

20 Jul 2020 | Affirmation

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

Fitch Ratings-Frankfurt am Main-20 July 2020:

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

A full list of rating actions is below.

Key Rating Drivers

The 'A' IFS Ratings of Utmost International's main operating entities reflect the group's strong capitalisation and leverage, strong business profile and good financial performance.

Fitch expects deterioration in Utmost International's financial performance due to coronavirus, including increased credit defaults and rating migration on the investment portfolio over the near term. However, Fitch expects the impact of coronavirus, while material, to be manageable for Utmost International. This is due to its strong capital position for which we have apportioned a greater weighting in our assessment of Utmost International's credit quality.

Utmost International's business profile is moderate compared with other European insurance groups. This reflects the group's moderate competitive positioning, business risk profile and diversification. Utmost International has a leading business franchise in the international life and savings market, focusing on servicing high net-worth individuals and multi-national corporates.

Utmost International has grown significantly in recent years, acquiring international and investment bond businesses from several European insurance groups. The operational integration of these acquisitions, which is under way, carries some execution risks. These are mitigated to some extent by Utmost International management's experience with similar acquisitions.

Utmost International's capitalisation and leverage is strong, underlined by an 'Extremely Strong' score under Fitch's Prism Factor-based capital model (Prism FBM) and strong financial leverage of 22% at end-2019. Utmost International is currently subject to group solvency regulation on an "other methods" basis by the Central Bank of Ireland at the holding company level and reported a

strong implied group Solvency II (S2) Solvency Capital Requirement (SCR) ratio of 161% at end-2019. All three metrics are resilient against the impact of the coronavirus pandemic.

Utmost International reported very strong return on equity (ROE) ratios of 24% in 2019 and 16% in 2018. However, these were supported by gains from bargain purchases of acquired businesses. The group's pre-tax operating return on assets improved to 7% in 2019 (2018: 0%), reflecting the profitability of the acquired businesses as well as increased scale reducing the impact of fixed-costs. We expect profitability to be weak in 2020 and 2021 due to amortisation of the acquired value of in-force business (ViF), integration costs and the impact of the pandemic. In the medium- to long-term we expect ROE to be between 2% and 5%.

Utmost International takes on limited investment risk as over 95% of its technical reserves are for investment bond policies for which policyholder bear the investment risk. Assets backing its non-linked business are dominated by investment-grade bonds (61% of non-linked investments) and cash (33%).

Fitch views Utmost International's debt service capabilities and financial flexibility as strong. Based on 2019 financials Utmost International's fixed-charge coverage (FCC) was strong at 5x. Fitch expects Utmost International's FCC to be weaker in 2020 and 2021 due to the impact from the pandemic, but to improve to around 10x in 2022. Utmost International currently has no history of debt funding via capital markets and funding sources used to date are somewhat limited in diversification. However, Fitch expects Utmost International to be able to issue subordinated or senior bonds either via private or public listings. Oaktree, Utmost International's majority shareholder, is also a potential funding source.

Utmost International's 'BBB+' IDR is one notch below the implied IDR of the group's three main operating entities. Notching between the insurance operating company's and holding company's IDRs is a notch larger relative to the standard notching for a group solvency regulatory environment due to foreign earnings and/or capital being greater than 30% of the consolidated group total.

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.

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.
- Utmost International's implied group S2 ratio declining to 130% or financial leverage exceeding 30%.
- A weakened business profile manifested in a significant reduction in assets under administration could also 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 pandemic on the financial profile of both the European life insurance industry and Utmost International.
- A group-level net-income ROE of 9% on a sustained basis while maintaining an 'Extremely Strong' Prism FBM score and financial leverage of 25%.

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, 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

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).

Prism Factor-Based Capital Model, v1.7.1 ([1](#))

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