



## RATING ACTION COMMENTARY

# Fitch Affirms Achmea at IFS 'A+'; Outlook Stable

Wed 29 Apr, 2020 - 10:59 AM ET

Fitch Ratings - Frankfurt am Main - 29 Apr 2020: Fitch Ratings has affirmed Achmea B.V.'s core operating entities' Insurer Financial Strength (IFS) Ratings 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 Achmea that are compared with both rating guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Achmea.

The rating is driven by Achmea's Fitch Prism Factor Based Capital Model (Prism FBM) score remaining 'Very Strong' under our coronavirus pandemic rating-case assumptions. Achmea's Solvency 2 (S2) ratio increased to 219% (pre-dividend) at end-2019 from 198% at end-2018. The sensitivity of the S2 ratio to interest rate, credit spreads, equity and property price movements is limited as reported by Achmea.

Achmea's financial leverage ratio (FLR) improved to 21% at end-2019 following its issue of EUR500 million S2 qualifying restricted tier 1 notes as part of a EUR750 million dual-tranche issue on 24 September 2019, and the redemption of grandfathered securities. The pro-forma FLR increases to 23% under our rating case, due to a lower capital balance.

Fitch expects Achmea's liquidity position to remain adequate in 2020 under our stress assumptions. In addition to available liquid resources the company has access to a EUR1 billion revolving credit facility, which was undrawn at end-2019. We believe Achmea will maintain its ability to refinance EUR750 million of maturing senior debt in 2020. Achmea also has adequate liquid resources to cover repayment in the unlikely case of market funding becoming unavailable.

Achmea's pro-forma return on equity (ROE) would decrease to below 2% in 2020 under our stress assumptions, mainly a result of adverse claims development in the health and non-life businesses. However, this could be offset by a substantial decrease in admittances of non-coronavirus related patients, which is not factored into our ROE calculation. However, we expect earnings to return to a normalised run-rate in 2021 as the pandemic -related adverse business and capital market conditions ease, and part of 2021 losses are recovered through premium adjustments or claims-equalisation measures.

Fitch assesses Achmea's investment and asset risk as 'Very Strong' based on a low risky assets-to-equity ratio, which we do not expect to materially increase 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 2% non-performing loan ratio for Dutch residential mortgages.

--A bespoke assumption of 5% hospitalisation rate of infected population.

## **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.

--The ratings could be downgraded if net income ROE falls below 3% on a sustained basis.

--The ratings could also be downgraded if the Prism FBM score falls below 'Very Strong' or if FLR increases above 30% for a sustained period.

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 Achmea.

--The ratings could be upgraded if net income ROE increases to above 9% on a sustained basis, while maintaining the Prism FBM score and FLR at levels consistent with a 'Very Strong' assessment.

### 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, heightened pressure on capital-market access, 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 partially offset by a favourable 2pp impact for motor.

--The stress case uses bespoke assumptions of 3% non-performing loan ratio for Dutch residential mortgages and a hospitalisation rate of 5%.

--The implied-rating impact under the stress case would be a downgrade of up to two notches.

### **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.

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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](http://www.fitchratings.com/esg).

## RATING ACTIONS

| ENTITY/DEBT                                        | RATING            |    |          |
|----------------------------------------------------|-------------------|----|----------|
| Achmea<br>Schadeverzekeringen<br>N.V.              | Ins<br>Fin<br>Str | A+ | Affirmed |
| Achmea Pensioen- en<br>Levensverzekeringen<br>N.V. | Ins<br>Fin<br>Str | A+ | Affirmed |
| Achmea<br>Zorgverzekeringen<br>N.V.                | Ins<br>Fin<br>Str | A+ | Affirmed |
| Achmea B.V.                                        | LT<br>IDR         | A  | Affirmed |
| ● senior unsecured                                 | LT                | A- | Affirmed |

[VIEW ADDITIONAL RATING DETAILS](#)

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**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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|                                              |           |
|----------------------------------------------|-----------|
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| Achmea Pensioen- en Levensverzekeringen N.V. | EU Issued |
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