S&P Global
Ratings

RatingsDirect®

Achmea Group

Primary Credit Analyst:
Silke Sacha, Frankfurt + 49 693 399 9195; silke.sacha@spglobal.com

Secondary Contact:
Mark D Nicholson, London + 44 20 7176 7991; mark.nicholson@spglobal.com

Research Contributor:
Ami Shah, CRISIL Global Analytical Center, an S&P Global Ratings affiliate, Mumbai

Table Of Contents

Achmea Group

Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Very strong
Risk exposure	Moderately high
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a

+

Support	0
Group support	0
Government support	0

=

A/Stable/--
Financial strength rating

BBB+/Stable/--
Holding company ICR

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Strengths	Risks
Largest health and one of leading P/C insurers in the domestic market.	High reliance on the Dutch market and limited potential for organic growth.
Well-diversified product profile, including life insurance, income protection, asset management, and banking activities, with a strong distribution network.	Difficult operating environment, hampering Achmea's ability to convert its leadership positions into higher earnings than peers'.
Solvency position that is relatively insensitive to interest rate, equity, and spread risk.	Constraints on investment income from very low interest rates and the adverse macroeconomic environment.
	Political and regulatory dependence of basic health insurance market.

Achmea Group will remain the leading player in the Dutch P/C and health markets. Achmea has a dominant position in health and property/casualty (P/C) insurance in The Netherlands, with top-five positions in income protection, individual life, and pension insurance, and asset management. Health earnings in particular remained buoyant against COVID-19 losses in 2020. We think that Achmea will continue to build on this strong position with gradual growth over 2021-2023.

We expect that Achmea will maintain capital position in the 'A' range. Achmea's capitalization will remain at least in the strong range based on our risk-based capital model over the next two-to-three years. This is thanks to strong core shareholders' equity, which we consider as a hard form of capital.

Achmea's balance sheet is less sensitive to market risks than many European peers. On a Solvency II basis, Achmea's balance sheet is, in our view, less sensitive to interest rates, credit spreads, and equity-market volatility. The group's Solvency II ratio proved resilient to the low-interest-rate environment and COVID-19 market implications in 2020, at 208% at year-end 2020, and we expect it to remain at about 190% over 2021-2023.

Outlook: Stable

The stable outlook reflects our expectation that Achmea will maintain its leading position in the Dutch P/C and health insurance markets, with a capital position at least in the 'A' range and a fixed-charge coverage ratio of 4x or higher.

Downside scenario

We could lower the ratings over the next two years if Achmea's profitability is sustainably below our expectations, preventing the group from maintaining its capital adequacy and funding structure within our forecast ranges based on our current assumptions.

Upside scenario

We see the possibility of an upgrade over the next two years as remote. However, we could consider raising the ratings if Achmea's earnings were significantly above our expectations, enhancing its capital position beyond our 'AA' benchmark.

Key Assumptions

- GDP to grow by 3.1% in 2021 and 3.3% in 2022 following a contraction in The Netherlands' GDP in 2020, as in other eurozone countries.
- Structurally low long-term interest rates in The Netherlands, at -0.2% in 2021 and 0.01% in 2022.
- Dutch unemployment levels at 3.9% in 2021 and 3.8% in 2022.
- Dutch inflation rate of 1.7% in 2021 and 1.4% in 2022.

Achmea Group--Key Metrics

	2022f	2021f	2020	2019	2018
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Excellent	Very Strong	Very Strong
Gross premium written (mil. €)	>20,000	>20,000	20,175.0	19,949.0	19,918.0
Net income (mil. €)	~400	~400	642.0	481.0	315.0
Return on shareholders' equity (%)	>4	>4	7.0	5.6	3.7
EBITDA fixed-charge coverage (x)	>4	>4	5.9	5.1	4.4
Financial leverage (%)	<25	<25	24.8	25.5	27.0

f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Achmea is a leading insurer in The Netherlands, with nearly a 30% market share in health insurance. It insures about 5 million people in The Netherlands itself with basic health insurance. Similarly, Achmea has a leading position in P/C and individual life insurance, along with a top-five position in income protection insurance and asset management in the domestic market. Achmea benefits from a direct distribution channel and bancassurance partnership with Rabobank, which provides exclusive and extensive sale networks. We regard this multi-brand, multi-distribution approach as sound and supportive of Achmea's business risk profile. Achmea primarily operates in the Dutch market and has a small presence in Greece, Slovakia (where it recently acquired Poštová poistovna), and Turkey, a partnership with Rabobank in Australia, and a start-up online joint venture with Fairfax in Canada. Apart from insurance, Achmea has banking operations in The Netherlands, which are strategically important for originating mortgages. However, with earnings contribution below 20% of group earnings, diversification from the banking business is less material, in our view.

Achmea is privately owned. Its main shareholders are Achmea Association (65%) and Rabobank (30%), both of which are unlisted Dutch cooperatives. Achmea's business is more concentrated in its domestic market compared with its peers, and we do not anticipate any major change to this setup. Despite holding a leading position in the Dutch insurance market, the group has a limited track record of converting this leadership position into higher earnings than its peers. However, Achmea has taken corrective measures to overcome challenges and has managed to improve its operating performance over the past three years through better claims management, expense control, and strong technical earnings from the life and pensions business.

Achmea operates in the highly challenging Dutch insurance market, which is characterized by intense competition, legislative changes, and low interest rates in the P/C and life insurance sectors. Achmea also faces indirect political pressure and intense competition in the health business, leading to weak and volatile earnings. We see limited organic growth opportunities in the market and do not expect the operating environment to improve materially for any sector (P/C, health, or life) compared with previous years.

Contrary to our initial expectations, COVID-19 losses did not affect health earnings. In fact, higher health earnings in 2020 were able to compensate higher claims from disability, event cancellation, and lower investment income. Higher COVID-19-related medical expenses for basic health insurance were funded by an additional contribution from the statutory catastrophe scheme from the health care insurance fund. Furthermore, regular medical expenses decreased because of a drop in the number of people receiving regular medical treatment. This sparked better earnings for both basic and supplementary health business. As a result, Achmea Group's net income increased to €642 million (€481 million in 2019) in 2020. We expect a normalization of earnings, at about €400 million in 2021-2023, owing to our expectation of an improved macroeconomic environment and pandemic situation.

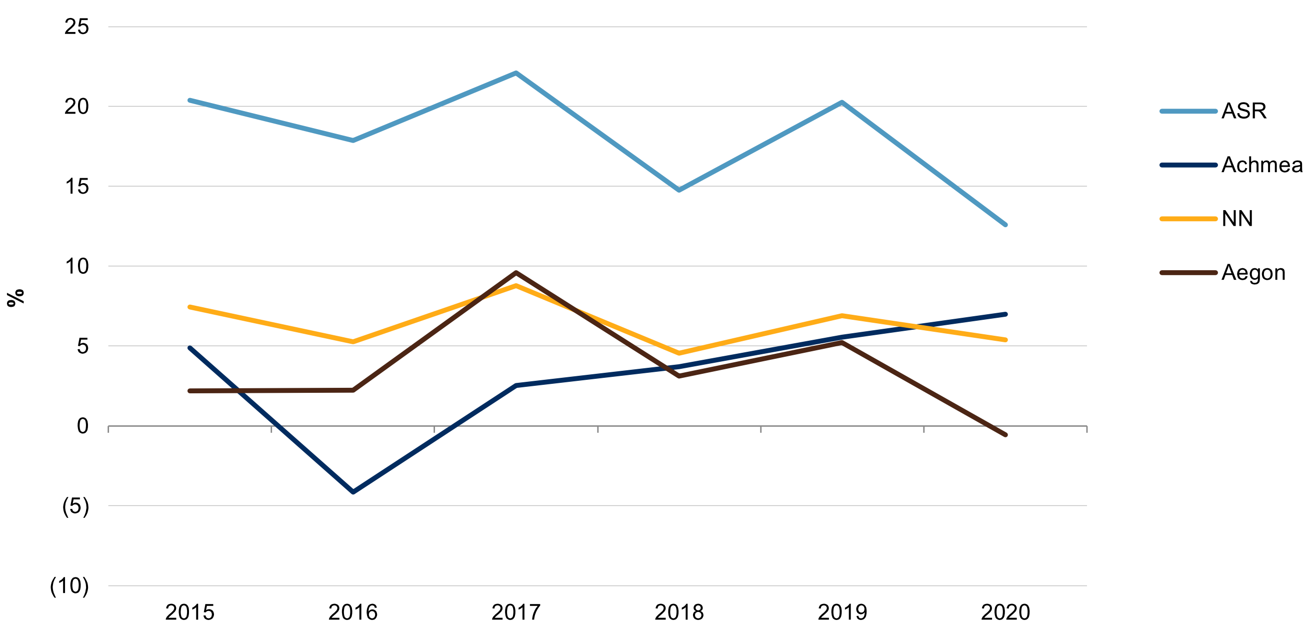
We think Achmea optimizes its risk-to-return capabilities within the boundaries of its risk appetite for strategic planning and capital management. However, this approach is not consistent across all lines of business, especially basic health, where premium levels and therefore profitability are dependent on the premium level positioning compared to other health insurance companies.

Financial Risk Profile: Strong

Achmea's capital adequacy exceeds that for the 'AA' benchmark in our risk-based capital model. Almost 70% of total adjusted capital, as per our model, comprises core shareholders' funds. Achmea's Solvency II ratio is resilient to interest rate and credit spreads, as reflected in a solid Solvency II ratio of 208% at year-end 2020. We think that reduced earnings volatility over the past three years has strengthened Achmea's financial risk profile, and that capital adequacy is likely to remain at least in excess of the 'AA' level over 2021-2023.

Chart 1

Return On Equity



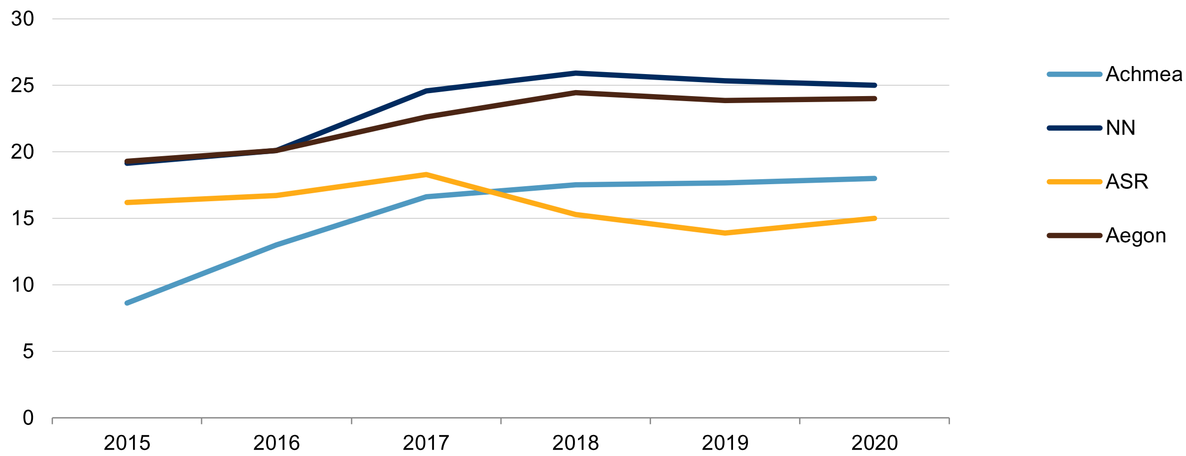
Source: S&P Global Ratings.

Achmea is significantly exposed to health underwriting and reserve risk. The group relies heavily on government policy and is sensitive to policy changes. Basic health insurance is still loss making, although the provision for lower premiums is declining year on year. In addition, the pandemic led to additional income from compensation payments from the statutory catastrophe scheme. Against this backdrop, we do not expect the basic health business to break even in 2021.

In our view, Achmea has managed its investment portfolio conservatively. We expect that its investments in property and mortgages will continue to increase. At year-end 2020, longer-duration mortgage investments represented about 18% of total invested assets. Sector concentration is balanced, and exposures to individual counterparties reflect the rating on each counterparty. We assess the weighted-average quality of the fixed-income portfolio in the 'AA' range. We also consider foreign-exchange risk to be low.

Chart 2

Exposure Of Mortgage As % Of Total General Account Invested Assets



Source: S&P Global Ratings.

Achmea's financial leverage improved to 24.75% at year-end 2020, compared to 25.5% as of year-end 2019 due to the refinancing of a senior bond maturing in 2020 at a lower rate. Average fixed-charge coverage ratios for 2021-2023 are likely to remain at above 4x, although down from 5.9x in 2020, given Achmea's stabilized earnings profile below extraordinary 2020 levels.

Other Key Credit Considerations

Liquidity

We regard Achmea's liquidity as adequate, mainly stemming from its premium income and liquid assets. The group is able to generate recurring cash flows from operations and we do not have any refinancing concerns. Achmea maintains committed and uncommitted credit facilities at the group level at several international banks. Since 2019, Achmea has had undrawn committed credit facilities of €1 billion, which are valid until 2026.

Factors specific to the holding company

We rate Achmea B.V. two notches below the core companies of Achmea Group. This reflects our view of structural subordination, since the holding company does not generate any operating insurance cash flows. Achmea B.V.'s liquidity profile is good, in our view. As a pure holding company, it largely derives its liquidity from subsidiaries' dividends or profit transfers, which to date have been more than sufficient to meet interest payments. However, other sources of liquidity are very limited, in our view. The long-term nature of the holding company's debt maturity profile suggests that the group will not need additional liquidity to finance organic growth, at least over the next 12-18 months.

Accounting considerations

Achmea prepares its consolidated financial statements under International Financial Reporting Standards (IFRS). We view the group's financial communication and disclosures as sound and transparent.

Our assessment of Achmea's capital adequacy is based on reported IFRS shareholders' equity, which we have adjusted by:

- Crediting 50% of the nonpublic life insurance value in force, calculated on a market-consistent, embedded-value basis, but eliminating double counting by adjusting the on-balance-sheet values for the shareholders' portion of deferred policy acquisition costs.
- Deducting goodwill and other intangible assets. In adjusting risk-capital requirements, we include health (including basic health) premium risk charges in our capital model.

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

Appendix

Achmea Group--Credit Metrics History

Ratio/Metric	2020	2019	2018
S&P Global Ratings capital adequacy	Excellent	Very Strong	Very Strong
Total invested assets*	62,980.0	60,485.0	57,788.0
Total shareholder equity	9,309.0	8,941.0	8,355.0
Gross premiums written	20,175.0	19,949.0	19,918.0
Net premiums written	19,826.0	19,615.0	19,624.0
Net premiums earned	19,636.0	19,524.0	19,685.0
Reinsurance utilization (%)	1.7	1.7	1.5
EBIT	691.0	600.1	531.0
Net income (attributable to all shareholders)	642.0	481.0	315.0
Return on revenue (%)	3.2	2.8	2.4
Return on assets (including investment gains/losses) (%)	0.8	0.7	0.6
Return on shareholders' equity (reported) (%)	7.0	5.6	3.7

Achmea Group--Credit Metrics History (cont.)

Ratio/Metric	2020	2019	2018
P/C: net combined ratio (%)	96.2	99.0	98.6
P/C: net expense ratio (%)*	26.3	27.1	26.2
P/C: return on revenue (%)	7.4	5.3	2.5
Life: Net expense ratio (%)	50.3	42.1	26.6
Health: Medical loss ratio (%)	95.7	96.6	95.7
Health: Return on revenue (%)	1.7	0.4	0.9
EBITDA fixed-charge coverage (x)	5.9	5.1	4.4
Financial obligations / EBITDA adjusted	3.9	4.5	5.2
Financial leverage including pension deficit as debt (%)	24.8	25.5	27.0
Net investment yield (%)*	3.2	3.5	3.6

*calculated as per S&P Global Ratings definition

Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	**Strong**	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	**a/a-**	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of August 2, 2021)*

Holding Company: Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB
Operating Companies Covered By This Report	
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--

Ratings Detail (As Of August 2, 2021)*(cont.)	
Achmea Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Unsecured	A-
Subordinated	BBB
Achmea Reinsurance Co. N.V.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Domicile	Netherlands

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.