



RATING ACTION COMMENTARY

Fitch Affirms Pan-American Life's IFS Ratings at 'A'; Outlook Stable

Thu 04 Feb, 2021 - 3:57 PM ET

Fitch Ratings - New York - 04 Feb 2021: 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 consider the company's strong business profile, which reflects its relatively modest scale, strong niche position in the Hispanic market, conservative product profile, very strong capitalization, and strong operating performance. The ratings also consider Pan-American Life Insurance Group's (PALIG) investment profile and exposure to below investment grade bonds, which is largely driven by the company's non-U.S. insurance operations in Latin America and the Caribbean, the majority of which have sovereign ratings that are lower than Pan-American's rating.

Pan-American's strong business profile reflects the company's position as a strong niche player targeting certain markets in the U.S., including the Hispanic and wealthy U.S. foreign national markets, as well as select Latin America and Caribbean markets, where it is a leading player in life, accident and health insurance products. Within the Hispanic market, Pan-American has strong brand recognition and franchise, extensive networks, and also benefits from less price competition than in commodity markets.

Pan-American's conservative product profile is protection focused on the individual side and consists primarily of participating whole life insurance, term, and UL insurance policies with a no-lapse guaranty period of five years. On the group side, the company focuses on health and accident products, with a majority of the products offered on an annually renewable basis, which provides the ability to reprice business if needed.

Pan-American's capital 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 the U.S. statutory entities. Pan-American's Prism capital model score was 'Extremely Strong' in 2019, and PALIC, the largest operating company, maintains statutory capital well in excess of rating expectations with an NAIC RBC ratio of 482% as of Dec. 31, 2019. PALIG's operating leverage (defined as GAAP liabilities to capital, excluding unrealized investment gains and losses) at 4.4x is among the lowest in Fitch's rating universe. Financial leverage also remains very low at 6% as of Sept. 30, 2020.

Fitch considers Pan-American's earnings profile to be strong as the company generates relatively stable earnings, due to its low-risk product profile with no exposure to equity market risk. Pan-American's operating ROE for the nine months 2020 was 6.5%, which was within the 6% - 8% range exhibited over the last three years but moderately lower than the exceptional profitability reported in 2019 due to higher technology investments in 2020 and moderate COVID-19 related impacts. Fitch considers Pan-American's operating performance to be modest on an absolute basis but favorable on a risk adjusted basis. The participating nature of Pan-American's whole life insurance product improves Fitch's view of risk-adjusted returns.

Fitch views PALIG's investment portfolio to be conservative with a moderately above average risk profile due to the company's high concentration in below-investment-grade sovereigns, which was approximately 15% of total bonds as of Sept. 30, 2020. PALIG's higher exposure to below-investment grade 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 of Pan-American's non-U.S. insurance operations or to currency-match insurance liabilities in those countries. PALIG's sovereign portfolio remains relatively diverse, aside from a higher concentration in Trinidad & Tobago, which had a sovereign investments to capital ratio of 10% as of Sept. 30, 2020.

In addition, PALIG's allocation to bonds rated 'BBB' remains above average relative to other life insurers at 52% of total bonds compared with 32% of total bonds for the life industry. The higher NAIC 2 allocation in the investment-grade bond portfolio makes the bond portfolio potentially more vulnerable to ratings migration in a credit market downturn scenario. PALIG's overall risky asset ratio is roughly in line with the life insurance industry average of 80%. PALIG's risky asset ratio benefits from the company's extremely low asset leverage.

PALIG is an intermediate holding company that is 100% owned by Pan-American Life Mutual Holding Co., a Louisiana-domiciled mutual holding company. PALIG owns all of the outstanding shares of PALIC and the other subsidiaries and affiliates of the Pan-American group of companies. The company's consolidated assets were \$6.6 billion, and common equity was approximately \$1.3 billion as of Sept. 30, 2020.

RATING SENSITIVITIES

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

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.

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

- A material adverse change in Fitch's Ratings Assumptions with respect Coronavirus impact;
- 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;
- A decline in GAAP consolidated return on equity to below 4%;
- A risky asset ratio exceeding 130%.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Financial Institutions and Covered Bond 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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

| ENTITY/DEBT | RATING | | | PRIOR |
|--|-------------|-------------------------|----------|-------------------------|
| Pan-American Life Insurance Company | Ins Fin Str | A Rating Outlook Stable | Affirmed | A Rating Outlook Stable |
| Mutual Trust Life Insurance Company, a Pan-American Life Insurance Group Stock Company | Ins Fin Str | A Rating Outlook Stable | Affirmed | A Rating Outlook Stable |
| Pan-American Assurance Company | Ins Fin Str | A Rating Outlook Stable | Affirmed | A Rating Outlook Stable |

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Insurance Rating Criteria \(pub. 25 Aug 2020\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

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

Prism U.S. Life Insurance Capital Model, v1.2.1-2019 (1)

ADDITIONAL DISCLOSURES

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Mutual Trust Life Insurance Company, a Pan-American Life Insurance Group Stock Company
Pan-American Assurance Company
Pan-American Life Insurance Company

EU Endorsed, UK Endorsed
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