



## RATING ACTION COMMENTARY

# Fitch Affirms Pension Insurance Corp's 'A+' IFS Rating; Outlook Stable

Fri 08 Sep, 2023 - 10:35 AM ET

Fitch Ratings - London - 08 Sep 2023: Fitch Ratings has affirmed Pension Insurance Corporation PLC's (PIC) Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and Long-Term Issuer Default Rating (IDR) at 'A'. The Outlooks are Stable.

A full list of rating actions is below.

The ratings mainly reflect Fitch's assessment of PIC's 'Strong' company profile and 'Very Strong' capitalisation and leverage. In addition, we assess the insurer's financial performance, investment risk and asset-liability management as 'Very Strong' and debt service capabilities as 'Strong'.

## KEY RATING DRIVERS

**'Strong' Company Profile:** PIC's 'Strong' company profile reflects the insurer's position as one of the leaders in the UK bulk purchase annuity market, with total financial investments of GBP47 billion at end-1Q23 (end-2022: GBP41 billion). PIC generated very strong new business volumes of GBP6.2 billion in 1Q23 (2022: GBP4.1 billion) following a deal to write the largest pension risk transfer transaction (GBP6.2 billion) in the UK. We expect the company to benefit from strong growth in the UK bulk annuity market.

Fitch ranks PIC's business profile as 'Moderate' compared with other UK life insurers'. This reflects PIC's favourable competitive positioning and business risk profile, which are partly offset by its less favourable diversification given its business concentration in UK bulk annuities. We view PIC's limited diversification as a rating constraint.

**Very Strong Capitalisation:** PIC's capitalisation is primarily based on its 'Extremely Strong' score under Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2022, unchanged from 2021's. PIC's regulatory Solvency II (S2) capital coverage ratio was a very strong 225% at end-2022 (end-2021: 168%), benefiting from higher interest

rates and strong surplus generation from its in-force book. PIC estimates a S2 ratio of 193% at end-1Q23 following the group's inaugural dividend payment of GBP100 million and full execution of the pension risk transfer transaction with RSA Insurance Group Limited. Fitch expects the insurer's capital position to remain supportive of growth in new business volumes.

**Improved Financial Leverage:** PIC's Fitch-calculated financial leverage ratio (FLR) improved to 23% in 2022 (2021: 27%), helped by strong profitability and capital generation.

**'Very Strong' Financial Performance:** The insurer's reported underlying profits, comprising new business and in-force profits, improved in 2022 to GBP654 million (2021: GBP455 million), due to higher expected returns on surplus assets resulting from increased interest rates and stronger new business profits. Fitch expects PIC's underlying profits to remain strong, supported by a steady release of earnings from its in-force book, selective writing of profitable businesses and strong returns on investments.

However, PIC's reported operating profits calculated as underlying profits after changes in valuation assumptions, experience variances and finance and other costs declined to GBP389 million from GBP534 million. This mainly reflected reserve releases in 2021 following favourable assumption changes relating to credit defaults, inflation and expenses, which did not repeat in 2022.

**Volatile IFRS Net Income:** PIC's IFRS pre-tax income is volatile, principally due to IFRS sensitivity to changes in investment-related variances driven by market movements. PIC's pre-tax income improved considerably to GBP1,241 million in 2022 from GBP394 million in 2021, driven by favourable investment-related variances resulting from higher inflation and interest rates. In line with its peers', we expect PIC's profit recognition to shift to a more back-end loaded profile under the new IFRS17 reporting standard that came into force on 1 January 2023.

**Low Investment Risk:** PIC has a high-quality investment portfolio, with around 71% of its debt securities rated 'A' or above, including privately placed investments. PIC also had no credit defaults in its portfolio. Its financial assets are fairly concentrated in UK sovereign debt, which results in its investment and asset risk score being capped at 'aa-', in line with the UK sovereign rating (AA-/Negative).

**Reduced FCC Ratio:** PIC's fixed-charge coverage (FCC) ratio, calculated based on reported operating profit, fell to 4.2x in 2022 (2021: 5.4x), after a decline in reported operating profits. However, Fitch expects the insurer's resilient operating earnings,

backed by its in-force book, strong new business volumes and investment income, to remain supportive of its debt service.

**RATING SENSITIVITIES**

**Factors That Could, Individually or Collectively, Lead to Positive Rating**

**Action/Upgrade:**

-- PIC's ratings could be upgraded on a significant increase in product and geographical diversification

**Factors That Could, Individually or Collectively, Lead to Negative Rating**

**Action/Downgrade:**

-- A significant weakening of capitalisation, as evident, for example, in a decrease in S2 coverage to below 130%

-- A significant weakening in the FLR for a sustained period

-- A significant weakening in FCC for a sustained period

**REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

**ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

**RATING ACTIONS**

ENTITY / DEBT ⚡	RATING ⚡	PRIOR ⚡
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Pension Insurance Corporation PLC	LT IDR	A Rating Outlook Stable		A Rating Outlook Stable
	Affirmed			
	LT IFS	A+ Rating Outlook Stable		A+ Rating Outlook Stable
	Affirmed			
subordinated	LT	BBB+	Affirmed	BBB+
subordinated	LT	BBB-	Affirmed	BBB-

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism Factor-Based Capital Model, v1.8.0 ([1](#))

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Pension Insurance Corporation PLC

UK Issued, EU Endorsed

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