

Research Update:

# Delaware Life Insurance Co. Ratings Raised To 'A-' From 'BBB+' On Successful Business And Capital Improvement Strategy

December 11, 2024

## Overview

- Delaware Life has successfully executed its business growth strategy while managing capital strength.
- We raised our issuer credit and financial strength ratings on Delaware Life to 'A-' from 'BBB+'.
- The stable outlook reflects our expectation that the company will keep its capital position at the 99.95% confidence level of our capital adequacy model, while balancing growth and maintaining prudent dividend policies.

## Rating Action

On Dec. 11, 2024, S&P Global Ratings raised its issuer credit and financial strength ratings on Delaware Life Insurance Co. (Delaware Life or DLIC) to 'A-' from 'BBB+'. The outlook is stable.

## Rationale

The rating action reflects the company's continued progress and solid growth in its fixed and fixed-indexed annuity businesses, aided by strong demand for retirement products driven by higher interest rates and favorable demographic trends, consistent with industry. Our view of DLIC's competitive position as satisfactory is supported by the company's top-10 market position in the highly competitive U.S. fixed deferred rate annuity market, growing in-force business, stable operating performance, and geographic diversification. The company also has earnings diversity from its fee-based income, generated from its legacy and new variable annuity products.

We expect DLIC to continue to diversify its relationships with independent market organizations, banks, and broker-dealers to broaden its customer reach. The company also implemented a new product administration platform and established a new wholesaler distribution model. We expect these changes to make the company more efficient, and we continue to monitor the execution and

### PRIMARY CREDIT ANALYST

**Harshit Maheshwari, CFA**

Toronto

(1) 416-507-3279

harshit.maheshwari  
@spglobal.com

### SECONDARY CONTACT

**Neil R Stein**

New York

+ 1 (212) 438 5906

neil.stein  
@spglobal.com

intended results.

DLIC primarily offers a workers' compensation product through Clear Spring Property and Casualty Group and its subsidiaries, which operate as the property/casualty (P/C) division within Delaware Life.

We view Delaware Life's growth and profitability to be on par with similarly rated peers. While rising interest rates provide an opportunity for life insurance and annuity providers to reduce reinvestment risk and improve profitability, it also helps increase the products' competitiveness. We expect Delaware Life to maintain its strong record of underwriting and pricing discipline in all its products, and to take any corrective pricing actions to manage business viability along with long-term profitability.

However, in our view, its concentration of product lines with longer-term liabilities is a weakness in the company's overall competitive position.

The company improved its capital adequacy, according to our model, over the past few years, as a result of successfully executing several capital enhancement initiatives like extending the maturity of surplus notes, sale of its New York-based entity, and capital contributions from its parent, Group1001 Insurance Holdings, LLC. Healthy operating earnings and prudent dividend expectations of the parent further supported this improvement. We expect the company to maintain capital adequacy at 99.95% confidence level given prospective business growth, investment trends, and macroeconomic uncertainties.

Offsetting our view of DLIC's capital position is its meaningful allocation to privately originated credit investments (or private credit) compared with similarly rated peers. While private credit offers improved yields, risk diversification, and strong alignment to long-term liability profile of life insurers, they are traditionally illiquid, with little secondary-market trading and may face reduced market demand during financial stress and a significant concentration in this class could potentially lead to significant losses impairing an insurer's liquidity. Our risk-based capital charges, within our capital adequacy assessment, are based on publicly traded fixed income securities and as a result our quantitative capital adequacy assessment is likely understated. As a result, we revised our view of risk exposure to moderately high.

We view DLIC's liquidity as adequate. The company has demonstrated consistent management of asset-liability risk. The average credit quality of the fixed-income portfolio is 'A-'.

Our opinion of the company's capital strength and liquidity also incorporates Group1001's capital and strategic support to DLIC.

## **Outlook**

The stable outlook on DLIC indicates that it will maintain very strong capital and earnings, while not taking any undue credit or asset-liability management risks with its investment portfolio, and prudently managing its parent's strategic expectations.

## **Downside scenario**

We could lower the ratings in the next 12-24 months if, contrary to our expectations,

- The company's capital adequacy falls sustainably below the '99.95%' confidence level as measured by our model, or
- If our view of the company's risk management practices weakens, or investment policy

becomes too aggressive, or,

- If there is a significant and sustained decline in the company's operating performance.

### Upside scenario

We do not expect to raise the ratings on DLIC in the next 24 months, as we think the company's business and financial risk profile have limited upside potential given the narrower product focus compared with higher rated peers. However, we could raise the ratings if the company is able to meaningfully diversify its products and generate sustainable earnings consistent with higher rated peers.

### Ratings Score Snapshot

	To	From
Financial strength rating	A-/Stable/--	BBB+/Positive/--
Anchor*	a-	bbb+
Business risk	Satisfactory	Satisfactory
IICRA	Low	Low
Competitive position	Satisfactory	Satisfactory
Financial risk	Strong	Strong
Capital and earnings	Very Strong	Strong
Risk exposure	Moderately High	Moderately Low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support		
Group support	0	0
Government support	0	0
IICRA – Insurance Industry and Country Risk Assessment.		

\* Reflects track record of strategy execution as it relates to distribution, business expansion and capital growth

### Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Upgraded; Outlook Action

	To	From
<b>Delaware Life Insurance Co.</b>		
Issuer Credit Rating	A-/Stable/--	BBB+/Positive/--
Financial Strength Rating		
Local Currency	A-/Stable/--	BBB+/Positive/--
<b>Issue-Level Ratings Raised</b>		
<b>Delaware Life Global Funding</b>		
Senior Secured	A-	BBB+

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