

Fitch Affirms American Family's Ratings; Outlook Revised to Positive

Written by Australian Business

CHICAGO--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'A' Insurer Financial Strength (IFS) rating of American Family Mutual Insurance Company and its subsidiaries (American Family). The Rating Outlook is revised to Positive from Stable. A complete list of ratings follows at the end of this release.

KEY RATING DRIVERS

The Positive Rating Outlook reflects American Family's very strong capitalization and improved underwriting performance. The ratings continue to reflect the company's strong market position in the Midwest. The above positive factors are partially offset by recent acquisition activity and the associated execution and growth risk, particularly given increased homeowners' insurance exposure.

Fitch's Prism capital model score for American Family in 2012 was 'extremely strong', the highest category. Fitch expects a similar high score for 2013. As of March 31, 2014, policyholders' surplus increased by over \$755 million, or 15%, from year-end 2012 to \$5.9 billion primarily due to investment gains and improved earnings and reduced storm losses. In 2012, surplus increased by over \$500 million, or 11%, from year-end 2011 primarily due to the reasons mentioned above.

American Family has low financial leverage of roughly 8%, all acquisition related. Operating leverage (net premium written to surplus) was moderate at 0.97 times (x) in 2013, and 1.1x in 2012 and 2011, down from historically higher levels due to reduced premium written and increased surplus.

American Family reported a 2013 statutory combined ratio of 101.9%, improved from 102.6% in 2012 and 106.7 in 2011 due partly to better homeowners' insurance results and a return to lower catastrophe-storm loss levels. The company's reinsurance program and a heightened focus on surplus protection is anticipated to reduce future earnings volatility. Fitch notes that the recent results compare favorably to the company's five and 10 year average combined ratio .

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American Family has concentration risk related to the company's more limited geographic diversification versus peers. The company's top five states (Wisconsin, Missouri, Minnesota, Illinois, and Colorado) account for a majority of premiums written. Recent acquisitions have expanded the company's geographic, product, and distribution footprint nationally.

American Family acquired direct homeowners' insurance writer, Homesite Group Inc., in 2013 and direct nonstandard auto insurance writer, The Permanent General Companies (The General), in 2012. The Homesite acquisition in particular adds risk and uncertainty to the overall company profile given the homeowners insurance exposure and the associated earnings volatility and a five-year average combined ratio over 100%.

American Family Life Insurance Co.'s (AFLIC) rating reflects its status as a 'core' insurer within the American Family group of companies based on Fitch's Group Rating Methodology, as Fitch believes AFLIC's traditional life insurance products are complementary to American Family's exclusive agent distribution system. As a result, AFLIC's rating receives upward lift to the American Family group rating level.

Midvale Indemnity Company's (Midvale) rating reflects its status as an 'important' insurer within the American Family group of companies. Midvale's inclusion within the American Family group IFS rating is based on its position within American Family's organizational structure and overall business strategy. This includes Midvale's 100% intercompany quota share reinsurance agreement with American Family. As a result, Midvale's rating receives upward lift to the American Family group rating level.

RATING SENSITIVITIES

The key rating triggers that could result in an upgrade include maintaining a 'very strong' Prism score, low financial leverage and moderate operating leverage, and show continued improvement in underwriting profitability with an average combined ratio and operating ratio approaching 100% and 95%, respectively, including some seasoning of recent acquisitions. Fitch expects a certain amount of earnings volatility given American Family's natural catastrophe exposure.

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The key rating triggers that could result in a return to a Stable Outlook include a sharp reduction in surplus or a material deterioration in operating performance due to recent acquisitions.

Fitch has affirmed the following ratings with a Positive Outlook:

American Family Mutual Insurance Co.

American Family Insurance Company

American Standard Insurance Co. of Ohio

American Standard Insurance Co. of Wisconsin

American Family Life Insurance Co.

Midvale Indemnity Company

--IFS at 'A'.

Additional information is available on Fitch's web site at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

--'Insurance Rating Methodology' (Nov. 13, 2013).

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Insurance Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=723072

Additional Disclosure

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http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=837659

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