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Research Update:

Netherlands-Based Achmea Group Subsidiaries Downgraded By One Notch On Weaker Financial Risk Profile; Outlook Stable

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Overview

- We have revised down our expectations for Achmea's earnings, as well as our assessment of its financial risk profile. Weaker earnings will reduce fixed-charge coverage ratios and possibly weaken capital in the longer term.
- We are therefore lowering our financial strength ratings on Achmea's core operating subsidiaries to 'A' from 'A+', and issuer credit ratings on holding company Achmea B.V. to 'BBB+' from 'A-' (see full list below).
- The stable outlook reflects our expectation that the group will maintain at least strong capital adequacy level and market leadership in the Dutch non-life and health sectors.

Rating Action

On July 25, 2016, S&P Global Ratings lowered its counterparty credit and insurer financial strength ratings on Achmea group's core operating subsidiaries Achmea Pensioen & Levensverzekeringen NV, Achmea Schadeverzekeringen NV, and Achmea Zorgverzekeringen NV to 'A' from 'A+' and on the holding company Achmea B.V. to 'BBB+' from 'A-'.

We also lowered our ratings on Achmea group's highly strategic subsidiaries Achmea Bank NV and Achmea Re to 'A-' from 'A'. The outlook is stable on all rated entities of the group.

We also lowered our issue ratings on all outstanding debt (see list below).

Rationale

The downgrade reflects that we have revised down our earnings forecasts for Achmea for 2016-2018. We believe the weaker earnings forecast will impact Achmea's ability to service its outstanding debt, and will in turn weaken its financial flexibility. Furthermore, lower earnings could negatively affect future capital generation, weakening the group's overall financial risk profile.

Our revised earnings forecast for Achmea follows the group's recent trading update about the extreme weather conditions in the Netherlands in June 2016 and increasing medical costs in the group's health business. Our base-case scenario is that Achmea's net income will decline to €150 million-€170 million in 2016 before gradually recovering in 2017 and 2018 to above €250 million.

Our revised earnings forecast also leads us to believe that Achmea's average fixed-charge coverage ratios for 2016-2018 will be below 4x (2015: 3.9x), thereby weakening its ability to service outstanding debt. This has also led us to revise down our assessment of its financial flexibility to less than adequate from adequate. We expect its financial leverage to remain stable at around 26%-28% in 2016-2018.

Lower prospective earnings may also negatively impact future capital generation over the longer term, contributing to the weakening of the group's financial risk profile. While capital adequacy remains very strong, the buffer above the 'AA' level has eroded. This has occurred due to the overall low level of earnings over the past three years amid restructuring costs write-offs, and additional provisions in health business, as well as updated costs assumptions and interest rate developments in the life business.

Our insurance industry and country risk assessment (IICRA) for Achmea has also weakened; earlier this year we changed our IICRA for the Dutch health sector to intermediate from low (see "Dutch Health Insurance Sector Carries An Intermediate Industry And Country Risk Assessment," published on 15 April 2016). Premiums from the Dutch health sector--where the operating environment is challenging and margins have reduced--make up almost 70% of Achmea's gross premium income.

The ratings on the core operating insurance subsidiaries continue to reflect our view of the group's leading position in the Dutch non-life and health markets, with a well-diversified profile including life insurance, asset management, and banking activities. The ratings also reflect the group's strong financial risk profile with very strong capital adequacy assessment, which is offset by weakened financial flexibility. We combine these factors to derive an anchor of 'a' or 'a-'. We choose the lower anchor to reflect the deterioration in the financial risk profile due to lower prospective earnings in the challenging operating environment, compared to our previous assessment.

The group credit profile and our ratings on Achmea's core subsidiaries are one notch above the anchor, reflecting our assessment of enterprise risk management (ERM) and management and governance as supportive of the ratings.

Outlook

The stable outlook reflects our expectations that Achmea will maintain its level of 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 will lower the rating if we revise 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 such as 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 12-24 months as remote. However, we could consider raising the ratings if earnings are significantly above our revised expectations.

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable	A+/Negative
Anchor	a-	a
Business Risk Profile	Strong	Strong
IICRA	Intermediate Risk	Low Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Very Strong
Capital and Earnings	Very Strong	Very Strong
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Less than Adequate	Adequate
Modifiers	+1	+1
ERM and Management	+1	+1
Enterprise Risk Management	Strong	Strong
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008
- Criteria - Insurance - General: Enterprise Risk Management - May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology - May 07, 2013
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
Achmea B.V.		
Counterparty Credit Rating		
Local Currency	BBB+/Stable/--	A-/Negative/--
Senior Unsecured	BBB+	A-
Junior Subordinated	BBB-	BBB
Achmea Bank N.V.		
Counterparty Credit Rating	A-/Stable/A-2	A/Negative/A-1
Senior Unsecured	A-	A
Certificate Of Deposit	A-2	A-1
Achmea Pensioen & Levensverzekeringen N.V.		
Achmea Zorgverzekeringen N.V.		
Achmea Schadeverzekeringen N.V.		
Counterparty Credit Rating		
Local Currency	A/Stable/--	A+/Negative/--
Financial Strength Rating		
Local Currency	A/Stable/--	A+/Negative/--
Achmea Reinsurance Company NV		
Financial Strength Rating		
Local Currency	A-/Stable/--	A/Negative/--

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.