

RatingsDirect®

Research Update:

Achmea B.V. Affirmed At 'A-' After Insurance Criteria Change; Core Subsidiaries Affirmed At 'A+'; Outlook Stable

Primary Credit Analyst:

Simon Marshall, London (44) 20-7176-7080; simon.marshall@standardandpoors.com

Secondary Contact:

Simon Ashworth, London (44) 20-7176-7243; simon.ashworth@standardandpoors.com

Table Of Contents

Overview

Rating Action

Rationale

Outlook

Ratings Score Snapshot

Related Criteria And Research

Ratings List

Research Update:

Achmea B.V. Affirmed At 'A-' After Insurance Criteria Change; Core Subsidiaries Affirmed At 'A+'; Outlook Stable

Overview

- Following a review under our revised insurance criteria, we are affirming our 'A-' rating on Netherlands-based Achmea B.V. and the 'A+' ratings on Achmea's core subsidiaries.
- The ratings predominantly reflect our view of the group's strong business risk profile and very strong financial risk profile, based on its leading Dutch insurance franchise and very strong capital and earnings.
- The stable outlook reflects our view that the financial risk profile will remain resilient at very strong levels, our assumption that current earnings pressures will ease toward the end of 2015, and that the political and competitive dynamics within the health insurance market will not negatively impact our view of Achmea's business risk profile.

Rating Action

On May 27, 2013, Standard & Poor's Ratings Services affirmed its 'A-' counterparty credit rating on Netherlands-based insurance holding company Achmea B.V. At the same time, we affirmed our 'A+' insurer financial strength and counterparty credit ratings on Achmea's core subsidiaries, Achmea Pensioen & Levensverzekeringen N.V., Achmea Schadeverzekeringen N.V., and Achmea Zorgverzekeringen N.V. The outlook on Achmea B.V. and the core subsidiaries is stable.

The 'A/A-1' counterparty credit ratings on Achmea Hypotheekbank N.V. were also affirmed. The outlook on the bank is negative.

Rationale

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 either an 'a' or an 'a+' anchor. Achmea's anchor is 'a+' since our assessment of Achmea's competitive position, at strong, somewhat undervalues its contribution to the group's overall creditworthiness in view of the lower risk profile and sustainable market leading position of Achmea's health franchise. In particular, the features of the health market, and sustainable--albeit low--margins, bring stability. The group credit profile and ratings are at the

same level as the anchor, reflecting the neutral rating impact of modifiers at the current rating level.

Achmea faces low industry and country risk overall, because its core businesses are in the Dutch health and non-life markets, which we assess as low risk. Overall risk in the Dutch health industry is low, in our view, as we consider that the performance of the Dutch health insurance sector will show stable, albeit low, margins. We consider that the Dutch non-life sector is fiercely competitive, placing pressure on average market returns. However, we anticipate that returns should improve on a technical basis, given strategic actions within the market concerning disability business. We consider the Dutch life market, which accounts for less than one-fifth of the group's business, as higher risk than the Dutch health and non-life markets. The overall low risk assessment for Achmea is unlikely to change during 2013-2015 based on our assessment of the Dutch non-life and health sectors and the balance of the group.

The Achmea group has a strong competitive position, in our view, stemming from its leadership within the Dutch insurance market. Achmea is the leading insurer in the Netherlands, being the leader in health and non-life and the third-largest in life and pensions. Health and non-life insurance are greater competitive strengths than life insurance, due to the pressured Dutch life market. Within the Netherlands, Achmea operates a multibrand strategy, split by product (for example, Zilveren Kruis and Agis for health) and distribution channel (for example, Centraal Beheer for direct distribution, and Interpolis for bank distribution). Standard & Poor's regards this multibrand approach in the Netherlands as sound and supportive of its profile.

Achmea's leading franchise--its basic health business-- is subject to mandatory acceptance of risk, irrespective of the risk profile of the person insured and the critical success factor is negotiating power with healthcare providers and, consequently, cost management. As the largest provider, Achmea possesses these advantages. Basic health business is low margin but also low volatility. Our base-case assumption is that upcoming reforms to the Dutch health insurance market will not affect our assessment of Achmea's competitive position. However, we understand that Achmea's ability to raise premiums to match the increase in claims expected in 2013 is somewhat limited because of public pressure to contain health care costs. But we do not expect this issue to persist beyond 2013.

In our opinion the group has very strong capital and earnings, which, in our base case, we anticipate will continue. Capital adequacy, as measured by Standard & Poor's risk-based capital model, is very strong and should remain so, despite anticipated earnings pressures in 2013-2014. Quality of capital is favorable, with almost 60% of total adjusted capital per our model derived from core shareholders' funds.

Our view of earnings reflects continued strong health and non-life underwriting performance and an adequate life result. Income protection insurance has recently become an issue requiring provisions in the non-life

segment. We see pressure on earnings over 2013-2014, due to pension charges and pressure to keep health insurance premium rates at current levels, despite rising costs. We nevertheless expect earnings to recover to 2012 levels by 2015. In 2013-2014, we expect non-life insurance to produce a net combined ratio under 97%, basic health insurance a ratio under 100%, and supplementary health insurance a ratio under 95%. We also expect life new business margins to be somewhat pressured over 2013-2015, at 0%-1%, but to reach 1% or higher in the Netherlands in the medium term. We expect profit before tax to fall somewhat in 2013-2014, and to recover in 2015 to around 2012 levels.

In our view, Achmea's risk position reflects intermediate risks. Investment leverage and investment portfolio diversification are at conservative levels and we have observed relative stability in capital and earnings. We estimate the average credit quality of bonds to be 'AA', because more than one-half of the portfolio is invested in 'AAA' sovereign debt. The group has immaterial exposure to government bonds of Portugal, Italy, Ireland, Greece, and Spain. These positives are partly offset by the large relative exposure to the employee pension scheme. The risk position is a neutral factor for the ratings.

Achmea has adequate financial flexibility, in our view, despite pressure on this assessment from projected fixed-charge coverage ratios, which we expect to gradually surpass 4x by 2015. We expect financial leverage to be satisfactory, at below 30%. The adequate assessment also reflects our view that access to sources of capital and liquidity are sufficient, given the group's limited needs.

We regard Achmea's enterprise risk management (ERM) and management and governance practices as a neutral factor for the ratings. We consider Achmea's ERM as adequate and management and governance as satisfactory. Achmea's strategic positioning is clear and achievable; its financial management is conservative, and its organizational effectiveness is good.

We regard Achmea's liquidity as exceptional, owing to the strength of available liquidity sources, mainly premium income and liquid assets. There are no refinancing concerns and we believe the group to be capable of managing unexpectedly large claims.

We consider Achmea Hypotheekbank N.V. to be strategically important under our revised group rating methodology. The rating on Achmea B.V., the holding company of the group, is two notches lower than the ratings on the core operating insurance subsidiaries. This reflects its status as a non-operating holding company and our assessment of structural subordination.

Outlook

The stable outlook reflects our view that the financial risk profile will remain resilient at very strong levels. We also assume that current earnings pressure will ease toward the end of 2015 and that the political and

competitive dynamics within the health insurance market will not negatively affect our view of Achmea's business risk profile.

The potential for a positive rating action over the rating horizon is remote in our view.

We could lower the ratings if we changed our base-case assumption that earnings pressures would be only temporary, as measured by our expectation that earnings will recover to 2012 levels by 2015. This could occur if Achmea's operating performance weakens materially compared with our current expectations, especially if non-life underwriting performance comes under sustained margin pressure, or if pressures on health pricing are sustained. If this occurs, it could lead us to lower our assessment of Achmea's financial flexibility.

We could also lower the ratings if we viewed the regulatory, political, and competitive landscape in the Dutch health market as less favorable than currently. This could lead us to reassess our assumption of the stability and low-risk nature of Achmea's health franchise.

Ratings Score Snapshot

Counterparty Credit Rating	A+/Stable/--
Anchor	a+
Business Risk Profile	Strong
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Very Strong
Capital and Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management and Governance	Satisfactory
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

*IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria And Research

Related criteria

- 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
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011.
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011.
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Principles Of Credit Ratings, Feb. 16, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- 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

Related research

- List Of Issuers With Ratings Under Criteria Observation Due To S&P's New Insurers Rating Methodology, May 7, 2013
- Standard & Poor's Assigns Insurance Industry And Country Risk Assessments, May 7, 2013
- Achmea Hypotheekbank Outlook Revised To Neg On Increased Economic Risks In The Netherlands; 'A/A-1' Ratings Affirmed, Nov 16, 2012

Ratings List

Ratings Affirmed

Achmea B.V.

Counterparty Credit Rating

Local Currency 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+/Stable/--

Financial Strength Rating

Local Currency A+/Stable/--

Achmea Hypotheekbank N.V.

Counterparty Credit Rating A/Negative/A-1

Senior Secured A

Senior Unsecured A

Subordinated A-

New Rating

Achmea B.V.
Senior Unsecured A-

Additional Contact:

Insurance Ratings Europe; InsuranceInteractive_Europe@standardandpoors.com

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.