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# Waarborgfonds voor de Zorgsector

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## Credit Highlights

### Overview

| Key strengths | Key risks |
|---|---|
| Solid support structure from the Dutch government via the backstop agreement. | Decreasing volume of outstanding guarantees. |
| Healthy capital position. | Dutch health care sector is facing financial pressure. |

**Waarborgfonds voor de Zorgsector (WfZ) is a key public policy tool for the Dutch health care sector.** Its purpose is to keep funding costs across the sector low, which is a key government priority. As such, we believe there is an almost certain likelihood of extraordinary support from the government of the Netherlands (unsolicited AAA/Stable/A-1+) through a backstop agreement with the central government.

**However, declining guarantee volumes could reduce WfZ's relevance over time.** Its outstanding volume of guarantees has been declining for the past several years as investments in the health care sector have been low. Although we regard it as unlikely, we believe a material decrease in outstanding guarantees could, over time, negatively impact WfZ's public policy role. As of December 2022, its total outstanding guarantees declined to €6.1 billion, compared with €6.2 billion in 2021 and €6.5 billion in 2020.

**WfZ's capital position is strong.** As of December 2022, the risk capital and callable capital from its members amounted to €466 million (down from €491 million in 2021), or about 7% of outstanding guarantees. As interest rates increase, risk capital decreases due to decreasing market values of fixed income securities. Nevertheless, we expect WfZ's capital position relative to outstanding guarantees will remain strong.

# Outlook

The stable outlook on WfZ mirrors the stable outlook on Netherlands and our expectations that WfZ's relationship with the government will remain intact.

## Downside scenario

We would lower the ratings on WfZ if we were to downgrade the Netherlands, or if we had reason to believe that either the role WfZ plays in the public sector or its link to the state had diminished. The ratings could come under pressure if the backstop agreement with the government were to be modified in such a way as to weaken our view of the likelihood of timely extraordinary support if WfZ faces financial stress.

# 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. The support manifests itself via the long-standing backstop agreement between WfZ and the state. Because we equalize our long-term rating on WfZ with that on the sovereign, we do not consider the company's stand-alone credit profile to be a key rating driver. This is because, in our view, we do not believe this government support is likely to diminish.

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. It primarily achieves this by selectively guaranteeing loans made to participating health care providers, which enables them access to more affordable financing. In addition, WfZ also seeks to promote sophisticated financial management among its participants. WfZ also administers a legacy portfolio of direct state guarantees to the sector.
- WfZ's integral link with the Dutch government. WfZ has a special public status, given the government's ultimate responsibility for ensuring WfZ can meet its obligations through a backstop agreement. 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 would have a negative impact on the reputation and market access for other similar entities, and hence the access to funding of public sectors in general.

WfZ plays a key public policy role in that it helps health care providers access financing at relatively affordable rates, ensuring that the Dutch population has effective and affordable health care. Netherlands' health care system is largely private, with a mandatory insurance scheme that is paid by all residents that have access to the service. With 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 care 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 any 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 for working capital. In addition, it maintains ongoing credit surveillance on its participants and holds regular discussions directly with stakeholders in the sector.

The sector was sufficiently compensated by the central government during the pandemic for revenue shortfalls and extraordinary expenses. Therefore, the pandemic did not result in any claims on WfZ's guarantee. Currently, financial pressures on health care providers remain high owing to a shift toward more at-home care for parts of the sector. The sector remains focused on cost containment and faces labor supply shortages. At year-end 2022, 25 health care providers (or 8.6% of the total) were subject to enhanced monitoring by WfZ, compared with 21 participants (or 7.3% of total) in 2021.

Should WfZ face a claim, it has a three-tier security structure to fulfill its guaranteed obligations:

- First, if health care providers become unable to service their debt, and creditors call on the WfZ guarantees, then WfZ can meet these demands from its cash and investments, as in the case of IJsselmeerziekenhuizen's default. WfZ maintains conservative criteria for its investments, with 'AAA' rated entities accounting for 72% of the total portfolio in 2022, while adhering to a strict policy of no exposure to equities. We consider that WfZ has strong internal liquidity; at year-end 2022, it held cash and investments of about €297 million.
- Second, if WfZ's risk capital were to fall below 0.25% of total guaranteed debt, under the terms of its guarantees all participating health care 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 to less than 0.25% of the total guaranteed amount, the Netherlands 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. In practice, however, based on our discussions with the 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. Moreover, the potential financial liability for the government caused by the guarantee is included in the budget annually, reducing bureaucratic risks related to the timeliness of the payment.

Financial pressure, combined with the lack of incentives for providers to increase capacity, has hampered investment in the sector for many years. Although WfZ extended €418 million of new guarantees in 2022 (€237 million in 2021), the total outstanding volume decreased because of the redeemed guarantees, resulting in a year-on-year reduction of 1%. Although investment projects in the pipeline indicate that the guarantee portfolio will stabilize in the coming years, we believe that if the declining trend continues it could have a long-term negative implication on WfZ's public policy role given its guarantees are mostly related to investment in physical assets.

Following the bankruptcy of the two hospitals in 2018, of which one was a WfZ participant, causing claims amounting to about 1% of the risk capital, the government is now more proactively engaged in cases of future financial distress, with the intention of ensuring continued essential health care services. Such a shift could have a positive effect on the credit quality of Dutch health care providers over time. Also, WfZ plays a key role in the early warning system used by the government, which further illustrates the entity's critical role for the Dutch public 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

- Netherlands, April 25, 2023
- Sovereign Risk Indicators, April 10, 2023

### Ratings Detail (as of July 18, 2023)*

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|---|---|
| **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.