

## Research

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# The Savings Bank Mutual Life Insurance Co. of Massachusetts

**Primary Credit Analyst:**

John J Vinchot, New York + 1 (212) 438 2163; john.vinchot@spglobal.com

**Secondary Contact:**

Anika Getubig, CFA, New York + 1 (212) 438 3233; anika.getubig@spglobal.com

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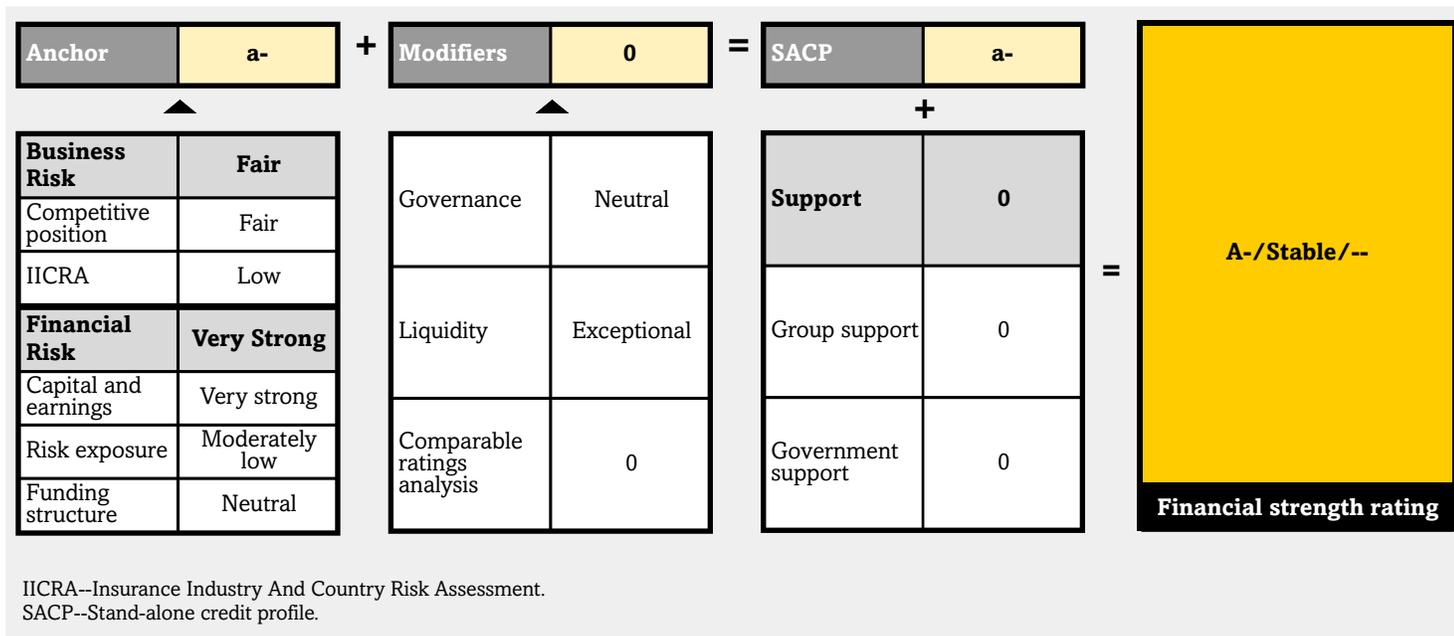
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# The Savings Bank Mutual Life Insurance Co. of Massachusetts



## Credit Highlights

### Overview

Strengths	Risks
Strategic partnerships and expansion of digital channel focused on simplified issue term life and whole life insurance	Limited geographic reach with a significant concentration in Massachusetts and product concentration in term life
Diversified distribution with a mix of captive sales agents, direct marketing, and independent channels	Very strong capitalization relies on reserve financing solutions to manage capital requirements

**S&P Global Ratings expects Savings Bank Mutual Life Insurance Co. of Massachusetts (SBLI) to expand its distribution partnerships in the middle market.** SBLI benefits from strategic partnerships that expand its growth from both a premium and fee-income perspective. As a smaller, nimble organization, SBLI can move quickly to provide customized products for distribution partners seeking term life and annuity products. We expect expansion of digital capabilities and targeted marketing to drive direct sales, and growth of its independent channel has contributed to geographic diversification, though the business remains concentrated in a single state.

**SBLI's profitability remains in line with similarly rated peers'.** SBLI's simple products--including accelerated and automated underwriting for its term life products--and investment in technological capabilities have enabled it to offer competitive pricing, streamline the underwriting process, and improve operating efficiencies. The company's omni-channel customer approach, including expanded use of digital applications, which has picked up because of the global pandemic, is better positioning the company for growth.

**SBLI's very strong capital and earnings are limited by its small capital base of \$217 million.** The company's capitalization remains redundant at the 'AAA' level per our risk-based capital model, though it has a small capital base. SBLI also utilized captive-financing transactions to alleviate the capital strain from new term life business. While

contributions to its captive reinsurance subsidiary led to capital and surplus declining in 2019, the captive's redundant reserves are expected to be accretive to capital over time. SBLI could use the additional flexibility in policyholder dividends to alleviate pressure.

Our anchor for SBLI (based on our view of its business and financial risks) is 'a-'--influenced by our view of SBLI's 'AAA' level capital redundancy and strong profitability relative to similarly rated peers.

## Outlook: Stable

The stable outlook reflects our expectation that SBLI will maintain 'AAA' level capitalization, and that management will execute its diversification plans while maintaining underwriting and investment discipline.

### Downside scenario

We could lower our ratings in the next 12-24 months if SBLI's capitalization erodes, we no longer view its captive reinsurance structures as sufficiently isolated from its operating entities, or its geographic and product diversification efforts reverse course, weakening our view of its competitive position.

### Upside scenario

We are unlikely to raise our ratings in the next 12-24 months given SBLI's product and geographic concentrations.

## Key Assumptions

- Real U.S. GDP contraction of about 5.0% in 2020 and growth of 5.2% in 2021
- 10-year long-term interest rate at about 0.96% in 2020 and 1.57% in 2021
- Core Consumer Price Index at 0.3% in 2020 and 1.6% in 2021

Table 1

SBLI--Key Metrics					
	2021f	2020f	2019	2018	2017
S&P Global Ratings capital and earnings	Very strong				
Revenue (ex. NII) (mil. \$)	275-300	250-275	380.1	202.1	213.3
Net income (mil. \$)	30-40	15-25	24.3	39.1	46.8
Return on assets (excluding investment gains/losses) (%)	1.0-1.5	0.5-1.0	0.8	1.4	0.9
Return on revenue (%)	10-15	5-10	5.7	14.2	8.1

f--S&P Global Ratings forecast.

## **Business Risk Profile: Fair**

SBLI's fair competitive position reflects its success in using strategic partnerships to support its distribution strategy. The company has successfully partnered with distributors to launch new products and bolster growth. SBLI is able to quickly launch new products and offer competitive pricing as it continues to invest in the digitization of its sales process, further reducing expenses and commissions via direct distribution.

Term insurance is its primary offering leveraging its accelerated and automated underwriting processes, although it has a smaller book of whole life, bank-owned life, and deferred and immediate annuities. SBLI's competitive position is limited by its significant concentration in Massachusetts, as well as product concentration in term life.

Its term life growth resulted in a dependence on reinsurance and XXX/AXXX reserve financing solutions to manage internal and regulatory capitalization requirements. SBLI made its final contribution to captive SBLI Re in 2019. The company plans to find a replacement reinsurance transaction for its new level term business written in 2020 and beyond. SBLI has a solid track record of profitability. Its focus on digitalization and competitive pricing has contributed to improved operating efficiency and enhanced distribution relationships. SBLI's five-year (2015-2019) average return on assets was 0.9%, and its return on revenue was 8.0%.

## **Financial Risk Profile: Very Strong**

Our ratings on SBLI benefit from 'AAA' level capital redundancy, though it has a small capital base of \$217 million as of year-end 2019. We give intermediate equity credit to its \$57.3 million surplus notes issuance due 2047 for up to 10 years prior to maturity, and in an amount up to 15% of capital.

We view SBLI's risk exposure as moderately low given its simple product profile--with 87% of reserves accounting for term and whole life business--and conservative investment portfolio.

We view its funding structure neutrally. The \$57.3 million surplus note was the only issuance outstanding as of year-end 2019, resulting in financial leverage of 29.6% and fixed-charge coverage of 7.4x.

## **Other Key Credit Considerations**

### **Governance**

SBLI converted to a mutual ownership structure in 2017, after being a closely held stock life insurance company since 1990. The company has since further diversified the skillsets of its board of directors, restructured management to better align interests and accountability, and simplified the organization's legal structure. SBLI has a multiyear strategic planning process in place, which establishes short- and long-term targets and forecasts. Strategic initiatives highlight core competencies in maintaining competitive pricing, leveraging partnerships, and investing in technology for growth while maintaining strong margins.

## Liquidity

We have a favorable view of SBLI's liquidity. We don't see any refinancing issues, and the company has sufficient resources to fulfill its obligations in a stressed environment. As of year-end 2019, SBLI had a comfortable cash position, and fixed-income investments consist of very strong credit quality.

## Accounting considerations

We analyze SBLI's operating subsidiaries on a statutory basis. Through our analysis, we conclude SBLI's captive reinsurance subsidiaries (SBLI Re and SBLI VT Re LLC) are sufficiently isolated from the overall group. We expect that if availability of reserve management financing transactions were constrained, the company would moderate its business growth to manage surplus strain.

## Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Insurance | Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- General Criteria: Principles For Rating Debt Issues Based On Imputed Promises, Dec. 19, 2014
- 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

## Appendix

**Table 2**

<b>SBLI--Credit Metrics History</b>		
<b>Ratio/metric</b>	<b>2019</b>	<b>2018</b>
S&P Global Ratings capital and earnings	Very strong	Very strong
Total invested assets	3,191.8	2,864.0
Capital and surplus	193.9	201.8
Gross premiums and annuity considerations	541.6	352.5
Net premiums and annuity considerations	310.5	128.1
EBIT	27.3	43.8
Return on revenue (%)	5.7	14.2
Return on assets (excluding investment gains/losses) (%)	0.8	1.4
EBIT fixed-charge coverage (x)	7.4	11.7
Financial leverage including pension deficit as debt (%)	29.6	28.4
Net investment yield (%)	3.4	3.7

## Business And Financial Risk Matrix

Business risk profile	Financial risk profile							
	Excellent	Very Strong	Strong	Satisfactory	Fair	Marginal	Weak	Vulnerable
Excellent	aa+	aa	aa-	a+	a-	bbb	bb+	b+
Very Strong	aa	aa/aa-	aa-/a+	a+/a	a-/bbb+	bbb/bbb-	bb+/bb	b+
Strong	aa-/a+	a+/a	a/a-	a-/bbb+	bbb+/bbb	bbb-/bb+	bb/bb-	b+/b
Satisfactory	a	a/a-	a-/bbb+	bbb+/bbb	bbb/bbb-	bb+/bb	bb-/b+	b/b-
<b>Fair</b>	a-	<b>a-/bbb+</b>	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb/bb-	b+/b	b-
Weak	bbb+/bbb	bbb/bbb-	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b/b-	b-
Vulnerable	bbb-/bb+	bb+/bb	bb/bb-	bb-/b+	b+/b	b/b-	b-	b-

**Note:** Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

## Ratings Detail (As Of July 20, 2020)\*

### Operating Company Covered By This Report

#### Savings Bank Mutual Life Insurance Co. of Massachusetts (The)

Financial Strength Rating

Local Currency

A-/Stable/--

Issuer Credit Rating

Local Currency

A-/Stable/--

Subordinated

BBB

Domicile

Massachusetts

\*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.

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