

28 JAN 2021

## Fitch Affirms Pacific LifeCorp; Outlook Stable

Fitch Ratings - Chicago - 28 Jan 2021: Fitch Ratings has affirmed the ratings of Pacific LifeCorp (PLC) and its subsidiaries, including Pacific Life Insurance Company (PLIC). The Rating Outlook is Stable.

### Key Rating Drivers

PLC's ratings are based on the company's diverse business profile, very strong statutory capitalization and strong earnings, investment management and liquidity. Somewhat offsetting these positives are the company's above average, but declining exposure to legacy VA business.

PLC has diversified its product portfolio by further reducing its exposure to legacy VAs with more feature-rich riders and increasing its emphasis on fixed annuities (FA), investment-only VAs, indexed universal life (IUL) products, life reinsurance, structured settlements and pension risk transfers. Business diversification is also enhanced by its reinsurance division, Pacific Life Re.

PLC sold its aircraft leasing subsidiary, Aviation Capital Group (ACG) in late 2019, which reduced business diversification. However, ACG was a capital-intensive business and the sale also resulted in a significant decline in PLC's total financing and commitments leverage to 0.7x from 1.2x.

Fitch views PLC's capitalization as very strong based on its RBC ratio of 635% at YE 2019 and Prism capital model score of 'Very Strong' at YE 2019. The company's total adjusted capital (TAC) was \$11.3 billion at Dec. 31, 2019. This represents a four-year CAGR of 7.4%, driven primarily by retained earnings and unrealized capital gains. Operating leverage and financial leverage remained very strong at 7x and 15%, respectively, as of Dec. 31, 2019.

Fitch expects deterioration in PLC's capital metrics and financial performance due to the coronavirus, including increased credit defaults and ratings migration on the investment portfolio over the near term. However, Fitch's current expectation is that the impact of the coronavirus, while material, is manageable for PLC due to the company's very strong capital position. Longer term, concerns around a potentially lower for longer interest rate scenario will negatively affect PLC and peers in terms of pressure on capital and earnings.

### RATING SENSITIVITIES

The ratings remain sensitive to any material change in Fitch's Rating Case assumptions with respect to the coronavirus pandemic. Periodic updates to Fitch's assumptions are possible given the rapid pace of changes in government actions in response to the pandemic, and the pace with which new information

is available on the medical aspects of the outbreak.

Factors that could, individually or collectively, lead to a negative rating action/downgrade:

--A material adverse change in Fitch's Ratings Assumptions with respect coronavirus impact;

--Deterioration in Prism capital model score below 'Very Strong';

--Higher leverage, such as a financial leverage ratio at or above 20% or TFC above 1.2x;

--Significant earnings and capital volatility, such as a 10% or more drop in TAC.

Factors that could, individually or collectively, lead to a positive rating action/upgrade:

--A material positive change Fitch's Rating Assumptions with respect to the coronavirus impact;

--A positive rating action is prefaced by Fitch's ability to reliably forecast the impact of the coronavirus pandemic on the financial profile of both the U.S. life insurance industry and PLC;

--A material change in business risk profile that indicates a risk appetite lower than the life insurance sector as a whole;

--Return on equity above 10%;

--Financial leverage of 15% or less;

--TFC ratio of 0.8x or below;

--The short-term ratings could be downgraded if the corresponding long-term ratings were downgraded. The short-term ratings could also be downgraded if either of Pacific Life's ST-DSCFF or ST-ALLM scores fell below 'aa'.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Financial Institutions and Covered Bond issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>]

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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## Rating Actions

ENTITY/DEBT	RATING	RECOVERY	PRIOR
Pacific Life Global Funding II			
• senior secured	LT AA-	Affirmed	AA-
Pacific Life Re Limited	Ins Fin Str AA- ●	Affirmed	AA- ●
Pacific Life Funding, LLC			
• senior secured	LT AA-	Affirmed	AA-
Pacific Life Insurance Company	LT IDR A+ ●	Affirmed	A+ ●
	ST IDR F1+	Affirmed	F1+
	Ins Fin Str AA- ●	Affirmed	AA- ●
	Ins Fin Str ST F1+	Affirmed	F1+
• subordinated	A	Affirmed	A
• senior unsecured	ST F1+	Affirmed	F1+

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Pacific Life & Annuity Company	Ins Fin Str	AA-	Affirmed	AA-
Pacific LifeCorp	LT IDR	A	Affirmed	A
• senior unsecured	LT	A-	Affirmed	A-
Pacific Life Short Term Funding, LLC				
• senior secured	ST	F1+	Affirmed	F1+

#### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

#### Applicable Criteria

[Insurance Rating Criteria \(pub.25 Aug 2020\) \(including rating assumption sensitivity\)](#)

#### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Prism U.S. Life Insurance Capital Model, v1.2.1-2019 [\(1\)](#)

## Additional Disclosures

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