S&P Global Ratings

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Research Update:

New York Life Insurance Co. 'AA+' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

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Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- We affirmed our long-term 'AA+' financial strength and issuer credit ratings on New York Life.
- Following the implementation of our revised capital model criteria, we continue to assess New York Life's capital and earnings as excellent.
- The stable outlook reflects our expectation that the company will maintain its excellent business and financial risk positions.

Rating Action

On June 3, 2024, S&P Global Ratings affirmed its 'AA+' long-term financial strength and issuer credit ratings on New York Life Insurance Co. (NYL) and its core operating entities. The outlook remains stable.

Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any rating changes for NYL, because its capital and earnings assessment is unchanged at the 99.99% confidence level.
- The benefits of an increase in total adjusted capital due to the addition of value of in-force (subject to a haircut) and risk diversification, which we now capture more explicitly in our analysis, support capital adequacy.
- However, the recalibration of our capital charges to higher confidence levels offsets these improvements.

Credit Highlights

Overview

Key strengths	Key risks
Appropriate leverage and a long history of excellent capital and earnings.	Over the long-term, growth in relatively higher-risk products based on customer demand, though offset by a foundation of participating whole life policies.
Consistent strategic focus on whole life policyholders, resulting in a stable and highly persistent block of profitable in-force business.	Uncertain macroeconomic conditions.
Top market positions in the U.S. individual life insurance industry, propelled by a successful, controlled distribution model.	

Outlook

The stable outlook reflects our expectations that NYL will maintain its excellent business and financial risk positions.

Downside scenario

We could lower the ratings in the next two years if:

- NYL's capital adequacy deteriorates below the 99.99% confidence level and we believe it will not recover within one to two years;
- The company's risk exposure worsens materially through product mix changes or significant investment portfolio changes; or
- We lower the rating on the U.S. sovereign.

Upside scenario

We are unlikely to raise the ratings given NYL's U.S.-focused operations and our current view of the credit quality of the U.S. sovereign, which constrains the rating.

Rationale

NYL has a consistent top-tier market position in the highly competitive U.S. retail life business, as well as a top market position in direct insurance sales and guaranteed lifetime income. NYL has been successful in selling whole life insurance to the U.S. middle market largely because of its 12,000 career agents.

Its "cultural market" focus allows it to expand into markets that many other life insurance companies tend to ignore. This positions the company well to deal with changing demographics in the U.S. Its cultural market agents, accounting for about half of NYL's proactive agents, sold a significant proportion of the agency channel's life insurance and retail annuities.

NYL focuses on participating whole life insurance (about 32% of general account reserves in 2023), complemented by other life and annuity lines, including retail and institutional annuities designed to be low risk, as well as asset-management services. Participating whole life insurance as a percentage of total reserves has been consistent over the last five years, and we continue to view this liability profile as supportive of the ratings.

We do not expect material changes to the liability profile. However, if the company gradually shifts its product portfolio to more annuities or spread-based business over time, where participating whole life products become less meaningful to the overall liability profile, we could view this as a negative rating factor.

NYL's newest strategic business, the group benefits solutions segment, has maintained its top market positions. It ranked as the No. 7 group life writer (by premiums) and the No. 5 group disability insurer in the U.S. as of year-end 2023. In our view, this business complements NYL's existing products, is less sensitive to interest rates, and is lower risk than longer-duration products since the company has the ability to reprice the business every three to five years when contracts renew.

The segment's operating performance improved from a statutory net loss in 2022 to statutory net income of $202 million in 2023 as life and disability ratios improved because excess mortality related to COVID-19 continued to subside and because of disability claims management actions. We anticipate that the business will be accretive to the group's capital and earnings over the long term, which ultimately benefits NYL's policyholders.

NYL's operating performance continues to support the ratings. In 2023, the company posted statutory pretax earnings of $1.4 billion, resulting in its highest level of capital and surplus of $25.3 billion and record dividend of $2.2 billion. Based on management's view of earnings, where adjustments are made to statutory earnings (mainly policyholder dividends supported by capital gains and deferred acquisition costs), the company posted record earnings of $3.1 billion. Organic growth and higher investment income due to higher rates supported earnings. We anticipate statutory earnings to remain sound in the next two years.

NYL's distribution has been a key differentiator, and it's the only large mutual that employs a managerial agency system. Through this system, the insurance company covers the distribution's expenses and reports relatively higher general expense ratios and lower commission expenses. On a total expense ratio basis, NYL posted an expense ratio of 11.7%, compared with the peer average of about 13.6%, demonstrating its disciplined focus on expense management on both general and total expense metrics.

In our view, NYL's formal process for strategic capital allocation is more sophisticated relative to what most mutual companies do, which we believe supports NYL's risk position. The company applies its risk-adjusted surplus view consistently across the enterprise when making decisions. This creates value for policyholders with strategic alignment and optimal capital allocation between its businesses to accomplish its corporate mission.

NYL's investment portfolio has performed well since the start of the pandemic, with minimal credit losses, credit migration, and impairments. As commercial mortgage loans (CML) come into focus after the pandemic, we expect that credit losses will slightly increase for the portfolio in the next two years, like in the rest of the industry. But they should be manageable for NYL given the strong credit metrics on its CML portfolio, such as the low loan-to-value ratio of 57% and a healthy debt service coverage ratio at year-end 2023.

NYL's CML portfolio was $38.8 billion at year-end 2023, of which 20% represented office. The CML portfolio is mainly focused on multifamily and industrial lending. The allocations to pressured sectors such as office and retail have been declining historically.

NYL also has a high-quality investment portfolio, with average credit quality near 'A-'. We have a favorable view of NYL's risk controls, which will enable it to remain within its risk appetite tolerance if detrimental market movements occur. In our view, NYL is unlikely to experience losses outside the tolerances defined in its risk appetite statement given its formally developed framework around credit, insurance, and interest rate risks.

NYL's mutual status and stable earnings lead us to factor a favorable one-notch adjustment into the rating. Many other mutual companies have long since deemphasized whole life sales, which we think have the most favorable risk profile of traditional individual life products because of their profit-sharing characteristics (whereby policyholders' dividends can be reduced if losses occur) and historically low lapse rates. We consider NYL's success in selling whole life insurance and its continuing focus on whole life policyholders to be a key credit strength. This has also served NYL well in terms of producing predictable and stable earnings.

NYL's funding structure remains neutral to the rating, with financial leverage of 23% at year-end 2023, mostly comprising surplus notes ($4.25 billion outstanding). We give these surplus notes intermediate equity credit until 10 years before the maturity date since the notes were issued by New York Life Insurance Co., a prudentially regulated legal entity (regulated by the New York State Department of Financial Services). The first of these notes matures in 2033, and are no longer eligible for intermediate equity content credit 2023 onward.

Despite the exclusion of the instrument from our view of capital, the company continues to demonstrate capital redundancy at the 99.99% confidence level, per our risk-based capital model.

NYL's fixed-charge coverage of 7.1x is in line with expectations. We expect NYL will maintain financial leverage of 25%-30% and fixed-charge coverage above 4x through the next two years.

We believe NYL's liquidity is exceptional. The company's exposure to other liquidity events, such as ratings triggers and collateral posting requirements, is immaterial relative to its ability to cover these needs.

Ratings Score Snapshot

Financial strength rating	AA+/Stable/--
Anchor	aa+
Business risk	Excellent
IICRA	Low
Competitive position	Excellent
Financial risk	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral

Liquidity	Exceptional
Comparable ratings analysis	1
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings List

Ratings Affirmed	
New York Life Insurance Co.	
Issuer Credit Rating	
Local Currency	AA+/Stable/A-1+
New York Life Insurance Co.	
New York Life Insurance & Annuity Corp.	
Financial Strength Rating	
Local Currency	AA+/Stable/--
New York Life Insurance & Annuity Corp.	
Issuer Credit Rating	
Local Currency	AA+/Stable/--
New York Life Insurance Co.	
Subordinated	AA-
New York Life Capital Corp.	
Commercial Paper	A-1+
New York Life Funding	
Senior Secured	AA+

Ratings Affirmed	
New York Life Global Funding	
Senior Secured	AA+
New York Life Short Term Funding Llc	
Commercial Paper	A-1+

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.