

## Generali USA Life Reassurance Co.

### *Rationale*

The insurer financial strength rating on Generali USA Life Reassurance Co. (Generali USA) reflects the company's established competitive advantages and operating model that arise from its parent's sale of Business Men's Assurance Co. of America (BMA) to Royal Bank of Canada (RBC), and Generali USA's concurrent acquisition of BMA's entire reinsurance operations, through 100% coinsurance and subsequent novation. Generali USA is a wholly owned indirect subsidiary of Assicurazioni Generali SpA (AGS), Italy's largest insurer. Before the transaction on May 1, 2003, Generali USA was a shell company without insurance operations. Since commencing operations, Generali USA's senior management team has consisted primarily of the same executives previously responsible for BMA's reinsurance operations. In addition, although Standard & Poor's Ratings Services views Generali USA as nonstrategic to its ultimate parent, the ratings include one notch of implicit support to reflect AGS' commitment to the operations.

Generali USA continues to make progress in executing its strategy targeting relationships with midsize and larger insurers with larger minimum annual business volume. Previously, the company's primary market consisted of a large number of smaller insurers with limited business volume. This up-market focus provides the opportunity to increase organic growth but also presents the challenges of a more commoditized environment. Generali USA continues to establish new and expanded business relationships in this target segment. Since commencing operations, its penetration of this segment was accelerated by the opportune acquisition of business when other reinsurers exited the market and by the addition of experienced sales management during the subsequent two years. Generali USA needs to sustain growth in this area to continue moderating its concentration risk, because the company derives about 40% of premiums from just its top five clients.

### *Local Currency*

Credit Rating:  
A/Stable/—

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Operating performance remained strong in 2007 and was much better than expected because of very favorable mortality results. We expect the full-year GAAP ROR to be more than 7.5%.

### ***Outlook***

The stable outlook reflects Generali USA's solid business prospects and consistent earnings power, which are expected to continue. Exceptional performance or explicit support from AGS would be required to favorably affect the ratings. However, we could revise the outlook to negative if Generali USA is unable to sustain operating margins at expected levels or if the company experiences unexpectedly adverse underwriting results as it refocuses its operating strategy on business with midsize and larger insurers.

Generali USA will continue to take advantage of the reduced number of reinsurers in the U.S. and its proven track record to expand its list of clientele and grow its business. Total premiums and net new life volume growth are projected to increase about 10% annually. We expect GAAP net income to be flat in 2008, because 2007 results benefited from favorable mortality. Earnings and existing capital will support projected growth. This will minimize Generali USA's need to raise debt or require additional capital infusions from AGS. RORs generally are expected to be at least 6.5% in the next three years. We expect Generali USA to maintain prudent capitalization appropriate for its risk profile and the ratings. The company also will maintain its conservative investment profile but will incrementally increase investment risk to improve returns as spreads widen and interest rates rise.

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