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Waarborgfonds voor de Zorgsector

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Major Rating Factors

Issuer Credit Rating
AAA/Stable/--

Strengths:

- An almost certain likelihood of extraordinary support from the Netherlands through a backstop agreement with the central government.
- Support received during the COVID-19 pandemic, illustrating the low risk profile of the underlying Dutch health care sector that WFZ provides guarantees to.

Weaknesses:

- Overall declining investment volume, and thereby extended guarantees, which could have a negative impact on the fund's public policy role.

Outlook

The stable outlook on Waarborgfonds voor de Zorgsector (WFZ) mirrors the stable outlook on Netherlands and S&P Global Ratings' expectations that the fund's relationship with the government will continue.

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 the fund plays in the public sector or its link to the state had diminished. The rating could come under pressure if the backstop agreement with the government were to change such as to weaken our view of the likelihood of timely extraordinary support should WFZ face 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. Support manifests itself in the long-standing backstop agreement between the fund and state. As a result, we equalize our rating on WFZ with our long-term rating on the Netherlands (unsolicited; AAA/Stable/A-1+).

Our assessment is based on the following two key factors:

- The fund'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 financing of the Dutch health care sector. Its primary method of achieving this is by selectively guaranteeing loans made to participating health care providers, which enables them access to more affordable funding, especially in a context of intensifying financial pressure on Dutch health care providers. In addition, WFZ also seeks to promote good financial management among its participants. It also administers a legacy portfolio of direct state guarantees to the sector; and

- WFZ's integral link with the Dutch government. The fund has a special public status, given the government's ultimate responsibility for ensuring it can meet its obligations through the backstop agreement. The government created WFZ, provided its initial capital, and is ultimately liable for all the fund's financial obligations. Although the fund has some operational autonomy, the government has effectively determined the fund'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 detrimental effect on the reputation and market access for other similar entities, hence the access to funding of public sectors in general.

Given that WFZ enables health care providers to access financing at relatively affordable rates, it plays a central role in enabling the government to meet a key public policy objective of ensuring that the Dutch population has access to effective and affordable health care. Nevertheless, the Netherlands' health care system is mostly 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 the fund to provide affordable long-term funding to enable health care providers to make investments, mostly in large fixed assets like buildings. These 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. The fund applies 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 financial pressure from the COVID-19 pandemic on Dutch health care institutions has largely been mitigated by support from health insurers and the government. Dutch health insurers agreed with several health care associations to cover COVID-19-related revenue shortfalls and costs at an early stage of the pandemic, and the government has also taken measures to ensure the sector's financial stability. In our view, this illustrates the sector's moderate risk profile and we observe that there has not been an increase of financially vulnerable institutions nor guarantee claims on WFZ because of the pandemic. As such, the fund has continued to post robust financial results, despite declining guarantee volumes.

WFZ posted an operating profit of €2.5 million (32% of revenue) at year-end 2020, following an operating profit of €2.3 million (35% of revenue) in 2019. We believe that the fund will continue to post operational surpluses in the next few years, thanks to lower guarantee costs and stable income from discount fees.

With the cost pressures and shift toward greater at-home care for part of the health services, there has been a steady decline in the volume of investment in the institutional health care sectors. For the majority of institutional health care providers, there are continuous problems with overcapacity and new investment plans are limited. In both the cure and care sectors, the trend over the past few years has been outpatient care replacing inpatient care, reducing the demand for hospital beds. Moreover, for curative care, we expect information and communication technology development in the sector to have a major impact on how curative care is delivered. This further reduces the need for large physical hospital locations and accentuates the "from bricks to clicks" development.

The declining investment activity in the health care buildings mirrors the annual volume of new WFZ guarantees. Although new guarantees increased to €277 million in 2020 from €166 million in 2019, this is substantially lower than a couple of years ago and still less than volume of maturing guarantees in the same year. Consequently, the fund's total guarantees on long-term loans has declined and amounted to approximately €6.5 billion at year-end 2020, including contractually agreed repayments on loans. This is down 3.5% compared with year-end 2019's €6.8 billion. We believe that if this trend continues, it could have a long-term negative impact on WFZ's public policy role, as its guarantees are mostly related to investment in physical assets. Mitigating these risks are that investment projects in the pipeline indicate that volumes will increase somewhat. At the same time, the fund has a new strategy to be more visible in the market, thereby reaching new potential participants.

In 2018, two Dutch hospitals went bankrupt. One of them, IJsselmeerziekenhuizen, was a participant of WFZ, but the claim was small in proportion to the fund's risk capital (about 1%) so had limited financial impact on the fund. The most acute problem for the hospital was a shortage of liquidity, but we understand that its financial performance had been weak for an extended period. In Netherlands, as long as health insurance companies can find an alternative provider in the region that fulfills the requirement, they can end contracts with hospitals and stop prepayments to hospitals that are not performing to their service standards. In the case of IJsselmeerziekenhuizen, the health insurer stopped insurance payment on short notice and forced the hospital to close operations overnight. It had negative consequences for patients receiving ongoing treatment at the hospital and raised questions about the state's role in providing essential health care.

This experience has prompted the state to monitor health care providers more closely and aim to be more proactively engaged in cases of future financial distress, with the intention of providing continued essential health care services. Such a shift could have a positive impact on the credit quality of Dutch health care providers. Also, the fund plays a key role in the early warning system used by the government, which further illustrate the entity's critical role for the Dutch public sector.

We do not anticipate that WFZ will face substantial claims on its guarantee because of COVID-19 since we expect health insurers and the government to continue compensating the sector for revenue shortfalls and increased costs if needed. Nevertheless, should the fund 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 it can meet these demands from its cash and investments, as in the case of IJsselmeerziekenhuizen's default. The fund maintains conservative criteria for its investments, with 'AAA' rated entities accounting for 68% of the total portfolio in 2020, while adhering to a strict policy of no exposure to equities. We consider that WFZ has strong internal liquidity; at year-end 2020, it held cash and investments of about €320 million. Another positive liquidity feature is the regular redemption profile of investments.
- Second, if the fund risk capital were to fall below 0.25% of total guaranteed debt, under the terms of the guarantees it provides, 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 WFZ's risk capital still fell to less than 0.25% of the total guaranteed amount despite this, the Netherlands 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, we

consider it almost certain that the government would be willing to act as quickly as necessary to allow the fund 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.

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, the fund executes strategic government policies, and the likelihood of extraordinary government support is almost certain, and we do not believe such support is likely to diminish.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- Principles of Credit Ratings, Feb. 16, 2011

Ratings Detail (As Of July 5, 2021)*	
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.