

10 SEP 2021

## Fitch Affirms FWU Life Insurance Lux at IFS 'BBB+'; Outlook Stable

Fitch Ratings - Frankfurt am Main - 10 Sep 2021: Fitch Ratings has affirmed Luxembourg-based FWU Life Insurance Lux S.A.'s (FWU Lux) Insurer Financial Strength (IFS) Rating at 'BBB+' and Long-Term Issuer Default Rating (IDR) at 'BBB'. The Outlooks are Stable.

### Key Rating Drivers

The affirmation reflects FWU Lux's record of strong capitalisation and profitability. These positive rating factors are partly offset by a 'less favourable' business profile, a fairly high but improving total-financing-commitments to total-available-capital ratio (TFC ratio) and the company's dependence on unit-linked products.

Fitch ranks FWU Lux's business profile as 'less favourable' than other German, Austrian and Luxembourg insurance groups' due to its 'less favourable' competitive position, 'moderate' diversification and its 'moderate' business risk profile. Given this ranking, Fitch scores FWU Lux's business profile at 'bbb' under its credit factor scoring guidelines. Our assessment of FWU Lux's business profile is driven by the company's low product diversification and small size. FWU Lux specialises in unit-linked policies and reported total assets of only EUR879 million (excluding reinsurance assets) at end-2020. However, FWU Lux's geographical diversification is significant for the insurer's size.

FWU Lux's capitalisation is 'Extremely Strong' under Fitch's Prism Factor-Based Capital Model (Prism FBM). Capitalisation has proved resilient to volatile capital markets in recent years, due to its business model. FWU Lux's Solvency II (S2) ratio improved to 141% at end-1H21 from 127% at end-2020 and 135% at end-2019, reflecting favourable market and interest-rate movements. Fitch expects FWU Lux to maintain a S2 ratio of 140%-150% in the medium term.

FWU Lux's TFC ratio improved to 0.9x at end-2020, down significantly from 1.4x at end-2019, reflecting a reduced outstanding amount of value-in-force (VIF) transactions. We expect the TFC ratio to further improve to 0.6x at end-2021. The TFC ratio reflects the issuance of VIF notes guaranteed by FWU Lux. However, we expect the ratio to fall as the VIF notes are paid back through acquisition fees included in the insurance premiums of the designated blocks of business, and we do not expect FWU Lux to issue additional VIF notes in the foreseeable future.

FWU Lux reported stable profitability in 2020 despite the impact of the coronavirus pandemic on assets under management (AuM), and despite the high volume of new business written. We expect the return on equity, which stood at 6.4% in 2020 (2019: 6.2%), to recover to 8% in the medium term,

assuming the outstanding volume of VIF-linked notes sponsored by FWU Lux continues to reduce.

FWU Lux's focus on unit-linked business leaves the insurer vulnerable to a reduction in demand for these products. Unit-linked profitability is strongly related to the size of AuM and is therefore exposed to the volatility of financial markets. Fitch views positively FWU Lux's relatively stable AuM development during capital-market declines, which supports the company's earnings prospects.

FWU Lux faces limited direct investment risk, as policyholders or other external parties providing guarantees offered within FWU Lux's products bear the risk of falling equity markets. The remaining mortality and disability risks are largely reinsured.

## **RATING SENSITIVITIES**

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

--A significant and sustained deterioration in earnings, resulting in a RoE below 5% over a prolonged period.

--A substantial weakening in FWU Lux's franchise and scale.

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

--A substantial improvement in FWU Lux's franchise and scale.

## **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**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

## Fitch Ratings Analysts

### Ralf Ehrhardt

Director

Primary Rating Analyst

+49 69 768076 163

Fitch Ratings – a branch of Fitch Ratings Ireland Limited Neue Mainzer Strasse 46 - 50 Frankfurt am Main D-60311

### Stephan Kalb

Senior Director

Secondary Rating Analyst

+49 69 768076 118

### Harish Gohil, FIA

Managing Director

Committee Chairperson

+44 20 3530 1257

## Media Contacts





### Athos Larkou

London

+44 20 3530 1549

athos.larkou@thefitchgroup.com

## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
FWU Life Insurance Lux S.A.	LT IDR	BBB 	Affirmed	BBB 
	Ins Fin Str	BBB+ 	Affirmed	BBB+ 

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[Insurance Rating Criteria \(pub.15 Apr 2021\) \(including rating assumption sensitivity\)](#)

[Insurance-Linked Securities Rating Criteria \(pub.02 Jul 2020\) \(including rating assumption sensitivity\)](#)

## Applicable Models

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

Prism Factor-Based Capital Model, v1.7.2 [\(1\)](#)

## Additional Disclosures

[Solicitation Status](#)

## Endorsement Status

FWU Life Insurance Lux S.A. EU Issued, UK Endorsed

## Disclaimer

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE OR ANCILLARY SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF PERMISSIBLE SERVICE(S)

FOR WHICH THE LEAD ANALYST IS BASED IN AN ESMA- OR FCA-REGISTERED FITCH RATINGS COMPANY (OR BRANCH OF SUCH A COMPANY) OR ANCILLARY SERVICE(S) CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

## Copyright

Copyright © 2021 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely

responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

## **Endorsement policy**

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's [Regulatory Affairs](#) page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.