

Country: USA
Industry: Life Insurance
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New issuer in the Swiss franc bond market

John Hancock (AA+)

Leading US life insurance company

While John Hancock Mutual Life Insurance Company (J.H.) may not be a familiar name to Swiss investors, this US insurer, with its long tradition, is one of the largest players in the US market, ranking twelfth in terms of assets. However, it is not a pure life insurer. J.H. provides a variety of financial services – including mutual fund and institutional investment products – with a focus on middle- to upper-income clients. Non-insurance asset management and mutual fund activities have been developed to such an extent that they comprised approximately 50% of J.H.’s product sales in 1997. Third-party assets under management have tripled within the last 5 years and now account for 41% of total assets under management (USD 116 billion).

Larger than Swiss life insurers

The table below shows that J.H. is also large by Swiss standards. Its total assets are greater than the total assets in the domestic operations of each Swiss life insurer (according to 1996 figures).

As of 12/31/96 (USD billion)	Total balance sheet assets	Premium life insurance
John Hancock	58.4	6.6
Swiss Life / Rentenanstalt	51.9	4.7
Winterthur Life	25.2	3.8
Zurich Life	23.1	2.1
Basler Life	12.3	1.5
Patria Life	8.8	1.1

Sources:

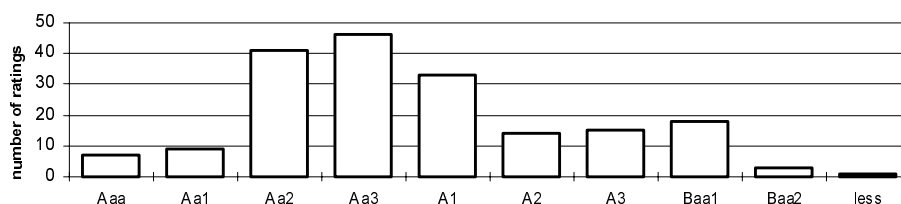
J. Hancock annual report: total assets excluding third-party assets under management; premium income only (excl. mutual fund sales and revenues from institutional asset management)

Swiss data: Swiss life insurance operations only; statistics provided by the Bundesamt für Privatversicherungen, 1997

Exchange rate: CHF 1.35 per USD

Strong insurance financial strength ratings

The official agencies assign so-called insurance financial strength, or claims-paying ability ratings to insurance companies. These ratings are assessments of the ability of life insurance companies to punctually repay senior policyholder claims and obligations. Moody's and S&P currently rate J.H.'s insurance obligations at Aa2 and AA+, respectively. Such ratings are among the highest in the entire universe of rated life insurers. The graph below illustrates that Moody's assigns its higher Aaa and Aa1 rating to just a few very large US life insurance firms.¹

Moody's insurance-rating spectrum¹ for US life insurance industry

Source: Moody's Investors Service Global Ratings Guide, September 1998

Demutualization planned

In May 1998, J.H. announced its intention to transform itself from a policyholder-owned mutual insurance company to an ordinary limited-liability shareholder-held firm. As demutualization tends to be a time-consuming process, the J.H. management expects it to be completed in no less than about two years time. Credit ratings have not been affected by the demutualization announcement. In our view, the change in legal form will have no material negative impact on J.H.'s credit standing, but easier access to the equity markets will be of long-term benefit to the company.

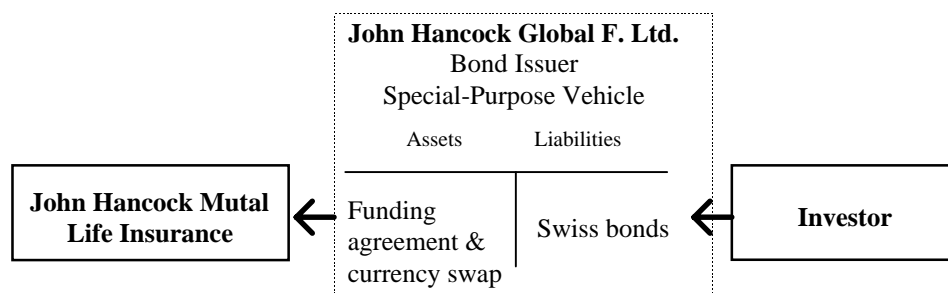
Spread lending business

After issues in DEM (400 million) and FRF (1.25 billion), the Swiss bond is the third issue under J.H.'s USD 2.5 billion Euro Medium-Term Note (EMTM) programme, the proceeds of which are used exclusively in J.H.'s spread lending business and not for general corporate purposes, such as acquisitions. Spread lending means that the funds will be reinvested into a diversified portfolio of investment-grade debt instruments with an average yield exceeding the funding costs of highly-rated J.H.

Bonds issued under a funding agreement structure

Swiss bonds issued by J.H. will not be straight debt issues but will rather route funds through John Hancock Global Funding Limited, an offshore special-purpose vehicle that applies the proceeds of the bond issue to purchase a one-to-one funding agreement issued by J.H. (see illustration on the following page). As is often the case with foreign issuers in the Swiss market, currency exposure is hedged via swap agreements.

¹ Note that in many instances, a host of subsidiaries of the same insurance group are officially rated. There are just four Aaa-rated insurance groups left in the US market: AIG, Northwestern Mutual Life, Teachers, and State Farm.



Swiss bondholders have status of general unsecured creditors

J.H. chooses such a structure for purely regulatory, technical reasons. A funding agreement is considered an insurance product and, as such, creates operational and not financial leverage. In this sense, the issuance of funding agreements instead of straight debt constitutes an act of balance-sheet window dressing. Since applicable insurance regulations rank this funding agreement's claims equal to those of general unsecured creditors, this Swiss bond may, for practical purposes, be considered a straight J.H. debt security.

Explicit S&P AA+ debt rating

Insurance financial strength ratings apply to senior policyholder obligations, which sometimes enjoy more senior status than general creditors' claims. In light of Massachusetts state insurance regulations, the ranking of the bonds issued under J.H.'s EMTM programme is similar (pari passu) to general creditors' claims, i.e. they rank behind senior policyholders' claims. In view of J.H.'s excellent credit quality, S&P has assigned a AA+ rating for bonds issued by John Hancock Global Funding Ltd. This is equal to J.H.'s insurance rating. J.H. has not applied for an explicit Moody's rating for this bond.

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