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**Research Update:**

## Assurances Continentales - Continentale Verzekeringen NV (ASCO NV) Rated 'A-'; Outlook Stable

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## Research Update:

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## Overview

- Recently acquired operating entity ASCO provides The Navigators Group, Inc. with a platform for its specialty insurance business in continental Europe and access to European Union markets post-Brexit.
- We are rating ASCO 'A-' based on its SACP and parental support.
- The stable outlook reflects that on the parent.

## Rating Action

On Nov. 19, 2018, S&P Global Ratings assigned its 'A-' long-term issuer credit and insurer financial strength ratings to Belgium-based insurer, Assurances Continentales - Continentale Verzekeringen NV (ASCO). The outlook is stable.

## Rationale

Our 'A-' ratings are derived from ASCO's stand-alone credit profile of 'bbb', and two notches of group support based on our view that ASCO is a strategically important subsidiary to parent Navigators Group Inc. Navigators acquired ASCO in June 2018, providing the parent with an admitted European Union domiciled insurer to expand its developing continental European business and to provide access to European Union markets post-Brexit. ASCO will operate as the hub for Navigators' continental European business.

ASCO's less-than-adequate competitive position is constrained by its small premium base and geographic footprint. The company operates in similar lines of business to Navigators, writing primarily marine and property casualty risks in Belgium, although underwriting performance has lagged that of its new parent. ASCO's current book will be combined with €50 million-€55 million of Navigators' existing continental European business being written out of its European branch offices through Navigators International Insurance Co. Ltd. (NIIC). Prospectively, ASCO will write a mix of Navigators' core products, including marine, professional liability, energy and engineering, and casualty business. We expect the combined underwriting performance to benefit from Navigators' underwriting and claims expertise.

We view ASCO's capital and earnings as moderately strong, enhanced by a €30

million capital infusion from the parent to support the transfer of NIIC's business and plans for growth. Our assessment is offset by ASCO's relatively small capital base on a stand-alone basis, leaving the entity more susceptible to capital and earnings volatility. Navigators intends to manage this volatility by maintaining significant treaty reinsurance in order to limit the impact of severity losses to the ASCO balance sheet. Given the high-severity nature of Navigators' specialty lines, ASCO's investment portfolio will be managed conservatively, with 100% of invested assets allocated to fixed-income securities with an average credit quality of 'AA'.

We view ASCO's financial flexibility as adequate as it has no debt outstanding and adequate sources of capital and liquidity. The primary source of additional capital and liquidity will likely come from the parent company, and given our view of strategic importance related to the execution on the group's international strategy, we expect the parent company to support ASCO in a stressed scenario.

We view Navigator's enterprise risk management (ERM) as adequate. Management continues to enhance ERM to track the group's evolving risk profile, including its international expansion efforts. We believe it can identify and manage most key risk exposures, and has had a dedicated ERM team in place since 2012. Risk exposures are actively monitored, including through its economic capital model, which allows it to quantify key risks and track risk-tolerance levels. It has shown an effective capital-allocation strategy and use of risk-adjusted metrics through pricing cycles.

We view Navigator's management and governance as satisfactory. ASCO's current management team will remain, and Navigators' Managing Director of Continental Europe will supervise the European branch offices and ASCO. Navigators' management remains focused on underwriting and potential volatility as the group builds other supporting functions to keep pace with growth. In the past five years, management's strength has been bolstered by key hires in risk management, claims, underwriting, and business development.

We regard ASCO's liquidity as strong, supported by a high-quality liquid investment portfolio. We do not expect the company to face any liquidity restraints from meeting its obligations.

## **Outlook**

The stable outlook reflects that on the parent. Our ratings on ASCO will likely move in tandem with those on the parent company given its strategic importance within the group. Given Hartford's recent announcement to acquire Navigators, we will reassess its integration plans as they relate to the Navigators group and ASCO's role within the combined company following completion of the transaction.

## Downside scenario

We may lower our ratings on ASCO in the next 24 months if we downgrade Navigators, or if contrary to our expectations, there are significant deviations in our premium and earnings expectations or deterioration in capital adequacy. We may also lower our ratings if we reduce our view of ASCO's strategic importance within the Navigators group.

## Upside scenario

We could raise our ratings on ASCO in the next two years if we improve our view of ASCO's strategic importance to core within the Navigators group.

## Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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

## Ratings List

New Rating; CreditWatch/Outlook Action

Assurances Continentales - Continentale Verzekeringen NV	
Issuer Credit Rating	A-/Stable/--
Financial Strength Rating	A-/Stable/--

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