

Aegon Americas

And North American Subsidiaries of Aegon N.V.
Update

Ratings

Transamerica Life Insurance Co.
Transamerica Financial Life Ins. Co.
Transamerica Premier Life Ins. Co.
Transamerica Advisors Life Ins. Co.
Insurer Financial Strength (IFS) A+

Transamerica Life Insurance Co.
Short-Term IFS F1

Rating Outlook

Stable

Financial Data

Aegon Americas (\$ Mil.)	2017	2018
Underlying Earnings Before Tax (IFRS)	1,560	1,437
Net Income (IFRS)	1,762	61
Return on Capital —		
Underlying Earnings (%)	7.9	9.4
Total Adjusted Capital ^a	8,681	9,343
RBC (%) ^a	472	465

^aU.S. statutory data for U.S.-domiciled subsidiaries of AEGON US Corp. and Transal Corp. Note: Prior periods not restated. IFRS-t Source: Fitch Ratings, Aegon Americas, SNL Financial.

Related Research

[U.S. Life Insurers' Net Investment Income Dashboard: YE 2018 \(April 2019\)](#)

[U.S. Life Insurers' Statutory Capital Dashboard \(April 2019\)](#)

[Fitch Affirms Aegon's IFS Ratings at 'A+'; Outlook Stable \(March 2019\)](#)

[The Coming Storm: How U.S. Life Insurers Are Positioned for a Downturn \(February 2019\)](#)

Related Criteria

[Insurance Rating Criteria \(January 2019\)](#)

Criteria Variations

None

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Key Rating Drivers

Improving Underlying Returns: In 2018, Aegon Americas achieved an underlying return on capital of 9.4%, a 150bp improvement compared with the prior year. The improvement reflects the lower tax rate, reduced capital in runoff businesses and expense reductions. Pretax underlying earnings fell 8% to \$1.4 billion as a result of lower fee income, net outflows and adverse mortality experience. Net income was \$61 million in 2018 as losses on fair value hedges without an accounting match and fair value investments pressured results.

Moderate Business Profile: Compared with all other U.S. life insurers, Fitch assesses Aegon America's business profile as moderate. This reflects the company's significant operating scale, leading market positions, breadth of product offerings and diversification across business lines, which are offset by its moderate risk profile due to its legacy long-term care (LTC) insurance exposure and above-average exposure to variable annuities.

Capital Remains Strong: Aegon Americas' NAIC RBC ratio declined modestly to 465% in 2018, but remains above its target range of 350%–450%. The ratio was adversely affected by tax reform, but benefitted from the company's merger of its variable annuity captive into Transamerica Life Insurance Company, which generated \$1 billion in capital. Aegon Americas makes material use of reinsurance from third-party insurers, as well as captive reinsurance companies. Upstream dividends to Aegon N.V. are a significant source of cash for the holding company.

Diversified Investment Portfolio: Aegon Americas' investment mix remains stable and liquid, with a risky asset ratio of 65% at YE 2018. The ratio is below the industry average, reflecting below-average exposure to Schedule BA assets and equities. Bond quality is largely consistent with the industry, with an average NAIC rating of 1.5. Credit-related impairments declined in 2018 and remain well below the company's long-term average.

Ownership Uplifts Ratings: Fitch Ratings considers Aegon N.V.'s rated U.S. entities as Core due to Aegon Americas' scale, operating performance and market position in chosen markets. Aegon Americas comprises a material portion of the group's revenue and earnings. Its ratings are higher than they would be on a stand-alone basis.

Macroeconomic Headwinds: Ongoing low interest rates pose risks to Fitch's outlook for life insurers and could have a negative effect on Aegon Americas' earnings and capital. Fitch considers Aegon Americas to have above-average exposure to interest rate risk given the company's closed block of universal life with secondary guarantees and legacy LTC.

Rating Sensitivities

Upgrade Sensitivities: The ratings could be upgraded if Aegon N.V.'s net income ROE improves to above 7% for a sustained period, with the Prism factor-based model capital score remaining at least 'Very Strong'.

Downgrade Sensitivities: Aegon N.V.'s ratings could be downgraded if, over a sustained period, the financial leverage ratio rises above 30% or if the Prism score falls to below the 'Very Strong' category. The ratings could also be downgraded if net income ROE remains below 3%.

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