

## Waarborgfonds voor de Zorgsector

**Primary Credit Analyst:**

Ekaterina Ermolenko, Stockholm 46 708 770 286; ekaterina.ermolenko@spglobal.com

**Secondary Contact:**

Eileen X Zhang, CFA, London + 44 20 7176 7105; eileen.zhang@spglobal.com

**Research Contributor:**

Garance Bossard, Paris; garance.bossard@spglobal.com

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This report does not constitute a rating action.

## Credit Highlights

### Issuer Credit Rating

AAA/Stable/--

### Overview

Key strengths	Key risks
Solid support structure from the Dutch government via the backstop agreement.	Decreasing volume of outstanding guarantees.
Healthy capital position.	Staff shortages in the Dutch healthcare sector.

**Waarborgfonds voor de Zorgsector (WfZ) is a key public policy tool for the Dutch healthcare sector.** Its purpose is to keep funding costs across the sector low, which is a key government priority. We therefore believe there is an almost certain likelihood of extraordinary support from the Dutch government through a backstop agreement with the central government.

**Declining guarantee volumes could reduce WfZ's relevance over time.** The outstanding volume of guarantees declined over the past few years as investments in the healthcare sector slowed. Although we regard it as unlikely, we believe a material decrease in outstanding guarantees could impair WfZ's public policy role over the medium term. As of December 2023, WfZ's total outstanding guarantees declined to €6 billion, compared with €6.1 billion in 2022 and €6.2 billion in 2021.

**WfZ's capital position is strong.** As of December 2023, the risk capital and callable capital from WfZ members amounted to about 7.9% of outstanding guarantees or €469 million, up from €466 million in 2022. We expect WfZ's capital position relative to outstanding guarantees will remain strong.

## Outlook

The stable outlook on WfZ mirrors that on the Netherlands (unsolicited, AAA/Stable/A-1+) and our expectation that WfZ's relationship with the Dutch government will remain intact.

### Downside scenario

We would lower the ratings on WfZ if we downgraded the Netherlands, or if we had reason to believe that the role WfZ plays in the Dutch public healthcare sector had diminished or that its link with the Dutch government had deteriorated. The ratings could come under pressure if the backstop agreement with the government was modified such that it weakened our view of the likelihood of timely extraordinary support in the case of financial distress.

## Rationale

*We believe there is an almost certain likelihood that the Dutch government would provide timely and sufficient extraordinary support to WfZ in the event of financial distress, as per the long-standing backstop agreement between WfZ and the government.* Since we equalize our long-term issuer credit rating on WfZ with the long-term sovereign rating on the Netherlands, we do not consider that WfZ's stand-alone credit profile is a key rating driver. Our opinion of an almost certain likelihood of government support reflects our assessment of WfZ's:

- Critical public policy role in enabling the provision of accessible and affordable healthcare by providing guarantees on loans to healthcare providers. WfZ is an independent, not-for-profit guarantee fund, whose key purpose is to safeguard the funding of the Dutch healthcare sector. It primarily achieves this by selectively guaranteeing loans made to participating healthcare providers, which gives them access to more affordable financing. In addition, WfZ seeks to promote sophisticated financial management among its participants. WfZ administers a legacy portfolio of direct state guarantees to the healthcare sector.
- WfZ's integral link with the Dutch government. WfZ has a special public status, given the government's ultimate responsibility to ensure WfZ can meet its obligations through a backstop agreement. The government created WfZ, provided its initial capital, and is ultimately liable for WfZ's financial obligations. Although WfZ has some 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 the Dutch government's market access, it would have a negative effect on the reputation and market access of entities similar to WfZ and their access to public-sector funding in general.

*WfZ plays a key public policy role because it helps healthcare providers access financing at relatively affordable rates, thus ensuring that the Dutch population has effective and affordable healthcare.* The Netherlands' healthcare system is largely private, with a mandatory insurance scheme that is paid by all residents who have access to the service. Considering the low margins and the healthcare sector's lack of own funds, it is essential for WfZ to provide affordable long-term funding to enable healthcare providers to make investments, mostly on large fixed assets, such as buildings. Such fixed assets are pledged to WfZ as part of the guarantee agreement. Yet the market value of these assets is usually lower than the amount of any guarantee, given restrictions on the use of these assets. WfZ applies certain eligibility criteria for its guarantees, based on its credit analysis of the participating healthcare providers and their business plans. It only provides guarantees for long-term investments, rather than for working capital. In addition, it maintains an ongoing credit surveillance on its participants and has regular discussions with stakeholders in the healthcare sector.

*The central government sufficiently compensated the healthcare sector for revenue shortfalls and extraordinary expenses it incurred during the COVID-19 pandemic.* Therefore, the pandemic did not result in any claims on WfZ's guarantee. Financial pressures on Dutch healthcare providers remain high due to a shift toward at-home care in parts of the sector. The sector remains focused on cost containment and faces staff shortages, which remain the main issues and hamper investments in the sector. At year-end 2023, 27 healthcare providers (9.3% of the total) were subject to enhanced monitoring by WfZ, compared with 25 participants (8.6% of the total) in 2022.

***If WfZ faces a claim, it has a three-tier security structure to meet its guaranteed obligations.***

- First, if healthcare providers are unable to service their debt and creditors call on the WfZ's guarantees, WfZ can meet these demands from its cash and investments, as was the case when IJsselmeerziekenhuizen defaulted. WfZ maintains conservative criteria for its investments--with 'AAA' rated entities accounting for 74% of the total portfolio in 2023--and adheres to a strict policy of no exposure to equities. We consider that WfZ's internal liquidity is high, with cash and investments of about €310 million at year-end 2023, up from €297 million in 2022.
- Second, if WfZ's risk capital fell below 0.25% of total guaranteed debt, under the terms of its guarantees all participating healthcare providers would be obliged to provide WfZ with interest-free loans up to 3% of their respective guaranteed debt until reserves again exceeded 1% of guaranteed debt measured at year-end.
- Third, if, despite this, WfZ's risk capital still fell below 0.25% of the total guaranteed amount, the Dutch government would be obliged to provide unlimited interest-free loans to increase reserves up to the 0.25% level. According to the terms of the documents, the government would have to do this by the 15th day of the second month after the 0.25% level was breached. Based on our discussions with the government and our analysis above, however, we consider it almost certain that the government would act as quickly as necessary to enable WfZ to honor its guarantees as agreed. Moreover, the potential financial liability for the government caused by the guarantee is included in the annual budget, reducing bureaucratic risks related to the timeliness of the payment.

***Financial pressure and the lack of incentives for healthcare providers to increase capacity and staff numbers continue hampering investments in the sector.*** WfZ provided €334 million in new guarantees in 2023, down from €418 million in 2022. The decrease in the total outstanding volume, mainly because of the redeemed guarantees, resulted in a year-over-year reduction of the total amount of guarantees of 3%. Although planned investment projects indicate that the guarantee portfolio will stabilize over the coming years, we believe it could continue decreasing gradually. In our view, a significant reduction of the portfolio could impair WfZ's public policy role over the long term.

***The Dutch government's engagement has increased after cases of financial distress.*** The bankruptcy of two hospitals in 2018, of which one was a WfZ participant, led to claims of about 1% of the risk capital. The government is now more proactive to ensure continued essential healthcare services. WfZ plays a key role in the early warning system used by the government, which further illustrates its critical role for the Dutch public healthcare sector.

## Related Criteria

- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Related Research

- The Netherlands' New Government Coalition Will Likely Retain Fiscal Prudence, Despite Plans To Expand Spending, May 22, 2024
- Netherlands, April 22, 2024

- The Netherlands' Election Results Signal That Government Formation Could Be A Protracted Process, Nov. 27, 2023

**Ratings Detail (As Of July 8, 2024)\***

**Waarborgfonds voor de Zorgsector**

Issuer Credit Rating AAA/Stable/--

**Issuer Credit Ratings History**

03-Dec-2015 AAA/Stable/--

05-Jun-2015 AA+/Positive/--

29-Nov-2013 AA+/Stable/--

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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