Research Update:

Achmea Core Subsidiaries Affirmed At 'A' On Continued Healthy Capital Position And Robust 2023 Result; Outlook Stable

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Overview

- Achmea posted robust net income at €814 million in 2023, supported by growth in the operational result and beneficial financial markets.
- Further, the insurer maintained capital at the highest confidence level according to our risk-based capital model.
- Consequently, we affirmed our 'A' long-term issuer credit and financial strength ratings on Achmea's core subsidiaries and our 'BBB+' issuer credit rating on holding company Achmea B.V.
- The outlook remains stable, reflecting our expectation that Achmea will post robust net income over 2024-2026, maintaining its fixed charge coverage ratio firmly above 4x, and preserving its capital at least at the 99.95% confidence level. We also expect that Achmea will maintain its leading positions in the Dutch property/casualty (P/C) and health insurance markets.

Rating Action

On June 19, 2024, S&P Global Ratings affirmed its 'A' long-term issuer credit and insurer financial strength ratings on the core operating entities of Netherlands-based Achmea group. We also affirmed our 'BBB+' long-term issuer credit rating on holding company Achmea B.V. The outlooks on Achmea B.V. and the operating entities are stable.

Rational

The affirmation reflects our view that Achmea will maintain its robust leading position in the Netherlands' P/C and health market, as well as its meaningful presence in the pension and life segments, and asset management. Furthermore, we believe Achmea will maintain capital at least at the 99.95% confidence level according to our risk-based capital model.

Achmea posted growth in all its segments in 2023: Total premiums increased to €22.3 billion, yielding 6% growth year on year. In particular, and in line with Achmea's growth strategy, the international book and retirement services demonstrated strong growth at about 20%.

Net income increased to €814 million, compared with negative €808 million in 2022, on the back of the improved operational result and beneficial financial markets. The operational result for Achmea's health business was fairly stable at €187 million since the increased investment result was offset by a lower insurance service result. The combined (loss and expense) ratio for its basic health insurance increased to 100.3% (from 99.6% in 2022) owing to deterioration in the insurance service result. For supplementary health insurance, the combined ratio was 92.8% (from 89.3%), with the increase chiefly stemming from higher healthcare costs.

Achmea's capitalization, according to our risk-based capital model, remained above the 99.99% confidence level throughout 2023. Despite growth of the business, we expect capitalization to remain at least at the 99.95% level over the next two to three years, thanks to sound profit generation. Furthermore, Achmea's solvency position remains robust at 183%, though it declined compared with 209% at year-end 2022. We understand the decrease in 2023 is chiefly explained by business growth, model changes, buybacks of capital instruments, reinsurance program renewal, and market development. Nevertheless, after the sharp drop, we believe the ratio will stabilize in 2024 and exceed 190% over our ratings forecast period through 2026.

For 2024–2026, we anticipate annual net income in the range of €600 million-€750 million, driven by investment in growth, efficiency improvements, and healthy investment returns, supported by a non-life combined ratio of about 95%. In combination with Achmea's prospective business growth, we believe average fixed-charge coverage ratios for 2024-2026 are likely to remain firmly above 4x.

Achmea introduced a new dividend policy in 2024 whereby the proposed dividend will be based on a market-based annual dividend yield of 7% of the calculated value of Achmea. The Executive Board may offer Achmea's shareholders a choice between a (partial or whole) cash dividend or ordinary shares of Achmea. We view this policy as innovative and as a source of risk because it could lead to a materially higher dividend payout in case of a rise in Achmea's calculated value. This negatively affects our view of overall capital and earnings.

We appreciate Achmea is exploring options for its pension and life portfolios given the group manages portfolios of insurance policies in this area that are in run-off and as such gradually shrinking (the service book). In this context, Achmea has communicated its intention to maintain cost developments in line with the size of its portfolios. Nevertheless, the life and pension portfolios remain important earnings contributors, and we believe Achmea has a clear ambition and strategy to realize premium growth with respect to term-life and annuity products in the open book. Consequently, we do not expect a complete departure from Dutch life insurance activities. That said, we are closely monitoring Achmea's actions and any consequences they might have on our assessment.

Outlook

The stable outlook reflects our expectation that Achmea will post robust net income over 2024-2026, maintaining its fixed charge coverage ratio firmly above 4x, and preserving its capital at least at the 99.95% confidence level. We also expect that Achmea will maintain its leading positions in the Dutch P/C and health insurance markets.

Downside scenario

We could lower the ratings over the next two years if Achmea's profitability is sustainably below our expectations, preventing Achmea from maintaining its capital adequacy and funding structure in line with 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 with a robust buffer above our 99.99% benchmark for a sustained period. An upgrade would also require clarity with respect to the announced strategic review of pension and life insurance portfolios.

Ratings Score Snapshot

Financial strength rating	A
Anchor*	a
Business risk	Strong
IICRA	Intermediate
Competitive position	Strong
Financial risk	Very Strong
Capital and earnings	Very Strong
Risk exposure	Moderately Low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
Group support	0
Government support	0

IICRA--Insurance industry and country risk assessment. *This is influenced by Achmea's narrow geographic footprint and the group's large book of basic health business, which does not support profitability. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10,

2021

- Criteria | Insurance | General: Insurers Rating Methodology, 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 Of Credit Ratings, Feb. 16, 2011

Related Research

- Achmea Group's Core Subsidiaries Affirmed At 'A' Following Revised Capital Model Criteria; Outlook Stable, March 13, 2024
- Achmea B.V.'s Exploring Options For Its Pension And Life Insurance Portfolios Does Not Affect Core Group Status, Feb. 13, 2024

Ratings List

*************** Achmea B.V. ***************	
Ratings Affirmed	
Achmea B.V.	
Issuer Credit Rating	
Local Currency	BBB+/Stable/--
Achmea Bank N.V.	
Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	
Local Currency	A-2
Achmea Pensioen & Levensverzekeringen N.V.	
Achmea Zorgverzekeringen N.V.	
Achmea Schadeverzekeringen N.V.	
Issuer Credit Rating	
Local Currency	A/Stable/--
Financial Strength Rating	
Local Currency	A/Stable/--
Achmea Reinsurance Co. N.V.	
Financial Strength Rating	
Local Currency	A-/Stable/--
Achmea B.V.	
Senior Unsecured	BBB+
Junior Subordinated	BB+
Junior Subordinated	BBB-

*************** Achmea B.V. ***************	
Ratings Affirmed	
Achmea Bank N.V.	
Senior Unsecured	A-
Commercial Paper	A-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.