

Research Update:

Dutch Insurance Group Achmea Outlook Revised To Stable From Negative On Improved Operating Results; 'A' Ratings Affirmed

April 11, 2019

Overview

- Achmea has demonstrated stable and improved operating results in 2017 and 2018, lessening the pressure on the group's fixed-charge coverage ratio.
- We think management's actions should improve operating earnings and strengthen the overall financial-risk profile in line with our expectations for the medium term.
- We are therefore revising our outlook on the group to stable from negative and affirming our 'BBB+' ratings on Achmea B.V., 'A-' ratings on highly strategic subsidiaries Achmea Reinsurance Company N.V. and Achmea Bank N.V., and 'A' ratings on the group's core operating companies.
- The outlook revision reflects our belief that the group will sustain improvements in operating performance and fixed-charge coverage, while maintaining capital in excess of the 'A' level.

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Rating Action

On April 11, 2019, S&P Global Ratings revised its outlook to stable from negative on Achmea B.V. and all of its group companies. We have affirmed the 'BBB+' ratings on Achmea B.V., 'A-' ratings on highly strategic subsidiaries Achmea Reinsurance Company N.V. and Achmea Bank N.V., and 'A' ratings on the group's core operating companies (see list below).

Rationale

We believe Achmea has taken corrective measures, like premium rate increases, revisions of its reinsurance program to reduce retention levels, better claims management, and cost saving initiatives to reduce its capital and earnings volatility. The disposal of Friends First and Independender has aided the recovery of operating earnings in 2017 and 2018. Furthermore, despite indirect political pressure and intense competition in the health business, additional loss

provisions declined substantially to €21 million in 2018 and €108 million in 2017, compared with on average €400 million annually in the three years before 2017. In our view, this has reduced capital and earnings volatility and will continue to do so.

The improved operating earnings of €391 million in 2018, compared with a five-year average of €235 million, exceeds our expectations. We think reduced earnings volatility in the past two years compared with historical performance has strengthened the financial-risk profile. Average fixed-charge coverage ratios for 2018-2020 are likely to remain above 4x and capital adequacy is likely to remain in excess of the 'A' level as per our capital model. We expect financial leverage to remain stable at 26%-28% in 2018-2020. Based on this, we believe Achmea's financial-risk profile has improved and expect it to be maintained at this strong level.

The ratings on the core operating insurance subsidiaries continue to reflect our view of the group's leading position in the Dutch non-life and health markets, with a well-diversified profile including life insurance, asset management, and banking activities.

Outlook

The stable outlook reflects our expectation that Achmea will maintain its leadership position in the Dutch non-life and health insurance market, with a capital position at least in the 'A' range and a fixed-charge coverage ratio at or above 4x.

Downside scenario

We could lower the ratings over the next two to three years if profitability is below our expectations and this prevents Achmea from maintaining its capital adequacy and funding structure within our expectations.

Upside scenario

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

Ratings Score Snapshot

	To	From
Financial Strength Rating	A/Stable	A/Negative
Anchor	a	a
Business Risk Profile	Strong	Strong
IICRA	Intermediate risk	Intermediate risk
Competitive Position	Strong	Strong
Financial Risk Profile	Strong	Strong
Capital and Earnings	Very strong	Very strong
Risk Position	Moderate risk	Moderate risk
Financial Flexibility	Adequate	Adequate

	To	From
Modifiers	0	0
ERM and Management	0	0
Enterprise Risk Management	Adequate with strong risk controls	Adequate with strong risk controls
Management and Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Strong	Strong
Support	0	0
Group Support	0	0

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria | Insurance | General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- General Criteria: Criteria Clarification On Hybrid Capital Step-Ups, Call Options, And Replacement Provisions, Oct. 22, 2012
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Criteria | Financial Institutions | General: Methodology: Hybrid Capital Issue Features: Update On Dividend Stoppers, Look-Backs, And Pushers, Feb. 10, 2010
- Criteria | Financial Institutions | Banks: Assumptions: Clarification Of The Equity Content Categories Used For Bank And Insurance Hybrid Instruments With Restricted Ability To Defer Payments, Feb. 9, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

Ratings List

Ratings Affirmed

Achmea Bank N.V.

Certificate Of Deposit	
Local Currency	A-1

Achmea B.V.

Senior Unsecured	BBB+
Junior Subordinated	BBB-

Achmea Bank N.V.

Senior Unsecured	A-
Commercial Paper	A-1

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
Achmea B.V.		
Issuer Credit Rating		
Local Currency	BBB+/Stable/--	BBB+/Negative/--

Achmea Bank N.V.

Issuer Credit Rating	A-/Stable/A-1	A-/Negative/A-1
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Achmea Pensioen & Levensverzekeringen N.V.

Achmea Zorgverzekeringen N.V.

Achmea Schadeverzekeringen N.V.

Issuer Credit Rating		
Local Currency	A/Stable/--	A/Negative/--
Financial Strength Rating		
Local Currency	A/Stable/--	A/Negative/--

Achmea Reinsurance Company NV

Financial Strength Rating		
Local Currency	A-/Stable/--	A-/Negative/--

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