

Research Update:

ProAssurance Corp. 'BBB-' Rating Affirmed, Remains On CreditWatch Negative

March 5, 2020

Overview

- We have updated our revenue, profitability, and cash flow expectations for PRA and have revised our liquidity assessment to adequate from exceptional.
- We are affirming our 'BBB-' long-term issuer credit rating on PRA.
- The rating remains on CreditWatch Negative, reflecting the risks from the recent Norcal Mutual Insurance Co. (NORCAL) acquisition.

Rating Action

On March 5, 2020, S&P Global Ratings affirmed its 'BBB-' long-term issuer credit rating on Birmingham, Ala.-based ProAssurance Corp. (PRA) after we revised our expectations for revenue, profitability, and cash flow through 2021. The rating remains on CreditWatch negative, reflecting risk arising from the NORCAL acquisition.

Rationale

We have revised our expectations for PRA to reflect lower revenue levels (mainly influenced by nonrenewal actions and reduced participation in Lloyd's Syndicates), as well as lower favorable claim and reserve development through 2021; we now expect a combined ratio of 105%-110% versus our previously expected 100%-105%. But we do not expect these baseline revisions to result in diminished capital adequacy at the 'A' level or credit protection measures as reflected by financial leverage and fixed-charge coverage.

We have also revised our view of PRA's liquidity to adequate from exceptional based on our expectation for its liquidity ratio to trend below 220%, but well above 100% over the next two years, reflecting a narrowing differential between sources and uses relative to historical trend.

If PRA meets our baseline expectations for revenue and earnings, we would expect financial leverage (debt to EBITDA) near to or below 4.0x with EBITDA coverage at 4.0x or above through 2021. Our downside scenario assumes a combined ratio of 110%-115%, which could affect our

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financial risk profile assessment.

While PRA's plan to acquire NORCAL will bolster its scale, geographic diversification, and operational capabilities, we believe this could be more than offset by risk of the company becoming more deeply concentrated in a niche industry--medical professional liability (MPL) within the property/casualty sector--which is facing growing headwinds in the frequency and severity of claim trends.

CreditWatch

The CreditWatch listing reflects the potential for downside risk associated with the NORCAL transaction, especially if worsening conditions in PRA's core MPL market persist or deteriorate further, thereby straining our financial risk profile assessment. We could take a rating action on PRA during the interim period if its stand-alone credit profile were to erode in connection with such developments. We will resolve the CreditWatch concurrent with deal closing (if completed). At that time, we could either affirm our ratings or lower them by one or more notches.

Ratings Score Snapshot

ProAssurance Ltd.

	To:	From:
Business Risk Profile	Satisfactory	Satisfactory
Competitive position	Satisfactory	Satisfactory
IICRA	Intermediate	Intermediate
Financial Risk Profile	Strong	Strong
Capital and earnings	Strong	Strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Anchor*	a-	a-
Modifiers		
Governance	Neutral	Neutral
Liquidity	Adequate	Exceptional
Holding company rating	BBB-	BBB-

IICRA--Insurance Industry Country Risk Assessment. *This is influenced by our view of PRA's relative strength of Business Risk Profile and Financial Risk Profile within our rating matrix.

Related Criteria

- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

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- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Ratings Affirmed

ProAssurance Corp.

Issuer Credit Rating

Local Currency BBB-/Watch Neg/--

ProAssurance Corp.

Senior Unsecured BBB-/Watch Neg

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