

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

Fitch Ratings-New York-15 August 2018: 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 very strong capitalization, strong business profile, which reflects the company's relatively modest scale, strong niche position in the Hispanic market, and conservative product profile, and strong operating performance. The ratings also consider 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.

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 the U.S. statutory entities. Pan-American's Prism capital model score was 'Extremely Strong' as of Dec. 31, 2017, and PALIC, the largest operating company, maintains statutory capital well in excess of rating expectations with an NAIC RBC ratio of 556% as of Dec. 31, 2017. PALIG's operating leverage (defined as GAAP liabilities to capital, excluding unrealized investment gains and losses) at 5x is among the lowest in Fitch's rating universe. Financial leverage also remains very low at 8% as of June 30, 2018.

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 of Pan-American's non-U.S. insurance operations or to currency-match insurance liabilities in those countries. Exposure to BIG bonds was high at 13% of fixed-income assets as of June 30, 2018, with the increase in BIG exposure primarily due to the downgrade of Trinidad and Tobago's debt rating in 2017.

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

Pan-American generates relatively stable earnings, due to its relatively low-risk product profile with no exposure to equity market risk. Operating return on capital was approximately 6% for both full-year 2017 and first-half 2018, which Fitch considers 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.

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 \$6.0 billion, and common equity was approximately \$1.1 billion at year-end 2017. Pan-American is a strong niche player targeting certain life, accident and health insurance products and markets, including the wealthy U.S. foreign national and Hispanic

markets, and is a leading player in select Latin America and Caribbean markets. Within the Hispanic market, Pan-American has a strong franchise, extensive networks, and benefits from less price competition than in commodity markets.

#### 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%;
- A risky asset ratio exceeding 130%.

Fitch has affirmed the following ratings with a Stable Outlook:

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

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Applicable Criteria  
Insurance Rating Criteria (pub. 30 Nov 2017)  
<https://www.fitchratings.com/site/re/905036>

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