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Achmea B.V.

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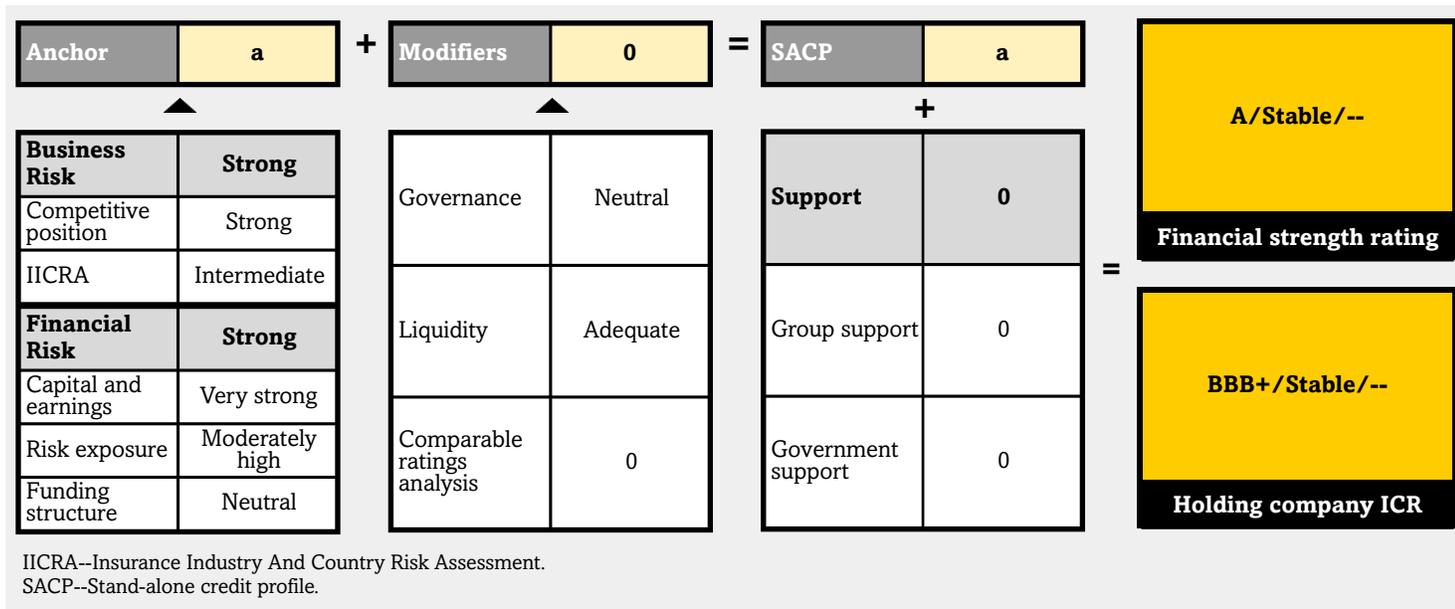
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Achmea B.V.



Credit Highlights

Overview	
Key strengths	Key risks
Leading position in the Dutch health and property/casualty (P/C) insurance market.	High concentration in saturated Netherland insurance market.
Very robust capital position both in our view as well as under regulatory requirements.	Current economic risks, capital market volatility, and inflation trends lead to earning volatility.
	Ongoing political and regulatory reliance puts pressures on earnings on basic health insurance business.

S&P Global Ratings believe Achmea Group will maintain its solid position in the Dutch insurance market. Achmea benefits from a broad diversification by business lines and products within its Dutch home market. The group is particularly strong in the health segment, where it enjoys the clear No. 1 position, but also has a sizable presence in life and pension insurance, and asset management.

Achmea's capital position was very sound at year-end 2021 and remains a key rating strength. We believe that Achmea's capitalization will remain very strong according to our risk-based capital model over 2022-2024, even after considering the negative impact on asset valuations of the rise in interest rates and the decline in equity markets since January 2022. This is supported by strong core shareholders' equity.

Outlook: Stable

The stable outlook reflects our expectation that Achmea will maintain its leading position in the Dutch P/C and health insurance markets, with a capital position at least in the 'A' range of our risk-based capital model and a fixed-charge coverage ratio of 4x or higher.

Downside scenario

We could lower the ratings over the next two years if Achmea's profitability remains below our expectations on a prolonged basis, preventing the group from maintaining its capital adequacy and funding structure within our forecast ranges based on our current assumptions.

Upside scenario

We see the possibility of an upgrade over the next two years as remote. However, we could consider raising the ratings if Achmea's earnings were significantly above our expectations, enhancing its capital position beyond our 'AA' benchmark.

Assumptions

We expect in the Netherlands:

- GDP growth of 2.6% in 2022, declining to 1.6% in 2023 and 1.8% in 2024.
- Consumer price index inflation increasing to 8.9% in 2022, before reducing to 4.0% in 2023 and 2.0% in 2024.
- 10-year government bonds to increase steadily to 1.2% in 2022, 1.7% in 2023, and 1.9% in 2024.
- Unemployment rates to remain stable at about 3% for 2022-2024.

Achmea Group--Key Metrics

	2024f	2023f	2022f	2021	2020	2019	2018
S&P Global Ratings' capital adequacy	Very strong	Very strong	Very strong	Excellent	Excellent	Very strong	Very strong
Gross premium written (Mil. €)	>20,000	>20,000	>20,000	20,026	20,175	19,949	19,918
Net income (mil. €)	>350	>350	~200	468	642	481	315
P/C : Combined ratio (%)	95-97	95-97	95-97	96.4	96.1	99.0	98.6
Return on shareholders' equity (%)	>3.5	>3.5	~3.0	5.0	7.0	5.6	3.7
EBITDA fixed-charge coverage (x)	>4	>4	~4.0	6.0	5.9	5.1	4.4
Financial leverage (%)	<25	<25	<25	24.6	24.7	25.5	27.0

P/C--Property and casualty. f--Forecast.

Business Risk Profile: Strong

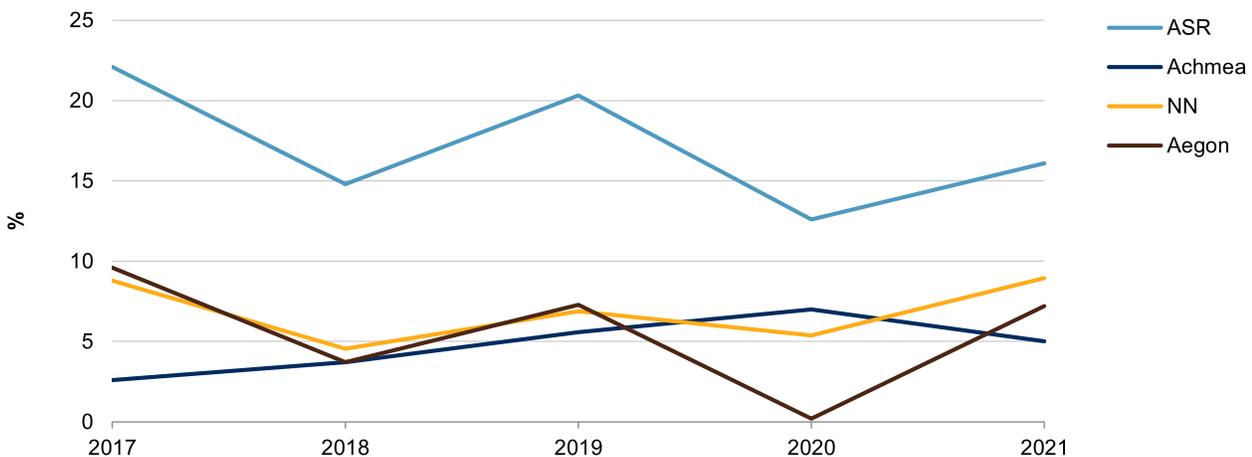
Achmea is the largest Netherland-based health insurer, insuring 5.1 million members and earning more than 70% of its total gross premiums from its health business. Similarly, the group is a leading player in the Dutch P/C and individual life insurance, and has a top-five position in income protection insurance and asset management in its domestic market.

The group benefits from well-recognized multi-brands in the Netherlands like Interpolis, CentraalBeheer, and ZilverenKruis. 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. Achmea also has domestic banking operations, which are strategically important for originating mortgages. However, earnings contribution from its banking operations are small, below 10% in recent years, and in the first half of 2022 contributed only about 1% to overall group earnings.

In our view, Achmea's business is concentrated in its domestic market, and we do not anticipate any major change to this setup. Despite holding a leading position in the Dutch insurance market, the group has a limited track record of converting this leadership position 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 that Achmea has taken corrective measures to overcome challenges and managed to improve its operating performance through better claims management, expense control, and strong technical earnings from the life and pensions business.

Chart 1

Return On Equity



Source: S&P Global Ratings.

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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 17.5 million people. Based on the current regulatory,

legislative, and competitive trends in the market, we see limited organic growth opportunities in the market.

One of the group's key constraint is its volatile earnings from basic health insurance. This is due to provisions for lower premiums and high dependence on the regulatory and political environment for pricing.

We think Achmea optimizes its risk-to-return capabilities within the boundaries of its risk appetite for strategic planning and capital management. However, this approach is not consistent across all lines of business, especially basic health, where premium levels and therefore profitability are dependent on the premium level positioning compared to other health insurance companies.

Financial Risk Profile: Strong

Achmea's capital adequacy remained above 'AA' according to our risk-based capital model at year-end 2021. This is also supported by the group's Solvency-II ratio of 214% at year-end 2021 (200% as on June 30, 2022). Almost 70% of total adjusted capital, as per our model, comprises core shareholders' funds.

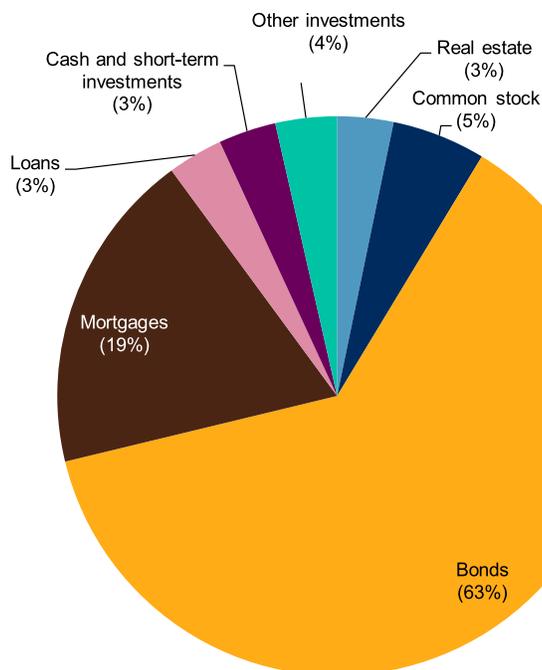
Although increasing interest rates are generating unrealized losses on bond investments, we think higher rates are economically supporting future profitability, mainly for life insurance products, further enhancing the group's solvency position. We expect Achmea will maintain capital at the 'AA' range in our capital model through 2024. We think the group remains sufficiently capitalized to cope with further market volatility and potential losses from extraordinary climate events like the storms in February 2022.

For the first half of 2022, the group's net income was rather low at €94 million, mainly due to a lower investment income and losses in basic health insurance. Reimbursements for COVID-19-related claims from the statutory catastrophe scheme of the national health care insurance fund were discontinued in 2022. Also, higher medical costs due to rising inflation are weighing on Achmea's health earnings. Therefore, we expect the combined ratio (loss an expense) of the health insurance business will be about 100% for 2022-2024. Overall, we therefore expect a somewhat lower net income for full-year 2022 of about €200 million and a recovery to at least €350 million annually for 2023 and 2024.

In our view, Achmea has managed its investment portfolio conservatively. We expect that its investments in property and mortgages will continue to increase. At year-end 2021, longer-duration mortgage investments represented about 18.7% 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 the fixed-income portfolio in the 'AA' range. We also consider foreign-exchange risk to be low.

Chart 2**Achmea's Investment Breakdown At End-2021**

Based On General Account Invested Assets*



*Includes banking assets. Source: S&P Global Ratings.

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Based on our net income projections, we believe the group's fixed-charge coverage will be about 4x for 2022 and increase somewhat in 2023 and 2024. Furthermore, we do not see any funding or leverage concerns for the group.

Other 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 risk of losses outside the risk appetite.

Liquidity

We regard Achmea's liquidity will remain adequate over next two years. The 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 at several international banks. Since 2019, Achmea has had 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 companies 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 Credit Indicators



ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

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

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, 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

- Insurance Industry And Country Risk Assessment: Netherlands Life, July 21, 2022
- Insurance Industry And Country Risk Assessment: Netherlands Health, July 21, 2022
- Insurance Industry And Country Risk Assessment: Netherlands Property/Casualty, July 21, 2022

Appendix

Achmea Group--Credit Metrics History				
(Mil. €)	2021	2020	2019	2018
S&P Global Ratings' capital adequacy	Excellent	Excellent	Very strong	Very strong
Total invested assets§	62,473	62,980	60,485	57,788
Total shareholder equity	9,383	9,309	8,935	8,355

Achmea Group--Credit Metrics History (cont.)

(Mil. €)	2021	2020	2019	2018
Gross premiums written	20,026	20,175	19,949	19,918
Net premiums written	19,645	19,826	19,615	19,624
Net premiums earned	19,350	19,636	19,524	19,685
Reinsurance utilization (%)	1.9	1.7	1.7	1.5
EBIT	85.0	89.0	88.0	68.7
Net income (attributable to all shareholders)	468.0	642.0	481.0	315.0
Return on revenue (%)	0.4	0.4	0.4	0.3
Return on assets (including investment gains/losses) (%)	0.1	0.1	0.1	0.1
Return on shareholders' equity (reported) (%)	5.0	7.0	5.6	3.7
P/C: net combined ratio (%)	96.4	96.1	99.0	98.6
P/C: net expense ratio (%)	25.7	26.3	27.1	26.2
P/C: return on revenue (%)	7.3	7.4	5.3	2.4
Life: Net expense ratio (%)*	61.4	50.3	42.1	26.6
Health: Medical loss ratio (%)	97.8	95.7	96.6	95.7
Health: Return on revenue (%)	0.1	1.7	0.4	0.9
EBITDA fixed-charge coverage (x)	6.0	5.9	5.1	4.4
Financial obligations / EBITDA adjusted	4.3	3.9	4.4	5.2
Financial leverage including pension deficit as debt (%)	0.2	0.2	0.3	0.3
Net investment yield (%)	2.8	3.2	3.5	3.6

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

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-/bbb-	bb-/bb+	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bb-/bb+	b/b-
Fair	a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bbb-/bbb-	bbb-/bbb-	bb-/bb+	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 9, 2022)***Achmea B.V.**

Issuer Credit Rating

Local Currency

Junior Subordinated

BBB+/Stable/--

BB+

Ratings Detail (As Of September 9, 2022)*(cont.)

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-
Subordinated	BBB
Achmea Pensioen & Levensverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Achmea Reinsurance Co. N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A-/Stable/--
Achmea Schadeverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	A/Stable/--
Achmea Zorgverzekeringen N.V.	
Financial Strength Rating	
<i>Local Currency</i>	A/Stable/--
Issuer Credit Rating	
<i>Local Currency</i>	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.

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