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Ratings

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Research Update:

ProAssurance Corp. Ratings Lowered To 'BBB' On Weakening Operating Performance And Capital Adequacy; Outlook Stable

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Overview

- ProAssurance Corp.'s operating performance and capital adequacy have both weakened.
- We believe the company's capital will not be replenished to historical levels.
- As a result, we are lowering our issuer credit ratings on ProAssurance to 'BBB' from 'BBB+'.
- The outlook is stable, reflecting our view that PRA's capital adequacy will remain redundant at the 'AA' level over the next 24 months.

Rating Action

On Feb. 27, 2019 S&P Global Ratings lowered its issuer credit ratings on ProAssurance Corp. (PRA) to 'BBB' from 'BBB+'. The outlook is stable.

Rationale

The downgrade reflects our view that PRA's capital adequacy is unlikely to return to historical levels, as well as its weakening operating performance. In the past several years, PRA has reduced capital adequacy levels through shareholder distributions--since 2012, it has paid $884.48 million in special dividends, $439.31 million in regular dividends, and $426.7 million in share repurchases. Historically, PRA has shown a willingness to maintain capital levels redundant at our 'AAA' confidence levels. We now expect the company to maintain its current capital management strategy, which we believe will not allow it to return capital to redundancy levels consistent with those it enjoyed in the past.

Further, PRA's operating performance has come under pressure in recent years. The company has a large concentration in medical practice liability insurance and is currently the largest independent publicly traded miscellaneous professional liability writer with a near 5.2% market share. Although PRA's expertise in underwriting and handling claims is among the best in the industry and differentiates it from peers in terms of operating performance, the industry itself has been under pressure due to competitive pricing and rising severity trends. As a result of these pressures and headwinds in the performance at its Lloyds syndicate, PRA's combined ratio has increased in the past few years to 101% as of year-end 2018. We believe these competitive headwinds will persist and that operating performance will remained challenged for at least the next two years.

Outlook

The stable outlook reflects our view that PRA's capital adequacy will remain redundant at the 'AA' level over the next 24 months. We expect the company to maintain underwriting discipline and continue to outperform peers. We also expect a combined ratio of 99%-103% and financial leverage staying below 20% with fixed-charge coverage above 10x in the next two years.

Downside scenario

We could lower the ratings over the next 24 months if PRA's capital adequacy falls below the 'AA' level due to either earnings weakening to substantially less than our base-case assumptions or nonaccretive acquisitions, or if its competitive position deteriorates in line with industry trends.

Upside scenario

We are unlikely to raise the ratings in the next 24 months, but if PRA demonstrably commits to sustaining capital levels at the 'AAA' level per our calculations and performance pressures lighten, we could raise our ratings.

Related Criteria

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Insurance - General: Insurers: Rating Methodology, May 7, 2013
- Criteria | Insurance | General: Enterprise Risk Management, May 7, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

Ratings List

Downgraded

	To	From
ProAssurance Corp.		
Issuer Credit Rating		
Local Currency	BBB/Stable/--	BBB+/Stable/--

ProAssurance Corp.

Senior Unsecured	BBB	BBB+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.