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Achmea Group

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Rationale

Business Risk Profile: Strong

- Strong competitive position stemming from its leadership within the Dutch insurance market.
- Health and non-life insurance are greater competitive strengths than life insurance, due to the pressured Dutch life market.

Financial Risk Profile: Very Strong

- Very strong capital and earnings.
- Very strong, though declining, capital adequacy.

Other Factors

- Under our criteria, we combine these factors to derive an anchor of either 'a' or 'a+'. In a change to our previous approach, we use an anchor of 'a' for Netherlands-based multiline insurer Achmea B.V. to reflect the group's reduced capital strength, following a continued decline in excess capital at the 'AA' level. In our view, this now more than offsets the relatively low risk profile and market-leading position of the group's health franchise, which underpinned the previous 'a+' anchor.
- The group credit profile and our ratings on Achmea's core subsidiaries are one notch above the anchor, reflecting our assessment of enterprise risk management (ERM) as strong and also management and governance as satisfactory.

Outlook: Negative

The negative outlook reflects the risk that Achmea's earnings may not recover sufficiently to reduce the pressure on fixed-charge coverage and improve our assessment of capital adequacy.

Upside scenario

Our base-case scenario is that the group's fixed-charge coverage will reach 4x by year-end 2015 and capital adequacy will remain very strong; in which case, we would likely revise the outlook back to stable.

Downside scenario

If Achmea's fixed-charge coverage does not reach 4x by year-end 2015, we would likely lower the rating by one notch. We could also lower the rating by one notch if we consider that the group's capital adequacy has fallen below very strong.

Base-Case Scenario

Macroeconomic Assumptions

We expect that The Netherlands will see a period of weak growth as domestic demand contracts. We forecast real GDP to grow by 0.5% in 2014 and 1.43% in 2015.

The Dutch life sector is closely linked to the property market. Insurers are significant mortgage issuers and investors while some life products are linked to house sales. House prices fell sharply in 2012(7.3%) and 2013 (4.5%). We expect price falls to slow to 1% in 2014 as consumer confidence improves but that a return to house price growth will be delayed until 2015.

Company-Specific Assumptions

- Capital adequacy will remain commensurate with a 'AA' rating in 2014 and 2015.
- Net income will improve, as the €450 million cost reduction program is executed up to 2016, alongside underwriting performance that is consistent with, or improving on, prior years in basic health and non-life insurance.
- No effect on our assessment of Achmea's competitive position from upcoming reforms to the Dutch health insurance market.
- Fixed-charge coverage of at least 4x from year-end 2015 onward.

Key Metrics

(Mil. €)	2015f	2014f	2013	2012	2011
Gross premiums written	20,300	20,300	20,233	20,445	19,650
Change in gross premiums written (%)	0	0.2	-0.9	4.05	-1
Net income	>300	>200	344	469	-208
Net combined ratio non-life (%)	*	*	98	99.6	96.1
Net combined ratio basic health (%)	*	*	96.9	97.9	98.9
Fixed charge cover	4-6	2-4	4.1	4.1	1.6

f--forecast. * Basis of calculation changes, making comparison with historical ratios meaningless. Achmea increases holding company expenses allocation to segments from 2014 onwards.

Company Description

Achmea is primarily a very large Dutch multiline insurer. In addition to insurance, Achmea has banking interests, mainly in the Netherlands. Achmea is privately owned, its main shareholders being Achmea Association (65%) and Rabobank (29%), both of which are Dutch unlisted cooperative associations. In fact, Achmea Association operates for the benefit of Achmea, its employees, and its member customers.

Business Risk Profile: Strong

Insurance industry and country risk: Low overall

Achmea faces low industry and country risk overall, because its core businesses are in the Dutch health and non-life markets, which we assess as low risk. Overall risk in the Dutch health industry is low, in our view, as we consider that the performance of the Dutch health insurance sector will show stable, albeit low, margins. We consider that the Dutch non-life sector is fiercely competitive, placing pressure on average market returns. However, we anticipate that returns should improve on a technical basis, given strategic actions within the market concerning disability business. We consider the Dutch life market, which accounts for less than one-fifth of the group's business, to carry intermediate risk and therefore higher risk than the Dutch health and non-life markets. The overall low risk assessment for Achmea is unlikely to change during 2014–2015 based on our assessment of the Dutch non-life and health sectors and the balance of the group.

Competitive position: Strong

The Achmea group has a strong competitive position, in our view, stemming from its leadership within the Dutch insurance market. Achmea is the leading health and non-life insurer in the Netherlands, and the third-largest in life and pensions. Having leading market shares in health and non-life insurance offers greater competitive strengths than in life insurance in our opinion, due to the pressured Dutch life market. Within The Netherlands, Achmea operates a multibrand strategy, split by product—for example, Zilveren Kruis and Agis for health—and distribution channel—for example, Centraal Beheer for direct distribution, and Interpolis for bank distribution. We regard this multibrand approach in The Netherlands as sound and supportive of Achmea's profile.

Achmea's leading franchise—its basic health business—is subject to mandatory acceptance of risk, irrespective of the risk profile of the person insured and the critical success factor is negotiating power with health care providers and, consequently, cost management. As the largest provider, Achmea possesses these advantages. Basic health business is low margin but also low volatility. Our base-case assumption is that upcoming reforms to the Dutch health insurance market will not affect our assessment of Achmea's competitive position. These reforms include reform of long-term care and support and changes in the risk equalization pool.

Table 1

Achmea Industry And Country Risk		
Insurance sector	IICRA	Business mix (%)
Netherlands health	Low	67
Netherlands P/C	Low	19
Netherlands life	Intermediate	14
Weighted average IICRA	Low	100

Table 2

Achmea Group Competitive Position					
	2013	2012	2011	2010	2009
Gross premiums written (GPW)	20,260	20,445	19,650	19,852	19,645
Change in GPW (%)	(0.9)	4.0	(1.0)	1.1	1.8

Table 2

Achmea Group Competitive Position (cont.)					
Net premiums written	19,449	19,595	18,801	19,139	19,007
Change in net premiums written (%)	(0.7)	4.2	(1.8)	0.7	3.4
Net premiums earned	19,482	19,610	18,802	19,159	19,022
Change in net premiums earned (%)	(0.7)	4.3	(1.9)	0.7	3.8
Reinsurance utilization (%)	4.0	4.2	4.3	3.6	3.2
Property/casualty (P/C): reinsurance utilization - premiums written (%)	3.6	3.3	6.3	6.3	7.2
Life: reinsurance utilization - reserves (%)	2.0	2.4	1.9	1.9	2.4
Business segment (% of GPW)					
Life	12.8	14.4	17.5	18.0	25.4
P/C	15.7	15.4	19.4	20.1	20.5
Health	65.4	64.2	63.1	61.9	54.0
Other	6.1	6.0	0.0	0.0	0.0

Table 3

Achmea Group Non-Life Insurance					
(Mil. €)	2013	2012	2011	2010	2009
Gross premiums written	3,172	3,151	3,819	3,992	4,030
Combined ratio (%)	98	99.6	87.6	95.7	95.9
Profit before tax	265	200	375	401	259

2012 & 2013 data represents Dutch business only; other years are all business.

Table 4

Achmea Group Life Insurance					
(Mil. €)	2013	2012	2011	2010	2009
Gross premiums written	2,593	2,944	3,431	3,571	4,998
New business margin (%)	-4.3	-1.8	0.7	1.4	1.6
Profit before tax	245	383	-292	107	-108

2012 & 2013 data represents Dutch business only; other years are all business.

Table 5

Achmea Group Health Insurance					
(Mil. €)	2013	2012	2011	2010	2009
Gross premiums written	13,253	13,120	12,400	12,289	10,617
Combined ratio (%)	96.8	97.9	98.7	98.8	98.8
Profit before tax	529	293	326	262	342

2012 & 2013 data represents Dutch business only; other years are all business

Financial Risk Profile: Very Strong

Capital and earnings: Very strong

In our opinion the group has very strong capital and earnings, which, in our base case, we anticipate will continue. Capital adequacy, as measured by Standard & Poor's risk-based capital model, is very strong and should remain so,

despite anticipated earnings pressures in 2014-2015. Quality of capital is favorable, with almost 60% of total adjusted capital per our model derived from core shareholders' funds.

Although we still view Achmea's capital and earnings as very strong, there has been a gradual and consistent decline in excess capital at the 'AA' level, mainly due to Achmea's subdued earnings over recent years, which have placed additional pressure on the group's fixed-charge coverage.

Consistent with previous years, basic health business—67% of gross premium written—and related capital, assets and liabilities are excluded from the model completely due to the business' unique characteristics. We consider basic health business to be at least adequately capitalized, based on comfortably satisfying regulatory minima and recognize that €2.1 billion of capital is invested in basic health legal entities.

Our view of earnings reflects continued strong health and non-life underwriting performance and an adequate life result. We see pressure on earnings in 2014. We nevertheless expect earnings to recover to 2012 levels by 2015-2016.

Table 6

Achmea Group Capitalization Statistics					
	2013	2012	2011	2010	2009
Common shareholders' equity	8,735	9,158	8,450	9,032	8,802
Change in common shareholders' equity (%)	(4.6)	8.4	(6.4)	2.6	18.1
Total reported capital	12,174	11,615	10,908	11,493	11,319
Change in total capital (reported) (%)	4.8	6.5	(5.1)	1.5	NM

Table 7

Achmea Group Earnings Statistics					
	2013	2012	2011	2010	2009
Total revenue	22,193	22,541	22,012	23,549	24,130
EBITDA adjusted	776.0	651.0	263.0	640.0	535
Net income (attributable to all shareholders)	344	469	-208	1,220	1,381
Return on revenue (%)	(3.4)	(8.9)	(5.9)	(1.7)	4.4
Return on shareholders' equity (reported) (%)	3.8	5.3	(2.4)	13.7	17.0

Risk position: Intermediate

In our view, Achmea's risk position reflects intermediate risks. Investment leverage and investment portfolio diversification are at conservative levels and we have observed relative stability in capital and earnings. We estimate the average credit quality of bonds to be 'AA', because more than one-half of the portfolio is invested in 'AA+' rated sovereign debt, or better. The group has immaterial exposure to government bonds of Portugal, Italy, Ireland, Greece, and Spain. The risk position is a neutral factor for the ratings.

Table 8

Achmea Group Risk Position					
	2013	2012	2011	2010	2009
Total invested assets	68,579	65,839	63,642	63,229	63,940
Net investment income	1,535	1,678	1,847	2,787	2,278
Net investment yield (%)	3.53	4.13	4.56	6.69	5.31

Table 8

Achmea Group Risk Position (cont.)					
Net investment yield including realized capital gains/(losses) (%)	6.22	10.49	8.01	11.01	7.68
Portfolio composition (% of General account invested assets)					
Cash and short term investments (%)	11.26	7.22	10.58	11.81	15.85
Bonds (%)	72.45	74.61	71.49	69.91	62.23
Equity investments (%)	6.02	6.59	5.70	5.01	4.75
Real Estate (%)	2.61	2.87	3.08	3.48	3.38
Mortgages (%)	0.12	0.00	0.00	0.00	0.01
Loans (%)	6.53	7.52	7.90	8.06	8.72
Investments in affiliates (%)	0.19	0.23	0.22	0.37	3.61
Investments in partnerships, joint venture and other alternatives investments (%)					
Other investments (%)	0.82	0.97	1.03	1.36	1.45

N.M.--Not meaningful.

Financial flexibility: Adequate

Achmea has adequate financial flexibility, in our view, despite pressure on this assessment from projected fixed-charge coverage ratios, which we expect to gradually surpass 4x by 2015. We expect financial leverage to be satisfactory, at around 30%. The adequate assessment also reflects our view that access to sources of capital and liquidity are sufficient, given the group's limited needs.

Table 9

Achmea Group Financial Flexibility					
	2013	2012	2011	2010	2009
Fixed-charge coverage	4.1	4.1	1.6	3.9	3.1
Financial leverage including pension deficit as debt (%)	29.5	22.0	22.2	20.6	21.7

Other Assessments

Enterprise risk management: Strong

We regard Achmea's enterprise risk management (ERM) as a positive factor for the ratings as we consider it to be as strong.

We have revised our view of the ERM framework of Achmea to Strong reflecting, in our opinion, the group's positive risk culture, positive strategic risk management, positive risk controls and affirmation of the other sub factors. A key assumption underlying this assessment is that the Dutch government would support the country's basic health insurance industry if an extreme event, such as a pandemic, caused financial stress to insurers.

Also, we have revised our opinion of the importance of ERM to the rating to high given that the group's operations are significantly exposed to pandemic risk, which is heavily reliant on and sensitive to changes in the Dutch government's policies. We do not expect the group to experience losses outside its risk tolerances.

Management and governance

We regard management and governance practices as a neutral factor for the ratings. We consider Achmea's management and governance as satisfactory. Achmea's strategic positioning is clear and achievable; its financial management is conservative, and its organizational effectiveness is good.

Liquidity: Exceptional

We regard Achmea's liquidity as exceptional, owing to the strength of available liquidity sources, mainly premium income and liquid assets. There are no refinancing concerns and we believe the group would be capable of managing unexpectedly large claims.

Ratings Score Snapshot

Issuer credit rating: A+/Negative/--

Anchor: a

Business risk: Strong

Financial risk: Very Strong

Modifiers: +1

ERM And Management: Strong

Holistic: 0

SACP: a+

Liquidity test: Exceptional

Sovereign risk: AA+/Stable

Support: 0

Group support: 0

Government support: 0

Outlook/CreditWatch: Negative

Related Criteria And Research

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011

- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings Detail (As Of July 4, 2014)

Achmea B.V.

Counterparty Credit Rating

Local Currency A-/Negative/--

Junior Subordinated BBB

Senior Unsecured A-

Subordinated BBB+

Counterparty Credit Ratings History

21-May-2014 *Local Currency* A-/Negative/--

23-Dec-2010 A-/Stable/--

01-Dec-2008 A-/Negative/--

Related Entities

Achmea Pensioen & Levensverzekeringen N.V.

Financial Strength Rating

Local Currency A+/Negative/--

Issuer Credit Rating

Local Currency A+/Negative/--

Achmea Schadeverzekeringen N.V.

Financial Strength Rating

Local Currency A+/Negative/--

Issuer Credit Rating

Local Currency A+/Negative/--

Achmea Zorgverzekeringen N.V.

Financial Strength Rating

Local Currency A+/Negative/--

Issuer Credit Rating

Local Currency A+/Negative/--

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