

FITCH PUBLISHES ACHMEA IFS RATINGS OF 'A+'; OUTLOOK STABLE

Fitch Ratings-London-07 March 2018: Fitch Ratings has published Insurer Financial Strength Ratings (IFS) of 'A+' (Strong) for Achmea Pensioen- en Levensverzekeringen NV, Achmea Schadeverzekeringen NV, and Achmea Zorgverzekeringen NV (together Achmea Insurance). Fitch has simultaneously published an Issuer Default Rating (IDR) of 'A' for Achmea BV, 'A-' for senior notes, and 'BBB' for subordinated notes. The Outlooks on the IDR and IFS ratings are Stable.

The ratings reflect the Achmea group's (Achmea) very strong business profile and capitalisation. Achmea's profitability and debt servicing capabilities are rating weaknesses. We consider Achmea Insurance as core to Achmea.

KEY RATING DRIVERS

Achmea's ratings are supported by its leading business profile in Dutch health and non-life insurance, and good business profile in the Dutch life and pensions market. The strength and diversity of Achmea's domestic franchise is partly offset by limited international diversification. Achmea's international activities contributed 6% of gross written premiums in 2016.

Fitch's assessment of capitalisation measured by Fitch's Prism Factor-Based model (Prism FBM) was 'Very Strong' at end-2016. The 1H17 Solvency II (S2) coverage ratio of 185% supports our assessment of Achmea's capital strength. We expect both the Prism FBM score and the FLR (end-2016:22%) to remain broadly unchanged over the rating horizon.

Achmea's profitability is a key rating weakness with net income return on equity (ROE) of minus 4% in 2016, which is significantly below our criteria range of 7%-10% for insurers rated in the 'A' category. Achmea's operational result recovered to EUR223 million in 1H17 from an operational loss of EUR323 million in 2016, and we estimate that the group will achieve a full year net-income return on equity (ROE) of above 2% in 2017. Fitch expects ROE to stabilise in the 3%-5% range in the medium term, supported by premium increases in the non-life and basic health segments as well as further cost reductions.

Similar to other Dutch health insurers, since 2014 Achmea has financed a pricing gap in its basic health insurance business with premiums charged on basic health policies well below incurred healthcare claims. We expect this gap to close gradually through premium increases as health insurers' capital buffers erode. This view is supported by a declining trend in Achmea's basic health price subsidy (2015: EUR485 million, 2016: EUR434 million, 2017: EUR130 million). As a result we expect the basic health segment to return to profitability by 2020.

Achmea reported claims in excess of EUR100 million in respect of two severe wind storms that hit the Netherlands in January 2018. Despite these losses we expect a positive non-life operating result for 2018. However, these events reinforce the sensitivity of the group's earnings to a rise in the frequency and/or severity of weather-related catastrophes.

Achmea's fixed-charge coverage ratio (FCC) has been volatile in the past five years due to fluctuating profitability. Fitch expects FCC to stabilise around the long-term average of 4x-5x in the medium term, benefiting from improving operating performance and potentially lower interest expenses due to maturing debt.

Fitch views Achmea's investment strategy as conservative and expects its risky assets to equity ratio to remain below 30% at end-2017 (end-2016: 17%) supported by a high quality bond and

Dutch mortgage portfolio. Increasing exposure to Dutch residential mortgages does not add significant credit risk to the investment portfolio in our view, based on low historical loss rates, a creditor-friendly legal system, and national mortgage guarantee backing for qualifying loans.

Achmea's senior notes are rated one notch below its IDR reflecting Fitch's assignment of below-average recovery prospects for debt issued out of holding companies. Achmea's subordinated notes are rated three notches below its IDR, reflecting two notches for the level of subordination and one notch for 'moderate' non-performance risk.

The subordinated notes include a mandatory interest deferral feature, which would be triggered if Achmea is not able to meet the applicable minimum capital requirement enforced by the relevant supervisory authority. Under the agency's criteria, Fitch regards this feature as leading to 'moderate' non-performance risk.

Achmea's perpetual EUR600 million subordinated notes are treated as 50% debt in Fitch's financial leverage calculation, due to both the absence of any coupon reset at the first call date as well as the cumulative nature of coupon payments in the event of interest deferral. However, the EUR750 million and EUR500 million subordinated notes are treated as 100% debt. All three of these instruments qualify as regulatory capital under S2, and therefore receive 100% equity credit in Fitch's Prism Factor-Based Model.

RATING SENSITIVITIES

The ratings could be downgraded if the Prism FBM score falls below 'Very Strong', or if financial leverage weakens to above 30% for a sustained period.

The ratings could also be downgraded if Fitch's forecast for the group's net income ROE over the rating horizon falls below 3%.

We view an upgrade as unlikely in the medium term given Achmea's limited geographic diversification and limited growth prospects in the Dutch insurance market.

FULL LIST OF RATING ACTIONS

Achmea Pensionen-en Levensverzekeringen NV
--IFS rating published at 'A+'; Outlook Stable

Achmea Schadeverzekeringen NV
--IFS rating published at 'A+'; Outlook Stable

Achmea Zorgverzekeringen NV
--IFS rating published at 'A+'; Outlook Stable

Achmea BV
--Long-Term IDR published at 'A'; Outlook Stable
--Senior unsecured debt (CH0212937236) published at 'A-'
--Senior unsecured debt (XS0995111761) published at 'A-'
--Subordinated debt (NL0000168714) published at 'BBB'
--Subordinated debt (XS0911388675) published at 'BBB'
--Subordinated debt (XS1180651587) published at 'BBB'

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Date of Relevant Rating Committee: 27 February 2018

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Applicable Criteria
Insurance Rating Criteria (pub. 30 Nov 2017)
<https://www.fitchratings.com/site/re/905036>

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