

Research Update:

# Sun Life Financial Inc. Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

March 25, 2024

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- We affirmed our long-term 'AA' financial strength and 'A+/A-1+' issuer credit ratings on Sun Life.
- Following the implementation of our revised capital model criteria, we continue to assess Sun Life's capital and earnings as very strong.
- The stable outlook reflects our expectation that Sun Life will maintain its excellent competitive position in its core markets and very strong financial risk profile.

## Rating Action

On March 25, 2024, S&P Global Ratings affirmed its 'AA' long-term financial strength and 'A+/A-1+' issuer credit ratings Sun Life Financial Inc. The outlook remains stable.

## Impact Of Revised Capital Model Criteria

- The implementation of our revised criteria for analyzing insurers' risk-based capital does not lead to any rating changes for Sun Life, because its capital and earnings assessment is unchanged at the 99.95% confidence level.
- The benefits of risk diversification, which we now capture more explicitly in our analysis, supports capital adequacy.
- However, the recalibration of our capital charges to higher confidence levels offsets these improvements.

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## Credit Highlights

### Overview

Key strengths	Key risks
Top market positions in multiple global markets.	Strong organic growth that may strain capital adequacy per our risk-based capital model.
Strong, stable operating performance optimizes risk and reward.	Uncertain macroeconomic conditions.
Relatively low-risk liability profile with limited exposures to market-sensitive or long-duration liabilities.	

### Outlook

Our outlook on Sun Life is stable, reflecting our expectation that it will maintain its excellent business risk profile and very strong financial risk profile. Our base-case scenario assumes fixed-charge coverage above 8x and financial leverage below 35%. We also expect Sun Life to maintain its competitive position as a "big three" insurer in Canada, with consistent earnings from the asset management and U.S. and Asian insurance segments.

### Downside scenario

We could lower the ratings if Sun Life's:

- Competitive position deteriorates owing to a longer-term decline in operating performance relative to peers, particularly in its core insurance operations;
- Market position or brand strength declines, particularly in its core Canadian market; or
- Capital weakens materially, and we expect the company's capital adequacy to be below the 99.95% confidence level for a prolonged period.

### Upside scenario

While unlikely in the next two years, we could raise our ratings if capital redundancy at the 99.99% level improves significantly, and we believe management is committed to maintaining capital at that level.

### Rationale

The ratings on Sun Life continue to reflect our view of its excellent competitive position, supported by stable operating performance, broad geographic and business diversity, and leading market positions in the group and individual insurance segments in Canada. Sun Life is one of the top three Canadian life insurers and its brand is well recognized in Canada, as seen in its 23% market share in the individual life insurance segment.

The company has long-established top-ranked positions in the group retirement services and group benefits markets in Canada. The other segments include the U.S. group benefits, U.S. dental and health insurance, asset management (including MFS), and Asia life and health insurance. In

2023, its regional segments SLF Canada, SLF U.S., and SLF Asia contributed 34%, 22%, and 15% of underlying net income, respectively. Individual insurance, wealth and asset management, and group insurance contributed 27%, 41%, and 32%, respectively. The company also has broad distribution, including a career sales force and third-party agents.

Sun Life's operating performance has been strong with reported return on equity (ROE) in 2023 of about 14.7%, reflecting strong underwriting results and investment income driven by an increase in yields, complemented by solid growth across its lines of business. We expect the group to generate solid operating earnings which will be accretive to our view of capital in the next two years.

The company's sources of earnings are diversified by geography and risk, which is a strength to the rating. Sun Life continues to grow its asset management business. SLC Management, which is also the company's in-house manager for its general account, is slowly increasing its third-party reach, for example, through its 2023 acquisition of Advisors Asset Management, which will distribute SLC's alternative investment strategies to the U.S. retail high-net-worth market. MFS, the company's third-party asset manager, remained a solid contributor to Sun Life's margins in 2023, despite net outflows due to macroeconomic volatility. As an active asset manager, we expect MFS to continue to face headwinds as the market shifts to passive from active investing. Still, we believe MFS will remain a source of consistent dividends for Sun Life. The asset management businesses have consistently contributed about one-third of EBIT over the past few years, and we expect them to continue to do so. While asset management is capital light and widens the company's diversification, in our view, this segment tends to be pro-cyclical. If most of the group's earnings come from asset management, this could be a negative for the ratings.

Sun Life also has a diverse, highly-rated, and well-managed investment portfolio with an average credit quality of 'A'. Its private debt portfolio has grown since the 2008 financial crisis. As a percentage of total bonds, the allocation of public versus private debt has changed to 65%/35% as of the end of 2023 from 70%/30% as of the end of 2018, as Sun Life's private debt capabilities expanded through the years. The credit losses of its private debt portfolio have performed well over time. When analyzing the private debt portfolio in our capital analysis, we consider its underlying credit characteristics and the remaining tenor of the securities.

Sun Life's funding structure remains neutral to the rating, with coverage exceeding 8x and leverage of less than 35%. We expect both metrics to remain stable.

We view Sun Life's liquidity as adequate. Because of Sun Life's nonlife business (accident and health and notably the stop-loss), the proportion of stressed liabilities is higher than that of other life insurers, as we charge the net claim reserves 100%, in addition to a 99.5% confidence-level charge for reserves and premiums.

## Ratings Score Snapshot

Financial strength rating	AA
Anchor	aa
Business risk	Excellent
IICRA	Very low
Competitive position	Excellent
Financial risk	Very strong
Capital and earnings	Very strong

Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### Sun Life Financial Inc.

Issuer Credit Rating	A+/Stable/A-1+
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#### Sun Life Assurance Co. of Canada

Issuer Credit Rating	AA/Stable/A-1+
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#### Sun Life Assurance Co. of Canada

#### Sun Life and Health Insurance Co. (U.S.)

#### Sun Life Assurance Co. of Canada (U.S. branch)

Financial Strength Rating	
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Local Currency	AA/Stable/--
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**Ratings Affirmed**

**Sun Life Assurance Co. of Canada (U.S. branch)**

**Sun Life and Health Insurance Co. (U.S.)**

Issuer Credit Rating	
Local Currency	AA/Stable/--

**Sun Life Hong Kong Ltd.**

Issuer Credit Rating	
Local Currency	AA-/Stable/--
Financial Strength Rating	
Local Currency	AA-/Stable/--

**Sun Life Financial Inc.**

Senior Unsecured	A+
Subordinated	A
Subordinated	A-
Preferred Stock	A-
Preferred Stock	P-1(Low)

**Sun Life Assurance Co. of Canada**

Subordinated	AA-
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**Sun Life Capital Trust**

Preferred Stock	A+
Preferred Stock	P-1

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