

FITCH AFFIRMS PAN-AMERICAN LIFE'S IFS RATINGS AT 'A'; OUTLOOK STABLE

Fitch Ratings-Chicago-20 September 2017: Fitch Ratings has affirmed the 'A' (Strong) Insurer Financial Strength (IFS) rating of Pan-American Life Insurance Company (PALIC) and its wholly owned subsidiary, Pan-American Assurance Company (PAAC), which, along with Mutual Trust Life Insurance Company are collectively referred to as Pan-American. The Rating Outlook is Stable.

KEY RATING DRIVERS

Pan-American's ratings reflect its very strong capitalization, conservative product profile and strong operating performance. The ratings also consider that Pan-American Life Insurance Group's (PALIG) non-U.S. insurance operations are concentrated in Latin America and the Caribbean, the majority of which have sovereign ratings that are lower than Pan-American's rating.

The integration of Mutual Trust has been materially completed with synergies realized ahead of schedule, primarily from investment management. Mutual Trust strengthened Pan-American's position in the U.S. life insurance market and represents its primary growth engine in this market. Fitch believes the company will continue to face competitive challenges in the U.S. from companies with significantly greater scale, market share, pricing power and distribution capabilities.

Pan-American's balance sheet strength continues to be a key rating driver, which Fitch measures on both a U.S. statutory and GAAP basis, the latter of which captures affiliates outside of U.S. statutory entities. Pan-American's Prism capital model score was 'Extremely Strong' as of Dec. 31, 2016, and PALIC, the largest operating company, maintains statutory capital well in excess of rating expectations with an NAIC RBC ratio of 598% as of Dec. 31, 2016.

PALIG's operating leverage (defined as GAAP liabilities to capital, excluding unrealized investment gains and losses) of 5x is among the lowest in Fitch's rating universe and financial leverage remains very low at 9% as of June 30, 2017.

Pan-American generates relatively stable earnings, due to its relatively low-risk product profile with no exposure to equity market risk. The participating nature of Pan-American's whole life insurance product improves Fitch's view of its risk-adjusted returns.

PALIG's above-average investment exposure to below-investment grade (BIG) bonds is largely driven by the company's foreign government exposure to Latin American and Caribbean countries, whose securities are generally rated 'BB' or lower. These securities are used to fulfill local regulatory requirements in the jurisdictions where Pan-American operates or to currency-match insurance liabilities in those countries. Exposure to BIG bonds increased to 13% of fixed-income assets as of June 30, 2017 from 9% at June 30, 2016, primarily due to the downgrade of Trinidad and Tobago's debt rating.

Additionally, PALIG has above-average exposure to bonds rated 'BBB', which makes it susceptible to rating migration in the next credit market downturn. The company's overall risky asset ratio is largely in line with the industry average, which is aided by its extremely low asset leverage.

RATING SENSITIVITIES

Fitch does not anticipate an upgrade in the near- to intermediate-term. Pan-American's ratings are constrained by its business profile, represented by modest scale and narrow market focus, and sovereign risk exposure.

The key rating sensitivities that could result in a downgrade include:

- A decline in capitalization, such as a Prism capital model score below 'Extremely Strong' or an RBC ratio below 450% for PALIC;
- An increase in consolidated financial leverage to over 20%;
- An increase in GAAP consolidated operating leverage (defined as liabilities to capital excluding unrealized investment gains and losses) to over 7x; or
- A decline in GAAP consolidated return on equity to below 4%.

Fitch has affirmed the following ratings with a Stable Outlook:

Pan-American Life Insurance Company
Pan-American Assurance Company
Mutual Trust Insurance Company
--IFS at 'A'.

Contact:

Primary Analyst
Dafina M. Dunmore, CFA
Director
+1-312-368-3136
Fitch Ratings, Inc.
70 W. Madison Street
Chicago, IL 60602

Secondary Analyst
Nelson Ma, CFA
Director
+1-212-908-1273

Committee Chairperson
Keith M. Buckley, CFA
Managing Director
+1-312-368-3211

Media Relations: Benjamin Rippey, New York, Tel: +1 646 582 4588, Email: benjamin.rippy@fitchratings.com.

Additional information is available on www.fitchratings.com

Applicable Criteria
Insurance Rating Methodology (pub. 26 Apr 2017)
<https://www.fitchratings.com/site/re/897260>

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