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Research Update:

Netherlands-Based Insurance Group Achmea Outlook To Negative On Weakening Financial Risk Profile; Ratings Affirmed

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Overview

- Insurance group Achmea's expectation of a loss of about €380 million for financial year 2016 highlights an inherent volatility in its capital and earnings, places material pressure on its fixed-charge coverage ratio, and weakens its financial risk profile.
- We are therefore revising our outlook on holding company Achmea B.V. and its operating subsidiaries to negative from stable. We are affirming our 'BBB+' rating on Achmea B.V., our 'A-' rating on highly strategic subsidiaries Achmea Reinsurance Company NV and Achmea Bank N.V., and our 'A' ratings on the group's core operating companies.
- The negative outlook reflects our view that we may lower the ratings by one notch over the next one to two years if the group fails to rebuild its financial risk profile.

Rating Action

On Feb. 21, 2017, S&P Global Ratings revised its outlook on Netherlands-based insurance holding company Achmea B.V. and its subsidiaries to negative from stable.

At the same time, we affirmed our 'A' counterparty credit and insurer financial strength ratings on the group's core operating subsidiaries, our 'A-' financial strength rating on Achmea Reinsurance Company NV and Achmea Bank N.V., and our 'BBB+' counterparty credit rating on Achmea B.V.

Rationale

The negative outlook reflects our concerns over Achmea's ability to rebuild its financial risk profile following multiple one-off losses. The expected loss of about €380 million is materially below our forecasts and evidences Achmea's weakening and more volatile operating performance in recent years. Specifically, we see a risk that earnings may not recover sufficiently to reduce the pressure on the group's fixed-charge coverage and could materially weaken the group's capital adequacy.

The ratings on the core operating insurance subsidiaries reflect our view of the group's strong competitive position, based on its dominant position in the Dutch health insurance and property and casualty insurance markets. They also

reflect the group's recently weakening financial risk profile, following numerous one-off losses and provisions in 2013 and 2014 and the expected loss in 2016. Although we still view Achmea's capital and earnings as very strong, there has been a long-term decline in excess capital at the 'A' level, which will continue if Achmea does not return to strong profitability in 2017. The expected loss also maintains pressure on the Achmea group's fixed-charge coverage, which will be negative in 2016.

Achmea operates in the highly challenging Dutch insurance market which is characterized by intensive competition, legislative changes, and low interest rates in non-life and life sectors. Achmea also faces indirect political pressure in the health sector in the Netherlands. We consider that, under such conditions, the group could find it difficult to sustainably restore profitability and rebuild its balance-sheet strength.

Our base-case scenario assumes that Achmea's management will take actions over the next two years to ensure that it maintains capital adequacy in the upper 'A' range, as per our capital model. We also expect the group to return to operating profit in excess of €250 million per year in 2017 and 2018. We anticipate the group recording combined ratios below 100% (excluding catastrophe events) in its non-life and health segments. A combined ratio below 100% signifies an underwriting profit.

Outlook

The negative outlook reflects our concerns that Achmea may not be able to restore its profitability to a level sufficient to maintain its capital adequacy at least within the 'A' range and its average fixed-charge coverage above 4x. The outlook also reflects that if operating performance were to remain weak, and we believe that the group's weak fixed-charge coverage is unlikely to improve, we could consider lowering the ratings by more than one notch.

We could revise the outlook to stable if we see an improvement in operating performance, allowing the group to rebuild its financial risk profile, return to a sustainable fixed-charge coverage of over 4x, and maintain capital in excess of the 'A' level per our model.

Ratings Score Snapshot

Holding Company Rating	To: BBB+/Negative/--	From: BBB+/Stable/--
Financial Strength Rating	A/Negative	A/Stable
Anchor Business Risk Profile	a- Strong	a- Strong

IICRA*	Intermediate Risk	Intermediate Risk
Competitive Position	Strong	Strong
Financial Risk Profile	Moderately Strong	Strong
Capital & Earnings	Very Strong	Very Strong
Risk Position	Moderate Risk	Intermediate Risk
Financial Flexibility	Less than Adequate	Less than Adequate
Modifiers	+1	+1
ERM and Management	+1	+1
Enterprise Risk Management	Strong	Strong
Management & Governance	Satisfactory	Satisfactory
Holistic Analysis	0	0
Liquidity	Exceptional	Exceptional
Support	0	0
Group Support	0	0
Government Support	0	0

*Insurance Industry And Country Risk Assessment.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 07, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 07, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 07, 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; CreditWatch/Outlook Action

	To	From
Achmea B.V. Counterparty Credit Rating	BBB+/Negative/--	BBB+/Stable/--
Achmea Bank N.V. Counterparty Credit Rating	A-/Negative/A-2	A-/Stable/A-2
Achmea Pensioen & Levensverzekeringen N.V.		
Achmea Zorgverzekeringen N.V.		

Achmea Schadeverzekeringen N.V.

Counterparty Credit Rating	A/Negative/--	A/Stable/--
Financial Strength Rating	A/Negative/--	A/Stable/--

Achmea Reinsurance Company NV

Financial Strength Rating	A-/Negative/--	A-/Stable/--
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Ratings Affirmed

Achmea B.V.

Senior Unsecured	BBB+
Junior Subordinated	BBB-

Achmea Bank N.V.

Senior Unsecured	A-
Certificate Of Deposit	A-2

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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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