

## Fitch Affirms Genworth Life Insurance's IFS at 'A-'; Outlook Stable

Written by Australian Business

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CHICAGO--( [BUSINESS WIRE](#) )--Fitch Ratings has affirmed the 'A-' Insurer Financial Strength (IFS) ratings of Genworth Life Insurance Company, Genworth Life and Annuity Insurance Company, and Genworth Life Insurance Company of New York (collectively, Genworth Life). Fitch has also affirmed the 'A-' long-term ratings on the Genworth Global Funding Trusts. The Rating Outlook is Stable. A full list of rating actions follows at the end of this release.

### KEY RATING DRIVERS

The ratings affirmation reflects Genworth Financial, Inc.'s (NYSE: GNW) improved overall operating performance, strong statutory capital position of Genworth Life's subsidiaries, reduction in product and investment portfolio risk, and improved financial flexibility of the holding company.

The ratings also consider the company's large exposure to the long-term care insurance market, which continues to be challenged by under-performing legacy business and the ongoing low interest rate environment, as well as uncertainty as to the effect of increased regulatory scrutiny of the industry's use of affiliated captives, which may impact GNW's future ability to cede reserves to special-purpose captive reinsurers. While GNW's earnings profile has improved, earnings and GAAP interest coverage metrics remain somewhat below rating expectations.

GNW's improved earnings profile in recent years is largely tied to the company's U.S. mortgage insurance segment, which reported an operating profit of \$37 million in 2013 and \$33 million thus far in 2014, following 5 consecutive years of losses. The increase is attributable to improving macroeconomic conditions coupled with a greater proportion of risk related to vintage 2009 and forward books of business. Fitch believes the improving profitability together with \$300 million of proceeds from the December 2013 debt raise that remain at the U.S. mortgage insurance (MI) holding company and proceeds from the recent Australian MI IPO reduce the likelihood that the company would have to rely on large capital contributions from the life companies to support the U.S. mortgage insurance business.

GNW has initiated several rounds of premium rate increases on long-term care

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products designed to mitigate losses on older generation policies as well as offset the impact of lower interest rates, unfavorable business mix, improvements in life expectancy, and lower than expected lapse rates. Fitch believes these price increases will improve earnings over the longer term. However, it will take some time to receive regulatory approval in all states and for rates to flow through to earned premiums.

Fitch believes GNW's holding company liquidity profile is strong and financial flexibility has improved. Holding company cash remains in excess of management's stated target to hold 1.5x annual debt service plus a buffer of \$350 million for stress scenarios. GNW has approximately \$925 million of debt maturing in the next three years, \$625 million of which has been prefunded. In the third quarter of 2013 GNW entered into a three-year \$300 million revolving credit facility, which provides the company with an additional source of working capital. However, Fitch views GNW's financial flexibility as still somewhat hindered by the company's low stock price. Unlike many of its life insurance peers, GNW's stock continues to trade at a significant discount to book value.

Genworth Life's statutory capital position remains strong with a reported RBC of 480% at Mar. 31, 2014. Unassigned surplus totaled \$440 million, which has allowed the company to resume the payment of ordinary statutory dividends to the holding company. Fitch notes that reported statutory capital is heavily leveraged to reinsurance captives. At year-end 2013, Genworth Life's operating subsidiaries recognized \$5.4 billion in reserve credit, or 145% of year-end surplus, for reserves ceded to special-purpose captive reinsurers.

Fitch views positively the company's plans to capture the long-term care reserves that have been ceded to its Bermuda subsidiary. While the impact on risk-based capital (RBC) will be minimal, proposed recapture significantly improves the transparency associated with this challenging line of business.

GNW's GAAP earnings-based interest coverage ratio was 4.2x through the first three months of 2014, up from 3.9x in 2013 and 2.9x in 2012, but below Fitch's expectation of 7x for the rating category. Fitch expects some improvement over the near term as U.S. mortgage insurance is modestly profitable and interest expense declines. However, Fitch believes GNW's exposure to interest-sensitive business, particularly fixed annuities and long-term care, will hamper the company's ability to meaningfully improve earnings in its U.S. Life Insurance segment.

## RATING SENSITIVITIES

Triggers that could result in a rating downgrade include:

-An increase in financial leverage above 30%;

-A sustained decline in statutory interest coverage below 3x, especially if combined with a decline in cash at the holding company below management's target of 1.5x annual holding company interest expense plus a buffer of \$350 million (approximately \$790 million);

-GAAP earnings-based interest coverage below 4x;

-A decline in Genworth life company risk-based capital below 350%;

-A material (\$500 million or more) earnings charge from adverse development of long-term care reserves.

While Fitch does not anticipate a rating upgrade in the near term, triggers that could result in an upgrade over the longer-term include:

-Consistent earnings generation at the U.S. MI business;

-Improvement in GAAP earnings-based interest coverage to 7x or better;

-Sustained statutory earnings at Genworth Life of \$400 million annually.

Fitch has affirmed the following ratings:

Genworth Life Insurance Company;

Genworth Life and Annuity Insurance Company;

Genworth Life Insurance Company of New York;

--IFS at 'A-'.

The Rating Outlook is Stable.

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

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (November 19, 2013).

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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

Solicitation Status

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