

Research Update:

Global Atlantic Financial Group And Subsidiaries 'A-' Ratings Affirmed On Announced Acquisition By KKR; Outlook Stable

July 8, 2020

Overview

- KKR & Co. Inc. is acquiring Global Atlantic Financial Group in a transaction expected to close in early 2021, subject to regulatory approval.
- We are affirming our 'A-' ratings on Global Atlantic and its core subsidiaries.
- The stable outlook reflects our expectation that the group will maintain its strong competitive position and capitalization at least at the 'A' level.

Rating Action

On July 8, 2020, S&P Global Ratings affirmed its 'A-' insurer financial strength and issuer credit ratings on U.S.-domiciled Global Atlantic Financial Group (GAFG) and its core subsidiaries. The outlook remains stable.

Rationale

Our affirmation is based on our expectation that GAFG will maintain its business strength and demonstrate strong operating performance following the announced acquisition by KKR & Co. Inc., subject to regulatory and shareholder approval, and other customary closing conditions. Following the transaction's close, GAFG will be part of KKR's balance-sheet investments and a majority-owned subsidiary. While the company's ownership will change, we do not expect any material changes in GAFG's business or capital management strategy in the near term, and we expect the company to operate within its risk tolerances. We believe GAFG will maintain its existing leadership team but partner with KKR to enhance its investment capabilities. However, although GAFG is currently rated one notch below KKR, its role and strategic importance within the KKR group could affect the overall rating.

GAFG maintains a strong competitive position with a record of solid operating performance and a

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balanced business mix comprising three main lines: annuity, reinsurance, and preneed and traditional life insurance. The company has strengthened its capital adequacy in recent years. We assess GAFG's capital and earnings as strong, reflecting capital redundancy at the 'A' confidence level. However, tempering our view of strong capital and earnings are the group's historically acquisitive nature and consequent capital volatility. As of Dec. 31, 2019, financial leverage was about 16% on a reported equity basis and 21% excluding accumulated other comprehensive income.

Outlook

The stable outlook reflects our expectation that the group will maintain a balanced product portfolio and further strengthen its competitive position in its core market. We also expect it to generate strong earnings and maintain capital adequacy redundancy at least at the 'A' level over the next one to two years. However, any material changes to KKR's group profile would also affect our assessment of GAFG.

Downside scenario

We may lower our ratings in the next 12 to 24 months if GAFG's competitive position deteriorates due to a weakening market position, or if capital adequacy drops below the 'A' confidence level, which could result from significant changes in investment or capital management strategy. Additionally, we may lower GAFG's ratings if KKR's group credit profile changes and its ratings is lowered by more than one notch.

Upside scenario

Although it is unlikely, we may raise our ratings in the next 12 to 24 months if the group maintains its strong operating performance and consistently manages its capitalization at a very strong level. We also expect the group to develop its competitive position through continued profitable growth in its block reinsurance and life insurance lines.

Ratings Score Snapshot

Financial strength rating	A-
Anchor*	a-
Business risk	Strong
IICRA	Low
Competitive position	Strong
Financial risk	Satisfactory
Capital and earnings	Satisfactory
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers:	
Governance	Neutral
Liquidity	Exceptional

Comparable ratings analysis

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*Our 'a-' anchor selection captures GAFG's competitive strength in its core market and solid operating performance. IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- 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
- 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

Related Research

KKR & Co. Inc. Ratings Placed On CreditWatch Negative On Announced Acquisition Of Global Atlantic, Jul. 8, 2020

Ratings List

Ratings Affirmed

Global Atlantic Financial Group

Global Atlantic Financial Limited

Global Atlantic (Fin) Company

Issuer Credit Rating

BBB-/Stable/--

Ratings Affirmed

Accordia Life and Annuity Co.

Global Atlantic Re Limited

Global Atlantic Assurance Limited

Forethought Life Insurance Co.

Commonwealth Annuity and Life Insurance Company

Issuer Credit Rating

Local Currency A-/Stable/--

Financial Strength Rating

Local Currency A-/Stable/--

First Allmerica Financial Life Insurance Co.

Issuer Credit Rating

Local Currency A-/Stable/--

Financial Strength Rating

Local Currency A-/Stable/--

Global Atlantic Financial Life Ltd.

Issuer Credit Rating

Local Currency BBB-/Stable/--

Global Atlantic (Fin) Company

Senior Unsecured BBB-

Subordinated BB

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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