

Research Update:

# Liverpool Victoria Outlook Revised To Negative On Uncertain Future Following Member Rejection Of Sale; Ratings Affirmed

December 14, 2021

## Overview

- Liverpool Victoria Financial Services' (LVFS) members have rejected an offer from Bain Capital to buy the U.K.-domiciled mutual.
- The rejection leaves LVFS with an uncertain future as an independent insurer, due to its current small scale and limited market position.
- We revised our outlook on LVFS to negative and affirmed our 'BBB+' insurer financial strength and issuer credit ratings on the insurer.
- The negative outlook reflects the risk that without a supportive acquirer, LVFS would have to address its operating model to continue as an independent insurer, or it could cease underwriting new business entirely.

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## Rating Action

On Dec. 14, 2021 S&P Global Ratings revised its outlook on LVFS to negative from stable.

At the same time, we affirmed our 'BBB+' insurer financial strength and issuer credit ratings on LVFS.

## Rationale

The outlook revision reflects LVFS' uncertain future as a stand-alone business following its members' rejection of a proposed acquisition by Bain Capital. With the rejection of the Bain offer, the mutual will enter another strategic review phase. We think that if LVFS does not find a supportive acquirer, it may struggle to maintain its current position as a stand-alone business, or the mutual may place itself into run-off and stop writing new insurance business.

We currently view LVFS' capital position to be a core strength following the sale of its non-life

operations to Allianz in 2019. However, we think LVFS' limited scale and market position in the U.K. life sector make this capital base more vulnerable to erosion than many of its peers. The outlook revision reflects that without significant investment in its business, LVFS, with its current financial resources, will struggle to compete against its larger, more diversified peers. This could threaten its capital strength in the longer term. We think that in the absence of another acquirer, the mutual may consider ceasing writing new business in order to protect members' interests.

We understand LVFS received 11 bids other than the Bain offer in its recent strategic review, so we expect there will be potential acquirers interested in the mutual. However, there is no certainty that any new bid would receive membership approval, nor is there certainty regarding the level of investment a new acquirer would provide LVFS. We think another period of reviewing bids and consulting members will place further strains on management time and LVFS's expense base, pressuring the insurer's ability to improve its business and capital position.

## Outlook

The negative outlook on LVFS reflects our view that its future state as an ongoing independent company is uncertain following its member's rejection of a sale to Bain Capital. LVFS' current scale and limited market position mean that without a supportive new backer, the company would have to address its operating model to continue as an independent insurer or could close to new business and enter run-off. The negative outlook also reflects our uncertainty regarding the further management and expense strain, as well as the erosion of competitive position that could come from LVFS re-entering a strategic review phase.

## Downside scenario

We could lower the ratings on LVFS by one notch over the next one to two years if the insurer:

- Does not find an acquirer that will at least sustain its current capital and market position;
- Continues to operate as an independent business and we think it is unlikely to sustain its current levels of capital adequacy and market position; or
- Decides to close to new business and enter run-off.

## Upside scenario

We could revise the outlook to stable over the next one to two years if LVFS finds an acquirer that we think will support or expand the insurer's business position while at least maintaining a 'AAA' level of capital adequacy per our model. We could also revise the outlook to stable if LVFS continues in its current state but it improves its ability to maintain its current 'AAA' levels of capital while enhancing its market share and scale.

## Ratings Score Snapshot

### Ratings Score Snapshot - Liverpool Victoria Financial Services

Financial strength rating	BBB+
Anchor	bbb+

## Ratings Score Snapshot - Liverpool Victoria Financial Services (cont.)

Business risk	Satisfactory
IICRA	Low risk
Competitive position	Satisfactory
Financial risk	Strong
Capital and earnings	Excellent
Risk exposure	Moderately High
Funding structure	Moderately Negative
Modifiers	0
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0

IICRA--Insurance Industry And Country Risk Assessment.

ESG Credit Indicators: E-2 S-2 G-2

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>Liverpool Victoria Financial Services Ltd.</b>		
Issuer Credit Rating		
Local Currency	BBB+/Negative/--	BBB+/Stable/--
Financial Strength Rating		
Local Currency	BBB+/Negative/--	BBB+/Stable/--

**Ratings Affirmed**

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**Liverpool Victoria Financial Services Ltd.**

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Subordinated	BBB-
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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](http://www.standardandpoors.com) for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at [https://www.standardandpoors.com/en\\_US/web/guest/article/-/view/sourceld/504352](https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352) Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://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.

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