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# Achmea Group

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# Achmea Group

| SACP* Assessments | | | | SACP* | | Support | | Ratings |
|---|---|---|---|---|---|---|---|---|
| Anchor | a- | + Modifiers | 1 | = a | | + 0 | | = Financial Strength Rating: A/Stable/-- |
| Business Risk: Strong | | ERM and Management | 1 | Liquidity | 0 | Group Support | 0 | |
| Financial Risk: Strong | | Holistic Analysis | 0 | Sovereign Risk | 0 | Gov't Support | 0 | Holding Company Rating: BBB+/Stable/-- |

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

## Rationale

### Business Risk Profile: Strong

- Strong competitive position demonstrated by its leadership within the Dutch insurance market.
- Achmea benefits from its exclusive bancassurance and direct distribution networks.
- Intermediate industry and country risk assessment driven by significant exposure to Dutch health and life sectors.

### Financial Risk Profile: Strong

- Strong financial risk profile with very strong capital and earnings assessment, offset by weakened financial flexibility.
- Intermediate risk position thanks to a diversified investment portfolio.
- Less than adequate financial flexibility due to lower prospective earnings with fixed charge coverage ratio below 4x.

### Other Factors

- Under our criteria, we combine these factors to derive an anchor of 'a' or 'a-'. We chose the lower anchor to reflect the deterioration in the financial risk profile due to lower prospective earnings in the challenging operating environment.
- The group credit profile and our ratings on Achmea's core subsidiaries are one notch above the anchor. This reflects our assessment of enterprise risk management (ERM) as strong, combined with satisfactory management and governance assessment.

**Outlook: Stable**

The stable outlook reflects our expectation that Achmea will maintain its capital adequacy at least in the 'A' range (strong) and will maintain its leadership position in the Dutch non-life and health insurance markets.

### Downside scenario

We would lower the rating if we revised down our ERM or management and governance assessments. This could occur if we changed our currently positive view of the group's strategic risk management downward; if Achmea was not able to optimize risk-adjusted returns across all business units; and/or management was unable to execute or convert its strategy due to the continuing negative influence of external factors. These could include political and competitive pressure to keep premium levels down, particularly in the health insurance business.

### Upside scenario

We see the possibility of raising the ratings over the next 12-24 months as remote. However, we could consider upgrading Achmea if earnings were significantly above our revised expectations.

## Base-Case Scenario

### Macroeconomic assumptions

We expect The Netherlands to see slower growth following the U.K.'s vote to leave the EU, which has led us to revise our forecast of GDP growth to 1.8% in 2016 and 1.4% in 2017, from 2% in 2015. We anticipate unemployment rates will improve to 6.2% and 6.0% in 2016 and 2017, respectively, from 6.9% in 2015, but that interest rates will decline to 0.01% in 2016 and to 0.00% in 2017 from 0.05% in 2015. The increase in economic activity generally correlates with a boost in sales of insurance products.

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. We expect the revival of the Dutch housing market, which started last year, to continue over the next two years (with forecast year-on-year price gains of 1.5% in 2015 and 2.5% in 2016 on the back of improving economic conditions). This may give some relief to falling premium volumes observed over the past three years in the Dutch market.

### Company-specific assumptions

- Net income will decline as charges from weather-related claims in the Dutch property/casualty (P/C) line and pressured margins in the Dutch health sector will hurt future earnings. We expect net income of €150 million-€170 million in 2016, and above €250 million in 2017 and 2018.
- Capital adequacy will remain at least at the 'A' level in 2016-2018. Achmea will continue to have a strong competitive position thanks to its market-leading status and exclusive distribution networks.

**Key Metrics**

| (Mil. €) | 2017f | 2016f | 2015 | 2014* | 2013 | 2012 |
|---|---|---|---|---|---|---|
| Gross premiums written | <19,800 | <19,900 | 19922.0 | 20,002 | 20,225 | 20,445 |
| Change in gross premiums written (%) | (0.5) | (0.5) | (0.4) | (1.1) | (1.1) | 4.1 |
| Net income | >270 | >160 | 386.0 | 16.0 | 349.0 | 469.0 |
| Net combined ratio non-life (%) | 100.9 | 105.9 | 105.4 | 102.1 | 98.5 | 101.6 |
| Net combined ratio health (%) | 99.8 | 99.8 | 98.7 | 99.1 | 97.1 | 98.4 |
| Fixed charge cover | <4.0 | <3.0 | 3.9 | 4.3 | 4.1 | 4.1 |

Note: Ratios are based on S&P Global Ratings' calculations. f--S&P Global Ratings' forecast. *Basis of calculation changed in 2014. Achmea increases holding company expenses allocation to segments from 2014 onwards.

## Company Description

Achmea is a large Dutch multiline insurer with gross premiums of €20 billion in 2015. Through its multiple brands such as Centraal Beheer, Interpolis, and Zilveren Kruis, it serves approximately 11 million customers in The Netherlands. Achmea also operates in Greece, Turkey, Slovakia, and Ireland, and has a partnership with Rabobank in Australia. In both the Dutch and international markets, Achmea writes non-life, life and pension, and health insurance. In addition to insurance, Achmea operates banking and asset management activities, 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.

## Business Risk Profile: Strong

### Insurance industry and country risk: Intermediate overall

Achmea derives close to 80% of its gross premiums from the Dutch health and life markets, which we assess as carrying intermediate risk.

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 therefore view the Dutch P/C market as carrying a low industry and country risk.

Shrinking premium volumes in the Dutch life industry and aggressive competition in the Dutch health sector support an intermediate industry and country risk for both of these market segments. Low interest rates and declining market prospects put pressure on the Dutch life market, in our opinion. The health sector is also under pressure from close scrutiny from policymakers, while premiums and coverage are highly sensitive to political decisions. With around 80% of Achmea's premiums generated from these two sectors combined, our overall industry and country risk assessment for Achmea is intermediate.

### Competitive position: Strong due to a leading market position and high level of diversification

Achmea's strong competitive position stems from its leadership within the Dutch insurance market. Achmea has a leading share in the Dutch market with 31% in health insurance and 21% in Dutch P/C lines. The group also ranks No.

3 in the Dutch income protection and Dutch life segment and No. 5 in the Dutch pension business. 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 multi-brand strategy that is split by product--for example, Zilveren Kruis for health; Centraal Beheer and FBTO for direct distribution; and Interpolis for bank distribution. The direct distribution channel and bancassurance tie-up with Rabobank provide Achmea with exclusive and extensive sale networks. We regard this multibrand, multidistribution approach in The Netherlands as sound and supportive of Achmea's profile.

Achmea's largest line of business--its basic health franchise--is subject to a mandatory acceptance of risk, irrespective of the risk profile of the person insured. The critical success factor is negotiating power with health care providers and, consequently, cost management. As the largest health insurance provider, with 5 million customers, Achmea benefits from economies of scale.

Despite the leading position in the Dutch insurance market, the group does not seem to be able to turn this leadership position into earnings better than peers. On the contrary, the group's earnings have been under pressure in the past three years due to restructuring costs, write-offs, and additional provisions in the health segment.

We also expect a lower level of prospective earnings due to bad weather conditions in 2016 affecting the non-life segment and increasing medical costs in the health segment, combined with on-going pressure on premium rates in 2016-2018. The life book is profitable but return on assets is below the peer average. We therefore expect Achmea to incur operating losses in the first half (H1) of 2016 and lower-than-average profits through 2016-18. Our base-case scenario assumes that Achmea's net income will decline to €150 million-€170 million in 2016 due to severe losses. We expect a net income of above €250 million in 2017 and 2018.

Should Achmea be unable to turn its leadership position into earnings at least in line with peers, we may reconsider our strong assessment in the longer term.

**Table 1**

**Achmea Group Industry And Country Risk**

| Insurance sector | IICRA 2015 | Business mix (%) 2015 | IICRA 2014 | Business mix (%) 2014 |
|---|---|---|---|---|
| Netherlands health | Intermediate | 68 | Low | 66 |
| Netherlands P/C | Low | 16 | Low | 17 |
| Netherlands life | Intermediate | 11 | Intermediate | 12 |
| Other | N/A | 5 | N/A | 5 |
| Weighted average IICRA | Intermediate | 100 | Low | 100 |

IICRA--Insurance industry and country risk assessment. N/A--Not applicable. P/C--Property/casualty.

**Table 2**

**Achmea Group Competitive Position**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Gross premiums written (GPW) | 19,922 | 20,002 | 20,225 | 20,445 | 19,650 | 19,852 |
| Change in GPW (%) | (0.4) | (1.1) | (1.1) | 4.1 | (1.0) | 1.1 |
| Net premiums written | 19,627 | 19,014 | 19,499 | 19,595 | 18,801 | 19,139 |
| Change in net premiums written (%) | 3.2 | (2.5) | (0.5) | 4.2 | (1.8) | 0.7 |

**Table 2**

**Achmea Group Competitive Position (cont.)**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Net premiums earned | 19,526 | 18,757 | 19,532 | 19,610 | 18,802 | 19,159 |
| Change in net premiums earned (%) | 4.1 | (4.0) | (0.4) | 4.3 | (1.9) | 0.7 |
| Reinsurance utilization (%) | 1.5 | 4.9 | 3.6 | 4.2 | 4.3 | 3.6 |
| Property/casualty (P/C): reinsurance utilization - premiums written (%) | 3.0 | 3.3 | 3.5 | 3.3 | 6.3 | 6.3 |
| Life: reinsurance utilization - reserves (%) | 3.0 | 3.3 | 2.0 | 2.4 | 1.9 | 1.9 |
| **Business segment (% of GPW)** | | | | | | |
| Life | 10.8 | 12.4 | 12.8 | 14.4 | 17.5 | 18.0 |
| P/C | 15.7 | 15.8 | 15.6 | 15.4 | 19.4 | 20.1 |
| Health | 67.9 | 66.3 | 65.5 | 64.2 | 63.1 | 61.9 |
| Other | 5.6 | 5.5 | 6.0 | 6.0 | 0.0 | 0.0 |

P/C-Property/casualty.

**Table 3**

**Achmea Group Health Insurance**

| (Mil. €) | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Gross premiums written | 13,517 | 13,257 | 13,253 | 13,120 | 12,400 | 12,289 |
| Combined ratio (%) (reported) | 98.7 | 98.4 | 96.8 | 98.7 | 98.8 | 98.8 |
| Profit before tax | 287 | 418 | 529 | 293 | 326 | 262 |

Note: 2012-2014 data represents Dutch business only; other years are all business.

**Table 4**

**Achmea Group Life Insurance**

| (Mil. €) | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Gross premiums written | 2,160 | 2,485 | 2,593 | 2,944 | 3,431 | 3,571 |
| New business margin (%) | 1.3 | 0.4 | (4.3) | (1.8) | 0.7 | 1.4 |
| Profit before tax | 165 | 59 | 251 | 383 | (292) | 107 |

Note: 2012-2014 data represents Dutch business only; other years are all business.

**Table 5**

**Achmea Group Non-Life Insurance**

| (Mil. €) | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Gross premiums written | 3,128 | 3,163 | 3,164 | 3,151 | 3,819 | 3,992 |
| Combined ratio (%) (reported) | 103.3 | 102.5 | 98.1 | 99.6 | 96.0 | 96.2 |
| Profit before tax | 34 | 103 | 265 | 200 | 375 | 401 |

Note: 2012-2014 data represents Dutch business only; other years are all business.

## Financial Risk Profile: Strong

### Capital and earnings: Strong, but pressured

In our base-case scenario, we anticipate that Achmea will maintain its very strong capital and earnings assessment at least in the 'A' range, as measured by our risk-based capital model. Quality of capital also remains favorable, with more than 60% of total adjusted capital, per our model, derived from core shareholders' funds.

We continue to view Achmea's capital and earnings as very strong. However, there has been a gradual and consistent erosion in the buffer above the 'AA' level for the capital adequacy ratio measured by our capital model. This has occurred due to the overall low level of earnings over the past three years amid restructuring costs and write-offs as well as updated cost assumptions and interest rate developments in the life business. For example, net income dramatically decreased to €16 million in 2014 from €349 million in 2013. In 2015, Achmea's net income was €386 million, however, the group expects to incur losses in H1 2016 due to deteriorating operating results in both its health and P/C business. In 2015, core shareholders' funds for insurance operations reduced by about €80 million. The credit we give in the capital model for the future profits in the life business also reduced by about €200 million. In June 2015, Achmea redeemed the outstanding amount of a hybrid capital instrument issued in 2005, resulting in a reduction of qualifying hybrids in the capital model in excess of €100 million.

Lower prospective earnings may also hinder future capital generation over the longer term, contributing to the weakening of the group's financial risk profile.

Consistent with previous years, basic health business--59% of gross premium written--and related assets and liabilities are excluded from the model due to the business' unique characteristics. We consider the basic health business to be at least adequately capitalized, with Achmea satisfying regulatory requirements. We recognize that €2.6 billion of capital is invested in legal entities focusing on basic health, 100% of which is charged in our capital model.

We expect earnings over 2016-2018 to sufficiently cover the capital requirements from business growth with a surplus equivalent to our very strong assessment in the next 12-24 months.

**Table 6**

**Achmea Group Capitalization Statistics**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Common shareholders' equity | 8,619 | 8,540 | 8,424 | 8,847 | 8,450 | 9,032 |
| Change in common shareholders' equity (%) | 0.9 | 1.4 | (4.8) | 4.7 | (6.4) | 2.6 |

**Table 7**

**Achmea Group Earnings Statistics**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Total revenue | 21,976 | 21,364 | 22,246 | 22,541 | 22,012 | 23,549 |
| EBITDA | 540 | 650 | 776 | 651 | 263 | 640 |
| Net income (attributable to all equity holders) | 386 | 16 | 349 | 469 | (208) | 1,220 |
| Return on revenue incl. realized gains (%) | 1.0 | (1.0) | 2.0 | 2.0 | 0.0 | (5.0) |
| Return on shareholders' equity (%) | 4.3 | 0.2 | 3.9 | 5.3 | (2.4) | 13.7 |

### Risk position: Intermediate and neutral rating factor

In our view, Achmea's risk position reflects intermediate risks. Investment leverage and investment portfolio diversification are at conservative levels with manageable levels of high-risk assets, such as equity and speculative-grade bonds and loans. We estimate the average credit quality of bonds to be 'AA', because more than half of the portfolio is invested in sovereign debt rated 'AAA'. The portfolio is also adequately diversified among sectors and obligors. The group has immaterial exposure to the government bonds of Portugal, Italy, Ireland, Greece, and Spain. As of 2014, Achmea reached an agreement with labor unions, resulting in a collective defined contribution scheme. As a result, the main part of the pension agreement qualifies as a defined contribution scheme, which has significantly reduced exposure to employee benefit obligations for the group. The intermediate risk position is a neutral factor for the ratings.

**Table 8**

**Achmea Group Risk Position**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Total assets under management | 62,487 | 63,825 | 68,432 | 65,839 | 63,642 | 63,229 |
| Net investment income | 1,383 | 1,432 | 1,535 | 1,678 | 1,847 | 2,787 |
| Net investment yield (%) | 3.1 | 3.1 | 3.5 | 4.1 | 4.6 | 6.7 |
| Net investment yield including realized capital gains/(losses) (%) | 6.0 | 15.1 | 6.2 | 10.5 | 8.0 | 11.0 |
| **Portfolio composition (% of general account invested assets)** | | | | | | |
| Cash and short term investments (%) | 6.2 | 5.3 | 9.3 | 7.2 | 10.6 | 11.8 |
| Bonds (%) | 67.2 | 73.4 | 74.5 | 74.6 | 71.5 | 69.9 |
| Equity investments (%) | 6.7 | 6.9 | 5.9 | 6.6 | 5.7 | 5.0 |
| Real estate (%) | 1.9 | 1.8 | 1.9 | 2.9 | 3.1 | 3.5 |
| Mortgages (%) | 8.6 | 3.5 | 0.1 | 0.0 | 0.0 | 0.0 |
| Loans (%) | 8.0 | 7.1 | 6.6 | 7.5 | 7.9 | 8.1 |
| Investments in affiliates (%) | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.4 |
| **Investments in partnerships, joint venture and other alternatives investments (%)** | | | | | | |
| Other investments (%) | 1.1 | 1.6 | 1.4 | 1.0 | 1.0 | 1.4 |

### Financial flexibility: Less than adequate, constrained by low fixed-charge coverage

Achmea has less-than-adequate financial flexibility, in our view. We have revised down our expectations for Achmea's earnings and as a result the average fixed-charge coverage ratio for 2016-2018 falls below 4x. We view this ratio as a constraining factor for financial flexibility. Historically, borderline fixed-charge coverage ratios in 2014 and 2013 benefited from the inclusion of one-off impairments of goodwill and restructuring costs. In 2015, we also excluded amortization of intangible assets (for example the value of business acquired), which tipped the ratio to just under 4x. We expect financial leverage to be stable, at around 26%-27%, in 2016-2018.

**Table 9**

**Achmea Group Financial Flexibility**

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| Fixed-charge coverage | 3.9 | 4.3 | 4.1 | 4.1 | 1.6 | 3.9 |
| Financial leverage including pension deficit as debt (%) | 26.7 | 27.7 | 29.5 | 22.0 | 22.2 | 20.6 |

## Other Assessments

### Enterprise risk management: Strong ERM and high importance enhance the rating

We regard Achmea's strong ERM as a positive factor for the ratings.

In our opinion, Achmea's strong ERM framework reflects 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.

We also assess the importance of ERM to the rating as 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; 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. Achmea maintains committed and noncommitted credit facilities at the group level at several international banks. At year-end 2015, the committed credit facilities of €750 million had not been drawn down, and the facility is valid until 2020.

## Related Criteria And Research

### Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- General: Enterprise Risk Management, May 7, 2013
- General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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
- General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Related Research

- Netherlands-Based Achmea Group Subsidiaries Downgraded By One Notch On Weaker Financial Risk Profile; Outlook Stable, July 25, 2016
- Dutch Health Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, April 19, 2016
- Dutch Life Insurance Sector Carries An Intermediate Industry And Country Risk Assessment, April 19, 2016
- State of The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 20, 2016

| Ratings Detail (As Of August 15, 2016) | |
|---|---|
| **Holding Company: Achmea B.V.** | |
| Issuer Credit Rating | |
| *Local Currency* | BBB+/Stable/-- |
| Junior Subordinated | BBB- |
| Senior Unsecured | BBB+ |
| **Operating Company Covered By This Report** | |
| **Achmea Zorgverzekeringen N.V.** | |
| Financial Strength Rating | |
| *Local Currency* | A/Stable/-- |
| Counterparty Credit Rating | |
| *Local Currency* | A/Stable/-- |
| **Related Entities** | |
| **Achmea Bank N.V.** | |
| Issuer Credit Rating | A-/Stable/A-2 |
| Certificate Of Deposit | |
| *Local Currency* | A-2 |
| Senior Secured | A- |
| Senior Unsecured | A- |
| Short-Term Secured Debt | A-2 |
| **Achmea Pensioen & Levensverzekeringen N.V.** | |
| Financial Strength Rating | |
| *Local Currency* | A/Stable/-- |
| Issuer Credit Rating | |
| *Local Currency* | A/Stable/-- |
| **Achmea Reinsurance Company NV** | |
| 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/-- |
| **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.

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