

# BEST'S RATING REPORT



## PACIFIC GUARDIAN LIFE

### **PACIFIC GUARDIAN LIFE INSURANCE COMPANY, LIMITED**

**Domiciliary Address:** 1440 Kapiolani Blvd., Suite 1700, Honolulu, Hawaii, 96814 United States

**AMB #:** 006883

**NAIC #:** 64343

**FEIN #:** 99-0108050

**Phone:** +1-808-955-2236

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**Best's Credit Rating Effective Date**

November 04, 2021

**Analytical Contacts**

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**Information**

[Best's Credit Rating Methodology](#)

[Guide to Best's Credit Ratings](#)

[Market Segment Outlooks](#)

**Financial Data Presented**

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: [Best's Financial Report](#).

# Pacific Guardian Life Insurance Company, Limited

**AMB #:** 006883 | **NAIC #:** 64343 | **FEIN #:** 99-0108050

**Ultimate Parent:** AMB # 085358 - Meiji Yasuda Life Insurance Company

**Best's Credit Ratings**

**Financial Strength Rating (FSR)**

<b>A</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

**Issuer Credit Rating (ICR)**

<b>a</b>
<b>Excellent</b>
Outlook: <b>Stable</b>
Action: <b>Affirmed</b>

**Assessment Descriptors**

Balance Sheet Strength	<b>Strongest</b>
Operating Performance	<b>Adequate</b>
Business Profile	<b>Limited</b>
Enterprise Risk Management	<b>Appropriate</b>

## Rating Rationale

### Balance Sheet Strength: **Strongest**

- Risk-adjusted capitalization continues to be assessed as being at the strongest level with a Best's Capital Adequacy Ratio (BCAR) of 64.8% at the 99.6% confidence level.
- Liquidity is viewed as good based on the high credit quality of its fixed-income portfolio and an available line of credit.
- The investment portfolio maintains a high allocation to commercial mortgage loans, which are somewhat concentrated in Hawaii and the Pacific Northwest and are viewed as less liquid investments. However, the portfolio has a very low delinquency rate.
- Assets and liabilities mismatch has been addressed and the gap is now manageable. Additionally, the company's liabilities predominantly are not interest sensitive.

### Operating Performance: **Adequate**

- Premium revenue has been pressured over the past two years from the economic impact of COVID-19 in the company's primary market in Hawaii. This is seen especially for revenues from the temporary statutory disability line of business, which is driven by group employee counts. Premiums are expected to grow with improved employment in Hawaii as well as expanded distribution, new product offering and geographic expansion.
- Operating results have been suppressed by both the decline in premiums and COVID-19 claims experience. However losses have been relatively small and within the company's expectations. It is expected that results will slowly return to profitability over the next year.
- Investment income remains strong with a low level of volatility despite a higher-than-industry allocation to commercial mortgage loans.

### Business Profile: **Limited**

- The business profile is viewed as limited due to niche market focus and the concentration of premiums sourced in Hawaii.
- The company is a market leader in Hawaii's temporary disability income (TDI) market, whose premiums have been unfavorably affected by the economic impact of COVID-19 on the economy of Hawaii.
- Pacific Guardian's profile benefits from the association with its ultimate parent, Meiji Yasuda Life Insurance Company, in connecting with customers of Japanese descent.

### Enterprise Risk Management: **Appropriate**

- Pacific Guardian has a comprehensive risk management program with appropriate identification, reporting and controls. Stress testing is completed periodically.
- The company has a defined risk management framework and Enterprise Risk Management Committee to oversee its risk identification and reporting procedures.
- The key risk areas center around the concentration of the business profile in Hawaii's TDI market and the related economic, operational and regulatory risks.

### Rating Lift/Drag

- Rating enhancement is provided by its ultimate parent, Meiji Yasuda Life Insurance Company, one of the oldest and largest insurers in Japan.
- The company is relatively modest in scale relative to Meiji Yasuda, but it has consistently paid annual dividends based on the prior year's earnings.

### Outlook

- The stable outlooks reflect Pacific Guardian's long-term maintenance of the strongest level of risk-adjusted capital, as measured by BCAR, and the financial strength of Pacific Guardian's ultimate parent, Meiji Yasuda Life Insurance Company.

### Rating Drivers

- A trend of unfavorable operating performance could result in negative rating action.

## Credit Analysis

### Balance Sheet Strength

#### Capitalization

Pacific Guardian's balance sheet assessment is strongest based predominantly on its high level of capital. Pacific Guardian's risk-adjusted capitalization is assessed as strongest as measured by the Best Capital Adequacy Ratio (BCAR). A.M. Best notes that total capital has reported declines for each of the last five years due to dividends to its parent, the capitalization of non-admitted expenses, a one-time adjustment related to tax reform which offsetting net income as well as a near term net loss. However, the unfavorable changes to capital are manageable and risk-adjusted capital continues to be strongest. There is no debt outstanding at Pacific Guardian, and the company has access to a line of credit for short term liquidity needs. Additionally, the company's financial flexibility is enhanced by the ownership by Meiji Yasuda, which maintains more than sufficient resources to support Pacific Guardian's financial needs, if necessary.

#### Asset Liability Management - Investments

Pacific Guardian's invested assets are held about one-half in high quality long-term bonds and over one-third in commercial mortgage loans. The remainder of Pacific Guardian Life's invested assets consists of small allocations to contract loans, cash, and short-term securities.

The company's fixed income portfolio is well-diversified among corporate bonds, structured securities, taxable municipals and U.S. government debt. A.M. Best notes that slightly less than one fifth of its total long-term bond portfolio is held in structured securities with the majority in pass-through MBS. The overall credit quality of the portfolio is viewed as good with only modest allocations to below investment grade bonds.

The company holds over one third of its invested assets in commercial mortgage loans, which is a high allocation compared to industry averages and peers. A.M. Best notes that the portfolio does have some geographic concentrations in Hawaii, California, and Oregon. The company utilizes its local knowledge of the Hawaiian market to underwrite loans in this area, and has maintained a long-term relationship with Standard Insurance Company, an affiliate, to underwrite the remainder of the portfolio. The portfolio maintains favorable loan to value and debt service coverage metrics, and most of the loans are relatively small providing some diversification benefit. Furthermore, the performance of the portfolio has historically been very favorable, with only one delinquencies or foreclosures reported over the past five years. Nevertheless, commercial loan investments are susceptible to economic pressure from the COVID-19 pandemic.

### Operating Performance

Operating performance is adequate. Premiums for Pacific Guardian had shown a modest growth trend through 2018, however premiums have declined over the past two years. The decline is attributable to decreased new sales and persistency of the company's individual life business. Additionally, more near term top line contraction seen in 2020 and into 2021 is primarily driven by the company's temporary statutory disability insurance (TDI) line of business which is based on group employee counts. Net earnings turned negative for the first time in 2020 with a small loss of \$870,000. Investment income has remained relatively stable with a low level of volatility, Pacific Guardian's historical operating performance had been relatively stable, but margins have declined due to increased administrative cost for information technology improvements in 2019 and claims experience from COVID-19 in 2020 and 2021. The company's employee benefits segment has been the primary contributor to premiums, mainly from the company's TDI product where they maintain a leading market position within Hawaii. It is anticipated that operating results will improve over the next two years.

### Business Profile

The business profile is limited due to product and geographic concentrations, despite a dominant market share in its core product.

Pacific Guardian Life is a wholly owned subsidiary of Meiji Yasuda Life Insurance Company (Meiji Yasuda), one of Japan's oldest and largest insurance companies. Pacific Guardian was acquired by Meiji Yasuda in 1985, becoming the first Japanese life insurer to invest in a U.S. insurance company. The company is domiciled in Hawaii and licensed in 46 U.S. states, the District of Columbia, Guam, American Samoa and the Northern Mariana Islands.

Pacific Guardian markets itself through two core operating segments: employee benefits and individual life. The employee benefits segment offers group life and group disability, primarily through a broker distribution channel. The group life insurance products include: group term life; voluntary term life, voluntary accidental death and dismemberment. A.M. Best notes that the company is one of Hawaii's largest and highly regarded group life insurance and group disability carriers, and maintains a market leading position in the

**Business Profile (Continued...)**

temporary disability income (TDI) market. However, there has been new entrants to the TDI market which is pressuring new sales and persistency. Additionally, the economic impact of COVID-19 on the economy of Hawaii, especially tourism, has unfavorably impacted this line of business.

The company's individual life products are marketed through both employee-based career agents and a brokerage distribution channel of independent producers operating on a variety of platforms including property/casualty insurance agents, full time life insurance agents, and financial planners and wealth management consultants. The product offerings include traditional and interest sensitive whole life, and term life products and have historically focused on the broad middle income market in Hawaii, the Japanese, Japanese American and Korean ethnic markets in Southern California and Texas, and the Asian affluent market. Over the past year Pacific Guardian has introduced a new electronic term life product. They have also expanded its licensing to 46 states and the District of Columbia.

**Enterprise Risk Management**

Pacific Guardian's ERM program is appropriate. Pacific Guardian has a formalized enterprise risk management framework. The company's risk profile is primarily driven by the concentration of business in Hawaii's TDI market and its small operating scale. However, the company has successfully operated in that market over a long period of time.

Pacific Guardians' ERM program has a developed framework, a mature governance structure with clear roles and responsibilities, as well as an annual identification and risk assessment process. There are established risk tolerances and appetites, periodic reporting including development of an ORSA report with appropriate management and controls. ERM is monitored by the Enterprise Risk Management Department (ERMD). The ERMD identifies, assesses, addresses and monitors current and emerging risk relevant and material to the company. Key risk are identified and managed by senior management and reported to the Board periodically.

A key committee in Pacific Guardian's governance structure is the Operational Risk Group (ORG). This committee is comprised of representatives from all departments within the organization. The ORG provides the ERMD with information and support in executing its duties regarding the operational risk management efforts. Stress testing is included as part of the annual ORSA report. Key measures the company uses to measure risk impact around capital and solvency is NAIC RBC and the BCAR. Stress testing includes pandemic modeling and large interest rate swings.

Pacific Guardian's risk management framework further benefits from the management strength of its parent. Meiji Yasuda maintains several director positions on Pacific Guardian's Board of Directors, and continues to integrate its U.S. operations where possible to achieve efficiencies and to enhance its own risk assessment.

**Reinsurance Summary**

The company's principal reinsurers are Swiss Re Life & Health America, Inc., RGA Reinsurance Company, and Hartford Life and Accident Insurance Company. For new business, maximum net retention is \$400,000 for individual permanent ordinary life, \$100,000 for individual term products, and \$150,000 for the majority of group life coverages.

**Rating Lift/Drag**

Pacific Guardian receives rating enhancement from its parent company, Meiji Yasuda Life Insurance Company. Pacific Guardian benefits from the financial capabilities and strong brand of Meiji Yasuda within its target Japanese-American customers. Additionally, Pacific Guardian provides a steady stream of dividends to its parent.

## Financial Statements

	6-Months		Year End - December 31			
	2021		2020		2019	
Balance Sheet	USD (000)	%	USD (000)	%	USD (000)	%
Cash and Short Term Investments	10,261	1.8	13,124	2.3	11,122	2.0
Bonds	312,618	53.4	300,193	52.3	284,072	50.2
Preferred and Common Stock	...	...	...	...	5,673	1.0
Other Invested Assets	238,292	40.7	236,489	41.2	241,474	42.7
<b>Total Cash and Invested Assets</b>	<b>561,171</b>	<b>95.8</b>	<b>549,807</b>	<b>95.9</b>	<b>542,340</b>	<b>95.9</b>
Premium Balances	13,928	2.4	13,910	2.4	15,373	2.7
Net Deferred Tax Asset	1,496	0.3	1,150	0.2	1,983	0.4
Other Assets	9,267	1.6	8,697	1.5	5,772	1.0
<b>Total General Account Assets</b>	<b>585,862</b>	<b>100.0</b>	<b>573,564</b>	<b>100.0</b>	<b>565,469</b>	<b>100.0</b>
<b>Total Assets</b>	<b>585,862</b>	<b>100.0</b>	<b>573,564</b>	<b>100.0</b>	<b>565,469</b>	<b>100.0</b>
Net Life Reserves	447,025	76.3	441,622	77.0	428,671	75.8
Net Accident & Health Reserves	12,568	2.1	7,757	1.4	9,348	1.7
Liability for Deposit Contracts	15,795	2.7	15,669	2.7	17,331	3.1
Asset Valuation Reserve	3,880	0.7	3,635	0.6	4,139	0.7
Other Liabilities	22,629	3.9	21,137	3.7	19,477	3.4
<b>Total General Account Liabilities</b>	<b>501,897</b>	<b>85.7</b>	<b>489,820</b>	<b>85.4</b>	<b>478,966</b>	<b>84.7</b>
<b>Total Liabilities</b>	<b>501,897</b>	<b>85.7</b>	<b>489,820</b>	<b>85.4</b>	<b>478,966</b>	<b>84.7</b>
Capital Stock	6,350	1.1	6,350	1.1	6,350	1.1
Paid-In and Contributed Surplus	12,421	2.1	12,421	2.2	12,421	2.2
Unassigned Surplus	65,194	11.1	64,973	11.3	67,732	12.0
<b>Total Capital and Surplus</b>	<b>83,965</b>	<b>14.3</b>	<b>83,744</b>	<b>14.6</b>	<b>86,503</b>	<b>15.3</b>
<b>Total Liabilities, Capital and Surplus</b>	<b>585,862</b>	<b>100.0</b>	<b>573,564</b>	<b>100.0</b>	<b>565,469</b>	<b>100.0</b>

Source: BestLink® - Best's Financial Suite

**Last Update**

December 14, 2021

**Identifiers****AMB #:** 006883**NAIC #:** 64343**FEIN #:** 99-0108050**Contact Information**Domiciliary Address:1440 Kapiolani Blvd., Suite 1700,  
Honolulu, Hawaii 96814  
United States**Web:** [www.pacificguardian.com](http://www.pacificguardian.com)**Phone:** +1-808-955-2236**Fax:** +1-808-942-1280**Financial Data Presented**

The financial data in this report reflects the most current data available at the time the report was printed.

**Pacific Guardian Life Insurance Company, Limited****Operations****Date Incorporated:** August 03, 1961 | **Date Commenced:** June 13, 1962**Domiciled:** Hawaii, United States**Licensed:** (Current since 12/14/2021). The company is licensed in the District of Columbia, American Samoa, Guam, Northern Mariana Islands, AL, AK, AZ, AR, CA, CO, DE, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.**Business Type:** Life, Annuity, and Accident**Organization Type:** Stock**Marketing Type:** Independent Agency**Financial Size:** VII (\$50 Million to \$100 Million)**Best's Credit Ratings****Rating Relationship****AM Best Rating Unit:** 006883 - Pacific Guardian Life Insurance Co, Ltd.Refer to the [Best's Credit Report for AMB# 006883 - Pacific Guardian Life Insurance Company, Limited](#) for details regarding the rating rationale, credit analysis, and financial exhibits available at the time the credit analysis was performed.**Best's Credit Rating History**

AM Best has assigned ratings on this company since 1970. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

Best's Financial Strength Ratings				Best's Long-Term Issuer Credit Ratings		
Effective Date	Rating	Outlook	Action	Rating	Outlook	Action
<b>Current -</b>						
<b>Nov 4, 2021</b>	<b>A</b>	<b>Stable</b>	<b>Affirmed</b>	<b>a</b>	<b>Stable</b>	<b>Affirmed</b>
Oct 9, 2020	A	Stable	Affirmed	a	Stable	Affirmed
Aug 13, 2019	A	Stable	Affirmed	a	Stable	Affirmed
Aug 9, 2018	A	Stable	Affirmed	a	Stable	Affirmed
Jul 21, 2017	A	Stable	Affirmed	a	Stable	Affirmed

**Management****Officers****Chairman of the Board:** Alan M. Goda**Vice Chairman of the Board:** Nobutaka Yagi**President and CEO:** Margolee P. Lee

**Officers (Continued...)****SVP and Chief Information Officer:** Bradley E. Koanui**SVP and Chief Actuary:** Tammy-Anne Campbell**SVP:** H. Brian Moore (Real Estate Investment)**Vice President and CFO:** Curtis M. Agor**Corporate Secretary:** Rayna R. Ichimura**Directors**

Don E. Carroll

W. Allen Doane, Jr.

Walter A. Dods, Jr.

Alan M. Goda

Robert S. Harrison

Warren H. Haruki

Margolee P. Lee

Nobutaka Yagi

Susan E. Yamada

Kazunori Yamauchi

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

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Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

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