BEST'S COMPANY REPORT

PACIFIC GUARDIAN LIFE INSURANCE COMPANY, LIMITED

Domiciliary Address: 1440 Kapiolani Boulevard, Suite 1700, Honolulu, Hawaii 96814-3698 United States
Administrative Office: 1440 Kapiolani Boulevard, Suite 1700, Honolulu, Hawaii 96814-3698 United States
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AMB #: 006883 **NAIC #:** 64343 **FEIN #:** 99-0108050

Phone: +1-808-955-2236 **Fax:** +1-808-942-1280 **Website:** www.pacificguardian.com

AM BEST
A
EXCELLENT
Financial Strength Rating

Best's Credit Rating Effective Date
November 07, 2024

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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)	Issuer Credit Rating (ICR)
A	**a**
Excellent	**Excellent**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Very Strong**
Operating Performance	**Adequate**
Business Profile	**Limited**
Enterprise Risk Management	**Appropriate**

Rating Rationale

Balance Sheet Strength: Very Strong

- Risk-adjusted capitalization continues to be assessed at the strongest level based on a Best's Capital Adequacy Ratio (BCAR), which over the medium term has declined from higher measures primarily from the increased asset and interest risk associated with new multi-year guaranteed annuity (MYGA) production.
- Pacific Guardian Life Insurance Company's (Pacific Guardian) capital and surplus has shown modest declines over the past five years. The primary driver of the capital and surplus decline over the past few years has been a steady change in asset valuation reserve.
- Liquidity measures remain favorable based on the high credit quality of its fixed-income portfolio and an available line of credit. Additionally, net cash flows have consistently been positive.
- The investment portfolio maintains a high allocation to commercial mortgage loans, which are concentrated in Hawaii and the Pacific Northwest. While these loans are considered less liquid investments, the portfolio has an extremely low delinquency rate and continues to perform favorably.

Operating Performance: Adequate

- Premium revenue near-term decline is attributed to lower sales of annuities and life products.
- Pacific Guardian reported net gains in 2023, which follows a period of higher claims during the COVID-19 pandemic and high acquisition costs from its increased level of individual life sales and related acquisition costs/reserves. In addition, there was a large tax expense on a statutory tax basis accounting for a difference in policy reserves, deferred acquisition costs and depreciation, substantially increasing taxable income.
- Investment income remains strong with a growing asset base from its annuity business and stable portfolio yields.

Business Profile: Limited

- Pacific Guardian remains a market leader in Hawaii's temporary disability income (TDI) line of business.
- The company's profile benefits from the association with its ultimate parent, Meiji Yasuda Life Insurance Company (Meiji Yasuda).
- The company holds licenses in 46 states and the District of Columbia, but revenues had been concentrated in Hawaii until the launch of its MYGA products with a reinsurance partner during 2022. With the new MYGA offerings, the company has seen significant geographic diversification of its revenues.
- Pacific Guardian has expanded its product portfolio to include MYGA and interest-sensitive whole life in addition to its TDI business. The company has also refreshed its individual life offerings, improving new sales for this business segment.

Enterprise Risk Management: Appropriate

- Pacific Guardian has a well-developed risk management program with appropriate risk identification, reporting and controls.
- The company's risk management framework incorporates a three lines of defense model. The program has appropriate governance with the Enterprise Risk Management Committee responsible for oversight of risk identification, reporting and monitoring processes and procedures.
- Risk tolerances are established and board approved for key risk areas where risk identification and risk assessments are done on an annual basis.
- Pacific Guardian benefits from the management strength of its parent, Meiji Yasuda, as it maintains several director positions on Pacific Guardian's board of directors, and continues to integrate its U.S. operations seeking efficiencies and enhancements of its own risk assessments.

Rating Lift/Drag

- Rating enhancement is provided by its ultimate parent, Meiji Yasuda, one of the oldest and largest insurers in Japan.
- The company is relatively modest in scale relative to Meiji Yasuda, but in earlier years, it paid dividends based on the prior year's earnings. No dividends are paid if losses are incurred.
- There is representation by Meiji Yasuda on the board and senior management as a senior executive from Meiji Yasuda rotates to Pacific Guardian.

Outlook

- The stable outlooks reflect Pacific Guardian's strongest level of risk-adjusted capitalization, as measured by BCAR, leading market share of the temporary disability income line of business in the Hawaiian market and the financial strength of its ultimate parent, Meiji Yasuda.

Rating Drivers

- A substantial decline in risk-adjusted capitalization and deterioration of balance sheet measures could result in a negative rating action.
- A trend of unfavorable operating performance could result in negative rating action.
- A decrease in the strategic importance to the ultimate parent organization, Meiji Yasuda Life Insurance Company, could result in negative rating action.
- While unlikely over the near term, a trend of favorable operating performance could result in a positive rating action.

Credit Analysis

Balance Sheet Strength

Capitalization

Pacific Guardian Life Insurance Company's (Pacific Guardian) balance sheet strength is assessed very strong. Pacific Guardian's risk-adjusted capitalization remains assessed as strongest as measured by the Best Capital Adequacy Ratio (BCAR) despite a slight decrease in the level of risk adjusted capital in 2023. Absolute capital has reported fluctuations over the past five years. Historically, it has been due to dividends to its parent, the capitalization of non-admitted expenses, and a one-time adjustment related to tax reform offsetting net income. The capital decline in 2023 was primary driven by the change in asset valuation reserve. The changes to capital have been manageable and the lower risk-adjusted capital level remains 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 through ownership by Meiji Yasuda, which maintains more than sufficient resources to support Pacific Guardian's financial needs, if necessary.

Asset Liability Management - Investments

Roughly 97% of Pacific Guardian's invested assets are held in investment-grade long-term bonds and 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. Corporate bonds are well diversified in terms of industry and individual issuer exposures. The portion of the total long-term bond portfolio held in structured securities is primarily comprised of pass-through MBS. The overall credit quality of the portfolio is viewed as good with only modest allocations to below investment grade bonds.

Pacific Guardian holds more than one-quarter of its invested assets in commercial mortgage loans, which remains a high allocation compared to industry averages and peers. The composition is predominantly commercial mortgage loans that the company has originated or purchased. The portfolio does have some geographic concentrations in Hawaii, California, Oregon and Washington. Local knowledge of the Hawaiian market is used to underwrite loans in this area. The company 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. The performance of the portfolio has remained very favorable, with only one delinquencies or foreclosures reported over the past five years. However, commercial loan investments are susceptible to economic pressures.

Operating Performance

Operating performance is assessed adequate. Pacific Guardian's premiums have shown a fluctuating trend over the past five years, however, premiums in 2023 did decrease $100M after an increase of 250% from 2021 to 2022. The huge level of premium growth for 2022 was primarily due to sales of multi-year guaranteed annuities (MYGA) and interest sensitive whole life (ISWL) products. In 2023, the premium decline was attributed to increased market competition.

The company's employee benefits segment has been the primary contributor to premiums, mainly from the company's temporary disability income product where they maintain a leading market position within Hawaii. Sales of the new MYGA product have benefited from the company's state expansion efforts in recent years. While employment levels are recovering from the pandemic levels and the company's employee benefits products, mainly wage based state mandated short term disability coverage, continue to be a challenge.

Operating Performance (Continued...)

Historically, Pacific Guardian's operating performance had been relatively stable, but margins have declined due increased selling expenses, scheduled amortization of investment policy administration systems, inflationary pressure on salaries and wages and a broad range of other operating costs during the past two years. Investment income reported growth benefiting from a rising interest rate environment and substantial inflows from sales of MYGA and ISWL products.

After 3 consecutive years of incurred losses, Pacific Guardian showed positive net income in 2023. This is partially due to investment income increasing to $30.1 million in 2023 compared to $23.2 million in 2022. Investment earnings benefited from a rising interest rate environment and a continuation of substantial inflows from sales of MYGA and ISWL products. Management projects a continued profitability trend over the medium term.

Business Profile

Pacific Guardian Life's business profile is assessed limited due to product and geographic concentrations, despite a dominant market share in its core product temporary disability insurance (TDI) product.

Pacific Guardian 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 is where most of its business is derived. The company holds licenses to 46 states and the District of Columbia. In 2022, the company completed its first full year of sales of its multi-year guaranteed annuity (MYGA) product with a reinsurance partner. The company has also refreshed its individual life offerings improving new sales for this business segment.

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 expanding and strengthening its broker distribution channel. The group life insurance products include group term life, voluntary term life, voluntary accidental death and dismemberment. Pacific Guardian remains one of Hawaii's largest and highly regarded group life insurance and group disability carriers, and maintains a market leading position in the TDI market. However, there have been new entrants to the TDI market which places pressure on new sales and persistency.

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. However, during 2022 Pacific Guardian closed its individual life career agency in California to improve the overall cost structure going forward. 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. In Hawaii, the TDI Employee Benefits market will be the focus via expanding and strengthening broker distribution while looking for ancillary product opportunities. In the continental US, the company continues to focus on the MYGA product while investment opportunities remain to support MYGA credited rates and additional life insurance products through broker distribution.

Enterprise Risk Management

Pacific Guardian’s ERM program is assessed 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, MYGA products 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. The company utilizes the traditional three lines of defense model. Pacific Guardian aligns its corporate governance structure and initiatives in line with requirements at the parent company level as a subsidiary of Meiji Yasuda. This includes specific risk management items required by a US subsidiary.

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 risks are identified and managed by senior management and reported to the Board periodically. It continues to review and adjust metrics in collaboration with business units to best analyze emerging risks.

In support of a combined assurance approach to ensure company wide significant risks are addressed the Internal Audit Department (IAD), Compliance and ERMD continue to mature its governance, risk and compliance (GRC) program by actively collaborating, communicating and coordinating its resources. The objective of the combined assurance approach is to provide a GRC function that is

Enterprise Risk Management (Continued...)

efficient, reduces assurance fatigue, eliminates duplicative and redundant activities, eliminates gaps in coverage and concentrates efforts on significant risks. IAD provides independent assessments, testing, verification and sharing of information.

Stress testing is included as part of the annual ORSA report. Key measurements are used 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. The MYGA product is reinsured with Knighthead Annuity & Life Assurance Company through a funds withheld 75% coinsurance agreement.

Environmental, Social & Governance

AM Best considers Pacific Guardian's exposure to material environmental, social and corporate governance (ESG) risks to be low. The company operates in an environment where its underwriting activities have low or no exposure to climate risk, and its profile on underwriting and investment are not exposed to so-called toxic assets and industries. The company operates in line with market peers, and at present ESG factors are unlikely to impact the credit quality of the company over the short-term. There are no regulatory requirements relating to ESG, although the company regularly monitors developments to ensure its practices are compliant.

Rating Lift/Drag

Pacific Guardian receives one notch of 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, the parent's strategy is to generate production in the US. Pacific Guardian has previously provided dividends to its parent.

Financial Statements

	6-Months		Year End - December 31			
	2024		2023		2022	
Balance Sheet	**USD (000)**	**%**	**USD (000)**	**%**	**USD (000)**	**%**
Cash and Short Term Investments	92,978	6.1	77,412	5.9	51,143	5.1
Bonds	872,814	57.6	794,440	60.2	636,635	63.2
Preferred and Common Stock	397	...	391	...	367	...
Other Invested Assets	512,337	33.8	407,035	30.9	287,912	28.6
Total Cash and Invested Assets	1,478,526	97.6	1,279,278	97.0	976,057	97.0
Premium Balances	13,583	0.9	13,896	1.1	13,755	1.4
Net Deferred Tax Asset	2,019	0.1	2,019	0.2	1,503	0.1
Other Assets	20,110	1.3	23,598	1.8	15,263	1.5
Total General Account Assets	1,514,239	100.0	1,318,792	100.0	1,006,578	100.0
Total Assets	1,514,239	100.0	1,318,792	100.0	1,006,578	100.0
Net Life Reserves	708,401	46.8	661,430	50.2	585,318	58.1
Net Accident & Health Reserves	14,509	1.0	8,670	0.7	7,371	0.7
Liability for Deposit Contracts	12,214	0.8	13,115	1.0	13,542	1.3
Asset Valuation Reserve	12,116	0.8	10,044	0.8	6,591	0.7
Other Liabilities	685,938	45.3	542,828	41.2	311,036	30.9
Total General Account Liabilities	1,433,179	94.6	1,236,087	93.7	923,858	91.8
Total Liabilities	1,433,179	94.6	1,236,087	93.7	923,858	91.8
Capital Stock	6,350	0.4	6,350	0.5	6,350	0.6
Paid-In and Contributed Surplus	12,421	0.8	12,421	0.9	12,421	1.2
Unassigned Surplus	62,289	4.1	63,934	4.8	63,949	6.4
Total Capital and Surplus	81,060	5.4	82,705	6.3	82,720	8.2
Total Liabilities, Capital and Surplus	1,514,239	100.0	1,318,792	100.0	1,006,578	100.0

Source: BestLink® - Best's Financial Suite

Pacific Guardian Life Insurance Company, Limited

Last Update
November 07, 2024

Identifiers
AMB #: 006883
NAIC #: 64343
FEIN #: 99-0108050

Contact Information
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Financial Data Presented

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

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
Best's Financial Size Category:	VII (USD 50 Million to Less than 100 Million)

Best's Credit Ratings

Rating Relationship

AM Best Rating Unit: 006883 - Pacific Guardian Life Insurance Co, Ltd.

Best's Credit Rating Effective Date: November 07, 2024

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**
Current - Nov 7, 2024	**A**	**Stable**	**Affirmed**	**a**	**Stable**	**Affirmed**
Nov 17, 2023	A	Stable	Affirmed	a	Stable	Affirmed
Nov 9, 2022	A	Stable	Affirmed	a	Stable	Affirmed
Nov 4, 2021	A	Stable	Affirmed	a	Stable	Affirmed
Oct 9, 2020	A	Stable	Affirmed	a	Stable	Affirmed

Management

Officers

Chairman of the Board: Alan M. Goda

Officers (Continued...)

Vice Chairman of the Board: Nobutaka Yagi
President and CEO: Margolee P. Lee
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

Professional Service Providers

Investment Managers, Advisors, Brokers/Dealers:

- CONNING INC. (Unaffiliated Firm)
- KNIGHTHEAD CAPITAL MANAGEMENT LLC (Unaffiliated Firm)

Principal Law Firm: Kobayashi, Sugita & Goda

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State Rate Filings

Summary of Approved Filings

The table below shows the number of approved filings in the last five years. For more information, please refer to Best's State Rate Filings - 006883 - Pacific Guardian Life Insurance Company, Limited

Major Line	2024	2023	2022	2021	2020
Annuities - Other	2	1	2	...	...
Group Health - Disability Income	1	2	...	...	...
Group Life - Term	...	...	1	...	...
Individual Annuities - Deferred Non-Variable	5	1	7	3	...
Individual Life - Term	...	...	2	2	1
Individual Life - Whole	...	...	1	5	...
Life - Other	25	23	22	21	9
Multi-Line - Other	...	...	1	...	...
Total	33	27	36	31	10

Source: Best's State Rate Filings