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Majestic Moving Toward an A- Rating

Proving that it's worth its weight in gold as a California workers' comp carrier, Majestic Insurance Company has had its outlook improved from stable to positive by A.M. Best Company. The improvement signals that Majestic, currently rated a B++ company, is well on its way to breaking into A- territory, potentially without having to invest any additional capital.

"It's such an incredible twist and turn. If we had stayed stable, I would have been happy," says John Hernandez, director of marketing for Majestic. "It shows that we didn't panic. It shows that we can survive as a B++ carrier in a competitive market. Not only did we survive, we flourished."

According to A.M. Best, the change reflects Majestic's strong underwriting results and profitability in the workers' compensation product it offers. Majestic is expected to be in positive territory for the next 12 to 36 months and during that time should be able to boost its rating.

After closing the books on 2005, Majestic has $71.2 million in earned premium and $36.9 million in surplus, according to its latest financial statements.

"Their surplus growth is all organic, which means it's supporting itself," says Mark Murray, senior financial analyst for Best, adding that organic growth can result from either underwriting profit or investments.

"I wouldn't say we look negatively upon companies that incur debt or get an infusion from a parent company, but if a company can generate funds internally, it's a lot better," he says.

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> *—Mark Murray, A.M. Best*

According to A.M. Best, a positive rating outlook means that the financial and market trends are favorable relative to a company's current rating, and a rating boost is entirely possible. A stable outlook means a company's trends are continuing and that the rating is unlikely to change in the near term. A negative outlook means there is pressure on the rating, indicating unfavorable market trends and a possible rating downgrade.

Majestic, a wholly owned subsidiary of Embarcadero Insurance Holding, Inc., is looking for investors and additional capital to help grow its operations. Hernandez says the right partner is one that will stick around for the long haul and not take off if the market gets rocky.

One drag on Majestic's rating in the past, according to Hernandez, is a statutory requirement that all California workers' comp carriers maintain a loss ratio of at least 65 percent over three years. This means that Majestic has had to take from its surplus and add to reserves just to make the percentage. This so-called redundant reserve requirement may be going the way of the dinosaur, eliminated in a Department of Insurance-sponsored cleanup bill.

Hernandez says that Majestic got a partial reprieve from the requirement anyway because of a recent Department audit that found Majestic to be in sound and solid financial condition. He points out that Majestic continues to focus as much on service as on price, mentioning that the carrier has saved one client more than 40 percent in medical costs just by staying focused on the correct coding for medical costs.

"If it was just net rates, we wouldn't be writing any business. It says something about the California marketplace. You can continue to excel as a niche player," he says. ▲