



## Fitch Affirms Legal & General's IFS at 'AA-'; Outlook Stable

Fitch Ratings-London-31 July 2019: Fitch Ratings has affirmed Legal & General Group Plc's (L&G) core rated operating entities at Insurer Financial Strength (IFS) Ratings 'AA-'. The entities are Legal and General Assurance Society Ltd, Banner Life Insurance Company and William Penn Life Insurance Company of New York. Fitch has also affirmed Legal & General Reinsurance Company Limited's (L&G Re) IFS Rating at 'A+'.

Fitch has simultaneously affirmed L&G's Long-Term Issuer Default Rating (IDR) at 'A+'. The agency has also affirmed the senior unsecured debt issued by Legal & General Finance PLC and guaranteed by L&G at 'A', and L&G's subordinated debt ratings at 'BBB+'. The Outlooks on the Long-Term IDR and IFS Ratings are Stable.

### KEY RATING DRIVERS

The ratings reflect our assessment of the group's business profile, capitalisation, financial performance, and investment and asset risk as very strong. These strengths are partly offset by the group's relatively weak financial leverage.

Fitch ranks L&G's business profile as favourable compared with other UK life insurance companies'. This assessment reflects L&G's operational scale and market position as one of the leading UK life insurers and asset managers with a diversified product mix. The group is one of the leaders in the fast-growing UK bulk annuity market and is also among the top UK insurers in the individual annuity and protection markets. L&G is growing its North American pension risk transfer (PRT), asset management and term life businesses. However, we view geographical diversification as limited relative to similarly rated European peers'.

L&G's high capital buffer is a key rating strength, allowing the group to withstand volatile investment markets. The group's score on Fitch's Prism factor-based capital model (Prism FBM) is 'Extremely Strong' based on end-2018 results and the group's regulatory Solvency II SCR improved to 189% (end-2017: 181%).

L&G's financial leverage, which remained broadly unchanged at 33% at end-2018 (end-2017: 34%, restated), remains a key rating weakness. We expect this to improve slightly once the sale of the mature savings business to ReAssure (IFS A+/Stable) concludes. The group's fixed-charge coverage remained broadly stable at 12x in 2018 and is in line with the ratings.

L&G's earnings are well-diversified by product type in the group's main market, the UK. In addition, L&G owns one of Europe's leading asset managers, which adds to the group's earnings diversification and stable cash generation. In 2018, 18% of L&G's operating profit from divisions

came from Legal & General Investment Management (LGIM). L&G's profitability has been one of the highest among UK-based peers' over recent years, with net income return on equity (ROE) of 23% in 2018. Fitch expects L&G to maintain profitability around the current level, which supports the ratings.

We view L&G's investment and asset risk as low. We believe that L&G's significant exposure to credit risk is well-managed through a very low exposure to sub-investment grade assets and a credit default provision being held. These strengths are partly offset by the average credit quality of the group's fixed interest portfolio and the group's significant investment exposure to the UK infrastructure assets.

We view Banner Life and William Penn (together, Legal & General America (LGA)) as 'Core' to L&G as defined in our insurance criteria. As a result we align their IFS Ratings with that of Legal and General Assurance Society Ltd, the other core rated operating entity in the group. L&G Re, the group's Bermuda-based reinsurance arm, is set up to enable the group to write international PRT business and shares branding with L&G's core entities. However, it remains a small part of the business with a limited track record. We therefore view L&G Re as 'very important' to the group and notch its IFS Rating off the core entities' at 'A+'.

#### RATING SENSITIVITIES

The ratings could be downgraded in the event of the group's Prism FBM score falling to the low end of the 'Very Strong' range, financial leverage increasing to 35% or interest cover decreasing to below 5x.

A substantial improvement in the group's financial leverage, combined with a lower investment exposure to the UK infrastructure assets, while maintaining a Prism FBM score at 'Extremely Strong' would lead to an upgrade. However, we view this as unlikely in the medium term.

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Applicable Criteria

Insurance Rating Criteria (pub. 11 Jan 2019)

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