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Research:

Summary: West Coast Life Insurance Co.

Publication date: 14-Jun-2004
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	Local Currency
Credit Rating:	AA/Stable/--

Rationale

The insurer financial strength rating on West Coast Life Insurance Co., an explicitly supported subsidiary of Protective Life Insurance Co. (collectively referred to as Protective), reflects Protective's very strong and diversified business profile, superior overall business execution that consistently produces exceptionally strong earnings, extremely strong capitalization, very strong liquidity, and strong investment portfolio. Partially offsetting these positive factors are Protective's heavy reliance on reinsurance, which could restrict its pricing flexibility; above-average exposure to interest rate risk from its large proportion of MBS (27% of invested assets); the relatively modest performance of its asset protection division businesses; and continuing uncertainty related to its runoff auto residual value business.

Protective has a very strong and diversified business profile, with a solid position in the individual life, annuity, guaranteed investment contract (GIC), and credit life markets. A profitable acquisition line of business that acquires in-force blocks of policies and small insurance companies complements these businesses. Most of the growth has been in product lines that are considered commodity-like—such as term life insurance and fixed annuities—or from opportunistic lines of business, such as stable-value products or acquisitions of life insurance blocks.

Protective's core competencies are its abilities to sell retail products and make acquisitions. The group's strengthening retail life insurance and annuity franchise has helped diversify the drivers of growth, which previously had been substantially based on acquisitions and institutional asset-management-type products. The strength of its primary retail life insurance franchise depends significantly on maintaining strong underwriting discipline and low expense levels that facilitate competitive pricing of these largely commodity like products.

Earnings are supportive of ratings. Central to the ratings on Protective is its exceptional earnings performance generated by superior overall business execution, which helps raise the ratings above what the group's diversified business profile would otherwise suggest. Although the group has well-diversified businesses, they tend to consist of commodity-like products and do not include prominent long-term value-added product lines that are more typically seen in companies rated this highly.

Protective's operating performance is considered very strong based on Standard & Poor's Ratings Service's consolidated GAAP earnings adequacy ratio of 234% in 2003 and a 29% improvement in GAAP pretax income in 2003. Protective's demonstrated track record of positive net income growth is based on careful expense management, tight underwriting, and above-average investment return. The ROE has continued to increase and as of first-quarter 2004 was 14.5% on a twelve-month trailing basis. Although the company has well-diversified returns, it is also heavily reliant on reinsurance. Standard & Poor's expects earnings to grow about 10% in 2004 because of strong performance in core lines and the exit of ancillary lines in the asset protection division (APD) in 2003 and positive results in other APD lines.

Extremely strong capitalization is generated from strong organic earnings and enhanced by Protective's access to the capital markets. On a consolidated basis, the company's capital adequacy ratio is 285%

as of Dec. 31, 2003, based on Standard & Poor's model, reflecting strong statutory earnings and despite it having invested about $300 million of capital to make three acquisitions in 2001 and 2002 and taking reserve increases in its APD of $53 million pretax between year-end 2002 and 2003. If appropriate acquisition or other opportunities do not emerge in the next year or so the company will consider alternatives to deploying its growing capital base including possibly reducing debt or a share buy-back program.

Protective maintains a high-quality investment portfolio with minimal credit defaults that is well diversified and supported by excellent risk management. Investment performance is above average, and invested assets are of high quality, with an adequate duration match between assets and liabilities. The primary objective in the company's investment strategy is to preserve capital. Instead of obtaining the target spreads by taking on credit risk, the company emphasizes high-quality bonds and commercial mortgages. Management executes this strategy with a very high degree of success, as demonstrated by negligible credit defaults in 2001-2003. Protective has some exposure to interest rate risk, as a substantial portion (27%) of its assets is invested in MBS. It is also exposed to commercial real estate, with 19% of its assets in commercial mortgages, which includes retained tranches of prior mortgage securitizations. The company reduces this exposure somewhat through diversification, excellent risk management, and the implementation of a hedging program.

Liquidity is very strong, with a Standard & Poor's liquidity ratio of 237% at year-end 2003. Liquidity is enhanced by the company's stringent ALM, product characteristics that deter early withdrawal, and a large portfolio of term life insurance policies that do not have cash surrender values.

Protective maintains appropriate financial flexibility but relies on a large proportion of life reinsurance to maintain its desired risk profile. This reliance, while reducing insurance risk and smoothing performance, has the potential to constrain its pricing flexibility as reinsurance markets consolidate.

Outlook

For the next two years, Standard & Poor's expects Protective's capitalization to remain very strong at more than 170% based on Standard & Poor's capital adequacy model. Sales are expected to increase 10% or more annually as the company continues to grow its nontraditional distribution channels. In 2004, however, growth in life insurance sales is expected to slow from the torrid pace achieved in 2003. GAAP ROA is expected to be about 125 basis points, and GAAP earnings are expected to grow about 10% annually. In addition, liquidity is expected to remain very strong. Financial leverage ratios are expected to remain appropriate for the rating, with interest coverage of more than 10x, including the effect of swaps that reduce fixed charges, and debt-plus-preferred leverage of about 30%.

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Ratings

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West Coast Life Insurance Co.

Current Ratings

	Local Currency	
	Date	Rating
Issuer Credit Rating (ICR)	13-Jan-1998	AA/Stable/--

Profile

Country:	United States
State/Province:	Nebraska
GICS:	Life & Health Insurance(40301020)
CUSIP:	952190
NAICS:	Direct Life Insurance Carriers (524113)
Primary SIC:	Life Insurance(6310)
Ticker:	7276Z
Credit Analyst:	Robert Hafner, FSA, New York, (1) 212-438-7216

Financial Strength

Description	Rating	Date
Financial Strength Rating	AA/Stable	25-Jul-2003

Related Entities

Name

Empire General Life Assurance Corp.
PLC Capital Trust III
PLC Capital Trust IV
PLC Capital Trust V
Premiere Funding International
Premium Asset Trust Certificates Series 2000-06
Premium Asset Trust Certificates Series 2002-09
Premium Asset Trust Certificates Series 2003-10
Protective Finance Corp. II
Protective Life Corp.
Protective Life Insurance Co.
Protective Life Secured Trusts
Protective Life U.S. Funding Trust
Protective Life and Annuity Insurance Co.

Ratings History (includes Current Ratings)

Issuer Credit Rating

Date	Description	To
13-Jan-1998	Local Currency	AA/Stable/--

Financial Strength

Date	Description	To
25-Jul-2003	Financial Strength Rating	AA/Stable
13-Jan-1998		AA

25-Jun-1996	Aq
04-Oct-1991	BBBq

Related Research

Date	Description
27-Jul-2004	Protective Life Corp.
14-Jun-2004	Summary: West Coast Life Insurance Co.
26-May-2004	Research Update: Protective Life Corp.
26-May-2004	Protective Life Corp., Subsidiaries Ratings Affirmed; Outlook Stable
06-May-2004	Despite State Woes, California Banks and Insurers Have Sunny Outlook
08-May-2003	Summary: West Coast Life Insurance Co.
03-Apr-2003	Research Update: Protective Life Corp.
03-Apr-2003	Protective Life Corp. and Subsidiaries Ratings Affirmed; Outlook Stable
31-Jan-2002	Summary: West Coast Life Insurance Co.
25-Jan-2002	Protective Life Insurance Co. and Related Entities Ratings Affirmed; Outlook Stable
22-Jun-2001	Protective Life Corp. and Related Entities Ratings Affirmed; Outlook Stable
11-Aug-2000	Protective Life Corp. and Related Entities Ratings Affirmed; Outlook Stable
26-Mar-1999	Protective Life Insurance Co. & Entities Ratings Affirmed
13-Jan-1998	S&P Afms Protective Life Ins Co, Units `AA' CPA Rtgs

Dates are effective dates of ratings and publication in New York. Owing to the securities law regulations, there may be a delay in the updating of this page compared to the information on the What's New Page.