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Potential Hartford split raises uncertainties: Fitch Ratings

By Editor Test *Tue, Feb 21, 2012*

Some Hartford investors have reportedly voiced "strong opinions" regarding profitability at the insurer and are pushing to restructure its life and property/casualty units into two separate companies.

Recent public discussions surrounding a possible split of the Hartford Financial Services Group, Inc. into separate life and property/casualty (p/c) companies has raised questions regarding the potential rating implications of such a breakup, Fitch Ratings said in release.

“While we do not speculate on the likelihood of a split occurring, Fitch would review any announced transaction for its impact on the credit quality and financial strength of the resulting company structure,” the release said.

Fitch currently maintains separate insurer financial strength (IFS) ratings on HFSG’s stand-alone life and p/c companies. HFSG’s life insurance subsidiaries maintain ‘A-‘ IFS ratings, which are two notches below the p/c IFS ratings of ‘A+’. (This approach was implemented in February 2009 during the financial crisis to reflect the divergence in operating performance and balance sheet strength between the life and p/c operations.)

Some investors have reportedly voiced strong opinions regarding profitability and are pushing for a split.

“Our analysis would particularly focus on any new entities’ debt service capabilities and financial flexibility, as cash to service debt is dependent on dividends from the operating company subsidiaries. In recent years, dividend capacity has only been provided by the p/c operations, as the life companies’ earnings have been challenged by lower margins and increased hedging costs in its competitive annuity and life insurance businesses,” Fitch said.

Any analysis of a proposed split would consider the allocation of holding company debt between the life and p/c companies and the capitalization and leverage metrics of the individual stand-alone entities.

In addition, the p/c companies served as a source of capital to the life operations during the financial crisis. The p/c companies continue to have the ability to provide such support. This could serve as a particularly valuable source of financial flexibility should the life operations require an additional capital boost.