S&P Global
Ratings

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Achmea B.V.

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Table Of Contents

Achmea B.V.

Anchor	a	+	Modifiers	0	=	SACP	a

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

Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

+

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
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'.

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, pension insurance, and asset management business. S&P Global Ratings thinks Achmea will continue to build on this strong presence with gradual growth over 2019-2021.

We think Achmea's earnings volatility will continue to reduce. Achmea's earnings have improved in the past two years. We think management's corrective actions and reduced political and price competition pressure for health business will keep reducing earnings volatility. We expect Achmea will report stable operating earnings that will strengthen its overall financial risk profile, and average fixed-charge coverage ratios for 2019-2021 are likely to remain above 4x.

The group can maintain capital adequacy in the 'A' range of our model. Through reduced earnings volatility in the past two years, Achmea will likely maintain capital adequacy at the 'A' level according to our capital model. The group's solvency ratio of 195% as of June 30, 2019, proved resilient to the low-interest-rate environment, and we expect it to remain at about 190% over 2019-2021.

Outlook: Stable

The outlook is stable because we expect that Achmea will maintain its leadership position in the Dutch P/C and health insurance market, with a capital position at least in the 'A' range and a fixed-charge coverage ratio at 4x or higher.

Downside scenario

We could lower the ratings over the next two years if profitability is below our expectations, preventing Achmea from maintaining capital adequacy and funding structure within our forecasts.

Upside scenario

We see a remote possibility of an upgrade over the next two years. 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

- The Netherland's experiencing GDP growth of around 1.7 % in 2019 and 1.3 % in 2020.
- Long-term interest rates in the Netherlands staying structurally low at -0.2% in 2019 and -0.4% in 2020.
- Dutch unemployment levels gradually reducing to 3.4% in 2019 and 2020.

Being a large Dutch multiline insurer, Achmea also operates in Greece, Turkey, and Slovakia, has a partnership with Rabobank in Australia and a start-up online joint venture with Fairfax in Canada. In addition to insurance, Achmea has banking interests in the Netherlands through Achmea Bank N.V.

Achmea is privately owned. Its main shareholders are Achmea Association (65%) and Rabobank (29%), both of which are unlisted Dutch cooperatives.

Achmea B.V. Key Metrics

	2020f	2019f	2018	2017	2016
S&P Global Ratings capital adequacy	Very Strong	Very Strong	Very Strong	Strong	Strong
Gross premium written (mil. €)	~19,000	~19,000	19,918	19,350	19,500
Net income (mil. €)	~300	~300	315	216	(382)
Return on shareholders' equity (%)	~3.5	~3.5	3.7	2.6	-4.1
EBITDA fixed-charge coverage (x)	~4	~4	4.4	3.1	-2.2
Financial leverage (%)*	26-28	26-28	27.0	26.5	26.9

*Calculation as per criteria July 2, 2019. f--S&P Global Ratings forecast.

Business Risk Profile: Strong

Achmea group is a leading insurer in the Netherlands, with a 29% market share in health, 25% market share in P/C and income-protection insurance, 14% in individual life, 10% in pension insurance. It ranks No. 5 in asset management. Achmea benefits from its 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 profile. We feel Achmea's business is heavily concentrated in the Netherlands compared with peers and we do not anticipate any major change to this strategy.

Achmea operates in the highly challenging Dutch insurance market, which is characterized by intensive competition, legislative changes, and low interest rates in the P/C and life sectors. Achmea faces indirect political pressure and intense competition in the health business, leading to weak and volatile earnings. However it has taken measures to overcome challenges and managed to improve operating performance over the past two years through better claims management, expense control, and strong technical earnings from life and pension business.

In first-half 2019, Achmea reported strong earnings of €234 million, up 76% from first-half 2018, mainly due to an improved non-life combined (loss and expense) ratio and increased technical results from pension and life business. Net earnings from basic health insurance for the current underwriting year were positive, after being marginally negative in previous years.

In our view, despite improved earnings in the past two years, the group has a limited track record of converting its leadership position into higher earnings than its peers. 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.

We think the group's commitment to optimizing risk to return is achieved within the boundaries of its risk appetite for strategic planning and capital management. However, it is not consistent across all lines of business, especially basic health, where there is a lack of target and risk-adjusted metric 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, per our model, comprises core shareholders' funds. Achmea group's Solvency II ratio remains solid, at 195% in the first half of 2019 after 198% at year-end 2018. We think reduced earnings volatility over the past two years has strengthened Achmea's financial risk profile, and capital adequacy is likely to remain in excess at the 'A' level.

Achmea is significantly exposed to health underwriting and reserve risk. The group relies heavily on government policy and is sensitive to probable policy changes. However, political pressure eased in 2019 and we saw some capital buildup at Achmea. We expect health business to break even and report positive underwriting income in 2019. We project Achmea's net income at €300 million in 2019-2021.

In our view, Achmea has managed its investment portfolio conservatively. We expect investment in property and mortgages will continue to increase. At year-end 2018, longer-duration mortgage investments represented 17.5% of total invested assets. Sector concentration is balanced, and exposures to individual counterparties are based on the rating on the 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.

Achmea's financial leverage stood at 27% as of year-end 2018. We believe that recent debt issues through 2019 will not materially change our leverage forecasts. We expect its financial leverage to remain stable at 26%-28% in 2019-2020. Average fixed-charge coverage ratios for 2019-2021 are likely to remain at around 4x given the stabilized earnings profile.

Other Key Credit Considerations

Governance

Achmea's strategic positioning 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 non-committed credit facilities at the group level at several international banks. Since 2019, Achmea has committed credit facilities of €1 billion (undrawn), 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 non-public 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

Achmea B.V.--Credit Metrics History

Ratio/Metric	2018	2017
S&P Global Ratings capital adequacy*	Very strong	Strong
Total invested assets	57,788	60,088
Total shareholder equity	8,355	8,599
Gross premiums written	19,918	19,350
Net premiums written	19,624	19,007
Net premiums earned	19,685	19,348
Reinsurance utilization (%)	1.48	1.77
EBIT	528	347
Net income (attributable to all shareholders)	315	216
Return on revenue (%)	2.42	1.62
Return on assets (including investment gains/losses) (%)	0.62	0.38
Return on shareholders' equity (reported) (%)	3.72	2.55
P/C: net combined ratio (%)	98.64	98.23
P/C: net expense ratio (%)	26.18	25.89
P/C: return on revenue (%)	2.45	5.48
Life: Net expense ratio (%)	26.59	28.5
Health: Medical loss ratio (%)	95.69	98.01
Health: Return on revenue (%)	0.91	-0.93
EBITDA fixed-charge coverage (x)	4.35	3.1
Financial obligations / EBITDA adjusted	5.17	7.29
Financial leverage including pension deficit as debt (%)	27.04	26.54
Net investment yield (%)	3.57	3.75

Achmea B.V.--Credit Metrics History (cont.)

Ratio/Metric	2018	2017
Net investment yield including investment gains/(losses) (%)	2.24	4.78

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 November 18, 2019)*

Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB
Related Entities	
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 Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Achmea Reinsurance Co. N.V.	
Financial Strength Rating	
Local Currency	A-/Stable/--

Ratings Detail (As Of November 18, 2019)*(cont.)	
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.