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Ratings

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Aegon USA Group

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Aegon USA Group

Major Rating Factors

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
AA-/Negative/--

Strengths	Weaknesses
• Widely recognized Transamerica brand name with a multichannel distribution base • Strong competitor in each of its selected markets • Very strong capitalization despite significant and consistent dividend contributions to parent AEGON N.V.	• Improving, though lower than historical levels, operating performance hurt by negative one-time items • Diminishing market share coupled with product exits that could dampen the overall business risk profile

Rationale

S&P Global Ratings' rating on Aegon USA Group reflects its very strong business risk and financial risk profiles, leading us to an anchor of 'aa-'. The group operates under the well-recognized Transamerica brand name and has a solid presence in the North American life insurance market. Our ratings reflect Aegon USA's diverse product profile, as well as its well-established distribution network. Our ratings also reflect the group's very strong capital adequacy and well-diversified investment portfolio. We view Aegon USA as an integral part of the AEGON N.V. group, contributing more than 60% of its earnings and capital. We view Aegon USA as core to the AEGON N.V. group.

Outlook

The negative outlook on Aegon USA parallels our negative 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. On a stand-alone basis, we expect Aegon USA to maintain its balance-sheet strength and its business and financial profiles. We expect Aegon USA to maintain a very strong business risk profile, capital redundancy at least at the 'AA' confidence level, and strong enterprise risk management (ERM). We expect to maintain our view of Aegon USA as core to AEGON N.V. given Aegon USA's importance to the overall group. Any material change to any of our expectations for Aegon USA would likely affect our assessment of the overall group.

Downside scenario

We could lower the ratings in the next 12 months if AEGON N.V.'s group credit profile changes. We could also lower the rating if Aegon USA's competitive position were to deteriorate due to a weakening market position, operating performance declines relative to peers, or capital adequacy drops significantly below the 'AA' confidence level and stays there. This could result from, for example, earnings compression or significant changes in the group's capital-management strategy.

Upside scenario

We could revise the outlook to stable if we revise our outlook on the overall Aegon group to stable.

Macroeconomic Assumptions

- U.S. real GDP growth of about 2.9% in 2018 and 2.6% in 2019
- Average unemployment rate of 3.9% in 2018 and 3.6% in 2019
- Average 10-year U.S. Treasury yield of about 2.9% in 2018 and 3.3% in 2019
- S&P 500 Index at 2,813 in 2018 and 2,869 in 2019

Key Metrics

	--Year ended Dec. 31--				
(Mil. $)	**2019***	**2018***	**2017**	**2016**	**2015**
Gross premiums written	>27,000	>26,000	27,068.6	23,597.5	29,095.9
EBIT	850-1,000	750-900	655.6	1,485.1	608.2
Net income	>700	>600	426.0	1,106.0	198.7
Total assets	>200,000	>200,000	217,702.9	213,933.5	207,973.2
Capital and surplus	>8,500	>8,600	8,786.4	8,700.8	8,924.3
S&P Global Ratings' capital adequacy/redundancy	AA	AA	AA	AA	AA
Net investment yield (%)	4.2-4.5	4.2-4.5	4.5	4.6	4.4
Return on assets (%)	>0.6	>0.5	0.3	0.7	0.3

*Forecast data reflect S&P Global Ratings' base-case assumptions. Based on statutory data. 2017 results reflect the impact of a payout annuity and a COLI/BOLI reinsurance transaction. BOLI/COLI--Bank-owned/corporate-owned life insurance business.

Business Risk Profile

Aegon USA has a very strong competitive position supported by the widely recognized Transamerica brand. It also has low-cost operations with economies of scale and very strong distribution capabilities across diverse lines of business. These provide for a diversified earnings profile with a well-balanced mix of individual life insurance, annuities, and retirement plans.

Aegon USA is a strong competitor in each of its selected markets. Although some of its largest markets are very competitive and are characterized by a high degree of commoditization, the company has consistently ranked among the top 10 players in those markets, including supplemental health and voluntary products. Based on 2017 Life Insurance Marketing and Research Assn. (LIMRA) data, the company ranked eighth in individual life sales and 10th in variable annuity sales in the U.S. Aegon is growing its presence in indexed universal life (IUL) and ranks fourth in this market. It also holds a top 10 position in the retirement segment following its acquisition of Mercer's U.S. defined contribution business. We also expect Mercer-related outflows to slow down in 2018.

Aegon USA relies on its very well-diversified distribution network, which include career agency, banking channels, and independent brokers; at the same time, it has been investing in digital capabilities. Its strategic alliance with World Financial Group has been particularly instrumental in growing the company's IUL business.

For 2017, Aegon USA's pretax operating earnings were about $1.6 billion--about 13% higher than in 2016. The company has been streamlining its business: discontinuing certain businesses and distribution channels. These exits could have some near-term impact on overall sales and operating performance in 2018. But we believe most of these actions are consistent with overall management strategy and will allow Aegon USA to focus on its core offerings. Nonetheless, if its market share declines significantly in its core products or investments in new technology and business initiatives outweigh the benefits of cost savings so that it dampens overall operating performance, we could revise our view of the company's business risk profile.

Financial Risk Profile

Aegon USA has consistently maintained very strong capital and earnings at the 'AA' confidence level, and its statutory risk-based capital ratio was 472% at year-end 2017. 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. The overall result of this assessment was continued redundancy at 'AA' level.

While we expect Aegon USA to maintain redundancy at the 'AA' level, we think the level of capital redundancy will diminish. This results from earnings strain, as well as our belief that Aegon USA will likely use excess capital to fund new business initiatives and make dividend contributions to its parent. Over the past few years, the company has successfully strengthened its capitalization by divesting noncore units, optimizing the value of its back books, thereby releasing the capital associated with those businesses or lowering capital requirements. In 2017, the company paid about $1.7 billion in dividends to AEGON N.V. following the divestiture of its U.S. payout annuity business and its bank-owned/corporate-owned life insurance business (BOLI/COLI). We expect Aegon USA to maintain capital redundancy at least at the 'AA' level through 2018.

Aegon USA has an intermediate risk position, reflecting its strong investment portfolio diversification, with a weighted average bond quality of 'A', and moderate sector concentration. In our view, its exposure to high-risk assets, which make up about 79% of total adjusted capital, is neutral to the rating. At year-end 2017, Aegon USA's investment portfolio's comprised: cash and government securities (23%), corporate bonds (46%), mortgage-backed and asset-backed securities (7%), commercial-backed securities (5%), mortgage loans (9%), equity (1%), and other (including alternative investments; 9%). 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. The company does not have any pension obligations at the U.S. statutory entity level.

Aegon USA's strong financial flexibility largely comes from the strengths of AEGON N.V. The consolidated group maintains strong financial flexibility, as shown by its proven access to capital markets. AEGON N.V. has relatively limited capital needs for the next two years; its financial leverage and coverage were about 31% and 8.0x, respectively, at year-end 2017--in line with our expectations. We expect AEGON N.V.'s leverage and coverage to stay relatively stable and improve incrementally. It guarantees the low proportion of consolidated long-term debt its U.S. subsidiaries issue. We do not expect the group to raise additional debt capital from its U.S. companies.

Other Assessments

We view AEGON N.V.'s ERM as strong and the importance of ERM to the ratings as high. Our assessment reflects our positive view of the risk-management culture, risk controls, and strategic risk management of the organization, which we consider complex. Aegon USA actively supports and is fully integrated into the group's risk management practices.

Through 2017, Aegon USA's exposure to credit risk and equity risk were mostly in line with the set limits. The company has also reduced exposure to credit risk by easing its institutional spread and fixed-annuity businesses. While its interest rate exposure remains high, the recent sale of COLI/BOLI and payout annuity helped lower longevity risk and interest rate exposure.

We view Aegon USA's management and governance practices as satisfactory and highly consistent with the consolidated group's practices. This reflects our favorable view of the group's strategic planning process, well-constructed and comprehensive financial policies, well-articulated risk tolerances, and low appetite for unhedged direct exposure to equities.

Aegon USA has successfully managed the significant liquidity needs associated with the planned run-off of its institutional spread-based business. In 2016, the company had a liquidity ratio of 297% per our model, reflecting its ability to maintain strong and stable liquidity.

Group ratings methodology

Aegon USA's core group status reflects our view that the company is highly unlikely to be sold because it generates more than 60% of AEGON N.V.'s earnings and capital. Aegon USA's strong operating performance in its business lines 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 capitalization is in line with the overall group's capitalization. Its robust capitalization is further supported by a strong, proven commitment of support from its parent. Ultimately, we expect Aegon USA's importance to the overall group to remain high.

Related Criteria

- 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
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Enterprise Risk Management, May 7, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers,

Nov. 13, 2012

- 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
- Criteria - Insurance - General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Insurance - General: Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Criteria - Insurance - Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of June 28, 2018)	
Operating Company Covered By This Report	
Transamerica Advisors Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Counterparty Credit Rating	
Local Currency	AA-/Negative/--
Senior Unsecured	AA-
Related Entities	
AEGON N.V.	
Issuer Credit Rating	A-/Negative/A-2
Commercial Paper	A-2
Junior Subordinated	BBB
Senior Unsecured	A-
Subordinated	BBB
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/NR
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	AA-/Negative/--
Issuer Credit Rating	
Local Currency	AA-/Negative/--
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/A-1+

Ratings Detail (As Of June 28, 2018) (cont.)	
Transamerica Premier Life Insurance Co	
Financial Strength Rating	
Local Currency	AA-/Negative/NR
Issuer Credit Rating	
Local Currency	AA-/Negative/A-1+
Domicile	Arkansas

*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.