthen to about €1.5 billion annually. This is a clear increase, but net income is unlikely to return to 2019 levels of close to €2.0 billion in 2020.

NN temporarily suspended its dividend distributions for the fiscal year 2019 as a consequence of COVID-19 fallout, following recommendations of EIOPA and DNB. We consider in our forecast that NN intends to pay the dividend at a later stage.

Because of rather-modest business growth following the economic recession, combined with reduced earnings, we believe NN's capital adequacy will stabilize in the 'A' range over the next two-to-three years.

## **Outlook**

The outlook is stable because we believe that NN's capitalization, according to our risk-based capital model, will settle in the 'A' range over the next 24 months, supported by diverse income streams.

## **Downside scenario**

We might lower the ratings over the next two years if, contrary to our expectations, NN's capitalization were to fall below the 'A' range for a sustained period. This could occur, for example, due to large investment losses, or potential issues in the integration of Vivat Non-Life. We might also lower the ratings if NN started an aggressive dividend policy that weakened its capital and earnings position, which we do not anticipate.

## **Upside scenario**

Although unlikely over the next 24 months, we could consider raising the ratings if NN's capitalization strengthens more than we expect, leading to sustainable capital adequacy in the 'AA' range. This would likely be demonstrated by group entities generating a material profit contribution, while NN maintains prudent dividend policy and risk-taking. At the same time, an upgrade would hinge on no increased volatility of earnings or capital due to investment exposure or the guaranteed life book of business.

## Ratings Score Snapshot

|                                  |                |
|----------------------------------|----------------|
| <b>Business Risk Profile</b>     | <b>Strong</b>  |
| Competitive Position             | Strong         |
| IICRA                            | Intermediate   |
| <b>Financial Risk Profile</b>    | <b>Strong</b>  |
| Capital and Earnings             | Strong         |
| Risk Exposure                    | Moderately low |
| Funding Structure                | Neutral        |
| Anchor*                          | a              |
| <b>Modifiers</b>                 |                |
| Governance                       | Neutral        |
| Liquidity                        | Exceptional    |
| Comparable Ratings Analysis      | 0              |
| <b>Financial Strength Rating</b> | <b>A</b>       |

\*This is influenced by our view of NN's beneficial earnings diversification across regions and non-insurance operations.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## Related Research

- Insurance Industry And Country Risk Assessment: The Netherlands Life, May 19, 2020
- COVID-19's Economic Effects Cloud The Outlook For EMEA Insurers, May 18, 2020

## Ratings List

**Ratings Affirmed**

**NN Group N.V.**

|                      |                 |
|----------------------|-----------------|
| Issuer Credit Rating | BBB+/Stable/A-2 |
|----------------------|-----------------|

**NN Bank N.V.**

|                      |               |
|----------------------|---------------|
| Issuer Credit Rating | A-/Stable/A-1 |
|----------------------|---------------|

**NN Re (Netherlands) N.V.**

**Nationale-Nederlanden Schadeverzekering  
Maatschappij N.V.**

**Nationale-Nederlanden Levensverzekering  
Maatschappij N.V.**

|                      |             |
|----------------------|-------------|
| Issuer Credit Rating | A/Stable/-- |
|----------------------|-------------|

|                           |             |
|---------------------------|-------------|
| Financial Strength Rating | A/Stable/-- |
|---------------------------|-------------|

**NN Group N.V.**

|                  |      |
|------------------|------|
| Senior Unsecured | BBB+ |
|------------------|------|

|              |      |
|--------------|------|
| Subordinated | BBB- |
|--------------|------|

|                     |      |
|---------------------|------|
| Junior Subordinated | BBB- |
|---------------------|------|

**NN Bank N.V.**

|                  |    |
|------------------|----|
| Senior Unsecured | A- |
|------------------|----|

**Nationale-Nederlanden Levensverzekering  
Maatschappij N.V.**

|                     |      |
|---------------------|------|
| Junior Subordinated | BBB+ |
|---------------------|------|

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