Fitch Ratings

FITCH RATES MTL INSURANCE CO.'S IFS 'A' FOLLOWING MERGER

Fitch Ratings-Chicago-02 November 2015: Fitch Ratings has assigned an 'A' Insurer Financial Strength (IFS) rating to MTL Insurance Co. (MTL). At the same time, Fitch affirmed the 'A' IFS rating for Pan-American Life Insurance Company (PALIC) and its wholly owned subsidiary, Pan-American Assurance Company (PAAC), collectively referred to as Pan-American. The Rating Outlook is Stable.

KEY RATING DRIVERS

The rating action follows the completion on Oct. 30, 2015 of the merger between Pan-American Life Insurance Group (PALIG) and Mutual Trust Holding Company (Mutual Trust), both mutual insurance holding companies. MTL, previously a subsidiary of Mutual Trust, has become a wholly-owned direct subsidiary of PALIG.

The merger will strengthen Pan-American's position in the U.S. life insurance market and enhance geographic diversification. However, Fitch believes the company will continue to face competitive challenges in the U.S. from companies with significantly greater scale, market share, pricing power and distribution capabilities. Fitch believes the merger presents modest integration risk, as the companies utilize identical administrative platforms for various functions and existing management at MTL will remain in place.

Pan-American's ratings reflect extremely strong capitalization, relatively low-risk liability profile and modest operating performance. The ratings also consider that PALIG's non-U.S. insurance operations are concentrated in Latin America and the Caribbean, the majority of which have sovereign ratings that are lower than Pan-American's rating.

Pan-American's strong balance sheet continues to be a key ratings driver with very strong capitalization and low leverage. The company maintains statutory capital well in excess of rating expectations, with a 2014 NAIC risk-based capital (RBC) ratio was 560%. Outside the U.S., PALIG's insurance subsidiaries maintain statutory capital that exceeds regulatory minimums. Fitch views PALIG's consolidated operating leverage (defined as pro forma GAAP liabilities to capital excluding unrealized investment gains and losses) of 5.6x as strong. Additionally, PALIG's financial leverage remains low at 8.2% at year-end 2014 or 10% on a pro forma basis.

Pan-American generates relatively stable earnings due to its low-risk product profile. MTL writes predominantly participating whole life insurance in the U.S., which generates predictable, albeit modest, earnings with minimal volatility. The liability profiles of both companies have minimal exposure to equity market volatility or disintermediation risk.

Below-investment grade (BIG) bonds comprise 15% of PALIG's fixed-income assets, which is largely driven by its foreign government exposure to Latin American and Caribbean countries, whose securities are generally rated 'BB' or below. These securities are used to fulfill local regulatory requirements in the jurisdictions where Pan-American operates or to currency-match insurance liabilities in those countries. Upon integration of the merger, PALIG's BIG exposure will fall below 10% of total bonds, due to the higher asset quality of Mutual Trust's bond portfolio.

Additionally, PALIG has above-average exposure to 'BBB'-rated bonds and below-average exposure to U.S. government securities. Favorably, PALIG has minimal exposure to equities and troubled real estate as compared with the industry.

MTL's rating reflects the company's status as a 'very important' subsidiary within the Pan-American enterprise, based on Fitch's criteria and stand-alone credit profile that is consistent with the assigned rating. MTL's stand-alone credit profile reflects its adequate competitive position in the U.S. life insurance market, strong balance sheet fundamentals and modest earnings profile. MTL's strategic category reflects Pan-American's initiative to expand its presence in the U.S. life insurance market.

Fitch is not likely to rate MTL above Pan-American but, if MTL's financial profile deteriorates within two notches of Pan-American, MTL's ratings would likely remain 'A' based on the financial strength of Pan-American.

RATING SENSITIVITIES

Fitch does not anticipate an upgrade in the near-to-intermediate term. Despite its niche position, the agency views Pan-American's overall market position as small, which under Fitch's criteria has a market position, size and scale supportive of a rating in the 'BBB' category. However, the company's extremely strong balance sheet fundamentals provide Pan-American with uplift in its rating to the 'A' category. Fitch does not expect a change in this view during the ratings horizon of 12 - 18 months.

The key rating triggers that could result in a downgrade include:

--A sustained drop in the company's U.S. RBC ratio below 400%;
--An increase in consolidated financial leverage to over 20%;
--Deterioration in financial results including a drop in GAAP interest coverage to below 7x; or
--An increase in GAAP operating leverage (defined as liabilities to capital excluding unrealized investment gains and losses) to over 7x; or
--An adverse development related to the merger with Mutual Trust.

Fitch has assigned the following rating with a Stable Outlook:

MTL Insurance Company
--IFS 'A'.

Fitch has affirmed the following ratings with a Stable Outlook:

Pan-American Life Insurance Company
Pan-American Assurance Company
--IFS at 'A'.

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Applicable Criteria
Insurance Rating Methodology (pub. 16 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=871172