

KBRA Affirms Ratings for AmeriTrust Group, Inc. and Key Subsidiaries

NEW YORK (March 4, 2020) – Kroll Bond Rating Agency (KBRA) affirms the BBB- issuer rating of AmeriTrust Group, Inc. (AmeriTrust) and the A- Insurance Financial Strength Ratings (IFSR) of its key subsidiaries Star Insurance Company, Century Surety Company, Ameritrust Insurance Corporation, Williamsburg National Insurance Company, and ProCentury Insurance Company. The Outlook for all ratings is Stable.

AmeriTrust's ratings are based on its favorable operating metrics driven by strong surplus growth and targeted premium reductions since 2015 to de-emphasize non-core business lines. The combined ratio has improved considerably in recent years, with improved reserve development, underwriting initiatives and effective use of a dual admitted/non-admitted structure. Since 2015, AmeriTrust has generated net income in each of the past four years and reported about \$216 million in statutory profits for those years combined. Improved operating performance has also benefitted from AmeriTrust's highly experienced and deep executive management team with supportive bench strength. The executive appointment process is rigorous with internal and external appointments executed within a strong succession planning framework. KBRA notes that several new individuals have been hired for certain top positions and that the current CEO has been a driving force behind AmeriTrust's transformation initiatives.

With strong surplus growth in recent years, underwriting leverage ratios have been on an improving trend. KBRA believes that AmeriTrust has strong financial flexibility and access to capital, with low financial leverage at the holding company. Additionally, although AmeriTrust resumed dividends for the first time since 2014, KBRA anticipates that AmeriTrust Group will be prudent in upstreaming dividends from the operating companies in the near to medium term. In recent years, AmeriTrust's significant and ongoing improvements to risk management have fostered a sound Enterprise Risk Management (ERM) framework integrated within the executive management team and throughout the organization.

Balancing these strengths is AmeriTrust's considerable historical adverse reserve development, although significantly reduced in recent years. Reserving risk remains one of AmeriTrust's primary insurance risks with a moderate likelihood of adverse development, which has been partially mitigated in recent years by its improved reserve leverage and reserving practices. Further, previous financial difficulties had necessitated the use of certain fronting arrangements, which have added up to 2.5 points to AmeriTrust's combined ratio in prior years. KBRA notes that these fees were lower in 2019 and will be less than .1% going forward as AmeriTrust significantly reduced these fronting arrangements. Since 2015, there has been a notable shift in asset allocation. Non-US equities have increased and represent the majority of the equity portfolio, with U.S. equities declining from the majority in 2015. However, total equities comprise less than 4% of the investment portfolio. In addition, AmeriTrust maintains a high credit quality fixed income portfolio, but there has been a shift to more NAIC 2 securities from predominantly NAIC 1 securities. Further, AmeriTrust maintains a large cash position with the flexibility to seek yield or further improve credit quality. Although AmeriTrust's investment watch list currently reflects a modest unrealized loss, KBRA will monitor the portfolio closely going forward for material deterioration in valuation or credit quality. Furthermore, there remains a high concentration of California workers' compensation exposure, albeit modestly reduced in recent years with additional reductions built into new business projections. Lastly, potential execution risk exists with the overhauled business strategy, including planned expansion of AmeriTrust's distribution network.

The Stable Outlook reflects KBRA's expectation that AmeriTrust will continue to successfully execute its business strategies by maintaining sound capitalization at the operating subsidiaries, sustaining profitability with conservative underwriting leverage, and continuing to manage reserves in a prudent manner.

The ratings are based on KBRA's [Global Insurer & Insurance Holding Company Rating Methodology](#) published on October 10, 2017.

To access ratings, reports and disclosures for AmeriTrust Group, Inc. click [here](#).

A full report will soon be available on www.kbra.com.

Related Publications: (available at www.kbra.com).

- [U.S. Property and Casualty Insurance 2020 Outlook: Bedrock Capital Underpins Stability](#)
- [U.S. Title Insurance 2020 Outlook: The New Normal...For Now](#)

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