



RATING ACTION COMMENTARY

Fitch Downgrades ivari's Rating; Places Rating on Neg Watch; Affirms Wilton Re's Ratings

Fri 26 Aug, 2022 - 9:32 AM ET

Fitch Ratings - New York - 26 Aug 2022: Fitch Ratings has downgraded ivari's Insurer Financial Strength (IFS) rating to 'A-' from 'A' and placed the rating on Rating Watch Negative. In addition, Fitch has affirmed Wilton Re Ltd.'s Long-Term Issuer Default Rating (IDR) at 'BBB+' and the IFS rating of its U.S. and Bermuda operating companies (collectively, Wilton Re) at 'A'. The Rating Outlooks are Stable.

KEY RATING DRIVERS

The rating actions follow the announcement that Sagicor Financial Company Ltd. will acquire ivari from Wilton Re. The transaction is expected to close in the next 6-12 months, subject to regulatory approvals and satisfaction of customary closing conditions. The downgrade aligns ivari's rating more closely with Fitch's view of its standalone credit quality, and the Negative Watch reflects the acquisition of ivari by a weaker rated parent, and the application of Fitch's group rating criteria to align the rating with that of its new parent. ivari's ratings had previously received one notch of ownership uplift due to Wilton Re's ownership by CPP Investments.

In resolving the 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 is a mid-size Canadian life insurer that is focused on the middle-income market, with a leading position in universal life insurance. Wilton Re acquired ivari (formerly known as Transamerica Life Canada) from Aegon N.V. in 2015. ivari's capital position is expected to be negatively impacted by the implementation of IFRS 17 in 2023, related to an update in the methodology used to calculate the discount rate for reserves.

The affirmation of Wilton Re's ratings and Stable Outlook reflect that while the sale of ivari will lead to a material decline in shareholders' equity due to a loss on sale, Fitch expects financial leverage to remain below 30%, while fixed-charge coverage is expected to remain in excess of 5x. Additionally, earnings and capital will benefit from reduced equity market volatility, which affected ivari's results. Fitch expects Wilton Re's strategy to remain consistent post-transaction, with a primary focus on the acquisition of runoff blocks of life insurance and annuities in the United States.

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 an 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;

--An 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

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.

RATING ACTIONS

ENTITY / DEBT ⬆	RATING ⬆			PRIOR ⬆
Wilton Re Ltd.	LT IDR	BBB+ Rating Outlook Stable		BBB+ Rating Outlook Stable
	Affirmed			
subordinated	LT	BB+	Affirmed	BB+

Wilcac Life Insurance Company	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Wilton Reassurance Company	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Wilton Reinsurance Bermuda	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Wilton Re Overseas Limited	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Wilton Reassurance Life Company of New York	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
Texas Life Insurance Company	Ins Fin Str	A Rating Outlook Stable	A Rating Outlook Stable
	Affirmed		
ivari	Ins Fin Str	A- Rating Watch Negative	A Rating Outlook Stable
	Downgrade		
Wilton Re Finance LLC			

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA[Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

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, v1.3.1-2021 ([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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