KBRA Assigns Ratings to the Key Operating Subsidiaries of United Heritage Insurance

NEW YORK (May 14, 2020) – Kroll Bond Rating Agency (KBRA) assigns the following insurance financial strength ratings (IFSR) to the three insurance subsidiaries of United Heritage Financial Group, Inc. (UHFG): A- to United Heritage Life Insurance Company (UHLIC); A- to Sublimity Insurance Company (SIC); and BBB+ to United Heritage Property & Casualty Company (UHPC). The Outlook for all ratings is Stable. UHFG is an intermediate parent holding company owned by United Heritage Mutual Holding Company, an Idaho mutual holding company.

Key Credit Considerations

UHLIC's rating reflects its strong capitalization, favorable operating performance, balanced reserve mix, and low-risk product profile. The company's risk-adjusted capital and surplus-to-liabilities ratios exceed life industry averages. UHLIC has demonstrated steady growth in total adjusted capital supported by consistent operating profitability and a balanced mix of earnings across the company's individual annuity and life insurance product lines. UHLIC has outperformed relative to industry aggregates and outside asset managers with respect to its investment yields and has achieved robust annuity spreads in a low interest rate environment. Additionally, KBRA believes the company maintains a low-risk product portfolio, selling basic products such as whole life, pre-need, final expense, fixed annuities, and group life. Finally, UHLIC has a seasoned, in-force block of life insurance policies—some of which are participating—that will continue to underpin the company's long-term financial strength.

KBRA believes that UHLIC's high portfolio yields are likely to decline due to lower new money rates and the maturing of premium bonds. The company will be challenged to maintain its historically robust annuity spreads without compromising credit quality, mismatching the durations of its assets and liabilities or lowering crediting rates closer to the guaranteed minimums. KBRA views UHLIC's investment approach as somewhat aggressive relative to other life insurers. At March 31, 2020, nearly 70% of its investment grade bond portfolio was in the BBB category with below investment grade bonds approximately 11% of the bond portfolio, which is over 75% of total adjusted capital. Further credit migration is expected as well as increased high-yield bond defaults. Additionally, UHLIC is subject to substantial competition from established insurers with strong franchises and broad distribution relationships. KBRA notes that UHFG's enterprise risk management capabilities are sufficient for its risk profile and continue to evolve to the point where risk is fully integrated into all of the company's decision-making processes.

The ratings for SIC and UHPC reflect the companies' low underwriting leverage, consistent investment income, strong risk-adjusted capitalization, and sound catastrophe reinsurance program. In addition, the insurers benefit from long-standing agency relationships and management teams with deep local market knowledge. Further, KBRA believes UHFG's shared services model provides a distinct expense advantage for SIC and UHPC. UHPC and SIC primarily write personal lines coverage focusing on private passenger auto and homeowners products. SIC has a larger block of auto business, with generally favorable underwriting performance over the past five years. As a result, surplus growth has outpaced net premium growth since 2015.

Balancing these strengths are the companies' geographic risk concentrations and catastrophe exposure. In addition, UHPC's predominant property focus has resulted in more volatile and unfavorable underwriting performance, although net investment income has generally offset underwriting losses. The companies have geographic concentrations in Idaho, Oregon, and Utah, with exposure to severe convective storms, earthquakes, and wildfires. Following the 2018 wildfire season, the companies' shared catastrophe reinsurance program was significantly strengthened to mitigate model error regarding wildfire risk. KBRA believes the current reinsurance protection is prudent, along with several recently employed risk mitigation programs and strategies. Finally, although UHPC may continue to exhibit earnings volatility given its property focus, KBRA expects profit restoration plans to result in improved results.

KBRA has analyzed the impact of recent market volatility on the United Heritage companies and has stress tested the investment portfolios. KBRA believes the impact is manageable due to UHLIC's strong capitalization and the high credit quality of the property/casualty investment portfolios. KBRA continues to monitor the direct and indirect impacts of the coronavirus (COVID-19) on the insurance sector. Please click **here** for more detail on KBRA's research on the continuing impact of COVID-19.

Rating Sensitivities
For UHLIC, a rating upgrade in the near future is not expected. Preservation of strong capitalization, maintenance of favorable earnings trends from multiple product lines, growth in scale and/or market share, and achievement of solid investment performance through a challenging environment could result in positive rating momentum. A negative change in the company's risk profile, notable investment losses, considerable decline in capitalization, unfavorable trends in profitability, shift in business mix to less creditworthy products, or loss of key business partners or distribution sources could result in a negative rating action.

For SIC and UHPC, sustained growth and stability in earnings, favorable capital trends, improved underwriting metrics over an extended period, along with maintenance of sound catastrophe reinsurance could result in positive rating momentum. However, a change in risk profile, reduction in capitalization, material catastrophe losses, unfavorable earnings trends, a significant reduction in premium, and/or departure of key members of the management team could result in a negative rating action for the property/casualty companies.

Full rating reports will follow.

ESG Considerations
KBRA's ratings incorporate all material credit factors including those that relate to Environmental, Social and Governance (ESG) factors. Throughout our analysis, KBRA captures the impact of ESG factors in the same manner as all other credit-relevant factors. More information on ESG considerations for the insurance sector can be found **here**.

SIC and UHPC provide personal auto and homeowners insurance in several Northwestern states that are exposed to natural catastrophes, which KBRA considers an environmental consideration. Although the frequency and severity of these exposures have been manageable, an extreme tail event for earthquakes (SIC) or wildfires (SIC and UHPC) could have detrimental financial consequences for the companies.

To access ratings and relevant documents, click **here**.

Related Publications

- **Global Insurer & Insurance Holding Company Rating Methodology**
- **Quarterly (Re)Insurance Highlights: COVID-19 Challenges and Rating Implications**
- **Are Two (IFSR) Ratings Better Than One? You Decide**

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Disclosures
A description of all substantially material sources that were used to prepare the credit rating and information on the methodology(ies) (inclusive of any material models and sensitivity analyses of the relevant key rating assumptions, as applicable) used in determining the credit rating is available in the U.S. Information Disclosure Form located **here**.

Information on the meaning of each rating category can be located **here**.

Further disclosures relating to this rating action are available in the U.S. Information Disclosure Form referenced above. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at **www.kbra.com**.

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