RATING ACTION COMMENTARY

Fitch Downgrades Wilton Re's Ratings; Removed Rating Watch Negative; Outlook Stable

Thu 19 Dec, 2024 - 1:30 PM ET

Fitch Ratings - New York - 19 Dec 2024: Fitch Ratings has downgraded Wilton Re Ltd.'s Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB+' and Insurer Financial Strength (IFS) ratings of its U.S. and Bermuda operating companies (collectively, Wilton Re) to 'A-' from 'A'. The Rating Watch Negative was removed and the Outlook is Stable.

KEY RATING DRIVERS

The Rating Watch was resolved following the completion of the reinsurance transaction between Wilton Re and Prudential Financial, Inc. (Prudential), in which Wilton Re assumed approximately $11 billion of universal life with secondary guarantee (ULSG) reserves from Prudential. The downgrade of the ratings reflects the deterioration in Fitch's view of Wilton Re's capital position, driven by the decline in its capital model score from on the cusp of 'Strong' to 'Adequate' pro forma the transaction.

Wilton Re has an efficient capital management strategy, with capital targets below those of similarly rated peers. Fitch expects Wilton Re's Prism score to remain 'Adequate' over the rating horizon, given the company's excess capital relative to management's targets. The company's U.S. RBC ratio declined yoy to 323% as of YE 2023, from 391% as of YE 2022, while Wilton Re's Bermuda subsidiaries' Bermuda solvency capital requirement (BSCR) ratios were materially in excess of their targets at YE 2023, and continue to remit capital to the parent.

Fitch views the transaction as neutral to Wilton Re's company profile with the risk of the block partially offset by enhanced scale and diversification. Fitch views ULSG as on the risky end of the liability spectrum, though Wilton Re has experience with the liability. The company has a track record of reinsuring ULSG blocks prior to the transaction and Fitch assesses key deal pricing assumptions as appropriately mitigating the risk. The transaction

is expected to be accretive to Wilton Re's earnings over time. Wilton Re's earnings through 9M24 increased yoy and compare favorably with rating expectations.

RATING SENSITIVITIES

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

--Prism score below the high end of the 'Adequate' category (e.g. below 125% of 'Adequate' or 80% of 'Strong');

--Less parental uplift assigned from the standalone credit quality, which could be driven by a reduction in CPP Investments' ownership stake or by the removal of the change of control provisions in Wilton Re's debt agreements;

--Material transactions that alter the company's risk profile or a failure to demonstrate sustainable growth via reinsurance transactions;

--An increase in financial leverage to above 32%;

--A sustained decline in earnings resulting in a ROE below 7%;

--A decline in fixed-charge coverage to below 4x;

--Deterioration in asset performance as evidenced by increased impairments or increased price volatility leading to realized losses in a stressed market environment.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--A Prism score maintained in the 'Strong' category, along with an RBC ratio maintained above 325% and operating leverage below 15x;

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

--An ROE sustained above 9%;

--Fixed-charge coverage of 8x or above;

--Financial leverage maintained below 28%;

--A reduction in investment risk, including a risky asset ratio below 115%.

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, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR
Wilton Re Ltd.	LT IDR BBB Rating Outlook Stable Downgrade	BBB+ Rating Watch Negative
subordinated	LT BB Downgrade	BB+ Rating Watch Negative
Wilcac Life Insurance Company	LT IFS A- Rating Outlook Stable Downgrade	A Rating Watch Negative
Wilton Reassurance Company	LT IFS A- Rating Outlook Stable Downgrade	A Rating Watch Negative

Wilton Reinsurance Bermuda	LT IFS	A- Rating Outlook Stable Downgrade	A Rating Watch Negative
Wilton Reassurance Life Company of New York	LT IFS	A- Rating Outlook Stable Downgrade	A Rating Watch Negative
Texas Life Insurance Company	LT IFS	A- Rating Outlook Stable Downgrade	A Rating Watch Negative

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Insurance Rating Criteria (pub. 04 Mar 2024) (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, v1.3.4-2023 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Texas Life Insurance Company	EU Endorsed, UK Endorsed
Wilcac Life Insurance Company	EU Endorsed, UK Endorsed
Wilton Re Ltd.	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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