



## RATING ACTION COMMENTARY

# Fitch Affirms Rothesay's IFS Rating 'A+'; Outlook Stable

Thu 07 May, 2020 - 10:15 AM ET

Fitch Ratings - London - 07 May 2020: 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 Holdco UK Limited's (Rothesay) IDR at 'A'. The Outlooks are Stable.

A full list of rating actions is below.

## KEY RATING DRIVERS

The rating actions noted above 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 Rothesay that Fitch compared to both ratings guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Rothesay.

Under our rating-case assumptions, Rothesay's credit fundamentals remain strong and commensurate with the 'A+' IFS Rating. The affirmation reflects the Rothesay's continued very strong capitalisation and leverage, financial performance and business profile.

Rothesay's very strong capital position remains resilient under our coronavirus 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 202% at end-2019.

Rothesay's financial leverage ratio was 28% at end-2019. Under our rating case, group's pro-forma financial leverage ratio increases, due to a decline in equity, but remains below 30% downgrade sensitivity level.

Rothesay's fixed-charge coverage (FCC) was about 6x in 2019. However, allowing for a full annual interest accrual for debt issued in 2019, FCC decreases to 5x. Under the rating case assumptions, pro-forma FCC remains above negative sensitivity level of 3x, but falls marginally below 'a' category range. However, we believe that Rothesay strong profit generation will bring FCC back to 'a' range within a rating horizon.

We assess Rothesay's liquidity position is very strong, allowing Rothesay to meet near-term liquidity requirements such as coupons and collateral requirements.

Assumptions for the Coronavirus Impact (Rating Case):

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

--A decline in UK house prices by 5% and related decline in the valuation of equity release mortgages by 4.5%

## **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 affected 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 Rothesay's business profile, for example driven by a fundamental demand reduction in the market for pensions de-risking products, could lead to a downgrade

--A substantial weakening of the group's capitalisation as evidenced by a sustained fall in the group's Prism FBM to the low end of the 'Very Strong' category or an increase in financial leverage to above 30% could also lead to a downgrade

--The ratings could also be downgraded as a result of a sustained weakening in the group's run-rate of fixed-charge coverage to below 3x

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

--A positive rating action is 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 Rothesay

--Rothesay's ratings could be upgraded following an increase in product and geographical diversification. However, we view this as unlikely in the medium term

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, and UK house prices declining by 10%, while equity release mortgages decline by 6.5%

--The implied-rating impact under the stress case would be a downgrade of no more than one notch

## 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.

## ESG CONSIDERATIONS

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		
Rothesay Life Plc	LT	A	Affirmed
	IDR		

ENTITY/DEBT	RATING		
	Ins Fin Str	A+	Affirmed
● subordinated	LT	BBB-	Affirmed
● subordinated	LT	BBB+	Affirmed

[VIEW ADDITIONAL RATING DETAILS](#)

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## 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)

## ADDITIONAL DISCLOSURES

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Rothesay Life Plc	EU Issued

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