



RATING ACTION COMMENTARY

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

Thu 27 May, 2021 - 7:45 AM ET

Fitch Ratings - London - 27 May 2021: 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 factors are somewhat offset by the group's business profile and debt service capabilities, which we assess as strong.

PIC's business profile remained resilient during the coronavirus pandemic. PIC signed GBP5.6 billion of new business premiums in 2020 (2019: GBP7.2 billion). This equalled to around 18% of overall buy-in and buy-out volumes in 2020, and year-on-year business growth remain driven by the unpredictable timing of a small number of large transactions. Fitch's assessment of PIC's business profile reflects its established record in the growing

UK bulk annuity market with strong demand for de-risking products from UK pension schemes.

Offsetting these strengths is the company'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 company's 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-2020. This is reinforced by PIC's regulatory Solvency II (S2) capital requirement coverage ratio remaining resilient at 157% at end-2020 (end-2019: 164%). The S2 coverage ratio decreased after pandemic-related financial-market volatility and new business capital consumption were partly offset by GBP750 million equity and GBP700 million subordinated Tier 2 (T2) notes issued in 2020.

PIC's financial leverage ratio (FLR) weakened to 28% at end-2020 (end-2019: 22%) after the issue of GBP700 million T2 notes in 2020 was partially offset by the GBP750 million equity raise. We expect the FLR to remain broadly stable in the medium term due to PIC's strong profitability and capital generation.

PIC's Fitch-calculated fixed-charge coverage, (FCC) based on reported adjusted operating profit, weakened to 4.3x in 2020 (2019: 15x) following an increase in interest costs and a reduction in operating earnings. We expect FCC to remain broadly stable as increased financing costs due to the full-year interest accrual of the debt issued in 2020 will be offset by operating earnings growth.

PIC's underlying performance remains strong although reported adjusted operating profit decreased to GBP382 million in 2020 (2019: GBP824 million). This was due primarily to lower contribution from new business written in 2020 compared with 2019 and lower one-off reserve releases from changes to valuation assumptions compared with 2019. Fitch expects PIC to continue to post strong results over the medium term.

PIC's net income return on equity decreased to 6.1% over 2020 (2019: 11.3%), owing to weaker earnings and equity growth. The reduction in net income attributable to the weaker operational result was partially offset by lower investment-related losses of GBP106 million in 2020 (2019: GBP430 million loss). We expect PIC's profitability to increase to a level that is commensurate with rating in the short-to-medium term, supported by the

steady release of earnings from its in-force book, selective writing of profitable businesses and strong returns on investments.

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

--An increase in FLR to above 30%.

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

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.

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

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RATING ACTIONS

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

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 15 Apr 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Factor-Based Capital Model, v1.7.2 ([1](#))

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