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## Research Update:

# Irish Life Assurance Rating Raised To 'A-' Based On Criteria For Rating Above The Sovereign; Outlook Stable

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## Research Update:

# Irish Life Assurance Rating Raised To 'A-' Based On Criteria For Rating Above The Sovereign; Outlook Stable

## Overview

- Insurer Irish Life Assurance (ILA) passes our hypothetical sovereign default stress test under our revised criteria for rating companies above the sovereign, indicating that it would not exhaust its regulatory solvency capital, even under the stress of a sovereign default.
- We are raising our ratings on ILA to 'A-', its current stand-alone credit profile (SACP), from 'BBB+' and removing them from CreditWatch, where we placed them on Nov. 26, 2013.
- The rating is limited by ILA's SACP, at one notch above the foreign currency rating on Ireland. It can be no higher than two notches above the sovereign rating, reflecting our view of ILA's high sensitivity to country risk as a life insurer.
- We are also withdrawing our insurer financial strength rating on ILA at the company's request, but are maintaining our counterparty credit and issue ratings on the company.
- The stable outlook reflects our view that ILA is likely to continue to have a strong competitive position, and very strong capital and earnings.

## Rating Action

On Feb. 21, 2014, Standard & Poor's Ratings Services raised to 'A-' from 'BBB+' its long-term counterparty credit (CCR) and insurer financial strength (FSR) ratings on Irish Life Assurance PLC (ILA). We also raised the issue rating on the subordinated debt issued by ILA to 'BBB' from 'BBB-'. At the same time, we removed the ratings from CreditWatch with positive implications, where we placed them on Nov. 26, 2013.

Subsequently, we withdrew our FSR on ILA at the company's request. We are maintaining our CCR and issue ratings on ILA. The outlook on the CCR is stable.

## Rationale

The one-notch upgrade follows the implementation of our revised criteria on rating companies above the sovereign level (see "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," published Nov. 19, 2013). Under the criteria, we assess the potential impact of a hypothetical Irish sovereign default on ILA's consolidated balance sheet, based on a stress scenario. We apply this test to all companies with

indicative credit profiles that are higher than the rating on the sovereign to which they are materially exposed, to assess whether their rating could be higher than that on the sovereign.

We consider ILA to have a material exposure to Irish assets. ILA held around €555 million of Irish debt and around €45 million of Irish property on Dec. 31, 2013, while its total regulatory capital was €782 million pre-dividend. We have applied our hypothetical foreign currency sovereign default stress test to ILA's balance sheet, including haircuts on all Ireland-based assets, including sovereign bonds, local bank and corporate bonds, real estate, deposits, and equities. We then compared the euro amount of hypothetical losses with the regulatory solvency capital of the insurer (capital stress) to which we added one year of pre-tax, post-haircut earnings. We also applied a liquidity stress under our criteria that used the asset haircuts above.

Furthermore, the €555 million includes €184 million of bonds backing Irish sovereign annuities, under which the full amount of any default would be passed on to the customer, assuming that the default scenario proceeds as expected.

We estimate that the haircuts associated with the capital test would not deplete ILA's regulatory solvency capital. This indicates, according to our criteria, that ILA would not default on its insurance liabilities under the scenario. In addition, we consider that the liquidity test would result in a liquidity ratio of more than 100%. ILA therefore passes our sovereign default stress test.

Because ILA would have positive regulatory solvency capital, even after our stress test, we could set the ratings two notches above those on the sovereign. The insurer has a 100% Irish life insurance-oriented business mix, which we consider indicates high sensitivity to country risk. Nevertheless, we rate ILA only one notch above the sovereign because its SACP is 'a-'.

ILA's SACP is supported by its strong competitive position and very strong capital and earnings. Our view of ILA's strong competition position is based on its scale, distribution diversity, and the perceived financial strength its international backing offers. As a result of these factors, its market share is typically around 30%. We assess capital and earnings as very strong because the Solvency I regime gives no credit for the relatively low risk profile of ILA's business.

We also consider ILA to be strategically important to the Great-West group. In our view, ILA is important to Great-West's European strategy and has demonstrated success in maintaining an important market position in Ireland.

## **Outlook**

The stable outlook reflects our expectations that ILA is likely to continue to have a leading competitive position in Ireland, while maintaining its capital and earnings at least at very strong levels.

We could lower the rating if we lowered ILA's SACP. This could occur if:

- Our view of its competitive position weakened, demonstrated by a sustainable reduction in market share or by its new business internal rate of return falling materially below 11%; or
- ILA's capital and earnings were assessed as two or more categories lower than very strong. This could be triggered by a more aggressive dividend policy, or if ILA managed its capital adequacy at weaker buffer levels following the implementation of Solvency II.

We could raise the rating if:

- We considered that the business risk profile had improved. This could occur because the proportion of business sold through channels which we consider ILA controls increased, market growth prospects for Irish life insurance improved, the economic growth trend in Ireland became more established, and we saw improvements in the Irish banking sector.
- We see evidence indicating that ILA has become more important to its parent Great-West, improving its group status according to our criteria.

## Ratings Score Snapshot

Financial Strength Rating	NR/-
Counterparty Credit Rating	A-/Stable
Anchor	a-
Business Risk Profile	Satisfactory
IICRA	Moderate Risk
Competitive Position	Strong
Financial Risk Profile	Very Strong
Capital & Earnings	Very Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate With Strong Risk Controls
Management & Governance	Fair
Holistic Analysis	0
Liquidity	Exceptional
Support	0
Group Support	0
Government Support	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria And Research

### Related Criteria

- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Enterprise Risk Management, May 7, 2013
- Insurers: Rating Methodology, May 7, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008

### Related Research

- Credit FAQ: How Does Standard & Poor's Apply Its Ratings Above The Sovereign Criteria To Insurers?, Dec. 20, 2013
- Credit FAQ: Why Our Updated Criteria On Rating Above The Sovereign Led To CreditWatch Placements On Some EMEA Insurers, Dec. 3, 2013
- Rating Actions On Nine European And African Insurance Groups After Revision Of Criteria On Rating Above The Sovereign, Nov. 26, 2013

## Ratings List

Upgraded; CreditWatch/Outlook Action

	To	From
Irish Life Assurance PLC		
Counterparty Credit Rating	A-/Stable/--	BBB+/Watch Pos/--
Financial Strength Rating	A-/Stable/--	BBB+/Watch Pos/--

Rating Withdrawn

Irish Life Assurance PLC		
Financial Strength Rating	NR	A-/Stable/--

NR--Not rated.

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