



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

Fitch Ratings-Chicago-25 October 2016: Fitch Ratings has affirmed the 'A' Insurer Financial Strength (IFS) rating of Pan-American Life Insurance Company (PALIC) and its wholly owned subsidiary, Pan-American Assurance Company (PAAC), collectively referred to as Pan-American. Fitch also affirmed the 'A' IFS rating of Mutual Trust Life Insurance Company (MTL). The Rating Outlook is Stable.

### KEY RATING DRIVERS

Pan-American's ratings reflect its very strong capitalization, relatively low-risk liability profile and modest 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 ratings also consider the successful integration of the MTL merger. MTL strengthened PALIG's position in the U.S. life insurance market and represents its primary growth engine in this market. However, 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 strong balance sheet continues to be a key rating driver with very strong capitalization and low leverage. PALIC and MTL maintain statutory capital well in excess of rating expectations with an NAIC risk-based capital (RBC) ratio of 592% and 652%, respectively, at Dec. 31, 2015. Pan-American and MTL's combined Prism capital model score is 'Extremely Strong'. Outside the U.S., PALIG's insurance subsidiaries maintain statutory capital that well exceeds regulatory minimums.

Fitch views PALIG's consolidated operating leverage (defined as GAAP liabilities-to-capital excluding unrealized investment gains and losses) of 5x as very strong and among the lowest in Fitch's rating universe. Additionally, PALIG's financial leverage remains low at 9% as of June 30, 2016.

Pan-American generates relatively stable earnings due to its relatively low-risk product profile. MTL writes primarily participating whole life insurance in the U.S., which contributes to earnings stability. The liability profiles of both companies have minimal exposure to equity market risk.

PALIG's below-investment grade (BIG) bond exposure declined to 9% of total fixed-income assets as of June 30, 2016, compared with approximately 15% as of June 30, 2015, which is primarily attributable to the higher asset quality of MTL's bond portfolio.

PALIG's BIG exposure 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.

PALIG's overall risky asset ratio of 64% remains below the industry average of 80%. PALIG's extremely low asset leverage contributes to its relatively low risky assets ratio. However, given its exposure to bonds rated 'BBB', the company is susceptible to rating migration in the next credit market downturn.

Fitch has revised its view of MTL's strategic importance to the Pan-American enterprise to 'core', based on the successful integration of MTL and its positioning as the primary growth engine in the U.S. life insurance market. Based on Fitch's group rating methodology, the assigned rating is unchanged at 'A', which is consistent with MTL's stand-alone credit profile.

#### RATING SENSITIVITIES

Fitch does not anticipate an upgrade in the near- to intermediate-term. The company's ratings are constrained due to its modest operating scale and sovereign risk exposure.

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

- A decline in capitalization, such as RBC below 450% for PALIC or MTL or a Prism capital model score below 'Extremely Strong;
- 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  
MTL 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: Hannah James, New York, Tel: + 1 646 582 4947, Email: [hannah.james@fitchratings.com](mailto:hannah.james@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

### **Applicable Criteria**

Insurance Rating Methodology (pub. 15 Sep 2016) (<https://www.fitchratings.com/site/re/887191>)

### **Additional Disclosures**

Dodd-Frank Rating Information Disclosure Form ([https://www.fitchratings.com/creditdesk/press\\_releases/content/ridf\\_frame.cfm?pr\\_id=1013691](https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1013691))

Solicitation Status ([https://www.fitchratings.com/gws/en/disclosure/solicitation?pr\\_id=1013691](https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1013691))

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings) (<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a

security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers. For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

**Endorsement Policy** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.