

Research Update:

Achmea 'A' Rating Affirmed Despite Capital Hit; Outlook Stable

November 16, 2022

Overview

- This year's market turbulence has impaired our assessment of Achmea's capital strength.
- At the same time, potential volatility in the group's health business has eased.
- We therefore affirmed our 'A' ratings on Achmea's core subsidiaries and our 'BBB+' issuer credit rating on holding company Achmea B.V.
- The outlook on Achmea is stable because we expect the group's capitalization, according to our capital model, will remain strong over the next two years, with fixed-charge coverage settling above 4x in 2023 and 2024.

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Rating Action

On Nov. 16, 2022, 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 (see the ratings list).

Rationale

We affirmed our ratings because we consider the predictability of Achmea's core health profitability to have improved. This offsets a weakening in our view of its capitalization amid higher interest rates and lower equity market valuations on Achmea's balance sheet.

We appreciate that Achmea has a clear focus on ensuring healthy solvency. The group's regulatory solvency ratio was 200% at June 30, 2022, versus 214% at year-end 2021. A large part of the decline resulted from increased inflation expectations and the decreased eligibility of Tier 3 capital due to a reduction in required capital. Achmea's solvency position remains robust due to rigid hedging on interest rate movements, particularly for downside shifts. This recently led to lower International Financial Reporting Standard (IFRS) capital and buffers, which we understand have not recovered so far. We therefore expect the group's capitalization, according to our capital

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model, will fall to the strong range by 2022 compared with our prior assumption of very strong.

We expect that higher interest rates will be beneficial for future earnings. However, higher yields will take time to be fully reflected in the group's results. As such, we anticipate rather weak net income of about €200 million for 2022 (barring extraordinary interest rate movements in the final weeks of the year), and a recovery to about €400 million-€500 million annually for 2023 and 2024. Consequently, we estimate capitalization will remain strong over 2023 and 2024 as well.

Based on our earnings expectations, we expect fixed-charge coverage will likely drop below 4x in 2022 but recover to above 4x in 2023 and 2024.

In our view, health and underwriting risk, driven by government policies, has become less material for Achmea. The Netherlands' government supported health insurers, particularly during the peak COVID-19 pandemic years of 2020 and 2021. Although we deem high health underwriting results remote, we also regard a combined ratio (loss and expense) for the health business of clearly above 100% as unlikely. We therefore now assess Achmea's risk position as moderately low compared with moderately high previously.

Outlook

The stable outlook reflects our expectation that Achmea's capitalization, according to our capital model, will remain strong over the next two years, with fixed-charge coverage settling above 4x in 2023 and 2024. We also expect that Achmea will maintain its leading positions in the Dutch property/casualty and health insurance markets.

Downside scenario

We could lower the ratings over the next two years if Achmea's capital adequacy drops below the strong range for a prolonged time. This could happen, for example, due to weaker earnings than we currently expect, or further material reductions in IFRS shareholders' equity not compensated by other capital buffers. We might also lower the ratings if fixed-charge coverage falls below 4x on average over 2022-2024.

Upside scenario

We see the possibility of an upgrade as remote over the next two years due to Achmea's comparatively weak metrics for its funding structure, particularly with regards to fixed-charge coverage.

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	Strong	Strong

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	To	From
Capital and earnings	Strong	Very Strong
Risk exposure	Moderately Low	Moderately High
Funding structure	Neutral	Neutral
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 our view on Achmea's strong position in the Dutch insurance market, particularly its leadership in health insurance. IICRA--Insurance Industry and Country Risk Assessment.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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: 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

- Achmea B.V., Sept 9, 2022

Ratings List

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

Ratings Affirmed

Achmea B.V.

Issuer Credit Rating BBB+/Stable/--

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

Ratings Affirmed

Achmea Bank N.V.

Issuer Credit Rating	A-/Stable/A-2
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Certificate Of Deposit	A-2
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Achmea Pensioen & Levensverzekeringen N.V.

Achmea Zorgverzekeringen N.V.

Achmea Schadeverzekeringen N.V.

Issuer Credit Rating	A/Stable/--
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Financial Strength Rating	A/Stable/--
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Achmea Reinsurance Co. N.V.

Financial Strength Rating	A-/Stable/--
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Achmea B.V.

Senior Unsecured	BBB+
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Junior Subordinated	BB+
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Junior Subordinated	BBB-
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Achmea Bank N.V.

Senior Unsecured	A-
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Commercial Paper	A-2
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