



RATING ACTION COMMENTARY

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

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Fitch Ratings - London - 10 May 2022: 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'. We also assess the group's business profile and debt service capabilities as 'Strong'.

Strong Business Profile: Fitch's assessment of PIC's business profile reflects the group's position as one of the leaders of the bulk purchase annuity (BPA) market in the UK, with total financial investments of GBP51.1 billion at end-2021. PIC's new business volumes were GBP4.7 billion in 2021 (2020: GBP5.6 billion), representing about 16% of the overall BPA new business volumes in the UK in 2021.

Fitch ranks PIC's business profile as moderate compared with other UK life insurance companies'. This reflects PIC's favourable competitive positioning, moderate operating

scale, favourable business risk profile and less favourable diversification.

Very Strong Capitalisation: Our assessment of PIC's capitalisation is primarily based on its 'Extremely Strong' score under Fitch's Prism Factor-Based Capital Model (Prism FBM) at end-2021, unchanged from 2020's. PIC's regulatory Solvency II (S2) solvency capital requirement (SCR) coverage ratio improved to 168% at end-2021 from 157% at end-2020, largely benefiting from an increase in interest rates that materially reduced capital requirements. We expect PIC's capitalisation to remain very strong despite the amount of new business we expect the group to write.

Financial Leverage Commensurate with Ratings: PIC's financial leverage ratio (FLR) remained stable at 27% at end-2021 (end-2020 28%), supported by the group's profitability and capital generation.

Very Strong Financial Performance: PIC's return on equity (ROE) increased to 7% in 2021 (2020%: 6%), as growth in adjusted operating profit exceeded investment-related variances (GBP173 million loss in 2021; 2020: GBP106 million loss). Despite this increase, PIC's five-year average ROE fell marginally to around 12% in 2021.

PIC's underlying performance, measured as the sum of the new business and in-force profits, remained broadly stable in 2021, as reduction in new business profit was partially offset by in-force profit growth. PIC's reported adjusted operating profit increased to a strong GBP533 million in 2021, from GBP349 million in 2020. The increase was largely explained by higher reserve releases following favourable changes to valuation assumptions, and a smaller loss from experience variances.

Fitch expects PIC's profitability to remain strong, and to increase to a level that is commensurate with the rating in the short-to-medium term, supported by a steady release of earnings from its in-force book, selective writing of profitable businesses and strong returns on investments.

Strong Fixed-Charge Coverage: PIC's fixed-charge coverage (FCC), based on reported adjusted operating profit, improved to 5.4x in 2021 (2020: 4.3x), after an increase in operating earnings more than offset the impact of higher interest costs. Fitch expects FCC to remain broadly stable.

Low Investment Risk: Our assessment of investment risk is based on the PIC's high-quality investment portfolio, with 74% 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-/Stable).

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%.

--An increase in 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

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Pension Insurance Corporation PLC	LT IDR	A Rating Outlook Stable		A Rating Outlook Stable
	Affirmed			
	Ins Fin Str	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 \(pub. 26 Nov 2021\) \(including rating assumption sensitivity\)](#)

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](#))

ADDITIONAL DISCLOSURES

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Pension Insurance Corporation PLC

UK Issued, EU Endorsed

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