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Aegon USA Group

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Aegon USA Group

Credit Highlights

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A+/Stable/NR

Overview

Strengths	Risks
Track record of strong capital generation	Subdued and volatile operating performance relative to peers
Strong and highly productive multichannel distribution base	Diminishing market share in core product lines
Strong and effective risk oversight from its supportive parent, Aegon N.V.	Uncertainty about the length and depth of the COVID-19 pandemic and resulting impact on the economy

In December 2020, parent company Aegon N.V. announced an operating strategy aimed at streamlining operations and narrowing strategic focus. With its new strategy, the group looks to grow as a leader in protection products, retirement solutions, and investments. As part of this plan, Aegon USA Group discontinued new sales of some traditional variable annuities, long-term care, and fixed annuities. We believe most of these actions are consistent with the parent's overall strategy and will allow the company to focus on its core product offerings.

Declining market share and volatile operating performance weakens the company's competitiveness. Intense competitive pressures and the commoditized nature of life insurance products have led to a consistent decline in the company's market share in its core product offerings over recent years. Furthermore, we view the company's operating performance over past few years as subpar, a result of pandemic-induced economic volatility in 2020, as well as one-time expenses made to enhance the company's technological capabilities in previous years.

Aegon USA has very strong capital and earnings, which we expect it to maintain through 2022. We anticipate that Aegon USA will be able to maintain very strong capital through 2022, based on stable earnings generation without any aggressive investment policy. We also do not expect dividend payments to Aegon N.V. to strain Aegon USA's capital.

Outlook

The stable outlook on Aegon USA parallels our stable outlook on the Aegon N.V. group given Aegon USA's core group status. Similarly, any rating action at the group level would likely lead to a commensurate rating action on Aegon USA. We expect to maintain our view of Aegon USA as core to Aegon N.V., because it generates more than 50% of Aegon N.V.'s earnings and capital. A material change to any of our expectations for Aegon USA would likely affect our assessment of the overall group.

On a stand-alone basis, we expect Aegon USA to maintain its competitive strengths, with operating performance comparable to insurers with a similar business profile and capital redundancy at least at the 'AA' level.

Downside scenario

We could lower our ratings on Aegon USA if we downgrade Aegon N.V., perhaps due to sustained deterioration in the group's capital adequacy or impaired competitiveness, which could be a result of reduced diversity and scope of operations through material divestments, or through materially lower earnings contributed from its core markets.

Upside scenario

We could raise our ratings on Aegon USA if we upgrade Aegon N.V., perhaps as a result of consistent and material improvement in the group's profitability relative to peers, or sustained improvements in market position in core markets while maintaining its current level of capital adequacy and effective risk management.

Key Assumptions

- Real U.S. GDP contraction of 3.9% in 2020 and growth of 4.2% in 2021
- Average 10-year Treasury note yield of about 0.9% in 2020 and 1.4% in 2021
- S&P 500 Index at 3,180.8 in 2020 and 3,570.2 in 2021
- Average payroll employment of 142.2 million in 2020 and 146.3 million in 2021
- Average unemployment of 8.3% in 2020 and 6.4% in 2021

Source: "Economic Research: Staying Home For The Holidays," Dec. 2, 2020.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Key Metrics

(Mil $.)	2022f	2021f	2020f	2019	2018	2017
S&P Global Ratings capital adequacy	>AA	>AA	>AA	AAA	AA	AA
Gross premium written	>27,000	>27,000	>26,500	26,274.1	25,954.4	27,068.6
Net income	600 - 650	400 - 450	(800) - (1,000)	4,265.2	(672.0)	426.0
Capital and surplus	>9,000	>8,800	>8,800	9,886.2	9,333.1	8,786.4
Return on capital & surplus (%)	>7.0	>5.0	(8.0)-(9.0)	44.4	(7.4)	4.9
Return on assets (%)	0.4 - 0.5	0.3 - 0.4	(0.8) - (0.7)	1.9	0.1	0.3

Based on Statutory Accounting Principles. f--Forecast.

Business Risk Profile

Aegon USA benefits from its diverse products and services, wide geographic footprint, and strong distribution capabilities. In December 2020, the group announced a strategic operational plan that discontinued low-margin, capital-intensive products--which in the U.S. included traditional variable annuities with interest-sensitive living and death benefit riders, fixed annuities, and stand-alone long-term care. At the same time, the company looks to focus on offerings including employee benefits, retirement plans, indexed universal life (IUL), term life, and whole life. While the discontinuation of certain product lines reduces diversity in the company's product offerings, we think it may improve the company's earnings stability and risk-adjusted returns.

The company relies on its well-diversified distribution network, which includes career agencies, banking channels, and independent brokers. At the same time, it has been investing in digital capabilities. Its strategic alliance with World Financial Group has already been instrumental in growing the company's IUL business. The new policy administration platform with Tata Consultancy Services (TCS) aims to help the company with faster product development, growing the customer base, improving customer retention, and increasing operating efficiency.

Offsetting the company's strengths are its declining market share and below-average operating performance compared to its peers. With the new operating strategy, Aegon USA aspires to recapture some lost market share. However, the markets for these products are very competitive and highly commoditized. We will continue to monitor the company's success in achieving its market growth objectives. The company's operating performance has been subdued over the past few years because of significant investments in new technology and business initiatives. With these technology investments almost implemented, we expect the savings associated with these investments to outweigh the costs. As the company streamlines its business and evaluates strategic alternatives for discontinued operations, there may be some near-term impact on performance, but we expect the company to maintain positive underwriting margins and strong pricing discipline.

In 2020, the economic impact of the COVID-19 pandemic dampened the company's earnings, leading U.S. operations to report a net loss of $611 million (IFRS basis). The loss was from a one-time charge from the changes in underlying economic and actuarial assumptions. Adverse mortality was offset by favorable morbidity experience, both driven by the pandemic. Operating (or underlying) earnings reported by the company for the same period were $845 million.

Financial Risk Profile

We considered the company's capital adequacy to be modestly redundant at the 'AAA' confidence level in 2019, and we expect the company to maintain capital adequacy at least above 'AA' through 2022, while prudently managing its parent's dividend expectations. In our assessment of Aegon USA's capital, for captives with unfunded solutions, we have excluded letters of credit and other forms of parental guarantees as assets backing the liabilities in the captives, and have incorporated these captives back into our group capital adequacy analysis.

In our opinion, the company has demonstrated that it has not taken any undue asset-liability management risk with its investment portfolio. We believe Aegon USA's investment portfolio has comprehensive credit limits, and we expect the company to maintain a high-quality portfolio that supports its liability profile.

Over the last few years, the company has taken actions to reduce exposure to interest-sensitive liabilities while strengthening its balance sheet. Exposure to liabilities related to long-term care and guarantees associated with variable annuities with significant interest-sensitive living and death benefit riders, which are now part of the company's discontinued operations, may result in some capital and earnings volatility. However, this risk is significantly mitigated by strong risk controls, effective risk management practices, well-managed hedge programs, and very strong capital adequacy.

Other Key Credit Considerations

Governance

Aegon USA has governance practices highly consistent with those at the consolidated group. The granular new operating plan reflects the group's significant efforts to address the inherent volatility and capital intensiveness associated with some of its product offerings. We will continue to monitor the execution and implementation of the strategy, as well as the achievement of the consequent financial and strategic goals.

Liquidity

We think the company's liquidity benefits from its diversified investment portfolio with immaterial confidence-sensitive liabilities or collateral posting risk. The company's investments and fixed-income holdings support well-matched insurance liabilities with annuity obligations.

Government/Other support/Group support

Aegon USA's core group status reflects our view that the company is highly unlikely to be sold because it generates more than 50% of Aegon N.V.'s earnings and capital. The company, in our opinion, is integral to the overall group strategy, consistent with overall group objectives, and supported by its top-10 market share in multiple product lines. Our view of Aegon USA's robust capitalization is in line with the overall group's capitalization, and is further supported by a strong, proven commitment of support from its parent. Ultimately, we expect Aegon USA to remain highly important to the overall group.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

Aegon USA Credit Metrics History

	--Year ended Dec. 31--				
(Mil. $)	2019	2018	2017	2016	2015
Gross premiums and annuity considerations	26,274.1	25,954.4	27,068.6	23,597.5	29,095.9
Net premiums and annuity considerations	21,668.5	20,582.5	4,147.2	23,019.5	23,691.4
Total assets under management	214,613.8	201,337.1	217,702.9	213,933.5	207,973.2
Total revenue	28,020.9	27,368.5	10,802.7	30,035.3	30,080.4
EBIT adjusted	3,894.9	293.5	753.1	1,540.7	657.8
Net income	4,265.2	(672.0)	426.0	1,106.0	198.7
Return on assets (excluding realized gains/losses)	1.9	0.1	0.3	0.7	0.3
Return on capital and surplus (%)	44.4	(7.4)	4.9	12.6	2.1
Expense ratio (%)	7.9	10.3	59.2	11.8	12.2
Total invested assets (incl. affiliated investments)	74,506.2	75,672.3	75,977.1	84,295.1	82,283.1
Separate account assets	135,753.0	121,149.4	136,900.8	124,860.4	121,811.0
Net investment income	2,970.0	2,933.1	3,586.5	3,842.2	3,664.1
Net investment yield (%)	4.0	3.9	4.5	4.6	4.4
Net investment yield including realized capital gains/(losses) (%)	4.6	2.8	4.0	4.1	3.9
Capital and surplus	9,886.2	9,333.1	8,786.4	8,700.8	8,924.3

Based on Statutory Accounting Principles.

Ratings Detail (As Of March 10, 2021)*	
Operating Company Covered By This Report	
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/A-1+
Related Entities	
AEGON N.V.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Foreign Currency	A-2
Junior Subordinated	BBB
Junior Subordinated	BBB-
Senior Unsecured	A-
Subordinated	BBB
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Stable/NR
Issuer Credit Rating	
Local Currency	A+/Stable/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Stable/--
Issuer Credit Rating	
Local Currency	A+/Stable/--
Domicile	Iowa

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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