

### Summary:

## Generali USA Life Reassurance Co.

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## Summary:

# Generali USA Life Reassurance Co.

### Local Currency

**Credit Rating:** A/Stable/--

## Major Rating Factors

### Strengths:

- Strong well-established competitive position in the U.S. mortality reinsurance market
- Strong earnings reflecting disciplined underwriting and pricing
- Low financial risk profile and very strong capitalization
- Access to resources and financial flexibility from its parent

### Weaknesses:

- Participation in a highly competitive market against larger competitors
- Concentrated profile in the U.S. leaves company susceptible to market conditions
- Relatively low investment yield resulting from its conservative investment risk profile

## Rationale

Standard & Poor's Ratings Services' insurer financial strength rating on Generali USA Life Reassurance Co. (Generali USA; A/Stable/--) reflects the company's well-established competitive position with midsize and large domestic life insurers, as well as its strong and stable earnings reflecting disciplined underwriting and pricing. Other rating strengths include the company's low financial risk profile and very strong capitalization. We also view Generali USA as nonstrategic to its ultimate parent, Assicurazioni Generali SpA (AGS; A+/Watch Neg/--). The ratings reflect Generali USA's stand-alone credit profile. However, AGS's ongoing commitment to Generali USA's operations enhances the company's competitiveness.

Partially offsetting factors include Generali USA's participation in a highly competitive market against larger competitors, the risk of its concentration in the U.S., relatively low investment yield, and the potential for increased competition in the reinsurance market. The company has managed to grow organically and improve operating efficiency despite the highly commoditized and competitive nature of the U.S. mortality reinsurance market and persistent lower cession rates. Generali USA continues to establish new and expanded business relationships in its target segment--midsize and large domestic life insurers--while maintaining a large number of existing relationships. Generali USA has steadily grown its market share during the past five years. We believe the company's use of proprietary data is a competitive advantage that has enabled it to grow profitably. However, in contrast with larger peers, Generali USA focuses solely on reinsuring U.S. life insurers, making it more susceptible to market conditions, including increased competition and/or soft prices.

Generali USA's operating performance remained strong through Sept. 30, 2011. The company's generally accepted accounting principals (GAAP) return on revenue (ROR) has been stable and in line with reinsurers' with greater scale. Generali USA's strong operating results reflect management's execution of its business strategy, strong persistence, and disciplined focus on underwriting and pricing. We expect earnings to remain strong with overall

mortality underwriting remaining sound.

We view management's financial risk tolerance as low and capitalization as very strong. Management maintains a very conservative, unleveraged balance sheet and conservative investment strategy with low credit risk. The company's investment strategy has resulted in lower yields relative to peers', but also exposes it to less volatility than other insurance companies.

## **Outlook**

The stable outlook reflects our belief that Generali USA will sustain its strong operating performance at the current levels, with modest growth and low volatility in the next few years. We also believe that the company will maintain its strong competitive position in the U.S. mortality reinsurance market, with a new business market share of 10% to 15% going forward. Generali USA will continue to benefit from financing cost advantages because of its relationship with its parent company.

We are unlikely to raise the ratings in the next 24 months. If Generali USA materially underperforms our operating performance expectations with GAAP ROR of less than 5% (including business retroceded to AGS), if there are any materially changes its risk profile, or if market competition increases (either from new entrants or existing players) and significantly reduces the company's market share to well below 10%, we could also consider lowering the rating.

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