

Research Update:

# Achmea Group's Core Subsidiaries Affirmed At 'A' Despite Lower Capital; Outlook Stable

June 23, 2023

## Overview

- As per our risk-based capital model, Achmea group's capital position suffered in 2022 due to the impact of higher interest rates on bond values and the valuation of technical reserves in the life segment.
- We expect Achmea's capital adequacy to recover over 2023-2025, thanks to gradually rising investment yields as well as profitable growth and efficiency measures in the non-life segment. We expect Achmea to cement its leading position in the Dutch non-life and health markets.
- We therefore 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 stable outlook reflects our expectation that the group's net income will recover in 2023-2025, lifting the fixed-charge coverage ratio, and allowing Achmea to maintain capital at the 'A' rating level.

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## Rating Action

On June 23, 2023, 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 on holding company Achmea B.V. The outlooks on Achmea B.V. and the operating entities are stable.

## Rationale

The rating affirmation reflects our view that Achmea's capital adequacy will improve over 2023-2025, thanks to a gradual rebound in net profit, chiefly benefiting from higher investment income when reinvesting the portfolio at higher interest rate levels. Moreover, we believe the group's robust results in the health and non-life markets, as well as its leading market position in these, will last.

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Nonetheless, we expect capital to temporarily drop below strong as Achmea called its €500 million Tier 2 issuance in April 2023 and replaced it with a senior unsecured bond due in 2025. However, we anticipate Achmea will remain committed to maintaining its capital adequacy at the strong level, as per our risk-based capital model, and that hybrid instruments will continue to play an important role in this. We positively view that almost 70% of total adjusted capital, as per our model, is core shareholder funds.

We appreciate Achmea has a clear focus on ensuring healthy solvency, and the group's interest risk management ensures limited sensitivity of its solvency ratio. As such, the ratio remained robust at about 209% in year-end 2022 and was only marginally affected by the recent call of its €500 million Tier 2 issuance. We expect this will remain above 190% over 2023-2025.

We expect Achmea to improve its 2023-2025 net income through continued investment in growth and efficiency, combined with benefits from higher investment rates. As such, we anticipate net income in the range of €400 million-€450 million for 2023, increasing to about €500 million-€550 million annually for 2024 and 2025. Consequently, we estimate Achmea will manage its capitalization at the strong level.

Moreover, based on our earnings expectations, we expect fixed-charge coverage to improve and remain above 4x for 2023-2025.

### Outlook

The stable outlook reflects our expectation that Achmea's net income will recover in 2023-2025, lifting the fixed charge coverage ratio firmly above 4x, and allowing Achmea to maintain capital at the 'A' rating level. We also expect that Achmea will maintain its leading positions in the Dutch property/casualty and health insurance markets.

### Downside scenario

We could lower the ratings if, contrary to our expectations, Achmea's capital adequacy according to our capital model failed to recover to the 'A' benchmark by 2025. This could happen, for example, due to weaker earnings than we currently expect, or further reductions in capital adequacy. We might also lower the ratings if fixed-charge coverage does not improve to above 4x on average over 2023-2025.

### Upside scenario

We see the possibility of an upgrade as remote over the next two years due to the weakening of Achmea's capital position, and comparatively weak metrics for its funding structure, particularly with regards to fixed-charge coverage.

### Ratings Score Snapshot

Financial strength rating	A
Anchor*	A
Business risk	Strong
IICRA	Intermediate

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Competitive position	Strong
Financial risk	Strong
Capital and earnings	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

\*This is influenced by our view on Achmea's strong position in the Dutch insurance market, particularly its leadership in health insurance. IICRA--Insurance Industry and Country Risk Assessment.

## ESG credit indicators: E-2, S-2, G-2

### Related Criteria

- 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
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

### Related Research

- Dutch Insurer Achmea B.V. Proposed Subordinated Notes Assigned 'BBB-' Rating, June 19, 2023
- Achmea B.V.'s Capital Position Will Remain Strong After Call Of Tier 2 Issuance, March 10, 2023
- Dutch Insurer Achmea Senior Unsecured Bonds Due 2025 Rated 'BBB+', Nov. 22, 2022
- Achmea 'A' Rating Affirmed Despite Capital Hit; Outlook Stable, Nov. 16, 2022

## Ratings List

### 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 Bank N.V.

Senior Unsecured	A-
Commercial Paper	A-2

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