



RATING ACTION COMMENTARY

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

Mon 26 Oct, 2020 - 1:31 PM ET

Fitch Ratings - London - 26 Oct 2020: This is a correction of a rating action commentary published on 23 October 2020 to include additional issuance in the rating action table.

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.

KEY RATING DRIVERS

The ratings reflect PIC's capitalisation and leverage, profitability, investment risk and asset-liability management (ALM), all of which Fitch assesses as very strong. These are somewhat offset by the group's business profile and debt service capabilities, which we assess as strong.

Fitch's assessment of PIC's business profile reflects the group's established record in the UK bulk annuity market and strong demand for de-risking products from UK pension schemes. PIC signed a record GBP7.2 billion of new business premiums in 2019 (2018:

GBP7.1 billion). This amounted to around 16% of overall buy-in and buy-out volumes in 2019. PIC's new business volumes remained resilient in 1H20 with GBP3.5 billion of premiums written across five deals. Fitch expects demand for de-risking products from pension schemes to remain resilient over the medium term.

Offsetting these strengths is PIC's concentrated exposure to a single, albeit very important, annuity segment of the UK life insurance sector. As an annuity specialist, PIC has no business line diversification, which exposes it to a downturn in the bulk annuity market. However, the its business model is not reliant on writing consistent volumes in any given year.

Our assessment of PIC's capitalisation is based primarily on an 'Extremely Strong' score in Fitch's Prism factor-based capital model (Prism FBM) at end-2019. This is reinforced by PIC's regulatory Solvency II (S2) coverage ratio of 164% at end-2019 (end-2018: 167%). PIC's very strong capital position remained resilient at end-June 2020. Its S2 coverage ratio decreased to 153%, as falling interest rates and new business written in 1H20 were only partly offset by a GBP450 million equity-raise in February 2020 and a GBP300 million subordinated Tier 2 (T2) notes issue in May 2020.

PIC's financial leverage ratio (FLR) increased to 23% at end-June 2020 (end-2019: 22%) after the issue of GBP300 million T2 notes in May. We expect FLR to weaken further by end-2020 following the issue of GBP400 million T2 notes in October 2020, offset by the additional GBP300 million of equity raised in September, but to remain below 30% at end-2020.

PIC's fixed-charge coverage (FCC) was 15x in 2019. However, we expect FCC to weaken in 2020 following the debt issues but to remain commensurate with its rating.

Fitch expects PIC's profitability to remain strong, driven by selective writing of profitable new business over time and strong returns on investments. PIC's adjusted operating profit was GBP824 million in 2019 (2018: GBP649 million), largely reflecting an increase in releases from its growing in-force book, new business and a favourable one-off impact in respect of changes to valuation assumptions. However, PIC's adjusted operating profit decreased to GBP187 million in 1H20, a 70% drop compared with 1H19. This was due mainly to the base effect of favourable one-off valuation assumption changes in 1H19 and lower new business volumes, the latter reflecting the lumpy nature of the pension de-risking market.

PIC's net income return on equity was at 12.3% in 2019. PIC's net income was negatively impacted by investment-related losses in 2019, including variances arising from the impact of short-term market movements such as reduction in interest rates.

Fitch views PIC's investment and asset risk as low. However, the concentrated exposure to UK sovereign debt in proportion to PIC's equity results in the investment and asset risk score being capped at 'aa-', in line with the UK sovereign rating (AA-/Negative).

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A material adverse change in Fitch's ratings assumptions with respect to the coronavirus impact.

--A significant weakening of the group's capitalisation, as evidenced for example by a decrease in the group's S2 solvency capital requirement coverage ratio to below 130%.

--An increase in FLR to above 30%.

--A sustained weakening in the group's run rate of FCC to below 4x.

--A weaker assessment of PIC's business profile, for example, driven by a sustained downturn in the market for pensions de-risking products.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A material positive change in Fitch's ratings assumptions with respect to the coronavirus impact.

--An increase in PIC's product and geographical diversification. However, we view this as unlikely given the group's focus on the UK bulk annuity segment.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions,

measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY/DEBT	RATING		
Pension Insurance Corporation PLC	LT IDR	A Rating Outlook Stable	Affirmed
	Ins Fin Str	A+ Rating Outlook Stable	Affirmed
● subordinated	LT	BBB+	Affirmed

ENTITY/DEBT	RATING			
● • GBP 300 mln 6.5% bond/note	LT	BBB+		Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.7.1 ([1](#))

ADDITIONAL DISCLOSURES

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Pension Insurance Corporation PLC

EU Issued

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