



## RATING ACTION COMMENTARY

# Fitch Affirms Wilton Re's Ratings; ivari Remains on Negative Watch

Fri 28 Jul, 2023 - 12:37 PM ET

Fitch Ratings - New York - 28 Jul 2023: Fitch Ratings has affirmed Wilton Re Ltd.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' and the Insurer Financial Strength (IFS) rating of its U.S. and Bermuda operating companies (collectively, Wilton Re) at 'A'. The Rating Outlooks are Stable. Additionally, Fitch has maintained the Rating Watch Negative on ivari's IFS rating (A-).

## KEY RATING DRIVERS

**Ownership Uplift:** Wilton Re Ltd.'s ratings are one notch higher than Fitch's view of its standalone credit quality, due to its ownership by CPP Investments. The uplift recognizes Wilton Re as a noncore subsidiary, but important investment platform for CPP Investments. Fitch does not rate CPP, but believes to be of the highest credit quality based on its scale and importance in supporting the Canada Pension Plan. While CPP has demonstrated a willingness to support Wilton Re's growth and contributed capital over the years, over recent years capital has flowed upstream, given Wilton Re's excess capital position compared with its target.

**Moderate Business Profile:** Fitch views Wilton Re Ltd.'s position in the market to acquire runoff blocks as strong. However, the market is episodic, and increasingly competitive. Favorably, the company has a diversified profile, which it exhibited through the pandemic, with longevity and morbidity experience offsetting its elevated mortality. Recent transactions are not viewed as materially altering the company's risk profile and Fitch views the company as disciplined in its key pricing assumptions.

**Capitalization Strong:** Wilton Re's U.S. RBC ratio declined yoy, but continues to exceed its target. Wilton Re's Bermuda subsidiaries' Bermuda solvency capital requirement (BSCR) ratios remain well in excess of their targets and continue to remit capital to the parent.

Wilton Re's Prism score of 'Strong' in 2022 aligns with rating expectations. Financial leverage was 19% at YE 2022, which compares favorably with ratio guidelines for the current rating level. ivari's life insurance capital adequacy test (LICAT) ratio was 145% at YE 2022.

**Strong Earnings:** Return metrics improved compared with the prior year, with an enterprise ROE of 14% in 2022, benefiting from higher net investment income and favorable morbidity and longevity experience, which was partially offset by elevated mortality. Earnings metrics are expected to improve and exhibit more stability following the sale of ivari. Earnings are currently benefitting from the higher interest rate environment and higher yields on fixed income securities, including floating rate loans.

**Elevated Investment Risk:** Wilton Re's risky assets, as a percentage of capital, exceeds similarly rated peers and is expected to further increase over the rating horizon, reflecting the company's continued strategic asset allocation program that includes further increases in its high-yield allocation and private equity exposure. Inclusive of capital in Bermuda, the company's U.S. risky asset ratio is estimated at 144% at YE 2022, which is up from the prior year, primarily due capital calls on private equity commitments.

**ivari Sale:** In August 2022, Wilton Re announced that it entered into an agreement to sell ivari to Sagicor Financial Company Ltd. Consequently, ivari's ratings reflect its standalone credit quality, with ownership uplift no longer applicable. The sale is viewed as neutral to Wilton Re's ratings. However, it will materially reduce its shareholders' equity, adversely affecting its financial leverage, which is partially offset by an expectation of improved earnings metrics and enhanced stability following the sale. ivari was materially negatively affected by the implementation of IFRS 17, with capital contributed to maintain the LICAT above target levels.

**ivari Rating Watch Resolution:** In resolving ivari's Negative Rating Watch, Fitch will focus on the impact of the announced transaction on ivari's credit profile, as well as Sagicor's financial strength and strategic plans for the entity. ivari's financial strength is currently viewed as stronger than that of its new parent.

**ivari Net Income Volatility:** ivari reported CAD11 million of net income in 2022, down from CAD74 million in the prior year. Earnings were below run-rate pre-tax expected earnings of CAD133 million, primarily as a result of unfavorable equity market movements and updates to the lapse assumptions for all life insurance blocks.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade of ivari's ratings:

--Assuming close of the announced transaction, resolution by Fitch of how the rating will align with that of its new, weaker parent based on strategic intent, as considered under Fitch's group rating criteria;

--Indications that the transaction will adversely affect ivari's standalone credit quality, whether related to balance sheet management under the new owners, or any adverse impact on ivari's competitive position and business profile.

Factors that could, individually or collectively, lead to positive rating action/upgrade of ivari's ratings:

Ratings could return to a Stable Outlook based on:

--Fitch's view of ivari's rating remaining aligned with its current standalone credit quality based on either a failure to close the announced acquisition with no related deterioration in its credit profile, or a view that the new ownership does not weaken ivari's financial strength, with ivari sufficiently insulated from any potential weakness from its new owner.

Factors that could, individually or collectively, lead to negative rating action/downgrade of Wilton Re's ratings:

--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;

--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 a ROE below 7%;

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

--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 of Wilton Re's ratings:

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

--A ROE sustained above 9%;

--Fixed charge coverage of 9x or above;

--A Prism score maintained solidly in the 'Strong' category, along with an RBC ratio maintained above 350% and operating leverage below 13x;

--Financial leverage maintained below 25%;

--A reduction in investment risk, including a risky asset ratio below 90%.

## **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**

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 Affirmed	BBB+ Rating Outlook Stable
subordinated	LT    BB+    Affirmed	BB+
Wilcac Life Insurance Company	LT IFS    A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Wilton Reassurance Company	LT IFS    A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Wilton Reinsurance Bermuda	LT IFS    A Rating Outlook Stable Affirmed	A Rating Outlook Stable
Wilton Re Overseas Limited	LT IFS    A Rating Outlook Stable Affirmed	A Rating Outlook Stable

Wilton Reassurance Life Company of New York	LT IFS	A Rating Outlook Stable	A Rating Outlook Stable
		Affirmed	
Texas Life Insurance Company	LT IFS	A Rating Outlook Stable	A Rating Outlook Stable
		Affirmed	
ivari	LT IFS	A- Rating Watch Negative	A- Rating Watch Negative
		Rating Watch Maintained	

[VIEW ADDITIONAL RATING DETAILS](#)

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**APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 20 Jul 2023\) \(including rating assumption sensitivity\)](#)

**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, v1.3.2-2022 (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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