



Fitch Affirms Achmea's IFS Ratings at 'A+'; Outlook Stable

Fitch Ratings-London-11 October 2018: Fitch Ratings has affirmed the Insurer Financial Strength (IFS) ratings of Achmea B.V.'s core operating entities at 'A+' (Strong), and its Issuer Default Rating (IDR) at 'A'. The Outlooks are Stable.

A full list of ratings is at the end of this commentary.

KEY RATING DRIVERS

The ratings reflect Achmea's very strong business profile and capitalisation, while profitability and debt servicing capabilities are rating weaknesses.

Fitch's assessment of Achmea's business profile reflects the group's strong position in the Dutch insurance market, with leading positions in the health and non-life sectors. However, international diversification is limited. International activities accounted for only 6% of consolidated gross written premiums in 2017.

Fitch's assessment of capitalisation measured by Fitch's Prism Factor-Based model was 'Very Strong' at end-2017. The end-1H18 Solvency II coverage ratio of 191% further supports our assessment of Achmea's capital strength. The Fitch-calculated financial leverage ratio (FLR) of 23% at end-2017 (2016: 24%) is moderate and expected to remain broadly stable.

The group's financial performance is a key rating weakness, with net income return on equity (ROE) of 2.5% in 2017. Low profitability reflects Achmea's business mix as the leading Dutch health insurer. The Dutch basic health insurance segment is a low-margin and currently loss-making business. Fitch expects Achmea's ROE to stabilise in the 3%-5% range, supported by health and non-life premium increases and continued focus on 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 the cost of 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: EUR481 million, 2016: EUR426 million, 2017: EUR108 million). We expect the basic health segment to return to profitability by 2020.

Achmea realised more than half of its original EUR200 million cost-saving target (excluding one-offs) as of end-2017, and subsequently increased the target by EUR30 million to EUR230 million by end-2020. Cost savings are mainly being achieved through the reduction of the number of full-time employees, streamlining of IT systems and office space rationalisation.

Achmea's fixed charge coverage (FCC) ratio has been weak mainly due to its exposure to the low margin health insurance segment and occasional volatility in the non-life result. However, the FCC improved in 2017 and we expect it to stabilise in the 3x-5x range in the medium term.

Fitch views Achmea's investment strategy as conservative. Achmea had a low risky assets to equity ratio of 19% at end-2017, reflecting high quality bond and Dutch mortgage portfolios. In Fitch's view, Dutch residential mortgages do not adversely contribute to the group's overall credit risk, given the low historical loss rates, a creditor-friendly legal system, and national mortgage guarantee scheme

backing qualifying loans.

RATING SENSITIVITIES

The ratings could be downgraded if the group's net income ROE fails to improve above 3% on a sustainable basis.

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

Significantly improved geographical diversification could lead to an upgrade, although this is not expected to happen in the near to medium term.

FULL LIST OF RATING ACTIONS

Achmea Pensioen-en Levensverzekeringen NV

--IFS rating affirmed at 'A+'; Outlook Stable

Achmea Schadeverzekeringen NV

--IFS rating affirmed at 'A+'; Outlook Stable

Achmea Zorgverzekeringen NV

--IFS rating affirmed at 'A+'; Outlook Stable

Achmea BV

--Long-Term IDR affirmed at 'A'; Outlook Stable

--Senior unsecured debt affirmed at 'A-'

--Subordinated notes affirmed at 'BBB'

Contact:

Primary Analyst

Willem Loots

Senior Director

+44 20 3530 1808

Fitch Ratings Limited

30 North Colonnade

London E14 5GN

Secondary Analyst

Andras Sasdi

Associate Director

+44 20 3530 1805

Committee Chairperson

Harish Gohil

Managing Director

+44 20 3530 1257

Media Relations: Athos Larkou, London, Tel: +44 20 3530 1549, Email:

athos.larkou@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

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

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