

Research Update:

Achmea Group's Core Subsidiaries Affirmed At 'A' Following Revised Capital Model Criteria; Outlook Stable

March 13, 2024

Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The implementation of the revised criteria has a positive effect on our view of Achmea group's capital position.
- 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 the group's net income will recover in 2023-2025, lifting the fixed-charge coverage ratio, and allowing Achmea to maintain capital at least at the 99.95% confidence level.

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Rating Action

On March 13, 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 on holding company Achmea B.V. The outlooks on Achmea B.V. and the operating entities are stable.

Impact Of Revised Capital Model Criteria

- The improvement in capital adequacy chiefly reflects Achmea group's improved total adjusted capital due to the removal of discounts and the absence of deductions on its contractual service margin (CSM) and risk adjustment (RA) under International Financial Reporting Standard (IFRS) 17. We consider the CSM and RA to be equity-like reserves.
- We also capture the benefits of risk diversification more explicitly in our analysis, which supports capital adequacy.

- The recalibration of our capital charges to higher confidence levels partly offsets these improvements.
- The implementation of our revised criteria caused us to revise our view of Achmea's capital and earnings position and, in turn, of Achmea group's financial risk profile.

Credit Highlights

Overview

Key strengths	Key risks
Sustained leading position in the Dutch health and property/casualty (P/C) insurance markets, and 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.	Geopolitical and macroeconomic turmoil increased earnings volatility and this lowered the 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.

Outlook

The stable outlook reflects our expectation that Achmea's net income will recover in 2023-2025, so that its fixed-charge coverage ratio rises firmly above 4x, and Achmea is able to maintain its capital at the 99.95% confidence level. We also expect Achmea to 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 dropped below the 99.80% confidence level for a prolonged period. This could occur if earnings are weaker than we currently expect, or if we see a further reduction 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 12-24 months due to the recent volatility of Achmea's capital position. In addition, its funding structure metrics are weak, particularly its fixed-charge coverage. In our view, an upgrade would depend on wider business diversification. It is unclear how this would be affected by Achmea's recently announced strategic review of its pension and life insurance portfolios.

Rationale

We anticipate that Achmea will maintain its robust lead position in the Netherlands' health market, as well as its meaningful presence in the life and pension segments, and in asset management.

Over the first half of 2023, the group's gross written premium increased by about 8%, with growth in all segments. Net income increased to €377 million, compared with the net outflow of €869 million in the first half of 2022, supported by higher insurance service results in non-life, improved investment results, and increased interest margins from retirement service. Achmea's combined ratio for its basic health business improved to 100.1% from 100.5% in the first half of 2022. (Lower combined ratios indicate better profitability. A combined ratio of greater than 100% signifies an underwriting loss.) In its supplementary health insurance segment, the combined ratio weakened to 93.4%, from 86.9% in the first half of 2022, largely because of higher health care costs. Overall, we estimate that net income for full-year 2023 was €400 million-€450 million, and forecast that this will increase to about €500 million-€550 million a year in 2024 and 2025.

After implementing our revised capital model, our view of Achmea group's capital adequacy has strengthened, mainly because of the increased risk diversification benefit. Moreover, the transition to IFRS 17 had a positive impact on capital, because we no longer apply haircuts or capital charges to equity-like reserves, such as the CSM. Consequently, Achmea's capital adequacy has significantly improved. We now forecast that Achmea will maintain capital at least at the 99.95% confidence level until 2025.

We appreciate that Achmea has a clear focus on maintaining healthy solvency, and the group's interest risk management ensures limited solvency ratio sensitivity. We estimate that the solvency ratio will remain robust at about 190% over 2023-2025 (it was 195% in the first half of 2023).

That said, it is unclear how Achmea's capital will evolve according to our risk-based capital model and under IFRS 17. The group's capital position suffered significantly in 2022, after higher interest rates weighed on bond values and the valuation of technical reserves in its life segment.

Further uncertainty arises because Achmea announced a strategic review of its pension and life insurance portfolio on Feb. 12, 2024. We do not consider a complete departure from all Dutch life insurance activities likely, but will closely monitor Achmea's actions and the consequences for our assessment.

Our anchor is influenced by our view of Achmea's narrow geographic footprint--most of its business is concentrated in its domestic market. Although it has a large book of basic health business, we do not consider that this supports profitability. In our view, Achmea is unlikely to achieve strong underwriting results in its health business. Nevertheless, its combined ratio for the health business is unlikely to exceed 100% by much.

Ratings Score Snapshot

	To	From
Financial strength rating	A	A
Anchor*	a	a
Business risk	Strong	Strong
IICRA	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Very Strong	Strong
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral

	To	From
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support	0	0
Group support	0	0
Government support	0	0

*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 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	BBB+/Stable/--
Senior Unsecured	BBB+
Junior Subordinated	BB+
Junior Subordinated	BBB-

***** Achmea B.V. *****

Ratings Affirmed

Achmea Bank N.V.

Issuer Credit Rating	A-/Stable/A-2
Certificate Of Deposit	A-2
Senior Unsecured	A-
Commercial Paper	A-2

Achmea Pensioen & Levensverzekeringen N.V.

Achmea Zorgverzekeringen N.V.

Achmea Schadeverzekeringen N.V.

Issuer Credit Rating	A/Stable/--
Financial Strength Rating	A/Stable/--

Achmea Reinsurance Co. N.V.

Financial Strength Rating	A-/Stable/--
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