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## Research Update:

# Netherlands-Based Insurance Group Achmea Outlook Revised To Negative On Subdued Earnings; Ratings Affirmed

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## Research Update:

# Netherlands-Based Insurance Group Achmea Outlook Revised To Negative On Subdued Earnings; Ratings Affirmed

## Overview

- We have observed continued pressure on Netherlands-based insurance group Achmea's earnings and, consequently, on its fixed-charge coverage and capital adequacy.
- We are therefore revising our outlook on holding company Achmea B.V. and its subsidiaries to negative from stable.
- We are affirming our 'A-' rating on Achmea B.V. and our 'A+' ratings on the group's core operating companies.

## Rating Action

On May 21, 2014, Standard & Poor's Ratings Services revised its outlook on Netherlands-based insurance holding company Achmea B.V. and its subsidiaries to negative from stable.

At the same time, we affirmed our 'A+' counterparty credit and insurer financial strength ratings on the group's core operating subsidiaries and our 'A-' counterparty credit rating on Achmea B.V.

## Rationale

The outlook revision reflects the continued pressure we have observed on Achmea's earnings. Specifically, we see a risk that earnings may not recover sufficiently to reduce the pressure on the group's fixed-charge coverage and capital adequacy.

The ratings on the core operating insurance subsidiaries reflect our view of the group's strong business risk profile and very strong financial risk profile, built on a strong competitive position and very strong capital and earnings. Under our criteria, we combine these factors to derive an anchor of either 'a' or 'a+'. In a change to our previous approach, we use an anchor of 'a' for Achmea to reflect the group's reduced capital strength, following a continued decline in excess capital at the 'AA' level. In our view, this now more than offsets the relatively low risk profile and market-leading position of the group's health franchise, which underpinned the previous 'a+' anchor.

Although we still view Achmea's capital and earnings as very strong, there has been a long-term decline in excess capital at the 'AA' level, and Achmea's

earnings have been subdued in recent years, putting pressure on the group's fixed-charge coverage.

Our base-case scenario assumes that Achmea's net income will improve, as the €450 million cost reduction program is executed up to 2016, alongside underwriting performance that is consistent with or improving compared with prior years in basic health and non-life insurance.

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) as strong. Achmea has recently improved its risk management culture and overall risk controls, and introduced strategic risk management, which has led us to revise upward our view of ERM to strong from adequate. A key assumption underlying this assessment is that the Dutch government would support the country's basic health insurance industry if an extreme event, such as a pandemic, caused financial stress to insurers.

## Outlook

The negative outlook reflects the risk that Achmea's earnings may not recover sufficiently to reduce the pressure on fixed-charge coverage and our assessment of capital adequacy.

If Achmea's fixed-charge coverage did not reach 4x by year-end 2015, we would likely lower the rating by one notch. We could also lower the rating by one notch if we considered that the group's capital adequacy had fallen below very strong.

Our base-case scenario is that the group's fixed-charge coverage will reach 4x by year-end 2015 and capital adequacy will remain very strong; in which case, we would likely revise the outlook back to stable.

## Ratings Score Snapshot

	To	From
Financial Strength Rating	A+/Negative	A+/Stable
Anchor	a	a+
Business Risk Profile	Strong	Strong
IICRA	Low Risk	Low Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Very Strong	Very Strong
Capital and Earnings	Very Strong	Very Strong
Risk Position	Intermediate Risk	Intermediate Risk
Financial Flexibility	Adequate	Adequate

Modifiers	+1	0
ERM and Management	+1	0
Enterprise Risk Management	Strong	Adequate
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

- Insurers: Rating Methodology, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

## Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Achmea B.V.		
Counterparty Credit Rating		
Local Currency	A-/Negative/--	A-/Stable/--
Senior Unsecured	A-	
Junior Subordinated	BBB	
Achmea Pensioen & Levensverzekeringen N.V.		
Achmea Zorgverzekeringen N.V.		
Achmea Schadeverzekeringen N.V.		
Counterparty Credit Rating		
Local Currency	A+/Negative/--	A+/Stable/--
Financial Strength Rating		
Local Currency	A+/Negative/--	A+/Stable/--

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