
Fitch approves of Hartford's decision to run-off annuities

By Editor Test *Wed, Mar 28, 2012*

"Over the long term, management's decision to exit more volatile businesses such as variable annuities and individual life should help de-risk the company," said Fitch in a release.

After a review of Hartford's plan to focus on its property/casualty (P/C) commercial and consumer markets, group benefits, and mutual funds businesses, Fitch Ratings affirmed the credit ratings of Hartford Financial Services Group.

Hartford's plan calls for the individual annuity business to be placed into run-off, and for HFSG to pursue divestiture options for its individual life, Woodbury Financial Services, and retirement plans businesses. Following the announcement, Fitch affirmed all ratings for HFSG and its primary life and P/C subsidiaries.

"The affirmation reflects our view that HFSG will continue to support its insurance subsidiaries and maintain insurance company capitalization that is consistent with the current ratings, with HFSG not expected to sell any insurance operating companies as part of any divestiture of businesses. While the plan creates execution risk and has the potential to affect HFSG's business position and the franchise value of its ongoing businesses, Fitch considers these risks to be manageable," Fitch said in a release.

The release continued:

"We expect a portion of cash proceeds from any future sale of the noncore businesses to be directed toward debt reduction, thereby contributing to a delevering of the balance sheet and an improvement in the weak interest coverage ratios at the holding company. "Hartford's liquidity position is solid, with approximately \$1.6 billion in holding company cash, fixed maturities, and short-term investments at Dec. 31, 2011, providing the necessary flexibility to allow cash to go toward debt reduction.

"We believe management's target of a 12%-13% return on equity in continuing lines of business may be difficult to achieve in the short term due to the highly competitive P/C underwriting environment and weak investment yield outlook. However, in the long term, higher returns may be attainable as the company's strategic focus is sharpened, and if market and economic conditions improve.

"Over the long term, management's decision to exit more volatile businesses such as variable annuities and individual life should help de-risk the company as it becomes less vulnerable to swings in investment performance. Still, market risk will need to be managed carefully to maximize the sales price of businesses that no longer fit with the company's new strategic focus.

"Execution risk relates primarily to the need to find the right buyer for the non-essential units and in disposing them at a reasonable price given weak market conditions. The longer the company requires to sell the individual life and retirement plan businesses, the greater the risk that prospective buyers will gain the upper hand in negotiations and view it as a distressed sale.

“Until the exited businesses are sold or run off, the risk remains that management time and resources will be diverted away from higher return core operations.”

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