



RATING ACTION COMMENTARY

Fitch Affirms NN Group's IFS at 'A+'; Outlook Stable

Wed 29 Apr, 2020 - 10:59 AM ET

Fitch Ratings - Frankfurt am Main - 29 Apr 2020: Fitch Ratings has affirmed Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.'s and VIVAT Schadeverzekeringen N.V.'s Insurer Financial Strength (IFS) Rating at 'A+' and NN Group N.V.'s (together NN Group) Long Term Issuer Default Rating (IDR) at 'A' with Stable Outlook.

A full list of rating actions is detailed below.

KEY RATING DRIVERS

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for NN that are compared with both rating guidelines defined in its criteria, and relative to previously established Rating Sensitivities for NN.

The rating is driven by NN's Fitch Prism Factor-Based Capital Model (Prism FBM) score remaining 'Extremely Strong' under our pro-forma rating-case assumptions. NN also reported a very strong Solvency 2 (S2) ratio of 224% (pre-dividend) at end-2019 (end-2018: 230%). The sensitivity of the S2 ratio to

interest rates, credit spreads, equities and property price changes is limited as reported by NN.

NN's financial leverage ratio (FLR) improved to 26% at end-2019 (2018: 28%). However, the 2019 pro-forma FLR increases marginally to 28% under our rating case, but this remains commensurate with an 'A' rating category.

Fitch expects NN's liquidity position to remain strong. In addition to available holding company liquidity of EUR2 billion at end-2019 (estimated cash at holding following VIVAT acquisition at EUR1.4 billion), the group also has access to a EUR1.75 billion revolving credit facility, which was undrawn at end-2019. NN currently intends not to refinance its EUR300 million senior debt maturing in June 2020.

NN's pro-forma return on equity (ROE) decreases to 5% under our rating-case assumptions, from 7% based on actual end-2019 financial data. Operating earnings also weaken, mainly a result of adverse claims development in life and non-life businesses. However, we expect earnings to return to a normalised run-rate in 2021 as the pandemic -related adverse business and capital market conditions ease. This expectation underpins our Stable Outlook on NN's ratings.

Fitch assesses NN's investment and asset risk as 'Very Strong' based on a low risky assets-to-equity ratio, which does not materially deteriorate under our pro-forma analysis. Investments mainly consist of investment-grade debt securities and Dutch residential mortgages, which Fitch regards as high-quality assets.

KEY ASSUMPTIONS

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

--Decline in key stock market indices by 35% relative to 1 January 2020.

--Increase in two-year cumulative high-yield bond default rate to 13%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.

--Both upward and downward pressure on interest rates, with spreads widening (including high-yield by 400bp) coupled with notable declines in government

rates.

--A coronavirus infection rate of 5% and a mortality rate (as a percent of infected) of 1%.

--For the non-life and reinsurance sectors, a negative impact on the industry-level accident year loss ratio from COVID-19-related claims at 3.5pp, partially offset by a favourable impact from the auto line averaging 1.5pp.

--A bespoke assumption of a 2% non-performing loan ratio for Dutch residential mortgages.

RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is made available on the medical aspects of the outbreak. An indication of how ratings would be expected to be impacted under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

-- A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact

-- Rise in FLR to above 35%

-- Weakening of operating profitability

-- Fall in group S2 ratio to below 160%

Factors that could, individually or collectively, lead to positive rating action/upgrade:

-- A material positive change in Fitch's rating assumptions with respect to the coronavirus impact

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the Dutch insurance industry and NN.

-- Fall in FLR to below 25% while operating profitability remains strong and group S2 ratio at above 180%.

Stress Case Sensitivity Analysis

--Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp, more prolonged declines in government rates, a coronavirus infection rate of 15% and mortality rate of 0.75%, and an adverse non-life industry-level loss ratio impact of 7pp for COVID-19 claims that is partially offset by a favourable 2pp impact for motor.

--The implied-rating impact under the stress case would be a revision of the Outlook to Negative.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Nationale- Nederlanden Levensverzekeringen Maatschappij N.V.	Ins Fin Str	A+	Affirmed
VIVAT Schadeverzekeringen N.V.	Ins Fin Str	A+	Affirmed
NN Group N.V.	LT IDR	A	Affirmed
● senior unsecured	LT	A-	Affirmed
● subordinated	LT	BBB	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.7.1 (1)

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Nationale-Nederlanden Levensverzekeringen Maatschappij N.V.

EU Issued

NN Group N.V.

EU Issued

VIVAT Schadeverzekeringen N.V.

EU Issued

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Insurance Europe Netherlands

