

30 Apr 2020 | Affirmation

Fitch Affirms Utmost International's IFS at 'A' ; Outlook Stable

Fitch Ratings-Frankfurt am Main-30 April 2020:

Fitch Ratings has affirmed Utmost PanEurope dac's, Utmost Limited's and Utmost Worldwide Limited's the 'A' (Strong) Insurer Financial Strength (IFS) Ratings with Stable Outlooks. All three are the main operating entities of the Utmost International Group.

At the same time Fitch has affirmed Utmost International Group Holdings Ltd.'s Issuer Default Rating (IDR) of 'BBB+' with a Stable Outlook.

Key Rating Drivers

The rating actions are based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of rating assumptions described below. These assumptions were used by Fitch to develop pro-forma financial metrics for Utmost International that are compared with both rating guidelines defined in its criteria, and relative to previously established Rating Sensitivities for Utmost International.

Fitch expects Utmost International's profitability to fall due to the coronavirus pandemic under Fitch's rating-case assumptions. However, potential losses should not have a significant impact on the group's capitalisation. Utmost International's financial performance based on IFRS net income was very strong in 2019, with net income including some one-off acquisition impacts, resulting in a net income return on equity (ROE) of 25%. Net income has been volatile in recent years due mainly to one-off integration costs for acquired businesses, high fixed costs and fair-value gains/losses. The impact of our rating case reduces 2020 ROE by around 3pp compared with what would otherwise have been expected.

Under our pro-forma analysis Utmost International's capitalisation, as measured by Fitch's Prism Factor-Based Model (FBM), is 'Extremely Strong', unchanged from the score achieved at end-2019. The group's financial leverage, which improved to 21% in 2019, also remains stable in our pro-forma analysis. Utmost International is currently not subject to solvency regulation at the holding company level, but reported a strong implied group Solvency II (S2) capital requirement ratio of 161% at end-2019.

Assumptions for Coronavirus Impact (Rating Case):

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro-forma ratings analysis discussed above:

- Decline in key stock market indices by 35% relative to 1 January 2020.
- Increase in two-year cumulative high-yield bond default rate to 13%, applied to current non-investment grade assets, as well as 12% of 'BBB' assets.
- Both upward and downward pressure on interest rates, with spreads widening (including high-yield by 400bp) coupled with notable declines in government rates.
- Capital-markets access is limited for issuers at senior debt levels of 'BBB' and below.
- A coronavirus infection rate of 5% and a mortality rate (as a percent of infected) of 1%.

RATING SENSITIVITIES

The ratings remain sensitive to a material change in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is made available on the medical aspects of the outbreak. An indication of how ratings would be expected to be impacted under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

- A material adverse change in Fitch's rating assumptions with respect to the coronavirus impact.
- Significant negative developments related to the integration of the acquired businesses resulting in a material financial impact.
- Implied group S2 ratio declining to 130% or financial leverage exceeding 30%.
- A weakened business profile as evidenced by a significant reduction in assets under administration, which could lead to a downgrade

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

- A material positive change in Fitch's rating assumptions with respect to the coronavirus impact.

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profiles of both the European life insurance industry and Utmost International.

--A group-level net-income return on equity of 9% on a sustained basis while maintaining an 'Extremely Strong' Prism FBM score and financial leverage of 25% or less.

Stress Case Sensitivity Analysis

--Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp, more prolonged declines in government rates, heightened pressure on capital-market access, a coronavirus infection rate of 15% and mortality rate of 0.75%

--The implied-rating impact under the stress case would be a downgrade of no more than one notch.

Best/Worst Case Rating Scenario

International scale credit ratings of Financial Institutions 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, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Utmost PanEurope dac; Insurer Financial Strength; Affirmed; A; RO:Sta
Utmost Worldwide Limited; Insurer Financial Strength; Affirmed; A; RO:Sta
Utmost International Group Holdings Ltd.; Long Term Issuer Default Rating; Affirmed; BBB+; RO:Sta
---senior unsecured; Long Term Rating; Affirmed; BBB
Utmost Limited; Insurer Financial Strength; Affirmed; A; RO:Sta

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Additional information is available on www.fitchratings.com

Applicable Criteria

[Insurance Rating Criteria \(pub. 02 Mar 2020\) \(including rating assumption sensitivity\)](#)

Applicable Model

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Additional Disclosures

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