

RATING ACTION COMMENTARY

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

Wed 21 Aug, 2024 - 7:28 AM ET

Fitch Ratings - London - 21 Aug 2024: Fitch Ratings has affirmed Legal & General Group Plc (L&G) core operating entities' Insurer Financial Strength (IFS) Ratings at 'AA-'. The core entities are Legal and General Assurance Society Limited, Banner Life Insurance Company, William Penn Life Insurance Company of New York Inc. and Legal & General Reinsurance Company Limited.

Fitch has also affirmed L&G's Long-Term Issuer Default Rating (IDR) at 'A+'. The Outlooks on the IFS Ratings and the Long-Term IDR are Stable. A full list of ratings is below.

The affirmation reflects our 'Very Strong' assessment of the group's company profile, capitalisation, financial performance, and investment and asset risk.

KEY RATING DRIVERS

Very Strong Company Profile: L&G's very strong company profile reflects the group's operational scale and market position as one of the leading UK life insurers and global asset managers with a diversified product mix. It is one of the leaders in the fast-growing UK pension de-risking market and is also among the top UK insurers in the individual annuity market.

L&G's bulk purchase annuity and individual annuity new business premiums in 1H24 were GBP1.5 billion (1H23: GBP5.0 billion; 2023: GBP13.7 billion) and GBP1.2 billion (1H23: GBP575 million; 2023: GBP1.4 billion), respectively. Despite L&G's modest bulk annuity sales in 1H24, we expect strong volumes over the medium term, supported by resilient demand from corporates to offload their pension liabilities. Fitch also expects the individual annuity market to continue its growth momentum, driven by high annuity rates that have largely risen in step with long-term interest rates.

Merged Asset Management Division: L&G recently announced the combination of Legal & General Investment Management (LGIM) and Legal & General Capital (LGC) to form a global asset management unit that had assets under management of GBP1.1 trillion at end-June 2024. This underscores L&G's franchise in asset management, supporting our assessment of the company profile.

Growing International Presence: L&G also has a fast-growing presence in North American pension de-risking and term life markets, while the asset management business is expanding its footprint in the US, Europe and Asia. However, Fitch views geographical diversification as somewhat less than some 'AA' rated European peers.

Very Strong Capitalisation: L&G's capitalisation scores 'Extremely Strong' under Fitch's Prism Global Model at end-2023 (end-2022: Extremely Strong). Its extremely strong Solvency II (S2) capital coverage ratio was 223% end-1H24 (end-2023: 224%). Resilient operating capital generation supports the S2 ratio, but is offset by the payment of a 2023 final dividend (GBP874 million) and a share buyback (GBP201 million).

L&G recently announced its intention to return more to shareholders over 2024-2027, through a combination of dividends and share buybacks. However, Fitch does not expect the increased returns to materially affect its view of the group's capital strength due to strong capital buffers and very strong profitability.

Strong Financial Leverage: L&G's Fitch-calculated financial leverage ratio (FLR) was strong at 24% at-end 1H24 (end-2023: 23%), supported mainly by the inclusion of expected future profit generation in the form of contractual service margin (net of tax), in the denominator of the FLR calculation.

Very Strong and Diversified Earnings: Fitch considers the group's diversified earnings sources as positive to its assessment of financial performance. L&G reported a strong Fitch-calculated net income return on equity of 10% (annualised) in 1H24 (2023: 9%), supported by resilient operating performance of its well-diversified product mix and strong investment returns on assets backing the annuity portfolio. Under the IFRS17 accounting standard that came into force on 1 January 2023, the timing of profit recognition in L&G's annuity and protection businesses is delayed and profits will be recognised gradually over the duration of the insurance contracts.

Low-Risk Investments, 'BBB' Concentration: L&G has very low exposure to low-rated assets, with only around 1% of its bond portfolio investments in sub-investment grade assets at end-June 2024. However, L&G's exposure to 'BBB' debt securities was fairly high

at 32% (end-2023: 32%), although broadly in line with peers. It has some concentration in UK sovereign bonds, but this is neutral to our view of asset risk for L&G.

RATING SENSITIVITIES

Factors That Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

-- A sustained improvement in the FLR to below 20%, while maintaining a Prism score at 'Extremely Strong'

Factors That Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

-- Prism score falling to the low end of the 'Very Strong' category

-- Deterioration in the FLR to above 30% for a prolonged period

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 is a score of '3', unless otherwise disclosed in this section. A score of '3' 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY / DEBT ◆

RATING ◆

PRIOR ◆

Legal & General Finance
PLC

senior unsecured	LT	A	Affirmed	A
Banner Life Insurance Company	LT IFS	AA-	Rating Outlook Stable	AA- Rating Outlook Stable
			Affirmed	
Legal & General Group Plc	LT IDR	A+	Rating Outlook Stable	A+ Rating Outlook Stable
			Affirmed	
subordinated	LT	BBB+	Affirmed	BBB+
Legal & General Reinsurance Company Limited	LT IFS	AA-	Rating Outlook Stable	AA- Rating Outlook Stable
			Affirmed	
Legal and General Assurance Society Limited	LT IFS	AA-	Rating Outlook Stable	AA- Rating Outlook Stable
			Affirmed	
William Penn Life Insurance Company of New York Inc.	LT IFS	AA-	Rating Outlook Stable	AA- Rating Outlook Stable
			Affirmed	

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 04 Mar 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism Global (ex-U.S.) Model, v1.8.1 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Banner Life Insurance Company	UK Issued, EU Endorsed
Legal & General Finance PLC	UK Issued, EU Endorsed
Legal & General Group Plc	UK Issued, EU Endorsed
Legal & General Reinsurance Company Limited	UK Issued, EU Endorsed
Legal and General Assurance Society Limited	UK Issued, EU Endorsed
William Penn Life Insurance Company of New York Inc.	UK Issued, EU Endorsed

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