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Ratings

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Delaware Life Insurance Co.

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Table Of Contents

Delaware Life Insurance Co.

SACP* Assessments					SACP*		Support		Ratings
Anchor	a-	Modifiers		-1	bbb+		0		Financial Strength Rating
Business Risk		ERM and Management		-1	Liquidity	0	Group Support	0	BBB+/Stable/--
Satisfactory									
Financial Risk		Holistic Analysis		0	Sovereign Risk	0	Gov't Support	0	
Strong									

*Stand-alone credit profile.
See Ratings Detail for a complete list of rated entities and ratings covered by this report.

Rationale

Business Risk Profile: Satisfactory

- Low industry and country risk
- Adequate competitive position with focus on U.S. annuities
- Sale of products through various noncontrolled distribution channels

Financial Risk Profile: Strong

- Very strong capital and earnings expected to be maintained
- Moderate risk position due to significant variable annuity book
- Improved net income generation expected in 2017 and 2018
- Adequate financial flexibility

Other Factors

- Adequate enterprise risk management (ERM)
- Fair management and governance
- Group credit profile lowered by one notch to reflect high ERM importance due to lack of product diversification

Outlook: Stable

The stable outlook reflects S&P Global Ratings' expectation that Delaware Life will maintain very strong capital and earnings and adequate ERM. We expect the company to generate statutory net income of $325 million-$375 million in 2017 and 2018; continue to demonstrate that it has not taken any undue credit or asset-liability management (ALM) risk with its investment portfolio; and maintain liquidity that supports the ratings.

Downside scenario

We could lower the ratings if, contrary to our expectations:

- Capital adequacy falls significantly below our 'AA' confidence levels as measured by our model;
- We revise our view of the company's risk position to high risk due to a material increase in high-risk assets (for example, high-risk assets become substantially greater than 100% of total adjusted capital [TAC]) and sector concentrations exceed 30% or single-name exposures exceed 5%; or
- Delaware Life's competitive position declines with a significant deterioration of operating earnings and brand relative to our expectations.

Upside scenario

Although unlikely during the next 18-24 months, we could raise the ratings if:

- We were to take a more favorable view of the firm's ERM or management and governance through Delaware Life's continued demonstration of execution and transparency;
- The company's strong earnings remain on a favorable trajectory, and its competitive position continues to improve.

Base-Case Scenario

Macroeconomic Assumptions

- Real GDP growth of 2.3% in 2017 and 2.4% in 2018
- Average 10-year Treasury note yield of 2.5% in 2017 and 3% in 2018
- 'AAA' corporate bond yield of 3.4% in 2017 and 4.2% in 2018
- S&P 500 Index level of 2,361 in 2017 and 2,396 in 2018

Company-Specific Assumptions

- Continued increasing sales of new products and diversifying distribution base
- Sustainable capital adequacy at or near the 'AA' confidence level and an adequate ERM score
- Statutory net income of $325 million-$375 million in 2017 and 2018.

Key Metrics

(Mil. $)	--Year ended Dec. 31-- 2018*	2017*	2016	2015	2014
Net income	325-375	325-375	331.3	364.6	353.3
Financial leverage (%)	<35.0	<35.0	32.7	32.8	40.0
S&P capital adequacy/redundancy	AA	A	A	AA	A

*Forecast data reflect S&P Global's base-case assumptions.

Company Description

Delaware Life Insurance Co. and Delaware Life Insurance Co. of New York (collectively, Delaware Life) are the two U.S. operating subsidiaries of Delaware Life Holding LLC, a holding company we do not rate. We view both of these operating companies as core subsidiaries under our group methodology criteria. Delaware Life is owned by an investor group that is associated with Guggenheim Partners LLC. Delaware Life derived the bulk of its business base from the acquisition of Sun Life Financial Inc.'s U.S. annuities and life business in August 2013. At the time of acquisition, the Sun Life business was a closed block. The purchase price was $1.35 billion, plus an adjustment to reflect the performance of the business through closing. We consider Delaware Life to be a midsize life insurer in the U.S. The company's in-force liability profile consists primarily of variable annuities ($14.3 billion), fixed annuities ($9.8 billion), and life insurance ($8.4 billion), constituting mostly corporate-owned and bank-owned life insurance (COLI/BOLI). Delaware Life continues to implement its controlled growth strategy, reestablishing its new business production selling products through independent distribution channels and through financial institutions.

We believe Delaware Life will face a number of challenges as it continues to grow its sales and distribution network, given the headwinds created by the volatile interest rate environment and the uncertainty around the Department of Labor's new rules. The company launched multiyear guaranteed annuities and equity-indexed annuities in 2013 and 2015, respectively. Its sale of multiyear guaranteed fixed annuities was $1 billion in 2016 and $1.1 billion in 2015. Equity-indexed annuity sales were $714 million in 2016 as the company was just starting to ramp up its sales production late in 2015. In fourth-quarter 2016 Delaware Life launched a new equity-indexed annuity product (its third). For 2017 the company is developing new fixed and equity-indexed annuity products, a new single-premium indexed life insurance product, and (initially with a partner) a new variable annuity product.

Delaware Life has been outsourcing its back office and administrative functions to Se2, a Guggenheim Investment-related company that provides back-office and professional services to a number of other Guggenheim Investment-related and third-party life insurance companies.

Business Risk Profile: Satisfactory

The satisfactory business risk profile reflects low industry and country risk and the company's market position in the U.S. annuities marketplace. In the near term, Delaware Life's earnings will be largely fueled by its in-force book of fixed and variable annuities and COLI/BOLI until new business production becomes more significant, resulting in greater diversification.

Insurance industry and country risk

We believe Delaware Life faces low industry and country risk based on our low risk assessment for the U.S. life insurance sector. Our view of the company's low country risk stems from the stable economic growth prospects, effective and stable political institutions, sophisticated financial system, and strong payment culture in the U.S. In our view, Delaware Life's insurance operations are exposed to low industry risks due in part to the company's moderate product risk as demonstrated by a track record of maintaining minimal ALM mismatch. The broad availability of fixed-income instruments of appropriate duration to match insurance liabilities in the capital markets greatly supports this capability. We believe that an expected gradually improving economy is a positive for the industry, but not a game-changer.

Table 1

Industry And Country Risk

Insurance sector	IICRA	Business mix (%)
U.S. life	Low risk	100

IICRA--Insurance industry and country risk assessment.

Competitive position: Adequate

In our opinion, Delaware Life's geographic diversification is positive, given its national presence. We view its other diversification as negative because of its limited premium volume businesses outside of fixed annuities. Under its new ownership, Delaware Life has been gradually reestablishing its new lines of business.

Table 2

Delaware Life Combined Competitive Position

	--Year ended Dec. 31--				
(Mil. $)	2016	2015	2014	2013	2012
Gross premiums and annuity considerations	1,928.0	1,413.2	1,951.3	401.6	634.6
Change in gross premiums and annuity considerations (%)	36.4	(27.6)	385.8	(36.7)	1,951.3
Net premiums and annuity considerations	1,834.3	1,348.4	1,766.8	1,550.7	561.0
Change in net premiums and annuity considerations (%)	36.0	(23.7)	13.9	176.4	(84.5)
Total assets under management	39,868.8	39,206.1	43,234.4	42,073.8	45,687.5
Growth in total assets under management (%)	1.7	(9.3)	2.8	(7.9)	(1.8)

A weakness to the overall competitive position is the concentration of product lines and a distribution network that is still in its start-up phase with the exception of the multiyear guarantee annuities product. We expect Delaware Life to pursue a growth strategy, expand in several markets, and diversify its distribution partners. We also expect to see operating efficiencies as some functions are contracted out to Se2. We could revise the competitive position to strong if the company demonstrates sustained growth in its franchise position and superior operating performance.

Financial Risk Profile: Strong

Capital and earnings: Very strong

In 2016 Delaware Life produced statutory net income of $331 million, down from $365 million in 2015. The decline was driven by a $60 million reserve increase, resulting from revised policyholder behavior assumptions on the company's variable annuity business, partially offset by improved earnings in its fixed-annuity business. Delaware Life also increased its interest-rate hedge to 100% from 40% in fourth-quarter 2016, which although constraining 2016 earnings because of rising interest rates at that time, we expect to reduce future earnings volatility. In 2017 and 2018 we expect the company to produce statutory net income of $325 million-$375 million based on continued growth in recently and newly introduced products.

Table 3

Delaware Life Combined Capitalization Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total assets	39,868.8	39,206.1	43,234.4	42,073.8	45,687.5
Adjusted total assets	39,865.3	39,178.3	43,216.5	42,033.1	45,647.7
Capital and surplus	1,635.9	1,635.9	1,591.5	1,410.4	1,235.9
Change in capital and surplus (%)	0.0	2.8	12.8	14.1	(6.0)
Total adjusted capital (TAC)	1,756.0	1,789.1	1,753.4	1,480.5	1,301.6
Change in TAC (%)	(1.8)	2.0	18.4	13.7	(14.5)

Table 4

Delaware Life Combined Earnings Statistics					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total revenue	2,319.6	2,467.6	2,656.3	2,054.0	1,373.6
EBIT adjusted	277.7	341.5	384.8	550.9	55.1
Net income	331.3	364.6	353.3	699.8	(363.1)
Return on revenue (%)	12.0	13.8	14.5	26.8	4.0
Return on revenue (including realized gains/losses) (%)	14.6	16.1	15.1	30.5	(41.6)
Return on assets (excluding realized gains/losses) (%)	0.7	0.8	0.9	1.3	0.0
Return on capital and surplus (%)	20.3	22.6	23.5	52.9	(25.4)
Expense ratio (%)	19.7	27.4	19.0	19.7	55.4
General expense ratio (%)	13.1	18.3	13.1	14.1	32.7

As of year-end 2016 we estimate that Delaware Life had a capital adequacy position slightly below the 'AA' confidence level capital as measured by our model, which we consider very strong. Required capital increased significantly in 2016 from 2015 due to the increased reserves in the variable annuity business. In our opinion, the company has demonstrated that it has not taken any undue ALM risk with its investment portfolio.

We have deducted $302 million of the $565 million in surplus notes from Delaware Life's total capital and surplus of $1.7 billion, because a portion of these hybrids exceeds our 15% limit for surplus notes. The maturity dates for these surplus notes are $407.5 million in 2027 and $157.5 million in 2032. The notes are grandfathered under our hybrid capital rules because they were issued prior to 2007. Accordingly, we continue to accept them as intermediate equity capital instruments until within 10 years of their maturity dates, at which point we amortize them out of our hybrid treatment calculation over the next five years on a straight-line basis. The greater-of rule will apply to the 15% limit for surplus notes or the 20% per year amortization once the surplus notes are within 10 years of maturity.

Delaware Life has a captive reinsurer, Delaware Life Reinsurance (Barbados) Corp., which holds intercompany risk on COLI/BOLI policies. In our capital analysis, we consolidated the capital adequacy position of Delaware Life Reinsurance (Barbados) into Delaware Life and found the impact to be immaterial.

Risk position: Moderate

Delaware Life has a different asset allocation strategy from its traditional life insurance peers because Guggenheim Investments is involved as an investment manager.

The company's portfolio repositioning efforts, which began following the August 2013 acquisition, are largely complete. The average credit quality of the fixed-income portfolio is 'A-'. Approximately 5% of the fixed-income portfolio was noninvestment-grade as of year-end 2016, consistent with the prior year. In 2016 Delaware Life increased its allocation to investment-grade corporate bonds to nearly 50% of total cash and invested assets from 40% in 2015, while reducing its allocation of structured credit investments to 18% from 22% and its allocation of commercial mortgage loans to 5.5% from 7%.

Table 5

Delaware Life Combined Risk Position					
	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Total invested assets (incl. affiliated investments)	11,747.5	10,636.7	11,522.0	9,257.2	11,180.5
Change in total invested assets (%)	10.3	(7.7)	24.5	(17.2)	(9.9)
Separate account assets	26,518.1	26,740.0	31,060.7	32,409.0	34,013.4
Net investment income	216.5	423.8	92.2	(269.5)	60.1
Realized capital gains/(losses)	71.9	66.3	20.6	108.4	(442.2)
Unrealized gains/(losses)	(102.3)	(92.3)	169.9	70.8	529.3
Net investment yield (%)	1.9	3.8	0.9	(2.6)	0.5
Net investment yield including realized capital gains/(losses) (%)	2.6	4.3	1.1	(1.6)	(3.2)
Net investment yield including all gains/(losses) (%)	1.7	3.5	2.7	(0.9)	1.2
Portfolio composition (% of general account invested assets)					
Cash and short-term investments	9.3	14.4	24.0	16.8	3.2
Bonds	67.3	62.6	53.5	62.7	77.0
Unaffiliated equity investments	0.8	1.0	0.3	0.0	0.0
Real estate	0.0	0.0	0.1	1.1	1.7
Mortgages	3.4	4.6	5.9	8.6	8.2
Investments in affiliates	3.8	4.1	3.8	4.3	3.8
Investments in partnerships, joint ventures, and other alternative investments	0.4	0.4	0.3	0.1	0.1
Other investments	15.0	12.9	12.1	6.4	6.0

Although the asset allocation has changed, the company has been careful to maintain tight ALM matching, which is validated by cash-flow testing at least quarterly. Floating-rate securities now account for about 22% of the company's bond portfolio, reducing the portfolio's interest-rate sensitivity.

The risk position score also reflects additional capital and earnings volatility derived from the variable annuities (about 44% of total statutory reserves).

Financial flexibility: Adequate

Delaware Life has surplus notes outstanding of $565 million due in 2027 and in 2032, of which $302 million is deducted from TAC because it is above our 15% threshold for surplus notes. Given their maturity dates, these surplus notes begin amortizing out of TAC when they are within 10 years of their maturity date (see "Hybrid Capital Handbook: September 2008 Edition," published Sept. 15, 2008, on RatingsDirect).

Table 6

Delaware Life Combined Financial Flexibility

	--Year ended Dec. 31--				
(Mil. $)	**2016**	**2015**	**2014**	**2013**	**2012**
Financial leverage (%)	32.7	32.9	40.0	38.3	47.5
Cash Flows					
Net cash flow from operating activities	1,528.3	880.5	891.4	(811.3)	(38.0)
Net cash flow from investing activities	(1,886.9)	(1,631.6)	412.5	3,053.3	(235.2)
Net cash from from financing activities	(100.7)	(526.4)	13.7	(1,050.6)	(138.0)

A Guggenheim Investment-led investor group's acquisition has benefited Delaware Life's financial flexibility through access to a pool of high-net-worth, knowledgeable private investors. The company had statutory financial leverage of 32.7% and statutory EBIT fixed charge coverage of 6.2x as of year-end 2016.

Other Assessments

Enterprise risk management: Adequate

Delaware Life identifies all its main risks and groups them into categories. Risk-management functions are embedded throughout each business segment and controlled at the board level, which consists of key participants from both Delaware Life and Guggenheim Partners.

Management and governance: Fair

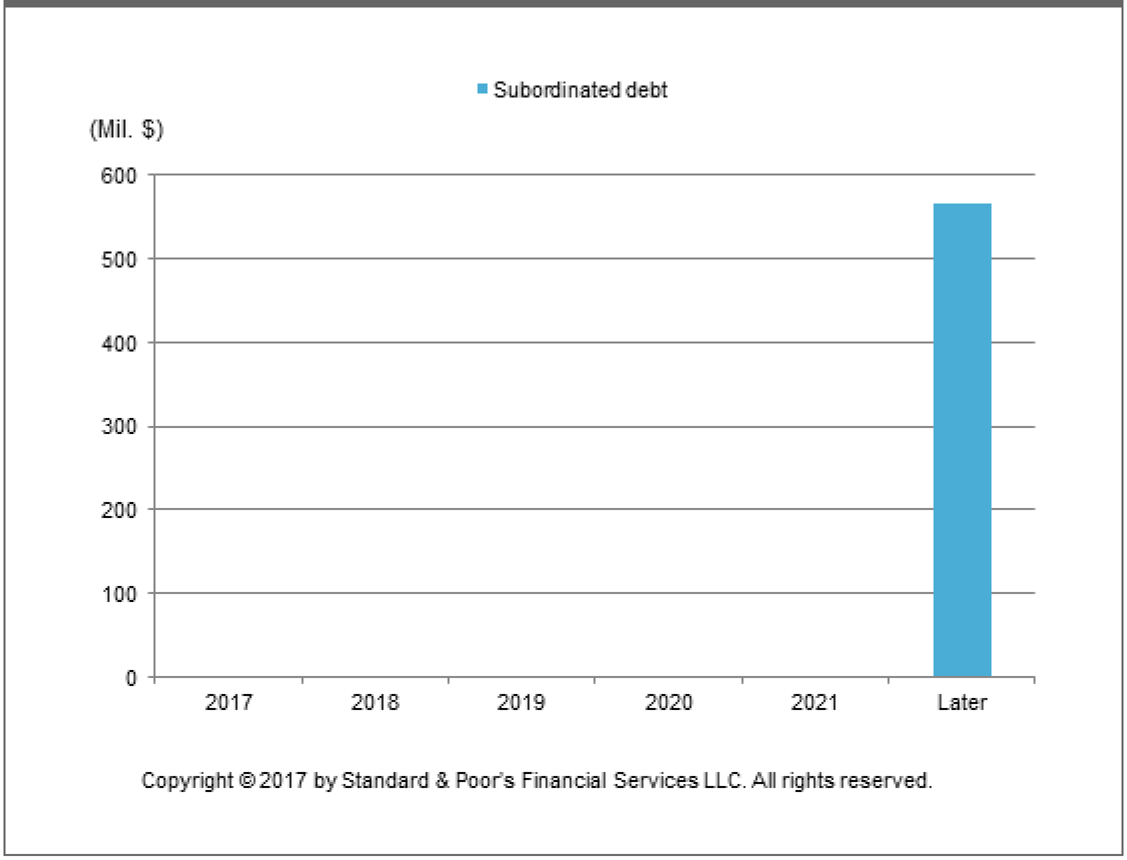
We could revise our assessment to satisfactory if management can effectively execute its business strategy and operating model changes, and establish a favorable and sustainable track record. Specifically, the company has set ambitious but reasonable operating performance goals for 2017 and 2018 and we could revise our assessment based on its meeting those goals. We believe management continues to execute well on its strategic plans, achieving its key financial and operational goals. It also benefits from a good base of seasoned professionals, given the company's association with Guggenheim Investment Management.

Liquidity: Exceptional

Delaware Life does not have any confidence-sensitive liabilities and had about $5.9 billion in cash and government and investment-grade corporate bonds as of year-end 2015. In addition, Delaware Life has a collateralized borrowing facility with the Federal Home Loan Bank of Indianapolis and a senior secured revolving credit facility for $350 million with Societe Generale.

The company's liquidity ratio was 233% in 2015, down slightly from 242% in 2014. The decrease is due to the slight drop in liquid assets.

Delaware Life Combined Debt Maturity Profile



Accounting Considerations

Delaware Life reports its financial results on a U.S. statutory accounting basis. In our analysis, we use the statutory statements to assess the company's capital adequacy position. When assessing the statutory earnings, we adjust for gains/(losses) in statutory net income to offset unrealized capital gains/(losses) from hedges put in place for annuity products.

Related Criteria And Research

- Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies , Aug. 29, 2014
- Group Rating Methodology, Nov. 19, 2013
- Insurers: Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies , May 31, 2012
- Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Hybrid Capital Handbook: September 2008 Edition, Sept. 15, 2008
- Life: Liquidity Model For U.S. And Canadian Life Insurers, April 22, 2004

Ratings Detail (As Of May 19, 2017)	
Operating Companies Covered By This Report	
Delaware Life Insurance Co.	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Counterparty Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
Subordinated	BBB
Delaware Life Insurance Co. of New York	
Financial Strength Rating	
Local Currency	BBB+/Stable/--
Issuer Credit Rating	BBB+/Stable/--
Senior Unsecured	BBB+
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.