Achmea B.V.'s Proposed Restricted Tier 1 Junior Subordinated Notes Assigned 'BB+' Rating

January 20, 2025

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STOCKHOLM (S&P Global Ratings) Jan. 20, 2025--S&P Global Ratings today assigned its 'BB+' issue rating on Netherlands-based insurance group Achmea B.V.'s (BBB+/Stable/--) proposed restricted tier 1 (RT1) notes. The issue rating is subject to our review of the notes' final terms and conditions. We expect to classify the bonds as having intermediate equity content under our criteria.

In accordance with our methodology, we rate the proposed RT1 notes three notches below the 'BBB+' long-term issuer credit rating (ICR) on Achmea, as such we deduct:

- One notch to reflect the notes' subordination to the company's senior bonds;
- One notch to reflect the risk of a potential temporary write-down of principal; and
- One notch to reflect the notes' mandatory and unconditional optional interest-cancellation features.

The notching on this instrument is wider than the notching applied to some of Achmea's other subordinated instruments because noteholders face a potential loss of principal should a mandatory write-down trigger be breached.

Our rating analysis and equity content assessment take into account our understanding that:

- The noteholders are subordinated to senior creditors;
- The issuer has unconditional discretion to cancel interest payments;
- Achmea has the option of deferring interest at its sole discretion and at any time;
- Interest cancellation is mandatory under certain circumstances, including if the solvency condition is not met; or if, under Solvency II, Achmea's capital resources (own funds) are insufficient to meet either the solvency capital requirement (SCR) or the minimum capital requirement (MCR); or upon insufficient distributable items;
- The notes will be eligible as RT1 capital under Solvency II; and
- The notes will be written down if the amount of own funds eligible to cover the SCR is equal to or less than 75% of the SCR, the amount of own funds eligible to cover the MCR is equal to or less than the MCR, or a breach of the SCR has occurred and not been remedied within three months.

We do not consider the payment risk on these notes to be materially greater than for the company's tier 2 hybrid notes, which would also be required to defer coupons upon a breach of Achmea's SCR. We view one notch as sufficient to reflect the payment risk on these notes, as well as on the group's other hybrids. In part, we base this on the SCR coverage level in the past year, moderate SCR sensitivity, and management's intent to maintain a healthy SCR. The SCR stood at 188% as of June 31, 2024. That said, we will monitor Achmea's SCR coverage and capital plans to assess whether the ICR adequately incorporates the payment risk associated with Achmea's hybrid instruments.

We include securities of this nature, up to a maximum of 30% of capital, in our consolidated risk-based capital analysis of insurance companies. The inclusion is subject to the notes being considered eligible as regulatory own funds under Solvency II.

We understand that the RT1 notes are perpetual but are callable at par after at least 10 years, and every six months thereafter. The notes carry a fixed interest rate that will be reset on the first call date and on every five years thereafter. There is no step-up in the coupon rate if the notes are not called on the first call date. In addition, Achmea can choose, following a write-down of the principal, to reinstate the notes at its discretion if certain conditions are met. Achmea has the option to redeem the notes at par before the first call date under specific circumstances, such as for changes in accounting, taxation, regulation, or rating methodology. After any such early redemption, the notes must be replaced by an instrument of at least the same quality.

We assume Achmea will use the proceeds for general corporate purposes, which may include the refinancing of outstanding debt.

We forecast that, even after this issue, Achmea's financial leverage (debt plus hybrid capital, divided by the sum of shareholder equity, debt, and hybrid capital), and fixed-charge coverage (EBITDA divided by senior and subordinated debt interest) will remain within our tolerances.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- 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