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Ratings

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St. James's Place U.K. PLC

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St. James's Place U.K. PLC

SACP* Assessments				SACP*		Support		Ratings
Anchor	a-	Modifiers	0	a-		0		Financial Strength Rating
Business Risk		ERM and Management	0	Liquidity	0	Group Support	0	A-/Stable/--
Satisfactory								
Financial Risk		Holistic Analysis	0	Sovereign Risk	0	Gov't Support	0	
Strong								

*Stand-alone credit profile.

See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- St. James's Place PLC (SJP) has a robust position in the retail unit-linked pensions and savings segment.
- The group has a track record of growing net flows and good operating performance.
- However, our assessment of SJP's competitive position is somewhat constrained by the narrowness of its product and geographic profiles.

Financial Risk Profile: Strong

- Our view of capital and earnings, although strong, is tempered by a substantial reliance on the present value of future profits (i.e. value of in-force), and exposure to operational risks and reputational risk that our risk-based capital model may not adequately capture.
- We view SJP's risk position favorably due to the group's conservative management of its liability profile and shareholder assets.
- SJP's financial risk profile also benefits from the group's limited capital needs and low reliance on debt.

Outlook: Stable

The stable outlook reflects our view that St. James's Place U.K. PLC (SJP) will continue to operate profitably within the wealth management sector and maintain its growing sales and earnings despite the uncertainty arising out of the U.K.'s referendum vote to leave the EU ("Brexit") and possible regulatory changes.

Downside scenario

We may lower the ratings if:

- SJP finds it difficult to grow its base of tied agents (or "Partners") and thus its client base; or
- SJP faces pressure on its business model, either due to regulatory changes or reputational damage;
- Retention rates as a percentage of average funds under management (FUM) fall to less than 90% or net flows turn negative, which could indicate a weakening in SJP's competitive position; or
- The group's capital structure weakens, for example due to greater leverage of the balance sheet, and/or if the fixed-charge coverage ratio falls below 4x.

Upside scenario

We view an upgrade over the next 24 months as unlikely. An upgrade would be dependent on significant expansion of SJP's narrow product profile and/or material, profitable growth in Asia-Pacific.

Base-Case Scenario

Macroeconomic Assumptions

- U.K. GDP growth in 2017-2020 to average 1.3%.
- Inflation to increase to 2.7% in 2017 and 2.3% in 2018.

Company-Specific Assumptions

- We expect the growth in the number of SJP's Partners to gradually continue, driven by its internal training academy.
- We anticipate that SJP will leverage its established brand and that net flows will remain strong, despite potential regulatory changes in the asset management industry.
- We expect the dividend pay-out ratio to stabilize at around 75% of net income.
- We believe that SJP will maintain its capital adequacy levels at extremely strong over the next two years.
- We anticipate that the fixed-charge coverage ratios will remain in excess of 8x over the next two years.

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Key Metrics

Table 1

St. James's Place U.K. PLC Key Metrics	2013	2014	2015	2016	2017F	2018F
Net inflows (£ bil.)	4.2	5.1	5.8	6.8	7.3	7.7
Life new business margin	4.5%	4.5%	4.3%	4.3%	>4%	>4%
Financial leverage	0%	0%	<20%	<20%	<20%	<20%
Fixed charge coverage	N.M.	N.M.	>8x	>8x	>8x	>8x

N.M.--Not meaningful. F--Forecast.

Company Description

SJP is a U.K.-based wealth manager. It focuses on customers with investable wealth of £50,000 to £5 million. As of March 31, 2017, SJP had FUM of £79.8 billion (year-end 2016: £75.3 billion). SJP is the main regulated operating entity, which we assess as core to the group.

SJP's business model is an outsourced one, with the group providing close management and oversight. SJP distributes its unit-linked pensions and savings products exclusively through a network of tied agents called Partners. As of Dec. 31, 2016, the number of Partners was 2,378, up 5% on the prior year. Additionally, the productivity of the Partners, measured by gross inflows per Partner, increased to £4.7 million, up 12% from 2016. The products that SJP sells are invested in funds, which are externally managed by a broad range of providers selected with the help of external consultants, Stamford Associates. The administration of the products is also outsourced to third parties.

Business Risk Profile: Satisfactory

The group achieves robust new business margins in a relatively narrow spectrum of products in the U.K. life insurance market.

Insurance industry and country risk: Low, as the majority of sales are in the U.K.

SJP is exposed to the U.K. life insurance market. We continue to assess this market as having low industry and country risk, notwithstanding the Brexit vote. We view country risk as low, reflecting the sovereign ratings. Our intermediate industry risk assessment captures the typical level of risk that life insurers operating in the U.K. face, and remains unchanged post the Brexit referendum.

We assess industry risk for the U.K. life insurance sector as intermediate. In our view, the U.K. life insurance industry has been under intense political scrutiny in recent few years, with further changes possible following the Brexit vote. However, the sector has successfully adapted its business model to the recent political and regulatory developments. We consider the sector to be highly competitive, but believe that it nevertheless maintains moderate levels of profitability.

Competitive position: Strong results despite increasing changes in regulation

SJP uses its network of tied agents and long-term relationships with clients to achieve robust new business margins. In 2016, approximately 90% of SJP's new business came from existing clients and their referrals. Thus, our assessment of SJP's competitive position is supported by new business margins, which were 4.3% in 2016. We expect SJP to maintain new business margins above 4% over 2017-2019.

In our view, SJP's overall competitive position is constrained by the narrowness of its product and geographic profile. SJP broadened its profile in the Asia-Pacific expatriate community via the integration of the Henley Group (acquired in 2014). In February 2016, SJP also acquired Rowan Dartington & Co. Ltd., with FUM of £1.26 billion. Rowan Dartington specializes in discretionary fund management, including direct equity, trust, and charity portfolio management. Nevertheless, we do not view the inflows from the Asian operations and the Rowan Dartington acquisition as material enough to diversify SJP's product profile over the next two years and merit a stronger competitive position assessment. As a result, we view the group as more susceptible to industry, regulatory, and reputational risks than its peers.

The asset management industry faces potential changes from a number of ongoing regulatory reviews. In June 2017, the Financial Conduct Authority published the final findings of its asset management market study and has called for proposals to enhance price competition in the asset management industry. The final guidance from the Financial Advice Market Review is due in Autumn 2017, and focuses on the affordability and accessibility of financial advice.

Other upcoming legislation includes the implementation of the Markets in Financial Instruments Directive II and Packaged Retail And Insurance-Based Investment Products regulation. In our opinion, these regulatory and policy changes have the potential to affect SJP's business profile. We believe that the increased regulatory scrutiny on asset management fees and advice services may lead to pressure on SJP's operating performance, but overall, the group will be able to capitalize on its loyal client base and deliver profitable growth.

We expect growth in net inflows to balance out to an average of 6%-8% a year until 2018, as the market becomes more saturated. Competitors are becoming increasingly focused on asset management, in our view. Competition may come from direct-to-consumer platforms, independent financial advisors (IFAs) who have successfully adjusted their business models after the Retail Distribution Review, or insurers increasing their own tied-agent workforces.

We positively view SJP's initiatives to "grow its own" tied agents in response to competition for distributors. In addition to recruiting from the IFA population, the group has established academies across the U.K. in which agents can learn the necessary skills. The growth in the size of the Partnership was 5% in 2016, with a 12% improvement in Partner productivity, according to SJP.

Table 2

St. James's Place U.K. PLC Competitive Position

	2013	2014	2015	2016
Funds under management (£ bil.)	44.3	52.0	58.6	75.3
Growth in funds under management (%)	27.3%	17.4%	12.7%	28.5%
Life new business contribution (£ mil.)	213.6	233.7	265.5	316.2
Life new business margin	4.5%	4.5%	4.3%	4.3%

Table 2

St. James's Place U.K. PLC Competitive Position (cont.)	2013	2014	2015	2016
Net inflows (£ bil.)	4.2	5.1	5.8	6.8
Surrender rate as a % of average funds under management	4.7	4.0	4.3	4.6
Number of tied agents/Partners	1,958.0	2,132.0	2,264.0	2,378.0

Financial Risk Profile: Strong

Capital and earnings: A cash-generative business with limited capital needs

Under our risk-adjusted capital model, SJP has extremely strong levels of capital adequacy. However, we assess overall capital and earnings to be strong. This reflects our view that:

- The absolute size of solvency net assets is relatively small;
- The quality of total adjusted capital is heavily reliant on the present value of future profits--one of the softer forms of capital for which we give credit; and
- SJP is exposed to operational and reputational risks that our model may not adequately capture.

However, we believe that SJP's capital position will be sustained by its ability to produce earnings from its growing asset base, which is subject to limited capital requirements given the lack of insurance risk. The nature of SJP's product structure is such that most of its new business does not generate cash for the first six years. After this time, assets held on behalf of policyholders are cash-generative. SJP's strong growth over recent years means that about 30% of FUM do not currently generate cash profits, but are likely to do so over the next six years. We view the combination of the maturing back book and the group's limited capital needs as consistent with the dividend pay-out target of 75% that SJP has signaled to the market. SJP's Solvency II ratio stood at 147% as of 2016.

Table 3

St. James's Place U.K. PLC Capital And Earnings

(Mil. £)	2013	2014	2015*	2016
Net income	190.3	187.9	202.0	111.7
Total shareholder's equity	906.1	1010.1	1095.1	1075.6
Life value of in-force*	1583.7	1825.3	2279.5	2636.2
Solvency net assets	507.6	572.0	801.1	1070.0
Cash result	168.8	165.1	171.5	175.4
Dividends paid	82.1	120.7	146.5	174

*2015 values are restated.

Risk position: A conservatively managed balance sheet with low levels of volatility expected

SJP faces lower balance sheet risks compared to its peers in the U.K. life insurance market. The group manages its balance sheet extremely conservatively and we believe that it is likely to continue to do so. The majority of the group's shareholder assets are invested in U.K. government bonds or diversified among a range of 'AAA' money market funds. The cash balance of £341 million as of Dec. 31, 2016, is nearly all held in a number of U.K. banks that we consider to be highly systemically important. Within the group's back book there are no investment guarantees, limiting SJP's exposure to interest-rate risk. In addition, the group has reinsured the majority of its small back book of protection liabilities.

Table 4

St. James's Place U.K. PLC Risk Position				
	2013	**2014**	**2015**	**2016**
Investment portfolio composition (excluding unit-linked portfolios) (£ mil.)	787.1	874.9	847.6	1261
AAA' rated money market funds	66.4%	59.1%	62.6%	68.8%
Cash at banks	25.0%	31.4%	27.5%	27.4%
Government bonds	8.6%	9.5%	9.8%	3.8%

Financial flexibility: Adequate and mostly debt-free balance sheet

In our view, SJP's financial flexibility is provided by its strong earnings. We therefore view its needs for capital as limited.

SJP's financial leverage ratio stood at about 7% as of year-end 2016, and we expect it to remain below 20% over 2017-2019. SJP's fixed-charge coverage is in excess of 8x, and based on our earnings expectations, we expect it to remain at this level over 2016-2018.

Other Assessments

Enterprise Risk Management: Adequate with strong risk controls

We assess SJP's risk controls as a positive feature. We believe that the importance of enterprise risk management to the rating is low, given the group's levels of capital adequacy, as well as its low-risk product and investment profile.

Management and Governance: Experienced with a good track record

SJP's management team has specific financial and operational targets based on a range of metrics. We consider the group's consistent strategy as a strength where it focuses on growing its FUM and minimizing insurance risk. The management team's ability to execute its strategy is demonstrated by its track record of profitable growth through the cycle.

Liquidity: Exceptional

The group's shareholder assets are invested in highly liquid assets, while SJP's insurance liabilities are almost entirely made up of unit-linked business with limited liquidity risk.

SJP does not possess any directly rating-sensitive contingent liabilities that could lead to calls on liquidity. Agents are able to receive financial support from SJP to set up and maintain their business. These individual loans to agents are secured on the income streams that their sales generate, as well as, ultimately, their other assets. Overall, this, combined with SJP's cash generation and liquid assets, means we view these bank loans as bringing limited liquidity risk.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- 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 Detail (As Of August 23, 2017)	
Operating Company Covered By This Report	
St. James's Place U.K. PLC	
Financial Strength Rating	
Local Currency	A-/Stable/--
Counterparty Credit Rating	
Local Currency	A-/Stable/--
Domicile	United Kingdom

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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