



## **Fitch Publishes 'A-' IFS Rating for Delaware Life Insurance Co.**

Mon 01 Aug, 2022 - 3:43 PM ET

Fitch Ratings - Chicago - 01 Aug 2022: Fitch Ratings has published an Insurer Financial Strength (IFS) rating of 'A-' for Delaware Life Insurance Company (DLIC). The Rating Outlook is Stable.

### **KEY RATING DRIVERS**

The 'A-' IFS rating reflects DLIC's 'Very Strong' capitalization and leverage, improved business profile, and strong operating results.

Relative to peers, Fitch views DLIC's capitalization to be of higher quality supported by the company's RBC ratio and Prism capital model score, both of which exceed current ratings levels. Fitch considers DLIC's financial leverage to be below the median for the life insurance sector and better than Fitch's guideline for the company's rating level. Additionally, DLIC has reduced overall dependency on legacy business through its organic growth.

Fitch considers DLIC's capital position as very strong, with an RBC ratio of 406% at YE 2021 and a Prism score of 'Very Strong'. The company's RBC ratio is anticipated to remain in excess of its target of 400%. Favorably, the company has materially decreased its financial leverage, through capital contributions from its parent, which were used to redeem a portion of outstanding surplus notes, and is expected to further improve by the end of 2022. Operating and asset leverage meet or exceed ratio guidelines for the current rating level.

Fitch views DLIC's business profile as less favorable, given the company's competitive positioning and concentration in spread-based offerings. The company has grown organically through the sales of fixed annuities and more recently, through the introduction of a new variable annuity offering. The company has also expanded its distribution diversification through the bank and broker dealer channels and expanded its institutional product offerings with a funding agreement-backed note program. While Fitch believes DLIC has materially reduced overall dependency on legacy business, further earnings diversification would be viewed favorably.

Since its inception, DLIC's operating return on total adjusted capital has consistently reached double-digit levels. Given the high proportion of spread-based exposure, earnings are expected to benefit from the rising interest rate environment, though broader macroeconomic headwinds could pressure Delaware Life and peers.

DLIC's cash-flow testing (CFT) results exhibit stability across the deterministic interest rate scenarios, and the company tightly matches assets and liabilities, with a duration mismatch target within one year. Equity risk is fully hedged, while interest rate risk is hedged at 97%. Fitch views disintermediation risk as below-average, with roughly 7% of general account annuity liabilities surrenderable at book value without adjustment.

DLIC's risky asset ratio of 102% was higher than the industry average at YE 2021 but consistent with the 'A' category level. As of YE 2021, 96% of total bonds were rated investment grade, compared with 94%

for the industry. The company strategically targets less liquid, high quality private assets and has steadily increased its allocation over the past five years, consistent with the broader industry.

### **RATING SENSITIVITIES**

Factors that could, individually or collectively, lead to positive rating action/upgrade:

An Improved view of business profile resulting from enhanced diversification, maintaining capital metrics above the current rating level, including a Prism capital model score in the 'Very Strong' category, and financial leverage maintained below 15%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

Decline in capitalization resulting from an RBC ratio below 375% or a Prism score below the high end of 'Strong', deterioration in the quality of the asset portfolio, financial leverage above 25%, or a decline in operating return on TAC below 5% could lead to negative action.

### **BEST/WORST CASE RATING SCENARIO**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>

### **DATE OF RELEVANT COMMITTEE**

21 July 2022

### **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

### **ESG CONSIDERATIONS**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

### **ENTITY / DEBT**

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

### **PARTICIPATION STATUS**

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

### **APPLICABLE CRITERIA**

- [Insurance Rating Criteria \(pub. 15 Jul 2022\) \(including rating assumption sensitivity\)](#)

### **APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

- Prism U.S. Life Insurance Capital Model, v1.3.1-2021 (1)

#### **ADDITIONAL DISCLOSURES**

- [Dodd-Frank Rating Information Disclosure Form](#)
- [Solicitation Status](#)
- [Endorsement Policy](#)

#### **ENDORSEMENT STATUS**

Delaware Life Insurance Company	EU Endorsed, UK Endorsed
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