



## Fitch Upgrades AIG's U.S. Life Subsidiaries IFS Rtg to 'A'; Outlook Stable Ratings

25 Apr 2011 5:21 PM (EDT)

Fitch Ratings-Chicago-25 April 2011: Fitch Ratings has upgraded the Insurer Financial Strength (IFS) ratings of American International Group, Inc.'s domestic life insurance subsidiaries known as SunAmerica Financial Group to 'A' from 'A-'. The Outlook for all ratings is Stable. Other AIG-related ratings are not affected by this action. A complete list of rating actions is included at the end of this commentary.

The rating action follows a review of SunAmerica Financial Group's recent results. The upgrade reflects the company's improved financial profile as evidenced by higher operating earnings, reduced investment losses, lower surrender experience, and higher capital adequacy metrics. Overall, this operation has stabilized from the significant adverse effects of the financial crisis and AIG's unique place in it. The IFS rating is a stand-alone rating and does not reflect any uplift for U.S. Treasury ownership.

GAAP pretax operating earnings improved to \$4 billion in 2010 versus \$2.3 billion in 2009. Net investment spreads were enhanced by AIG's Maiden Lane II performance, higher partnership income, as well as fees from calls and prepayments. Net realized capital losses declined to \$1.3 billion in 2010 from \$3.5 billion in the previous year.

Surrender activity peaked in fourth quarter 2008, the period after the government bailout, with annualized individual fixed annuity and group retirement product surrender rates of 36% and 16%, respectively. In 2010, these surrender rates had fallen to 7% and 10%, respectively.

SunAmerica Financial Group's capitalization metrics are characterized by NAIC risk-based capital (RBC) ratio and operating leverage ratios that are generally better than industry averages. Consolidated statutory surplus grew 8% in 2010 to \$16.6 billion and the NAIC RBC ratio improved to 477% from 421% at the previous year-end. Operating leverage as measured by total admitted assets to statutory surplus was 13.2 times (x). When subtracting surplus and separate account assets from the numerator, this ratio falls to 9.6x.

Fitch expects SunAmerica Financial Group to slowly regain momentum in its business generation capacity. However, Fitch believes it will take some time to fully recover from the loss of distribution capacity and the reputational damage suffered during the financial crisis. In addition, the life and retirement services industry remains very competitive with numerous challenges including margin pressures, interest rate risk, and regulatory uncertainty.

Fitch's current AIG holding company Issuer Default Rating (IDR) of 'BBB' reflects the agency's on-going belief that upon AIG's emergence from ownership by the U.S. Treasury, the company's capital structure and earnings profile have the potential to support 'standard' insurance holding company notching. Absent the uplift related to government involvement, AIG's IDR and ratings on the company's senior unsecured securities would be 'BBB-' and 'BB+', respectively. These rating levels are one notch higher than they were when Fitch last commented on AIG's stand-alone ratings in November 2010, primarily reflecting AIG's progress executing on its recapitalization plan.

Key rating drivers that could produce a revision in Rating Outlook to Positive or lead to upgrades in SunAmerica Financial Group's stand-alone IFS ratings include:

- Positive sales trends in diverse distribution channels;
- Continued favorable operating profitability trends;
- Investment results consistent with life industry peers and the overall market;
- Maintenance of strong capital levels with RBC ratio in excess of 400%.

Key rating drivers that could produce a revision in the Rating Outlook to Negative or lead to downgrades in SunAmerica Financial Group's stand-alone IFS ratings include:

- Disruptions in key distribution channels;
- Reversal of current favorable operating profitability trends;
- Outsized investment losses relative to life industry peers;
- Significant annuity surrender activity;
- Material decline in RBC ratio to below 300%.

Fitch has upgraded the following IFS ratings to 'A' from 'A-' and assigned Stable Outlooks:

- AGC Life Insurance Company;
- American General Life and Accident Insurance Company;
- American General Life Insurance Company;
- American General Life Insurance Company of Delaware;
- First SunAmerica Life Insurance Company;
- SunAmerica Annuity and Life Assurance Company;
- SunAmerica Life Insurance Company;
- The United States Life Insurance Company in the City of New York;
- The Variable Annuity Life Insurance Company;
- Western National Life Insurance Company.

Fitch has upgraded the following ratings to 'A' from 'A-' and assigned Stable Outlooks:

- ASIF II Program;
- ASIF III Program;
- ASIF Global Financing.
- Program ratings.

Contact:

Primary Analyst  
Julie A. Burke, CPA, CFA  
Managing Director  
+1-312-368-3158  
Fitch, Inc.  
70 W. Madison Street  
Chicago IL 60603

Secondary Analyst

Mark E. Rouck, CPA, CFA  
Senior Director  
+1-312-368-2085

Committee Chairperson

Keith M. Buckley, CFA  
Group Managing Director  
+1-312 368-3211

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549, Email: [brian.bertsch@fitchratings.com](mailto:brian.bertsch@fitchratings.com).

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

Applicable Criteria and Related Research:

- 'Insurance Rating Methodology', March 31, 2011;
- 'Life Insurance Rating Methodology', March 31, 2011.

**Applicable Criteria and Related Research:**

Insurance Rating Methodology

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE.