



RATING ACTION COMMENTARY

Fitch Downgrades Wilton Re's Ratings Related to Revision in Ownership Uplift; Outlook Stable

Thu 04 Aug, 2022 - 2:26 PM ET

Fitch Ratings - New York - 04 Aug 2022: Fitch Ratings has downgraded the 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) to 'A' from 'A+'. Fitch has also downgraded Wilton Re Ltd.'s Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'A-'. The Rating Outlook is Stable.

KEY RATING DRIVERS

The downgrade reflects a revision in ownership uplift from Fitch's view of Wilton Re's standalone credit quality (due to Wilton Re's ownership by CPP Investments) to one notch from two notches historically. The revision in ownership uplift more closely aligns with Fitch's treatment of other insurers owned by non-insurance entities, along with other Fitch-rated entities owned by CPP Investments, such as Antares Holdings LP, though the application of ownership uplift is somewhat unique.

The uplift recognizes Wilton Re as a non-core subsidiary, but important investment platform for CPP Investments, and considers the defined linkage to CPP Investments

because of Wilton Re's debt, including change of control provisions. Additionally, the uplift recognizes the benefit that CPP Investments provides to Wilton Re's financial flexibility. However, over recent years, given its excess capital position compared to target levels, Wilton Re has returned capital to CPP Investments.

Wilton Re's ratings continue to reflect its moderate business profile and strong capitalization. Fitch believes that Wilton Re's business profile reflects its 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. Fitch expects it to increase further over the rating horizon.

Fitch views Wilton Re's capital position as strong. As of YE 2021, the company's Prism score was 'Very Strong', which exceeds expectations for the current rating level. At YE 2021, capital levels in the company's U.S., Bermuda and Canadian operations remained at or above target levels. Fitch notes that a significant portion of the company's capital resides in Bermuda and is largely not currently distributable due to collateral requirements on reinsurance agreements. Wilton Re's consolidated operating leverage was 18x as of YE 2021, which is considered high given the company's liability mix.

ivari's capital level declined in 2021, given rising interest rates and declined further in 1Q22 with a total ratio of 110%, but remains in excess of the company's target. ivari's required capital is expected to increase in 2023 as a result of the implementation of IFRS 17 related to an update in the calculation of the discount rate for reserves.

As of YE 2021, Wilton Re's financial leverage ratio was 18%. The ratio rose three percentage points in 1Q22, but subsequently declined back to 18% in 2Q22 following the repayment of borrowings on the company's credit facility. Holding company liquidity of \$51 million as of YE 2021 aligns with the company's target of maintaining 1x annual interest expense at the holding company.

Fitch ranks Wilton Re's business profile as moderate compared to 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 '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 most recent transactions include the acquisition of Allstate Life Insurance Company of New York and the reinsurance of \$1.7 billion universal life with secondary guarantees in 4Q21, both of which Fitch views as complementary to Wilton Re's existing liability profile.

Fitch considers Wilton Re's profitability to be strong. Return metrics were stable in 2021, with an enterprise ROE of 9%, benefitting from elevated limited partnership distributions and favorable morbidity and longevity experience, which was partially offset by elevated mortality. Earnings are expected to benefit from rising interest rates; however, the deterioration in macroeconomic conditions is a headwind for Wilton Re and peers. Results remained strong in 1Q22.

ivari's reported earnings have been volatile due to the mark-to-market Canadian accounting regime and assumption updates, with net income of CAD74 million in 2021, following a net loss of CAD68 million in the prior year. ivari's expected pre-tax run-rate earnings are approximately CAD112 million. ivari produced a net loss in 1Q22, driven by unfavorable equity market performance.

Wilton Re's investment risk has increased in recent years from a conservative starting point. Risk asset levels are expected to increase further in 2022 and beyond, primarily reflecting the company's continued strategic asset allocation program that includes further increases in its high-yield and private equity exposure.

Bond portfolio quality is considered below-average in the U.S., with 92% of bonds rated investment grade as of YE 2021, two percentage points below the industry. 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 171% as of YE 2021, which is above-average compared 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 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 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;
- 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 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 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>

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.

RATING ACTIONS

ENTITY / DEBT ⚡	RATING ⚡			PRIOR ⚡
Wilton Re Ltd.	LT IDR	BBB+ Rating Outlook Stable		A- Rating Outlook Stable
	Downgrade			
subordinated	LT	BB+	Downgrade	BBB-
Wilcac Life Insurance Company	Ins Fin Str	A Rating Outlook Stable		A+ Rating Outlook Stable
	Downgrade			
Wilton Reassurance Company	Ins Fin Str	A Rating Outlook Stable		A+ Rating Outlook Stable
	Downgrade			

Wilton Reinsurance Bermuda	Ins Fin Str	A Rating Outlook Stable	A+ Rating Outlook Stable
	Downgrade		
Wilton Re Overseas Limited	Ins Fin Str	A Rating Outlook Stable	A+ Rating Outlook Stable
	Downgrade		
Wilton Reassurance Life Company of New York	Ins Fin Str	A Rating Outlook Stable	A+ Rating Outlook Stable
	Downgrade		
Texas Life Insurance Company	Ins Fin Str	A Rating Outlook Stable	A+ Rating Outlook Stable
	Downgrade		
ivari	Ins Fin Str	A Rating Outlook Stable	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**

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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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