

Symetra Financial Corp. And Subsidiaries Ratings Raised; Outlook Stable

Primary Credit Analyst: Ferris Joanis, New York, (1) 212-438-5552;
ferris_joanis@standardandpoors.com

Secondary Credit Analyst: Matthew Carroll, New York, (1) 212-438-3112;
matthew_carroll@standardandpoors.com

Rationale

On Nov. 18, 2008, Standard & Poor's Ratings Services raised its counterparty credit and financial strength ratings on SFC's subsidiaries--Symetra Life Insurance Co. and First Symetra National Life Insurance Co. of NY (collectively referred to as Symetra)--to 'A' from 'A-'. At the same time, Standard & Poor's raised its counterparty credit rating on Symetra Financial Corp. (SFC) to 'BBB' from 'BBB-'. The outlook on all these companies is stable.

The upgrade reflects the group's penetration in the financial institutions channel, positive net cash flows in its retirement-service business, and management's strong track record of successfully executing its business strategy. The ratings also reflect Symetra's leading market position in the medical stop-loss segment, sustained strong operating performance, relatively conservative investment portfolio, and strong liquidity. Supporting liquidity is a favorable liability profile that includes a large block of structured settlement business with limited surrenderability.

Over the past two years, Symetra has gained significant traction in its bank distribution channel, increasing its number of active bank channel representatives to 20,000 as of June 30, 2008, from just 3,000 in June 30, 2006. This increase has helped significantly boost deposits in the company's retirement services segment, which had close to \$300 million in net cash flows in third-quarter 2008.

In the past 25 years, Symetra has experienced only two calendar years of net losses (1998 and 1999) in the medical stop-loss insurance business, which reflects management's strong underwriting discipline. Symetra established its leading position in the medical stop-loss market with the acquisition of Medical Risk Solutions in 1999 and the Swiss Re Life & Health America Inc. medical stop-loss and group

life insurance books of business in 2002. It further strengthened its competitive position with the acquisition of Medical Risk Managers Holding Inc. (MRM) in 2007.

Outlook

Standard & Poor's expects that Symetra will continue to deliver strong operating performance through 2008 and 2009, with a pretax GAAP return on assets of more than 90 basis points. We expect that Symetra's 2009 pretax operating GAAP income will increase by 5%-10% through careful spread management of annuities, continued disciplined underwriting on the medical stop-loss business, stable results from the structured settlement block, and strong annuity sales growth through the bank channel. Capitalization--as measured by Standard & Poor's model--should remain strong, with redundancy at the 'A' level. We expect that SFC's financial leverage will remain less than 30%, with consolidated GAAP interest coverage of more than 6x and statutory fixed-charge coverage of more than 5x.

We could revise the outlook to negative if the company were to experience a material disruption in its bank distribution channel or sustained deteriorations in its medical stop-loss business. The ratings could be pressured if we see substantial lapses in its bank-owned life insurance business because of the current economic environment, which might force Symetra to liquidate assets at a loss, thereby negatively impacting capital adequacy.