KBRA Assigns Ratings to AmeriTrust

NEW YORK, NY (March 4, 2019) – Kroll Bond Rating Agency (KBRA) assigns insurance financial strength ratings (IFSR) of A- with a Stable Outlook to AmeriTrust's five insurance underwriting entities – Star Insurance Company (Star), Century Surety Company, Ameritrust Insurance Corporation, Williamsburg National Insurance Company, and ProCentury Insurance Company. KBRA also assigns an issuer rating of BBB- with a Stable Outlook to the organization's holding company, AmeriTrust Group, Inc. (AmeriTrust). AmeriTrust is a wholly-owned subsidiary of Fosun International (Fosun) (00656.HK), a global investment group headquartered in China.

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. AmeriTrust has generated net income in four of the past five years and reported about $180 million in statutory profits for the last three 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.

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. The insurance company ratings are further supported by a financial guarantee by Fosun that remains in place through October 31, 2020. Current surplus significantly exceeds the guarantee level. KBRA believes that this source of capital support substantially mitigates the potential impact of extreme stress events. Additionally, AmeriTrust's insurance companies have not paid dividends since 2014, and there is low financial leverage at the holding company.

Balancing these strengths is AmeriTrust's considerable historical adverse reserve development, although significantly reduced in recent years. In addition, leading external actuarial consultants were engaged to audit AmeriTrust's reserves. Further, previous financial difficulties have necessitated the use of certain fronting arrangements, which haave added up to 2.5 points to AmeriTrust's combined ratio in recent years. Since the acquisition of the company by Fosun in 2015, there has been a notable shift in asset allocation to non-US securities – both equities and fixed income. 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. A portion of this book had previously contributed to the adverse reserve development. Lastly, potential execution risk exists with the overhauled business strategy, including planned expansion of AmeriTrust's distribution network.

KBRA notes that Star and its affiliates are parties to an intercompany pooling agreement, effective January 1, 2009. The existing intercompany pooling agreement was amended effective October 1, 2016 to novate all insurance risks of the affiliated carriers, requiring Star to assume all premiums, claims, underwriting expenses and outstanding reserves with no retroceding back to the other affiliated carriers.

The ratings for AmeriTrust's insurance entities are based on a consolidation of the operating company statutory statements. Per KBRA's **Global Insurer & Insurance Holding Company Rating Methodology** published on October 10, 2017, in cases where multiple insurance companies are affiliated with one organization, KBRA may consolidate certain entities to facilitate the quantitative analysis.

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

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