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Research Update:

Netherlands-Based Waarborgfonds voor de Zorgsector 'AAA' Rating Affirmed; Outlook Stable

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Overview

- Our rating on Dutch health care guarantee fund Waarborgfonds voor de Zorgsector (WFZ) is equalized with that on The Netherlands, reflecting our opinion that there is an almost certain likelihood that WFZ would receive timely and sufficient extraordinary support from the Dutch government.
- We are affirming our 'AAA' long-term issuer credit rating on WFZ.
- The stable outlook on WFZ reflects that on The Netherlands.

Rating Action

On July 4, 2017, S&P Global Ratings affirmed its 'AAA' long-term issuer credit rating on Dutch health care guarantee fund Waarborgfonds voor de Zorgsector (WFZ). The outlook remains stable.

Rationale

The rating is equalized with that on The Netherlands (AAA/Stable/A-1+), reflecting our view of an almost certain likelihood that the government would provide timely and sufficient extraordinary support to WFZ in the event of financial distress. We do not believe such support could be reduced, given the long-standing backstop agreement between WFZ and the state.

Our assessment is based on the following two key factors:

- WFZ's critical public policy role in enabling the provision of accessible and affordable health care, through providing guarantees on loans to health care providers. WFZ is an independent, not-for-profit guarantee fund, whose main and key purpose is to safeguard the funding of the Dutch health care sector. Its primary method of achieving this is by selectively guaranteeing loans made to participating health care providers, which helps them access more affordable finance, especially in a context of growing pressure on Dutch health care providers' financials. In addition, WFZ also seeks to promote good financial management among its participants. WFZ also administers a legacy portfolio of loan guarantees that were previously issued by the government.
- WFZ's integral link with the Dutch government. We view WFZ as having a special public status, given the government's ultimate responsibility for ensuring WFZ can meet its obligations. The government created WFZ, provided its initial capital, and is ultimately liable for all WFZ's financial obligations. Although WFZ has a degree of operational autonomy, the government has effectively determined WFZ's broad purpose and overall strategy. While we believe a default of WFZ would not necessarily impair market access for the Dutch government itself, it could have a detrimental impact on the reputation and market access for other similar entities, and hence the access to funding of public sectors in general.

The Netherlands has a mostly private healthcare system, with a mandatory insurance scheme that is paid by all residents that have access to the service. Given the low margins and lack of own funds in the sector, it is essential for WFZ to provide affordable long-term funding to enable health providers to make investments, mostly on large fixed assets like buildings. Such fixed assets are pledged to WFZ as part of the guarantee agreement, but the market value is usually lower than the amount of guarantee, given restrictions on use of the assets. WFZ applies certain eligibility criteria for its guarantees, based on its credit analysis of the participating health care providers and their business plans, and only provides guarantees for long-term investment, rather than working capital. In addition, it maintains ongoing credit surveillance on its participants and holds regular discussions directly with senior management.

The Dutch health care sector has been under pressure stemming from cost control from the central government and we expect a trend of a reduction in investments by hospitals. Recent reforms in the long-term care sector, moving from inpatient care to home care, are also leading to overcapacity among some providers. We therefore expect that the need for guarantees will continue to decline in the near term and that an increasing number of healthcare providers will come under financial pressure. WFZ is adjusting to these developments by strengthening review checks on participating providers and through the increase in fees to 0.25% from 0.1%, starting in December 2015, which has had a positive impact on the financial performance. We expect an average surplus of about €9 million (154% of revenues) over the next three years (2017-2019), provided that no further guarantees are called.

If health care providers become unable to service their debts, and creditors call on the WFZ guarantees, then WFZ has some capacity to meet these demands from its cash and investments. In 2013, a hospital become insolvent and WFZ stepped in to honor its guarantee, using its own funds. WFZ maintains conservative criteria for its investments, with 'AAA' rated entities accounting for 62% of the total portfolio as of financial year-end 2016, while adhering to a strict policy of no exposure to equity markets. We consider that WFZ has a very positive internal liquidity position. At year-end 2016, it held cash and investments of about €282 million. WFZ has a history of generating positive cash flows, and we generally expect this to continue. Another positive liquidity feature is the regular redemption profile of its investments.

WFZ posted an overall surplus of €12.1 million (208% of revenues) at year-end 2016, following a surplus of €10.6 million (186% of revenues) in 2015. We believe that WFZ will continue to post surpluses in the next few years, despite expected additional costs of €2 million-€3 million per year in light of a guarantee claim dating back to 2013 and tax payments.

If WFZ's reserves fall below 0.25% of guaranteed debt then, under the terms of the guarantees it provides, all the participating health care providers are obliged to provide WFZ with interest-free loans up to 3% of their respective guaranteed debt until reserves again exceed 1% of guaranteed debt measured at year-end.

If, despite this, WFZ's reserves still fall to less than 0.25% of the total guaranteed amount, then The Netherlands has an obligation to provide unlimited interest-free loans to increase reserves up to the 0.25% level. According to the terms of the documents, the government is obliged to do this by the 15th day of the second month after the 0.25% level is breached. In practice, however, based on our discussions with government and our analysis above, we consider it almost certain that the government would be willing to act as quickly as necessary to allow WFZ to honor its guarantees as agreed.

Outlook

The stable outlook on WFZ reflects our stable outlook on The Netherlands.

We would lower the rating on WFZ if we were to downgrade The Netherlands. Alternatively, we could also lower the rating if we were to change our assessment of the likelihood of timely and sufficient extraordinary support from the government. We consider such a scenario unlikely at this stage.

Related Criteria And Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Research Update: State of The Netherlands 'AAA/A-1+' Ratings Affirmed; Outlook Stable, May 19, 2017

Ratings List

	Rating	
	To	From
Waarborgfonds voor de Zorgsector		
Issuer Credit Rating		
Foreign and Local Currency	AAA/Stable/--	AAA/Stable/--

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 spcapitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings 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.

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