S&P Global Ratings

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Achmea Group

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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

Key strengths	Key risks
Leading position in the Dutch health and property/casualty (P/C) insurance markets.	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. COVID-19 further elevates earnings pressure.

Achmea will remain the leading player in the Dutch P/C and health markets. Achmea has a dominant position in health and P/C insurance in the Netherlands, with top-five positions in income protection, individual life, and pension insurance, and asset management. We think that Achmea will continue to build on this strong position with gradual growth over 2020-2022.

We expect that Achmea will maintain capital adequacy 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 in 2019, at 214% at year-end 2019, and we expect it to remain at about 190% over 2019-2021.

Outlook: Stable

The stable outlook reflects our expectation that Achmea will maintain its leadership 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

- A contraction in the Netherlands' GDP, as in other eurozone countries. We expect GDP to contract by 5.9% in 2020 but grow by about 3.9% in 2021 and 2.8% in 2022.
- Structurally low long-term interest rates in the Netherlands, at -0.21% in 2020 and -0.09% in 2021.
- A rise in Dutch unemployment levels to 5.0% in 2020 and 5.4% in 2021.

Table 1

Achmea B.V. -- Key Metrics

(Mil. €)	2021f	2020f	2019	2018	2017	2016
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Very Strong	Strong	Strong
Gross premium written	~20,000	~20,000	19,949	19,918	19,350	19,500
Net income	>350	280-300	481	315	216	(382)
Return on shareholders' equity (%)	>3.5	>3.5	5.6	3.7	2.6	(4.1)
EBITDA fixed-charge coverage (x)	>4	3.5-4.0	5.1	4.4	3.1	(2.2)
Financial leverage (%)*	24-27	24-27	25.5	27.0	26.5	26.9

f--Forecast. *Calculation as per criteria July 2, 2019. 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 4.9 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, and Turkey, a partnership with Rabobank in Australia, and a start-up online joint venture with Fairefax 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 (29%), 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.

Like its peers, the COVID-19 pandemic will affect Achmea's top and bottom lines. Due to the recession, we project a significant downturn in net income, mainly hampered by lower investment income and business volumes in 2020. Nevertheless, we expect an improvement in earnings in 2021 and 2022 following our overall expectation of an improved macroeconomic environment.

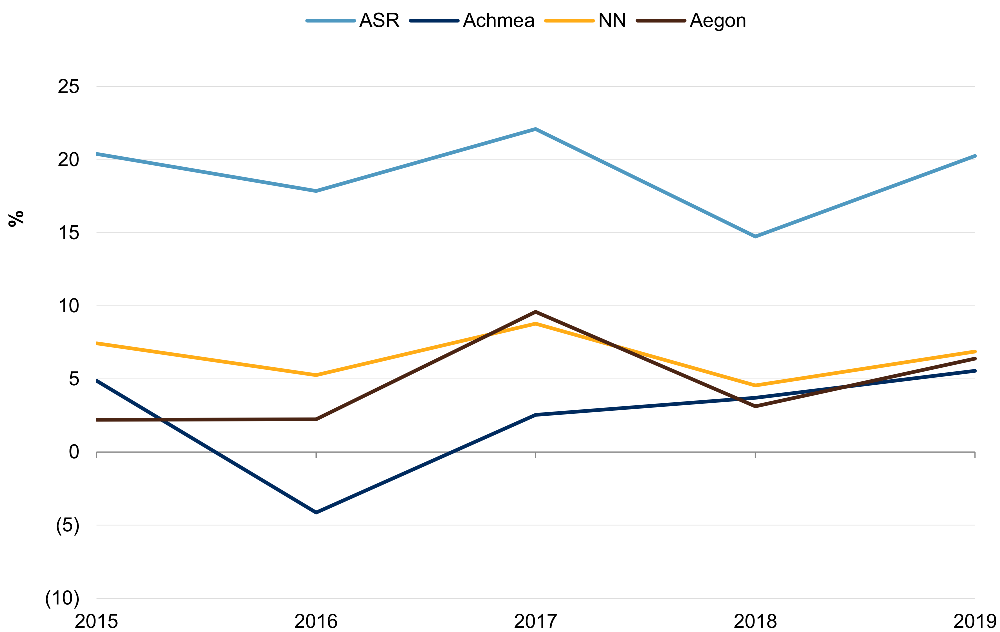
We think Achmea optimizes its risk-to-return capabilities within the boundaries of its risk appetite for strategic planning and capital management. However, this approach is not consistent across all lines of business, especially basic health, where there is a lack of targets and risk-adjusted metrics to assess profitability.

Financial Risk Profile: Strong

Achmea's capital adequacy exceeds that for the 'A' 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 214% at year-end 2019. 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 'A' level.

Chart 1

Return On Equity



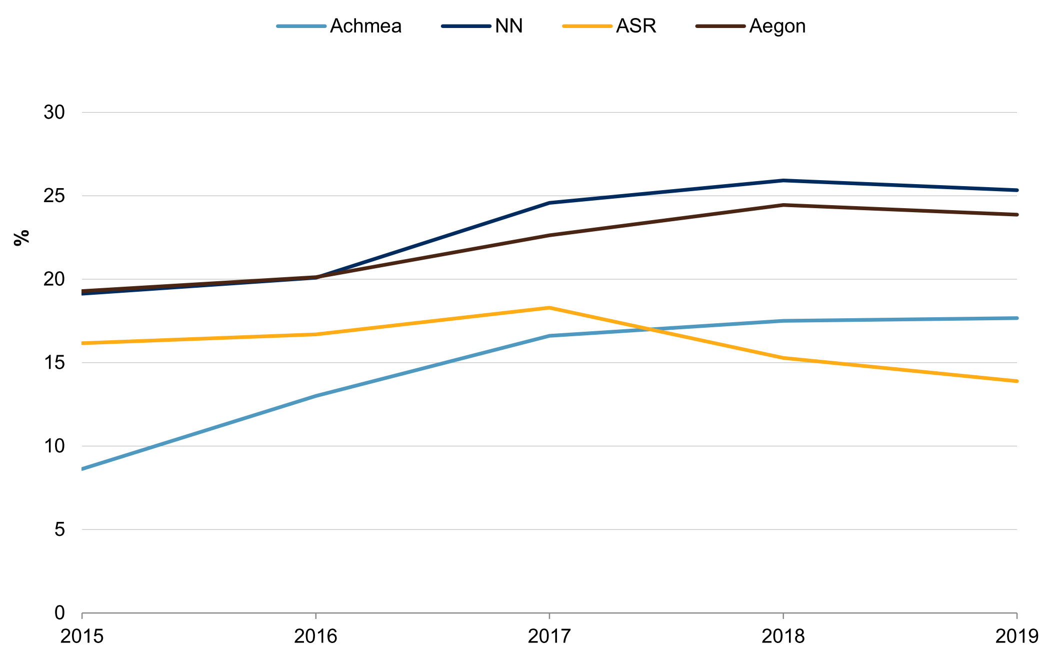
Source: S&P Global Ratings.

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. We view a limited impact from COVID-19 on the earnings of the basic health business as we assume that the Dutch government will cover most medical expenses related to COVID-19. At the same time, we do not expect the basic health business to break even in 2020. We expect net earnings to drop significantly for 2020 due to the recession, mainly hampered by investment income. Following a slow recovery in the macroeconomic market, we expect net income to improve to €350 million-€375 million annually for 2021 and 2022.

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 2019, longer-duration mortgage investments represented 17.7% 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

Exposures To Mortgages As A Percentage Of Total General Account Invested Assets



Source: S&P Global Ratings.

Achmea's financial leverage improved to 25.5% at year-end 2019, compared to 27% as of year-end 2018. We believe that Achmea's recent debt issuance to refinance the senior bond maturing in November 2020 will temporarily increase finance costs in 2020. However, the refinancing will reduce overall fixed-charge costs in future thanks to the replacement of debt at a much lower rate. We anticipate lower net income for 2020 due to COVID-19 implications but expect it to be back on track from 2021. Hence, average fixed-charge coverage ratios for 2020-2022 are likely to remain at around 4x, given Achmea's stabilized earnings profile.

Other Key Credit Considerations

Environmental, social, and governance

Most of Achmea's health and P/C insurance business stems from the Netherlands. This exposes it to the risk that climate change could increase the frequency and severity of claims caused by extreme weather events such as storms, hail, and floods.

Due to its exposure to the health insurance market, social considerations are more relevant for Achmea, given this market's susceptibility to changing demographic trends, such as consumer behavior, mortality, and morbidity.

Although insurers generally factor such demographic trends into their assumptions when setting their reserves, significant deviations--for example, caused by a cure for cancer or COVID-19--could lead to more rapid improvements than they project, influencing claims intensity and new product pricing. Achmea's strategic position is clear, its financial management is conservative, and its organizational effectiveness is good. We do not see any material governance issues.

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 2024 with an option to extend to 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; and
- 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

Table 2

Achmea B.V.--Credit Metrics History

Ratio/Metric	2019	2018	2017
S&P Global Ratings capital adequacy*	Very Strong	Very Strong	Strong
Total invested assets	60,485	57,788	60,088
Total shareholder equity	8,941	8,355	8,599
Gross premiums written	19,949	19,918	19,350
Net premiums written	19,615	19,624	19,007
Net premiums earned	19,524	19,685	19,348
Reinsurance utilization (%)	1.7	1.5	1.8
EBIT	600.1	531.0	347.0
Net income (attributable to all shareholders)	481.0	315.0	216.0
Return on revenue (%)	2.8	2.4	1.6
Return on assets (including investment gains/losses) (%)	0.7	0.6	0.4
Return on shareholders' equity (reported) (%)	5.6	3.7	2.6
P/C: net combined ratio (%)	99.0	98.6	98.2
P/C: net expense ratio (%)	27.1	26.2	25.9
P/C: return on revenue (%)	5.3	2.5	5.5
Life: Net expense ratio (%)	34.9	26.6	28.5
Health: Medical loss ratio (%)	96.6	95.7	98.0
Health: Return on revenue (%)	0.4	0.9	(0.9)
EBITDA fixed-charge coverage (x)	5.1	4.4	3.1
Financial obligations / EBITDA adjusted	4.4	5.2	7.3
Financial leverage including pension deficit as debt (%)	25.5	27.0	26.5
Net investment yield (%)	3.5	3.6	3.8

P/C--Property/casualty.

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 September 8, 2020)*

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/--
Achmea Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Senior Secured	A-
Senior Unsecured	A-
Short-Term Secured Debt	A-2
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/--

Ratings Detail (As Of September 8, 2020)*(cont.)	
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.