S&P Global
Ratings

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Achmea B.V.

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Anchor	a
Business Risk	**Strong**
Competitive position	Strong
IICRA	Intermediate
Financial Risk	**Strong**
Capital and earnings	Strong
Risk exposure	Moderately low
Funding structure	Neutral

+

Modifiers	0
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0

=

SACP	a

+

Support	**0**
Group support	0
Government support	0

=

Financial strength rating
A/Stable/--

Holding company ICR
BBB+/Stable/--

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
Sustained leading position in the Dutch health and property/casualty (P/C) insurance markets with high customer satisfaction.	High concentration in the Netherlands insurance market.
Well diversified product profile, including life insurance, income protection, asset management, and banking activities, with a strong distribution network.	Heightened geopolitical and macroeconomic turmoil have led to earnings volatility, translating into a lower capital level.
Strong solvency position that is resilient to interest rate, equity, property, and spread risks.	Ongoing political and regulatory dependence on basic health insurance.

S&P Global Ratings expects Achmea Group to further cement its leading position in the Dutch health and P/C markets. Achmea benefits from its diversified business lines and products in its Dutch home market. The group is particularly strong in the health segment, where it is the market leader, and has a meaningful presence in the life and pension segments, as well as asset management. We see Achmea consolidating its strong position through steady premium growth and increasing non-health revenue over 2023-2025.

Despite pressure in 2022, we expect Achmea to maintain strong capital adequacy over the ratings horizon. Achmea's capitalization came under pressure in 2022, after higher interest rates weighed on bond values and the valuation of technical reserves in its life segment. Considering our risk-based capital model, we believe its capital adequacy temporarily dropped below a strong level. However, we anticipate it will recover over 2023-2025, thanks to gradually rising investment yields as well as profitable growth and efficiency measures in its non-life segment. Considering Solvency II, we view Achmea's balance sheet as less sensitive than those of peers to interest rates, credit spreads, property, and equity-market volatility. In 2022, the group's Solvency II ratio proved resilient to market stress at 209%, compared to 214% in 2021.

Outlook: Stable

The stable outlook reflects our expectation that Achmea's net income will recover in 2023-2025, lifting its fixed charge coverage ratio firmly above 4x, and allowing Achmea to maintain its capital at the 'A' rating 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 if, contrary to our expectations, Achmea's capital adequacy under our capital model fails 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.

Key Assumptions

We expect in the Netherlands:

- GDP growth of 0.7% in 2023, accelerating to 1.1% in 2024, and 1.7% in 2025.
- Slowing consumer price index growth of 4.8% in 2023, 3.3% in 2024, and 2.3% in 2025.
- A steadily increasing yield on 10-year government bonds to 2.95% in 2023, 3.22% in 2024, and 3.02% in 2025.
- Unemployment rates remain stable at about 3.5%-3.6% for 2023-2025.

Achmea Group--Key metrics

	2025f	2024f	2023f	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Strong	Satisfactory	Strong	Excellent	Excellent	Very strong	Very strong
Gross premium written (mil. €)	>20,000	>20,000	>20,000	21,088	20,026	20,175	19,949	19,918
Net income (mil. €)	500-550	500-550	400-450	105	468	642	481	315
P/C : Combined ratio (%)*	95-97	95-97	95-97	94.6	96.4	96.1	99.0	98.6
Return on shareholders' equity (%)	>3.5	>3.5	>3.5	1.2	5.0	7.0	5.6	3.7
EBITDA fixed-charge coverage (x)	>4	>4	>4	2.3	6.0	5.9	5.1	4.4
Financial leverage (%)	~30	~30	~30	30.5	24.9	24.7	25.5	0.3

*Combined ratio as calculated by S&P Global Ratings. P/C--Property/casualty. f--Forecast.

Business Risk Profile: Strong

Achmea holds a robust and leading position in the Netherlands' health market, which contributes about 70% of the group's total gross premiums. Similarly, the group is a leading player in the Dutch P/C and individual life insurance segments, and has a top-five position in income protection insurance and asset management in its domestic market.

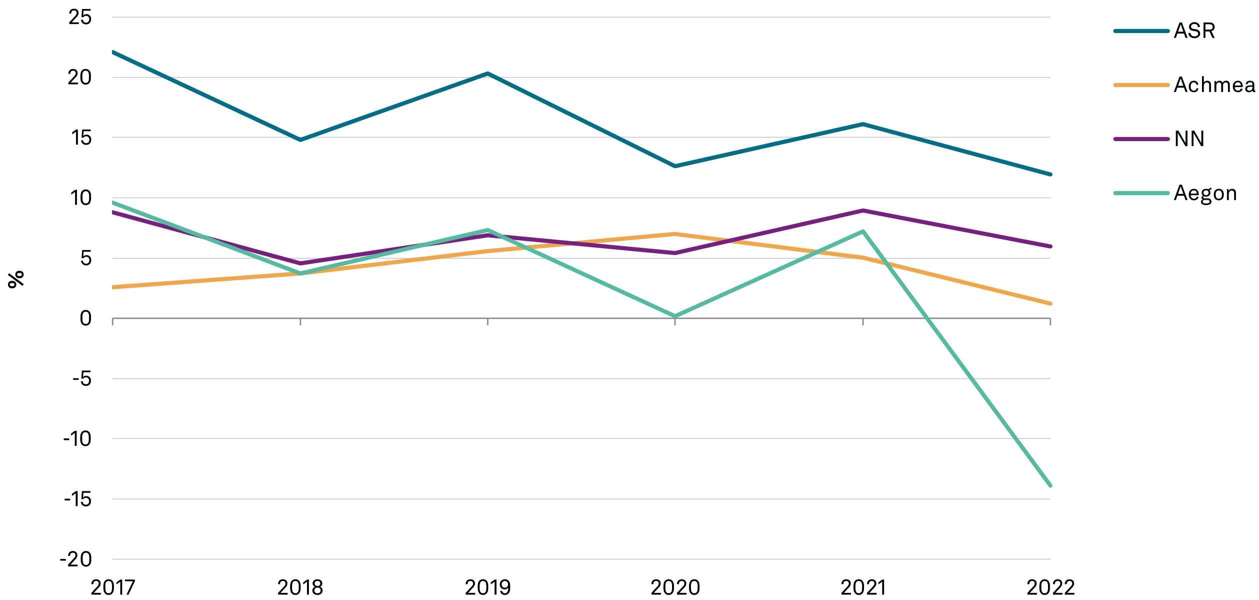
The group benefits from high customer satisfaction and its well-recognized multi-brands in the Netherlands like Interpolis, Centraal Beheer, and Zilveren Kruis. Apart from the Dutch market, Achmea also has a presence in Greece, Slovakia, Turkey, Australia, and Canada; however, its foothold is less prominent in international markets. That said, international premium growth was strong in 2022 and in the first half of 2023, at 15% and 41% respectively, because of inflation and customer growth.

Achmea also has a meaningful domestic banking operation, which is strategically important for its mortgage origination business. Earnings from its banking operations are, however, rather small, contributing below 10% in recent years. In the first half of 2023 we note the bank's operating income increased €21 million year on year to €30 million. Its mortgage portfolio expanded on the back of new business and revised rates on existing mortgages.

In our view, Achmea's business is concentrated in its domestic market, which we do not expect to change. Despite its leading position in the Dutch insurance market, the group has a limited track record of converting this into higher earnings. This is because Dutch health insurers have to keep premiums artificially low due to pricing pressure and competition. That said, we note Achmea has taken corrective measures to overcome challenges. It has improved its operating performance through better claims management, expense control, and strong technical earnings from the life and pensions business.

Chart 1

Return on equity comparison for Dutch insurers



Source: S&P Global Ratings.

Achmea operates in the mature Dutch health insurance market, which is constrained by regulations. Health insurance premiums are already high relative to the country's population of 17.6 million people. We note the group achieved further digitization of its health care business and administrative routines in 2022, which should translate into lower operating expenses per policyholder. In the coming two-to-three years we believe Achmea will deploy capital to set more competitive premiums and focus on maintaining its market share.

In our view, health underwriting risk, driven by government policies, has become less material for Achmea. The Netherlands' government has supported health insurers, particularly during the pandemic in 2020-2021. Although we deem the likelihood of Achmea achieving high health underwriting results as remote, we also regard a combined ratio (loss and expense) for the health business in clear excess of 100% as unlikely. Consequently, we believe Achmea's health segment will contribute positively, but performance will remain volatile.

In our view, Achmea optimizes its risk-to-return capabilities within the boundaries of its risk appetite for strategic planning and capital management. However, this approach deviates between business lines, especially basic health, where premium levels and therefore profitability are dependent on the premium positioning compared to other health insurance companies.

Financial Risk Profile: Strong

Achmea's capital position, as per our risk-based capital model, suffered significantly in 2022 after higher interest rates weighed on bond values and the valuation of technical reserves in its life segment. Adding to this, Achmea called its €500 million Tier 2 issuance in April 2023 and replaced it with a senior unsecured bond due in 2025. Therefore, we expect its capital position to temporarily drop below a strong level, according to our risk-based capital model.

Nevertheless, 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 its non-life segment. Moreover, we anticipate Achmea will remain committed to maintaining its capital adequacy at a strong level, as per our risk-based capital model, and that hybrid instruments will continue to play an important role. In this context, we note that, in June 2023, Achmea issued €300 million Tier 2 notes due in 2043.

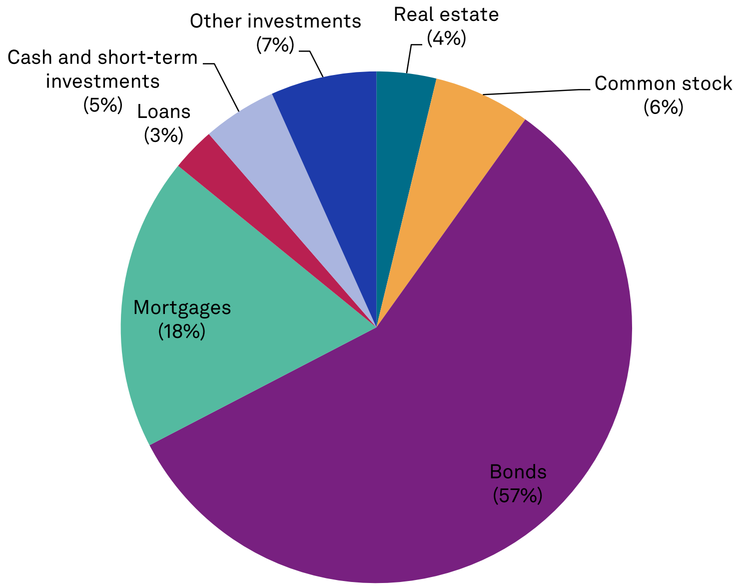
We appreciate Achmea has a clear focus on maintaining healthy solvency, and the group's interest risk management ensures limited solvency ratio sensitivity. The ratio remained robust at about 209% at year-end 2022 and was only marginally affected by the recent call of Achmea's €500 million Tier 2 issuance.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

For the first half of 2023, the group's gross written premiums increased about 8%, with growth in all segments. Net income increased to €377 million, compared to negative €869 million in the first half of 2022, on the back of higher insurance service results in non-life, improved investment results, and increased interest margins from retirement service. For Achmea's basic health business, the improved insurance service results translated into an improved combined ratio of 100.1%, from 100.5% in the first half of 2022. For its supplementary health insurance segment, the combined ratio increased to 93.4%, compared to 86.9% in the first half of 2022, chiefly due to higher health care costs. Overall, we anticipate full-year 2023 net income of €400 million-€450 million, increasing to about €500 million-€550 million annually for 2024 and 2025.

In our view, Achmea has managed its investment portfolio conservatively. We anticipate that its investments in property and mortgages will continue to increase. At year-end 2022, longer-duration mortgage investments represented about 18.5% of total invested assets. Sector concentration is balanced, and exposures to individual counterparties reflect the rating on each counterparty. We assess the weighted-average quality of its fixed-income portfolio to be in the 'A' range. We also consider foreign-exchange risk to be low.

Chart 2

Achmea's investment breakdown at year-end 2022



Based on general account invested assets, includes banking assets. Source: S&P Global Ratings.

Based on our net income projections, we estimate that the Achmea Group's financial leverage (debt plus hybrid capital, divided by the sum of shareholder equity, debt, and hybrid capital) will remain well below 40% over 2023-2025. Fixed-charge coverage (EBITDA divided by senior and subordinated debt interest) is likely to remain above 4x over the same period.

Other Key Credit Considerations

Governance

We do not see any material governance issues for Achmea. The group benefits from a sound enterprise risk framework and risk culture, which mitigates the potential for losses beyond its risk appetite.

Liquidity

We expect Achmea's liquidity to remain adequate over the next two years. Group liquidity will stem 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 uncommitted credit facilities at the group level with several international banks. Since 2019, Achmea has maintained undrawn committed credit facilities of €1 billion, which are valid until 2026.

Factors specific to the holding company

We rate Achmea B.V. two notches below the core subsidiaries of Achmea Group. This reflects our view of structural subordination, since the holding company does not generate any operating insurance cash flows.

Environmental, social, and governance

ESG factors have no material influence on our credit rating analysis of Achmea Group.

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

- Achmea Group's Core Subsidiaries Affirmed At 'A' Despite Lower Capital; Outlook Stable, June 23, 2023
- 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

Appendix

Achmea Group--Credit key metrics

Ratio/Metric	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	Strong	Excellent	Excellent	Very strong	Very strong
Total invested assets**	53,520	62,473	62,980	60,485	57,788
Total shareholder equity	8,028	9,235	9,309	8,935	8,355
Gross premiums written	21,088	20,026	20,175	19,949	19,918
Net premiums written	20,652	19,645	19,826	19,615	19,624
Net premiums earned	20,941	19,350	19,636	19,524	19,685
Reinsurance utilization (%)	2.1	1.9	1.7	1.7	1.5
EBIT adjusted	197	634	691	600	531
Net income (attributable to all shareholders)	105	468	642	481	315
Return on revenue (%)	0.9	3.0	3.2	2.8	2.4
Return on assets (including investment gains/losses) (%)	0.2	0.7	0.8	0.7	0.6

Achmea Group--Credit key metrics (cont.)					
Ratio/Metric	**2022**	**2021**	**2020**	**2019**	**2018**
Return on shareholders' equity (reported) (%)	1.2	5.0	7.0	5.6	3.7
P/C: net combined ratio (%)	94.6	96.41	96.1	99.0	98.6
P/C: net expense ratio (%)	26.0	25.7	26.3	27.1	26.2
P/C: return on revenue (%)	5.3	7.3	7.4	5.3	2.4
Life: Net expense ratio (%)*	67.6	61.4	50.3	42.1	26.6
Health: Medical loss ratio (%)	96.5	97.8	95.7	96.6	95.7
Health: Return on revenue (%)	0.8	0.1	1.7	0.4	0.9
EBITDA fixed-charge coverage (x)	2.3	6.0	5.9	5.1	4.4
Financial obligations / EBITDA adjusted	12.5	4.3	3.9	4.4	5.2
Financial leverage including pension deficit as debt (%)	30.46%	24.89%	24.75%	25.50%	27.04%
Net investment yield (%)	3.0	2.8	3.2	3.5	3.6

*Life operating expenses includes the segment retirement services. ** Total invested assets also includes banking assets. P/C--Property/casualty.

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 September 26, 2023)*

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	AAA/Stable
Senior Unsecured	A-

Ratings Detail (As Of September 26, 2023)*(cont.)	
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/--
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.