



## RATING ACTION COMMENTARY

# Fitch Affirms Wilton Re's Ratings; Outlook Stable

Wed 11 Aug, 2021 - 9:58 AM ET

Fitch Ratings - New York - 11 Aug 2021: Fitch Ratings has affirmed the 'A+' (Strong) Insurer Financial Strength (IFS) ratings of Wilton Reassurance Company, Wilton Reinsurance Bermuda Limited (WREB), Wilton Re Overseas Limited, Wilton Reassurance Life Company of New York, Texas Life Insurance Company, Wilcac Life Insurance Company and ivari (collectively Wilton Re). Fitch has also affirmed the Long-Term Issuer Default Rating (IDR) of Wilton Re Ltd. at 'A-'. The Rating Outlook is Stable.

## KEY RATING DRIVERS

Wilton Re's ratings reflect its moderate business profile and strong capitalization. Fitch's view of the company's business profile considers Wilton Re's strong presence in the administrative reinsurance market. In recent years, the company's capitalization and financial results have generally been strong and in line with rating expectations. However, investment risk has increased materially as part of an updated strategic asset allocation, and Fitch expects it to increase further over the rating horizon.

Fitch rates Wilton Re's IFS two notches higher than its standalone credit profile of 'A-' due to its ownership by CPP Investments. The ownership uplift considers the defined linkage to CPP Investments as a result of Wilton Re's debt including change of control provisions. Additionally, Fitch believes that CPP Investments improves the company's financial flexibility and has demonstrated its willingness to support growth, contributing significant equity capital to finance the purchase of ivari and previously to refinance Wilton Re's excess reserve financing arrangement. Fitch views Wilton Re as a noncore subsidiary of CPP Investments but an important platform investment. In recent years, given its excess capital position compared to target levels, Wilton Re has returned capital to CPP Investments.

Fitch views Wilton Re's capital position as strong. As of YE20, the company's Prism score was 'Strong', which is consistent with Fitch's expectations for the current rating level. At YE20, capital levels in the company's U.S., Bermuda and Canadian operations remained at or above target levels, which include a 300% RBC target in the U.S. ivari's capital levels benefitted from the improvement in equity markets and a capital contribution in 2020, and its total Life Insurance Capital Adequacy Test ratio of 129% was well in excess of its target. Wilton Re's consolidated operating leverage was 14x as of YE20, which is considered high given the company's liability mix.

As of YE20, Wilton Re's financial leverage ratio was 17%. Leverage declined 4pp, benefitting from growth in equity and a \$400 million subordinated perpetual note issuance that received 100% equity credit. YTD leverage has declined another 4pp, following a temporary net \$200 million reduction in credit facility borrowings. Currently, holding company liquidity is strong, with cash and assets of approximately \$500 million. Excluding operating debt and including subordinated debt, the company's annual interest expense currently totals approximately \$48 million, and fixed-charge coverage is viewed as aligned with rating expectations.

Fitch ranks Wilton Re's business profile as moderate compared with those of all other life insurance companies, which considers its experience and strong position in acquiring runoff blocks and moderate diversification. Given this ranking, Fitch scores Wilton Re's business profile at 'a-' under its credit factor scoring guidelines. While the company is smaller than most peers, it possesses a strong competitive position and solid track record in its core market of acquiring runoff blocks. Wilton Re's acquisition of Allstate Life Insurance Company of New York for \$220 million is expected to close over the near term, and Fitch views it as complementary to its existing liability profile.

Fitch considers Wilton Re's profitability to be strong. Return metrics improved in 2020, with an enterprise ROE of 10%, benefitting from favorable morbidity and longevity experience, which was partially offset by elevated mortality and increased long-term plan incentive compensation expense. ivari's reported earnings have been volatile due to the mark-to-market Canadian accounting regime and assumption updates, with a net loss of CAD68 million in 2020, following income of CAD173 million in the prior year. ivari's expected pre-tax run-rate earnings are approximately CAD110 million.

Wilton Re's investment risk has increased in recent years from a conservative starting point. Risk asset levels are expected to increase further in 2021 and beyond, primarily reflecting the company's continued strategic asset allocation program that includes further increases in its high-yield allocation and private equity exposure. Bond portfolio quality is considered modestly below-average in the U.S., with 93% of bonds rated investment grade as of YE20. Additionally, a material proportion of the company's high yield exposure is CLOs, which Fitch views cautiously. Inclusive of ivari, Fitch estimates the enterprise's risky asset ratio at 108% as of 1Q21, which is above-average compared with the industry. However, risk assets as a percentage of invested assets are more aligned with the industry.

## **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Less parental uplift assigned from the standalone credit profile, which could be driven by the removal of the change of control provisions in Wilton Re's debt agreements.

--Material transactions that further alter the company's risk profile.

--A sustained drop in the company's risk-adjusted capital position that results in a Prism score below 'Strong'.

--An increase in financial leverage to above 30%.

--A sustained decline in earnings resulting in an ROE below 7%.

--A decline in fixed-charge coverage to below 5x.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--A change in Fitch's view of Wilton Re's strategic importance to CPP Investments.

## **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>

## **SUMMARY OF FINANCIAL ADJUSTMENTS**

Based on the information available, in several metrics, Fitch's calculations reflect financial statements prepared under U.S. GAAP for Wilton Re's U.S. and Bermuda entities and the equity method using IFRS financials for its Canadian business. The company does not produce consolidated financial statements on a single accounting basis.

## **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
Wilton Re Ltd.	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
● subordinated	LT	BBB-	Affirmed	BBB-
Wilcac Life Insurance Company	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Wilton Reassurance Company	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
Wilton Reinsurance Company	Ins Fin Str	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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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 U.S. Life Insurance Capital Model, v1.2.1-2019 ([1](#))

## ADDITIONAL DISCLOSURES

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## ENDORSEMENT STATUS

ivari	EU Endorsed, UK Endorsed
Texas Life Insurance Company	EU Endorsed, UK Endorsed
Wilcac Life Insurance Company	EU Endorsed, UK Endorsed
Wilton Re Finance LLC	EU Endorsed, UK Endorsed
Wilton Re Ltd.	EU Endorsed, UK Endorsed
Wilton Re Overseas Limited	EU Endorsed, UK Endorsed
Wilton Reassurance Company	EU Endorsed, UK Endorsed
Wilton Reassurance Life Company of New York	EU Endorsed, UK Endorsed
Wilton Reinsurance Bermuda	EU Endorsed, UK Endorsed

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