

28 AUG 2024

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

Fitch Ratings - London - 28 Aug 2024: 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 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 and investment risk as 'Very Strong' and debt service capabilities as 'Strong'.

Key Rating Drivers

Improved Company Profile: Fitch's view of PIC's company profile reflects its improved operating scale and strong competitive positioning in the UK bulk annuity market, where PIC is one of the leaders with total financial investments of GBP47 billion at end-1Q24 (end-2023: GBP47 billion). These are partly offset by the insurer's limited geographical and product diversification due to its focus in the UK bulk annuity market.

In 2023, PIC generated very strong new business volumes of GBP6.9 billion, up from GBP4.1 billion in 2022, supported by the completion of the UK's largest pension risk transfer transaction (GBP6.2 billion) with the trustees of schemes sponsored by RSA Group. New business in 1Q24 stood at GBP1.5 billion. Fitch expects strong volumes over the medium term, supported by resilient demand from corporates to offload their pension liabilities.

Very Strong Capitalisation: PIC's Prism Global model was 'Extremely Strong' at end-2023, unchanged from end-2022's. Its Solvency II (S2) coverage ratio was very strong at 211% at end-2023 (end-2022: 225%), supported by strong operating surplus generation. PIC estimates a S2 ratio of 212% at end-1Q24 after factoring in the impact of a GBP147 million payment of dividends by the group in May 2024. Fitch expects the insurer's capital position to remain supportive of growth in new business volumes.

Very Strong Financial Leverage: The insurer's Fitch-calculated financial leverage ratio (FLR) was very strong at 21% at end-2023 under IFRS 17 (end-2022: 20%). Fitch expects the FLR to have slightly deteriorated following PIC's GBP500 million Tier 2 issuance in May 2024, partly offset by the tender of some of its existing Tier 2 subordinated notes, which totalled around GBP193 million. However, we expect FLR to remain strong and commensurate with PIC's rating.

Very Strong Financial Performance: PIC's reported underlying profits, comprising new business and

in-force profits, improved to GBP939 million in 2023 (2022: GBP593 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 a strong return on investments.

The timing of profit recognition is delayed under IFRS 17 and profits are recognised progressively over the duration of the insurance contracts. PIC reported an IFRS pre-tax profit of GBP303 million in 2023, an increase from GBP96 million in 2022, driven mainly by strong underlying profits and reserve releases supported by favourable demographic, mortality and expense assumption changes.

Low Investment Risk: PIC has a high-quality investment portfolio, with over 70% 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-/Stable).

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- A significant weakening of capitalisation, as manifested, for example, in a S2 ratio below 140%
- Deterioration in the FLR to above 28% on a sustained basis

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

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>.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Pension Insurance Corporation PLC	LT IDR	A	Affirmed	A
	LT IFS	A+	Affirmed	A+
• subordinated		BBB+	Affirmed	BBB+
• subordinated		A-	Affirmed	A-
• subordinated		BBB	Affirmed	BBB

RATINGS KEY OUTLOOK WATCH

POSITIVE	⊕	◊
NEGATIVE	⊖	◊
EVOLVING	◊	◆
STABLE	○	

Applicable Criteria

[Insurance Rating Criteria \(pub.04 Mar 2024\) \(including rating assumption sensitivity\)](#)

Applicable Models

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

Prism Global (ex-U.S.) Model, v1.8.1 [\(1\)](#)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Pension Insurance Corporation PLC UK Issued, EU Endorsed

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