

**RATING ACTION COMMENTARY**

# **Fitch Affirms Manchester Unity Friendly Society at 'BB-'; Outlook Stable**

Tue 05 May, 2020 - 4:56 AM ET

Fitch Ratings - Sydney/Singapore - 05 May 2020: Fitch Ratings has affirmed Manchester Unity Friendly Society's (MUFS) Insurer Financial Strength (IFS) Rating at 'BB-' (Moderately Weak). The Outlook is Stable.

## **KEY RATING DRIVERS**

The affirmation is based on Fitch's current assessment of the impact of the coronavirus pandemic, including its economic impact, under a set of ratings assumptions described below. These assumptions were used by

Fitch to develop pro forma financial metrics for MUFS that Fitch compared with ratings guidelines defined in its criteria and relative to previously established rating sensitivities for MUFS.

The affirmation reflects the insurer's 'Least Favourable' business profile, 'Moderately Weak' financial performance and earnings as well as 'Good' capitalisation and leverage.

We assess MUFS's business profile as 'Least Favourable' compared with that of other New Zealand life insurers, due to its limited competitive positioning and diversification. MUFS's membership continues to decline as member deaths outpace new joiners, while the society's strategies do not include business development or selling objectives to maximise its membership base. Therefore, we score MUFS' business profile at 'b+' under our credit-factor scoring guidelines.

We do not expect pandemic-driven pro forma losses to be of a magnitude that would cause significant capital depletion under our rating assumptions. Most of MUFS' life products have been closed to new business since 2012 and, although it continues to offer low-cost funeral and medical insurance to members, product uptake is low. As a result, we expect the trend of falling premiums, which dropped by 4% in the financial year ending May 2019 (FY19) and FY18, to continue. MUFS is not a profit-maximising entity due to its mutual ownership.

MUFS's capitalisation, as measured by Fitch's Prism model score, was 'Extremely Strong' at FYE19 and is commensurate with its rating under our pro forma capital analysis. Its regulatory solvency ratio was 142% at end-November 2019. The regulatory solvency position is sensitive to duration mismatch of asset and liabilities. Management says the mismatch has declined following the purchase of long-dated bonds in April 2020.

## **KEY ASSUMPTIONS**

## Assumptions for Coronavirus Impact (Rating Case)

Fitch used the following key assumptions, which are designed to identify areas of vulnerability, in support of the pro forma ratings analysis discussed above:

- Decline in key stock market indices by 35% relative to 1 January 2020.
- Increase in two-year cumulative high-yield bond default rate to 16%, applied to current non-investment grade assets as well as 12% of 'BBB' assets.
- Both upward and downward pressure on interest rates, with spreads widening (including for high-yield debt by 400bp) coupled with notable declines in government rates.
- Capital markets access is limited for issuers at senior debt levels of 'BBB' and below.
- A coronavirus infection rate of 5% and a mortality rate as a percentage of those infected of 1%.
- Decline in the value of investment property and mortgages of 6.5%.

## **RATING SENSITIVITIES**

The ratings are sensitive changes in Fitch's rating-case assumptions with respect to the coronavirus pandemic. Periodic updates to our assumptions are possible in light of the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information is available on the medical aspects of the outbreak. An indication of how we expect ratings to be affected under a set of stress-case assumptions is included at the end of this section to help frame sensitivities to a severe downside scenario.

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

- An adverse change in Fitch's ratings assumptions with respect to the pandemic impact
- A fall in coverage of the regulatory capital requirement below 140% for an extended period
- Continued deterioration in the weak business profile, including a decrease in the number of lodges and significant reduction in the membership base

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

- A positive change in Fitch's ratings-assumptions with respect to the pandemic impact
- Positive rating action that is prefaced by Fitch's ability to reliably forecast the impact of the pandemic on the financial profile of New Zealand's insurance industry and MUFS
- A sustained improvement in MUFS' business profile
- Maintain coverage of the regulatory capital requirement above 170% on a sustained basis

#### Stress Case Sensitivity Analysis

Fitch's stress case assumes a 60% stock market decline, two-year cumulative high-yield bond default rate of 22%, high-yield bond spreads widening by 600bp and prolonged declines in government rates, heightened pressure on capital market access, a coronavirus infection rate of 15% and a mortality rate of 0.75% and a decline in the value of investment property and mortgages of 13%.

The implied rating impact under the stress case would be a downgrade of no more than one notch.

## **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions 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**

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

## **RATING ACTIONS**

<b>ENTITY/DEBT</b>	<b>RATING</b>
--------------------	---------------

---

<b>ENTITY/DEBT</b>	<b>RATING</b>		
Manchester	Ins	BB-	Affirmed
Unity Friendly	Fin		
Society	Str		

[VIEW ADDITIONAL RATING DETAILS](#)

## **FITCH RATINGS ANALYSTS**

### **Kanishka de Silva, CFA**

Associate Director

Primary Rating Analyst

+61 2 8256 0367

Fitch Australia Pty Ltd Level 15 77 King Street Sydney NSW 2000

### **Siew Wai Wan**

Senior Director

Secondary Rating Analyst

+65 6796 7217

### **Terrence Wong**

Senior Director

Committee Chairperson

+852 2263 9920

## **MEDIA CONTACTS**

### **Peter Hoflich**

Singapore

+65 6796 7229

[peter.hoflich@thefitchgroup.com](mailto:peter.hoflich@thefitchgroup.com)

### **Leslie Tan**

Singapore

+65 6796 7234

[leslie.tan@thefitchgroup.com](mailto:leslie.tan@thefitchgroup.com)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

## **APPLICABLE CRITERIA**

[Insurance Rating Criteria \(pub. 03 Mar 2020\) \(including rating assumption sensitivity\)](#)

## **APPLICABLE MODELS**

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

Prism Factor-Based Capital Model, v1.7.1 (1)

## **ADDITIONAL DISCLOSURES**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

## **ENDORSEMENT STATUS**

Manchester Unity Friendly Society

EU 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-](https://www.fitchratings.com/rating-definitions-document)

[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>. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

[READ LESS](#)

## **COPYRIGHT**

Copyright © 2020 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.

**READ LESS**

## **SOLICITATION STATUS**

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

## **ENDORSEMENT POLICY**

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

---

Insurance   Asia-Pacific   New Zealand

---

