

Research Update:

Royal London Mutual Insurance Society Affirmed At 'A'; Outlook Stable

July 24, 2019

Overview

- Royal London Mutual Insurance Society Ltd. (Royal London or the company) has a strong market position and brand name in the U.K. life market.
- At the same time, the portfolio is relatively concentrated in terms of geography and sector.
- We are affirming our 'A' ratings on Royal London and our 'BBB+' ratings on the subordinated notes it guarantees.
- The outlook is stable because we expect the company to profitably diversify and build scale while maintaining its capital adequacy.

Rating Action

On July 24, 2019, S&P Global Ratings affirmed its 'A' long-term issuer credit ratings on the U.K.-domiciled Royal London Mutual Insurance Society Ltd. The outlook is stable.

We also affirmed the 'BBB+' ratings on the subordinated instruments guaranteed by Royal London.

Outlook

Our outlook on the ratings is stable. Over the next two years we expect Royal London to:

- Profitably diversify and build scale by increasing the contribution from its wealth-management operations, and by continuing to develop its protection and direct propositions;
- Maintain life and pensions new business margins around or above 2%; and
- Preserve its high quality balance sheet and maintain strong risk controls.

Downside scenario

PRIMARY CREDIT ANALYST

Simran K Parmar
London
(44) 20-7176-3579
simran.parmar
@spglobal.com

SECONDARY CONTACT

David J Masters
London
(44) 20-7176-7047
david.masters
@spglobal.com

ADDITIONAL CONTACT

Insurance Ratings Europe
insurance_interactive_europe
@spglobal.com

Research Update: Royal London Mutual Insurance Society Affirmed At 'A'; Outlook Stable

We could lower the ratings over the next two years if:

- Royal London's competitive position and market share deteriorates compared with peers, for example if its brand position weakens;
- We observe a drop in profitability, from which we do not anticipate a recovery, for example from increased pressures on prices for a prolonged period of time;
- We see a substantial reduction in capital or a radical change in risk profile; or
- We lower our opinion of Royal London's financial flexibility, for example because of low fixed-charge coverage ratios of below 4x.

Upside scenario

Our assessment of Royal London is constrained by its relatively narrow product profile and lack of geographic diversification versus higher rated peers across Europe. As a result, we do not expect to raise the ratings during the next two years.

Rationale

Our ratings on Royal London reflect its sound operating performance, despite the potential for volatility; its high levels of capitalization; and its strong brand and market position in the U.K. life sector. The mutual has a more focused geographic and sector portfolio than higher rated peers, which tend to have diverse operations. We also view as limiting factors the potential capital and earnings risks from the sizable pension scheme and indirect exposure to equities through its with-profits funds.

Although we expect Royal London to generate sufficient earnings to meet future capital needs, as a mutual it has limited external sources of capital and liquidity because it cannot access the equity markets. It maintains high liquidity levels by adjusting assets to meet projected cash requirements.

Ratings Score Snapshot

Business Risk Profile	Strong
Competitive position	Strong
IICRA	Low risk
Financial Risk Profile	Strong
Capital and earnings	Very Strong
Risk exposure	Moderately high
Funding structure	Neutral
Anchor*	a
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

Issuer Credit Rating

A

*This is influenced by our view of Royal London's credit profile compared with most of its 'A' rated peers.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

Royal London Mutual Insurance Society Ltd.

Issuer Credit Rating

Local Currency A/Stable/--

RL Finance Bonds 2 PLC

Junior Subordinated[1] BBB+

RL Finance Bonds No. 3 plc

Subordinated[1] BBB+

[1]Guaranteed by Royal London Mutual Insurance Society Ltd.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2019 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.