



## RATING ACTION COMMENTARY

# Fitch Affirms Pension Insurance Corporation at IFS 'A+'; Outlook Stable

Thu 07 May, 2020 - 10:15 AM ET

Fitch Ratings - London - 07 May 2020: 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 affirmations are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of ratings assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for PIC that Fitch compared with both ratings guidelines defined in its criteria, and relative to previously established Rating Sensitivities for PIC.

Under our rating case assumptions, PIC's credit fundamentals remain strong and commensurate with the 'A+' IFS rating. The affirmation reflects PIC's very strong

"capitalisation and leverage", and strong "debt service capabilities/financial flexibility", "financial performance" and "business profile".

PIC's very strong capital position remains resilient under our COVID-19 assumptions, with a pro-forma Fitch's Prism Factor-Based Capital Model (Prism FBM) score of 'Extremely Strong' under our rating case, based on end-2019 figures. This is reinforced by a strong Solvency II capital coverage ratio of 159% at end of March 2020, and 164% at end-2019.

PIC's financial leverage ratio (FLR) was 22% at end-2019. After allowing for a paid-in GBP450 million equity out of GBP750 million announced equity raise in February 2020 and issuance of GBP300 million T2 notes in April, the FLR increases to 25%. Under our rating case, PIC's pro-forma FLR weakens, due to a decline in shareholders' equity, but remains below the downgrade sensitivity of 30%.

PIC's fixed-charge coverage (FCC) was 15x in 2019. However, allowing for a full annual interest accrual for debt issued in 2019, FCC falls to 8x. Under the rating case, pro-forma FCC marginally decreases but remains commensurate with the ratings.

We assess PIC's liquidity position as very strong, allowing the group to meet near-term liquidity requirements including coupons and collateral requirements.

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

--Increase in two-year cumulative high yield bond default rate to 13%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.

## **RATING SENSITIVITIES**

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. An indication of how ratings would be expected to be impacted under a set of Stress Case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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 decline in Fitch's view of PIC's business profile, for example driven by a sustained downturn in the market for pensions de-risking products, could lead to a downgrade.

--The ratings could also be downgraded in the event of a significant weakening of the group's capitalisation, as evidenced for example by a decrease in the group's S2 SCR coverage to below 130%.

--An increase in financial leverage to above 30% could also lead to a downgrade.

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.

--Positive rating action would be prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the UK life insurance industry and PIC.

--PIC's ratings could be upgraded following an increase in product and geographical diversification. However, we view this as unlikely given PIC's focus on the UK bulk annuity segment.

#### Stress Case Sensitivity Analysis

--Fitch's stress case assumes a 60% stock market decline, a two-year cumulative high-yield bond default rate of 22%, more prolonged declines in government rates, heightened pressure on capital-market access, a coronavirus infection rate of 15% and mortality rate of 0.75%, a notch lower sovereign rating.

--The implied-rating impact under the stress case would be a revision of the Outlook to Negative.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions 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.

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The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## RATING ACTIONS

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

**ENTITY/DEBT      RATING**

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● subordinated    LT      BBB-      Affirmed

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**[VIEW ADDITIONAL RATING DETAILS](#)****FITCH RATINGS ANALYSTS****Fedor Smolyakov, PhD, PRM**

Director

Primary Rating Analyst

+44 20 3530 1306

Fitch Ratings Ltd 30 North Colonnade, Canary Wharf London E14 5GN

**Willem Loots, FIA**

Senior Director

Secondary Rating Analyst

+44 20 3530 1808

**Federico Faccio**

Senior Director

Committee Chairperson

+44 20 3530 1394

**MEDIA CONTACTS****Athos Larkou**

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**APPLICABLE CRITERIA**[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)**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)

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Pension Insurance Corporation PLC

EU Issued

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