

23 APR 2025

Fitch Affirms Rothesay at IFS 'A+'; Outlook Stable

Fitch Ratings - London - 23 Apr 2025: Fitch Ratings has affirmed Rothesay Life Plc's Insurer Financial Strength (IFS) Rating at 'A+' (Strong) and Long-Term Issuer Default Rating (IDR) at 'A'. Fitch has also affirmed the group's ultimate holding company, Rothesay Limited's (Rothesay) Long-Term IDR at 'A'. The Outlooks are Stable. A full list of rating actions is below.

The ratings reflect Rothesay's leadership in the UK bulk purchase annuity (BPA) market and its very strong capitalisation and leverage. These strengths are partly offset by the insurer's limited product and geographic diversification.

Key Rating Drivers

Strong Company Profile: Fitch's assessment of Rothesay reflects its position as a leader in the BPA market with assets under management (AUM) rising to GBP71 billion at end-2024 (end-2023: GBP61 billion). Rothesay wrote the highest aggregate volumes among UK BPA insurers in 2024, with its new business volumes growing to GBP15.7 billion from GBP12.7 billion in 2023. Fitch expects strong medium-term volumes, driven by resilient demand from corporates offloading pension liabilities.

Very Strong Capitalisation and Leverage: Rothesay's end-2024 Solvency II (S2) coverage ratio was very strong at 261%, although down from 273% at end-2023, mainly due to higher business volumes. Strong surplus generation from the in-force book and higher long-term interest rates support the ratio, but this is offset by new business capital strain and some of the new business premiums being temporarily undeployed. Fitch expects Rothesay's Prism Global model score to have remained 'Extremely Strong' at end-2024 (end-2023: 'Extremely Strong') and the insurer's significant excess capital to support new business volumes.

Rothesay's Fitch-calculated financial leverage ratio (FLR) was 20% at end-2024, a slight increase from 19% at end-2023. The increase was due to the group's dual tranche Tier 2 issuance (GBP500 million and USD325 million) in June 2024, partly offset by a GBP400 million Tier 2 repayment in September 2024.

Very Strong, but Volatile Earnings: The insurer's reported operating profit of GBP1,779 million in 2024, up from GBP1,358 million in 2023, supported by higher in-force profitability helped by higher returns on surplus assets and resilient new business profit. Fitch expects Rothesay's operating profits to remain strong, supported by selective writing of profitable businesses and a steady release of earnings from its in-force book.

However, the group's IFRS net income is volatile mainly due to economic variance caused by market movements. In 2024, Rothesay reported a negative economic variance of GBP765 million, mainly due

to higher long-term interest rates and as a result, the group's IFRS pre-tax net income fell to GBP113 million in 2024 from GBP906 million in 2023. In addition, the timing of profit recognition is delayed under IFRS 17 and profits are recognised progressively over the duration of the insurance contracts. This profit deferral results in a significantly lower net income in comparison to the reported operating profitability.

Prudent Asset Allocation: Most of the group's investment portfolio is held in debt securities of high credit quality, including privately placed investments, with around 81% of the insurer's total investments rated in the 'A' category or above at end-2024 (end-2023: 82%). However, Fitch expects Rothesay's exposure to illiquid assets to grow alongside the increase in bulk annuity volumes. Rothesay continues to expand its international asset origination capabilities, particularly in the US, where about 22% of its end-2024 AUM is invested.

Sophisticated Asset-Liability Management: The group's asset-liability management approach is well-developed and consistent with that of similarly rated UK bulk annuity insurers. It makes extensive use of swaps to hedge longevity risk, with 90% of longevity risk hedged at end-2024 (end-2023: 87%). In addition, cash flows and duration of annuity liabilities are closely matched with the assets backing these liabilities. As a result, the impact of interest rate movements on assets is offset by corresponding movements in insurance liabilities.

RATING SENSITIVITIES

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

-- A substantial weakening of the group's capitalisation as evidenced by a sustained fall in the Prism score to the 'Very Strong' category or a reduction in the S2 ratio to 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

-- A substantial improvement in Fitch's view of Rothesay's company profile, for instance, demonstrated by a significant increase in product or 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,

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY		PRIOR
Rothesay Life Plc	LT IDR	A 	Affirmed		A 
	LT IFS	A+ 	Affirmed		A+ 
• subordinated		BBB+	Affirmed		BBB+
• subordinated		BBB	Affirmed		BBB

ENTITY/DEBT		RATING		RECOVERY		PRIOR
	• subordinated	A-		Affirmed		A-
Rothsay Limited	LT IDR	A 		Affirmed		A 

RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

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

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Rothsay Life Plc UK Issued, EU Endorsed

Rothsay Limited UK Issued, EU Endorsed

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Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

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