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## Summary:

# UNIFI Insurance Group

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## Summary:

# UNIFI Insurance Group

Local Currency

**Credit Rating:** A+/Stable/--

## Rationale

The insurer financial strength ratings on the UNIFI Insurance Group (Ameritas Life Insurance Corp., Acacia Life Insurance Co., Union Central Life Insurance Co., and First Ameritas Life Insurance Corp. of New York) are based on the group's extremely strong capitalization, strong competitive position, strong earning levels, and very strong liquidity. Sales have been declining since 2008 largely as a result of the general economic downturn, and UNIFI's year-end 2010 total insurance division's sales (on a weighted basis) remain 15% below 2007 peak levels.

UNIFI's earnings from its insurance/annuity operations, which had been strong historically, were hurt significantly in 2008--even after excluding the effects of realized investment losses during the year. The group's 2008 pretax GAAP earnings, excluding realized losses, declined 31%, primarily as a result of equity market declines, lower persistency, and required reserve increases for guaranteed benefits. However, the recent economic improvement is reflected in UNIFI's current performance: Earnings rebounded 15% in 2010 and 27% in 2009, returning to pre-2008 levels. However, the earnings stream is now more concentrated. The individual division accounted for nearly 80% of the group's operating earnings in 2010, up from approximately 60% in 2007. This is largely due to the decline in the group division's earnings, which decreased as a percentage of total operating earnings to 18% in 2010 from 30% in 2007.

UCL has benefited from UNIFI's superior capital strength. However, UCL's strong sales growth and the investment losses related to its residential mortgage-backed securities (RMBS) investments strained its standalone statutory capitalization. The company's investment portfolio was concentrated in nonagency RMBS and was riskier than that of the entire group. In 2008 and 2009, UNIFI took approximately \$380 million of impairment charges (on a GAAP basis) primarily related to UCL's RMBS investments and a comparable statutory charge during those two years. However, impairment charges on its RMBS investments totaled only approximately \$17 million as of year-end 2010. Standard & Poor's Ratings Services does not expect significant additional losses stemming from UNIFI's RMBS holdings.

## Outlook

The stable outlook reflects our expectation that UNIFI will maintain its strong competitive position, enabling it to continue generating strong earnings and to maintain very strong capitalization for at least the next 12 months to 24 months. Standard & Poor's could lower its ratings on UNIFI if individual or group sales performance does not meet overall market trends, or if there is erosion in market share within the individual or group product segment relative to the industry during the next 12 months to 24 months.

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