

## Fitch Affirms ING U.S., Inc.'s Ratings; Outlook Revised to Positive

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the 'BBB' Issuer Default Rating (IDR), the 'BBB-' senior debt rating and the 'BB' junior subordinated debt rating of ING U.S., Inc. (ING U.S.), as well as the 'A-' Insurer Financial Strength (IFS) ratings of the U.S. operating entities. A complete list of ratings is provided at the end of this release. The Rating Outlook for all ratings has been revised to Positive from Stable.

### KEY RATING DRIVERS

The revision in the Outlook reflects the significant improvement in ING U.S.'s balance sheet strength as well as improved debt servicing capacity. Holding company financial leverage has declined to 24% from 56% at year-end 2010. Fitch believes the quality of the company's common equity is better than peer averages, with minimal exposure to goodwill and other intangibles.

Fitch considers the aggregate capitalization of ING U.S., including captives, to be strong for the current rating level. The estimated consolidated risk-based capital (RBC) ratio of the company's U.S. insurance subsidiaries was 504% at year-end 2013. Fitch expects reported RBC to remain in the 425%-450% range over the intermediate term driven by improved statutory operating performance offset by distributions to the holding company. Fitch views positively the 2013 contribution of over \$1.8 billion of capital to Security Life of Denver International to support certain minimum guarantees in its closed-block variable annuity products.

Fitch expects statutory dividend capacity will improve in 2014, since ING U.S. has been able to transfer amounts out of paid-in capital into unassigned funds, thereby creating a positive earned surplus account and ordinary statutory dividend capacity. Fitch expects statutory interest coverage to improve to approximately 4.5x in 2014, up from 1.4x in 2013.

This is in excess of Fitch's median ratio guideline for an 'A' rated company of 3x. Additionally, the company has \$640 million of cash at the holding company level, in excess of its intention to hold 24 months of liquidity, or roughly \$450 million.

ING U.S.'s ratings also reflect the large scale and solid business profile in retirement and individual life markets, improved operating performance within its core businesses, and conservative investment portfolio.

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Fitch's key rating concerns include the challenges related to the run-off of ING U.S.'s large closed-block VA book, particularly in a tail-risk scenario. Fitch notes as positive that the company has utilized dynamic and macro hedging to mitigate the statutory capital impact associated with changes in the equity markets and/or interest rates. However, policyholder behavior assumptions cannot be hedged and therefore remain a risk. At year-end 2013, ING U.S. had \$4.1 billion in reserves and capital supporting the closed-block VA book.

The ratings also recognize the company's above-average reliance on the capital markets for excess reserve financing. ING U.S.'s total financing and commitments (TFC) ratio of 1.1x is high compared to other peers and is driven by funding for XXX and AXXX reserve financing, and to a much lesser extent, securities lending agreements.

In 2013, ING U.S. reported an ongoing business adjusted operating return on equity (ROE) of 10.3%, up from 8.3% the prior year. Management remains committed to improving this metric to 12%-13% by 2016. Fitch believes ING U.S.'s scalable business model is positioned well to participate in the long-term growth of the retirement savings market. However, Fitch acknowledges that is a highly competitive segment of the market.

The majority shareholder of ING U.S. is ING Groep N.V. (ING Group), a leading publicly traded global banking and insurance group located in the Netherlands. ING Group has an agreement with the Dutch government to sell its insurance and investment management operations as part of its repayment for support that the company received during the financial crisis. ING Group must divest more than 50% of ING U.S. by year-end 2014, with the remaining interest divested by year-end 2016.

ING U.S.'s remaining parental ties include letter of credit facilities provided by ING Bank which have been significantly reduced and replaced by third party providers. The remaining facilities are now on an arms-length basis.

### RATING SENSITIVITIES

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The key rating triggers that could result in an upgrade include:

- Continued growth in operating profitability on both a GAAP and statutory basis;
- Sustained maintenance of GAAP adjusted operating earnings-based interest coverage of more than 8x and statutory interest coverage of more than 4x;
- Reported RBC above 450%, and financial leverage below 25%;
- Private sale of closed-block book at good value with boost to capitalization and reduction in volatility and risk.

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

- A decline in reported RBC below 375%;
- Financial leverage exceeding 30%;
- Significant adverse operating results;
- Further material reserve charges required in its insurance/variable annuity books or a significant weakening of distribution channel or scale advantages.

Fitch has affirmed the following ratings and revised the Rating Outlooks to Positive from Stable:

ING U.S., Inc.

--Long-term IDR at 'BBB';

--5.5% senior notes due July 15, 2022 at 'BBB-';

--2.9% senior notes due Feb. 15, 2018 at 'BBB-';

--5.7% senior notes due July 15, 2043 at 'BBB-';

--5.65% fixed-to-floating junior subordinated notes due May 15, 2053 at 'BB'.

ING Life Insurance and Annuity Company

ING USA Annuity and Life Insurance Company

ReliaStar Life Insurance Co.

ReliaStar Life Insurance Company of New York

Security Life of Denver Insurance Company

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--IFS at 'A'.

Equitable of Iowa Companies, Inc.

--Long-term IDR at 'BBB'.

Equitable of Iowa Companies Capital Trust II

--8.424% Trust Preferred Stock at 'BB'.

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

Related Research:

--'Insurance Rating Methodology' (Nov. 13, 2013).

Applicable Criteria and Related Research:

Insurance Rating Methodology [http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=723072](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072)

Additional Disclosure

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