



## RATING ACTION COMMENTARY

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

Tue 28 Mar, 2023 - 9:06 AM ET

Fitch Ratings - London - 28 Mar 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 reflect PIC's capitalisation and leverage, financial performance, investment risk and asset-liability management, all of which Fitch assesses as 'Very Strong'. We also assess the insurer's company profile and debt service capabilities as 'Strong'.

## KEY RATING DRIVERS

**Strong Company Profile:** Fitch assesses PIC's company profile as strong, reflecting the insurer's position as one of the leaders of the UK bulk purchase annuity market, with total invested assets of GBP41 billion at end-2022 (end-2021: GBP51.1 billion). The reduction in the invested assets reflects a rise in gilt yields that depressed the value of the fixed income portfolio. PIC's new business volumes remained robust at GBP4.1 billion in 2022 (2021: GBP4.7 billion), and we expect the company to benefit from the strong growth in the UK bulk annuity market. In February 2023, PIC announced a GBP6.5 billion buy-in deal, the largest pension risk transfer transaction in the UK.

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, partly

offset by its less favourable diversification given the business concentration in UK bulk annuities. We view PIC's limited diversification as a rating constraint.

**Very Strong Capitalisation and Leverage:** PIC's regulatory Solvency II (S2) capital coverage ratio was a very strong 225% at end-2022, up from 168% at end-2021, benefiting from higher interest rates and strong surplus generation from the in-force book. We expect PIC's capital position to remain supportive of the growth in new business volumes.

The company's Fitch-calculated financial leverage ratio (FLR) improved to 23% at end-2022 from 27% at end-2021 helped by strong profitability and capital generation.

**Very Strong Financial Performance:** PIC's reported underlying profits, measured as the sum of the new business and in-force profits, improved in 2022 to GBP654 million (2021: GBP455 million), helped by higher expected returns on surplus assets due to increased interest rates and stronger new business profits. However, PIC's reported adjusted operating profits declined to GBP389 million in 2022 (2021: GBP534 million), reflecting the reserve releases in 2021 that followed favourable assumption changes relating to credit defaults, inflation and expenses, which did not repeat in 2022.

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 mainly by favourable investment-related variances resulting from higher interest rates. Fitch expects PIC's earnings 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.

**Low Investment Risk:** Our assessment of investment risk is based on PIC's high-quality investment portfolio, with around 71% of its debt securities rated 'A' or above, including privately placed investments. PIC's credit default experience is also favourable. However, PIC's 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:** Based on reported adjusted operating profit, PIC's fixed-charge coverage (FCC) reduced to 4.2x in 2022 (2021: 5.4x), after a decline in reported adjusted operating profits. However, Fitch expects the ratio to remain above 4x in 2023, supported by resilient operating earnings.

## 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. However, we view this as unlikely over the medium term.

**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 weakening in the FLR to above 30%.

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

**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](http://www.fitchratings.com/esg)

**RATING ACTIONS**

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
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 \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

## ADDITIONAL DISCLOSURES

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Pension Insurance Corporation PLC

UK Issued, EU Endorsed

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