

RatingsDirect®

American National Group LLC

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American National Group LLC

Anchor	a	+	Modifiers	0	=	SACP	a	A/Stable/--
Business Risk	Satisfactory		Governance	Neutral		Support	0	
Competitive position	Satisfactory		Liquidity	Exceptional		Group support	0	BBB/Stable/--
IICRA	Low		Comparable ratings analysis	0		Government support	0	
Financial Risk	Very Strong							
Capital and earnings	Excellent							
Risk exposure	Moderately high							
Funding structure	Neutral							

IICRA--Insurance Industry And Country Risk Assessment.
SACP--Stand-alone credit profile.

Credit Highlights

Overview	
Key strengths	Key risks
Excellent capital adequacy.	Strengthening but historically weaker-than-peer operating performance.
Diverse product portfolio.	Less favorable enterprise risk management than other multiline insurers, albeit improving.
	Exposure to natural catastrophe risk in personal and commercial property lines.
	Macroeconomic uncertainty.

We don't expect American National's exit from the health business to materially affect its ratings In 2023, American National Insurance Co. and its subsidiaries (collectively, American National) exited the health business with the June 2023 announcement that it will sell its managing general underwriters' stop-loss business to Core Specialty (expected to close by year-end 2023) and the reinsurance of its Medicare supplement business. Since the health operations contributed an immaterial part of American National's business, we continue to view the business' diversity as a ratings strength.

We expect American National to remain financially strong despite potential declines or volatility in profitability in the near term. American National has conservative management, with a large capital buffer at the 'AAA' level per S&P Global Ratings' risk-based capital (RBC) model. Its earnings can be volatile owing to weather-related losses for the property/casualty (P/C) business but they are consistently positive and benefit from different underwriting cycles for each segment, allowing for relatively stable returns. We expect the company to maintain its 'AAA' capital redundancy and financial strength over the next two years.

Because of American National's basic product portfolio and extensive use of reinsurance, risk management is less important to the rating than for other multiline insurers, in our view. American National offers basic life and P/C insurance products and annuities without complex, long-term guarantees. It is typically a fast follower rather than a market leader. This conservative approach has kept a variety of risks off its books that hurt the risk profiles of other insurers while limiting its competitive position. We view its risk controls as sufficient, noting a slight improvement in risk management, and we view its risk exposures, in aggregate, as moderately high owing to severe weather exposure, although this is partly offset by its extensive use of reinsurance, significant capital resources, and product diversification across uncorrelated risks.

Outlook

The stable outlook reflects our expectation that American National will maintain its diverse sources of earnings that will support operating performance at least in line with that of peers over the next two years. We also expect management to maintain capital at least sufficient at the 'AAA' level per our RBC model.

Downside scenario

We could lower our ratings over the next 12-24 months if:

- American National's board of directors does not seem to be independent or does not comply with its fiduciary duties,
- Texas regulatory oversight is not as substantial as initially assumed,
- The group significantly decapitalizes American National,
- The company's competitive position deteriorates because of a divestment that leads to weaker diversification,
- It consistently reports weak operating performance relative to peers, or
- American National's capital adequacy falls below 'AAA' for a prolonged period.

Upside scenario

We are unlikely to raise the ratings in the next 24 months while the company undergoes this major transition. Over the longer term, we could raise the ratings if American National sustainably improves operating performance and strengthens its enterprise risk management controls.

Key Assumptions

- Real U.S. GDP growth of about 2.3% in 2023 and 1.3% in 2024
- Core Consumer Price Index growth of 4.7% in 2023 and 2.6% in 2024
- Real consumer spending growth of 2.5% in 2023 and 1.4% in 2024
- 10-year Treasury note yield of about 3.9% in 2023 and 4.0% in 2024
- U.S. unemployment rate of 3.6% in 2023 and 4.1% in 2024

(Source: "Economic Outlook U.S. Q4 2023: Slowdown Delayed, Not Averted," published Sept. 25 2023)

American National Insurance--Key metrics					
	2024f	2023f	2022	2021	2020
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
Net premiums earned (mil. \$)	~2,500-2,600	~2,400-2,500	2,433	2,301	2,218
Net income (mil. \$)	400-600	400-600	400	700	469
Return on shareholders' equity (%)	~10-12	~8-10	7.7	10.4	7.5
Financial leverage, including pension deficit as debt (%)	<30	<30	30.7	1.2	3.1
EBITDA fixed charge coverage (x)	>10	>10	17.6	>10	>10

f--S&P Global Ratings forecast.

Business Risk Profile

American National offers various life insurance policies including whole life, universal, and some convertible term; deferred, equity-indexed, and immediate annuities; and commercial, personal, and specialty P/C insurance. It sells about 45% of its policies as percentage of premiums through controlled distribution channels primarily through its employed sales force, followed by tied agents. The remaining premiums are principally sold through independent marketing agents, broker dealers, and employee benefit firms.

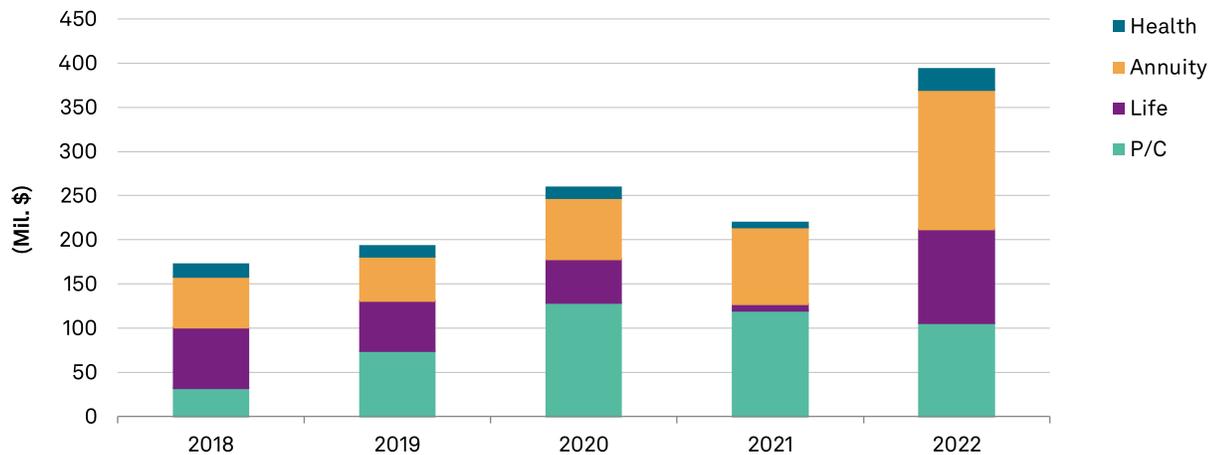
We view American National's competitive positions as satisfactory, driven by its diversified product offerings. In our opinion, American National lacks the reach and scale of higher rated peers; however, it leverages its products and distribution channels to focus on niche markets where it has an established presence. Since its life and annuity lines are uncorrelated with P/C products, the group has been able to maintain consistent profitability (a five-year average return on assets of 1.2%).

In 2022, American National generated record EBIT of \$536 million because its diversified business lines posted relatively strong results (see chart 1). The annuity segment benefited from higher spreads and the life business saw less COVID-19 related excess mortality, which helped earnings to recover to pre-pandemic levels. The company also benefited from positive earnings from its P/C business despite higher catastrophe losses and higher claims costs in personal lines given higher inflation.

In 2022, the P/C segment posted a combined ratio of 101%. (A combined ratio under 100% indicates an underwriting profit.) We anticipate the company will continue to use Brookfield Re's investment capabilities to improve returns across its investment portfolio and increase its competitiveness within its product set. We also expect the P/C combined ratio to be elevated at about 102%-104% assuming normalized catastrophe losses in 2024, before improving to 98%-100% in 2025 on higher inflation. We view life and annuity products as highly correlated, but we believe the nonlife business adds diversification.

Chart 1

American National Group LLC's diversified earnings profile



Note: Based on generally accepted accounting principles pre-tax earnings and excludes corporate. P/C--Property/casualty.
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We think that under Brookfield Re, American National's remaining businesses will remain intact. However, if there is a significant strategic shift that weakens our view of diversification, for example, if certain businesses are divested, the ratings implications could be negative.

Financial Risk Profile

American National's capitalization, per our RBC model, was redundant by more than \$1 billion at the 'AAA' level at year-end 2022. We do not expect extraordinary dividends from the operating entities to Brookfield Re; instead, we expect this excess capital will fund American National's growth. In the next three years, we project annual generally accepted accounting principles (GAAP) net income of about \$400 million to \$600 million and expect the company's capitalization to remain redundant at our 'AAA' level through 2025.

American National has minimal exposure to foreign-currency risk (which is typically hedged), and its ratio of employee benefit obligations to total adjusted capital is about 6.4%. The weighted average credit quality of its investment portfolio is 'A'. The company continues to rotate into higher yielding Brookfield Asset Management (BAM) strategies.

BAM and Oaktree Capital Management currently manage about \$20 billion of American National's investments, a portion of which will be deployed into BAM's proprietary debt strategies like private credit, infrastructure, and real estate. While we anticipate these assets may require higher capital charges in our RBC model, we think the company will continue to maintain 'AAA' capital adequacy through the next two years.

As commercial whole loans (CWL) come into focus after the pandemic, we believe impairments will slightly increase for American National's portfolio, as for the rest of the industry. Its \$6.4 billion CWL portfolio carries an average 60%

loan-to-value (LTV) and weighted average debt service coverage (DSC) of about 1.5x. Its office allocation is about 28% of its CWL portfolio with an LTV of 60% and DSC of 1.7x. While we anticipate higher impairments related to the CWL portfolio, we think they will be manageable given we expect meaningful redundancy at the 'AAA' level and strong organic earnings in the next two years.

We regard the group's aggregate risk exposure as moderately high, reflecting exposures to catastrophe risks and our view that American National's risk controls and risk reporting are slightly less robust than other multiline insurers. Although we currently view P/C catastrophe and underwriting risk controls as sufficient, we believe they are weaker than those of peers.

Historically, uneven profitability across the P/C book shows controls that compare unfavorably with peers. The group continues to use reinsurance and push sizable rate increases to mitigate catastrophe losses and improve underwriting profitability--both of which improve our view of these controls. We view other types of key risk controls as sufficient but not as robust as those of peers.

The company is taking strides to improve the sophistication of its risk tolerances, controls, and reporting under the direction of new key risk personnel, which we view favorably. The company's risk exposures and practices are being considered at the top of the house, as evidenced by some of the Brookfield Re overall enterprise risk metrics. However, we think the enterprise risk management framework of the broader group is still under development. These risks are somewhat mitigated by the company's extremely strong capitalization.

We view American National's funding structure as neutral. Its proven record in the reinsurance market of ceding to higher-rated insurers across all lines of business further supports our view of its ability to access external sources of capital and liquidity.

As of Jan. 1, 2023, American National has adopted the Financial Accounting Standards Board's update to accounting for long-duration contracts (LDTI) with a transition date of May 25, 2022, using a full retrospective approach. Under LDTI, American National's leverage was 28.6% as of year-end 2022. Excluding accumulated other comprehensive income, financial leverage at year-end 2022 was 26.4%. We expect the company to maintain financial leverage below 30% and have EBITDA fixed-charge coverage of above 4x.

Other Key Credit Considerations

Governance

American National has a newly formed board--with two independent directors out of four--that will be responsible for its strategic direction and capitalization decisions, among other things. American National's risk-management culture continues to compare less favorably to other insurers' because its reporting is still less robust. However, it is taking steps to improve its overall enterprise risk management framework. A new chief risk officer was recently appointed, and we will monitor any changes to risk reporting, risk tolerances, or risk-management practices following this change.

Liquidity

We favorably view the company's liquidity, based on its liquidity ratio of about 236%, per our calculations; lack of collateral posting risk; and access to outside credit facilities and funding agreements with the Federal Home Loan Bank

of Dallas. American National has immaterial exposure to confidence-sensitive liabilities and covenant and rating triggers with third parties.

Factors specific to the holding company

The rating on American National Group Inc., the holding company, is a standard three notches below our ratings on the American National operating entities. The holding company depends primarily on dividends from its operating subsidiaries for its cash flow needs.

Group support

We regard operating subsidiary American National Life Insurance Co. of New York as core to American National because it is completely integrated with the American National group and important to its strategy of selling insurance in all 50 states. As a result, we rate this core entity 'A'--in line with the group credit profile.

Environmental, social, and governance

Environmental factors are a moderately negative consideration in our credit rating analysis of American National. Exposure to catastrophe risk, in our view, could be a significant source of capital and earnings volatility. American National uses reinsurance to reduce potential earnings volatility and it has an excellent capital position. Nonetheless, the remaining exposure to catastrophe risk is still meaningful, in our view, which could lead to earnings volatility.

Accounting considerations

In our analysis, we consider both GAAP and statutory statements when examining the capital, earnings, and other financial metrics relative to those of peers. In deriving our year-end 2022 capital model outcome, we remove about \$1 billion of charges associated with longevity risk that would otherwise be applied to American National's single premium deferred annuity book because less than 1% of policyholders in this block annuitize their benefits, preferring to cash out instead.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- 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
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Appendix

American National Insurance--Credit metrics history					
(Mil. \$)	2022	2021	2020	2019	2018
S&P Global Ratings capital adequacy	AAA	AAA	AAA	AAA	AAA
Total invested assets	26,593	28,277	26,724	25,819	24,061
Total shareholder equity	3,422	7,002	6,466	5,996	5,272
Gross premiums earned	3,191	3,034	2,921	2,701	2,786
Net premiums earned	2,433	2,301	2,218	2,183	2,228
Reinsurance utilization (%)	30.3	28.7	28.3	28.1	20.0
EBIT	524	867	586	797	162
EBIT adjusted (excluding investment gains/losses)	570	354	297	345	253
Net income (attributable to all shareholders)	400	700	469	632	160
Return on revenue (%)	14.6	9.1	8.5	9.5	7.4
Return on assets (excluding investment gains/losses) (%)	1.9	1.2	1.0	1.3	1.0
Return on shareholders' equity (reported) (%)	7.67	10.40	7.52	11.21	3.05
EBITDA fixed-charge coverage (x)	17.6	>10	>10	>10	> 10
Financial obligations / EBITDA adjusted	2.5	0.2	0.6	0.6	0.7
Financial leverage including pension deficit as debt (%)	30.7	1.2	3.1	3.6	4.0
Net investment yield (%)	4.0	4.5	3.9	4.5	3.7

Metrics are based on generally accepted accounting principles financials.

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-
Fair	a-	a-/bbb+	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 November 9, 2023)*

American National Group LLC

Issuer Credit Rating

BBB/Stable/--

Senior Unsecured

BBB

Ratings Detail (As Of November 9, 2023)*(cont.)

Related Entities**American National Insurance Co.**

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Financial Enhancement Rating

Local Currency

A/--/--

American National Life Insurance Co. of New York

Financial Strength Rating

Local Currency

A/Stable/--

Issuer Credit Rating

Local Currency

A/Stable/--

Domicile

Delaware

*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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