

Note: This session has live audience polling

Review & Preview

AM Best's 31st Annual *Review & Preview* Conference
March 18-20, 2024 • San Antonio, Texas



Mock Rating Committee

Chris Draghi – Director, AM Best
Sharon Marks – Director, AM Best
Alan Murray – Director, AM Best
Doniella Pliss – Director, AM Best
Dan Teclaw – Director, AM Best

This session has live Q&A – please submit questions via the “Ask A Question” icon in the session navigation bar



Rating Committee Voting

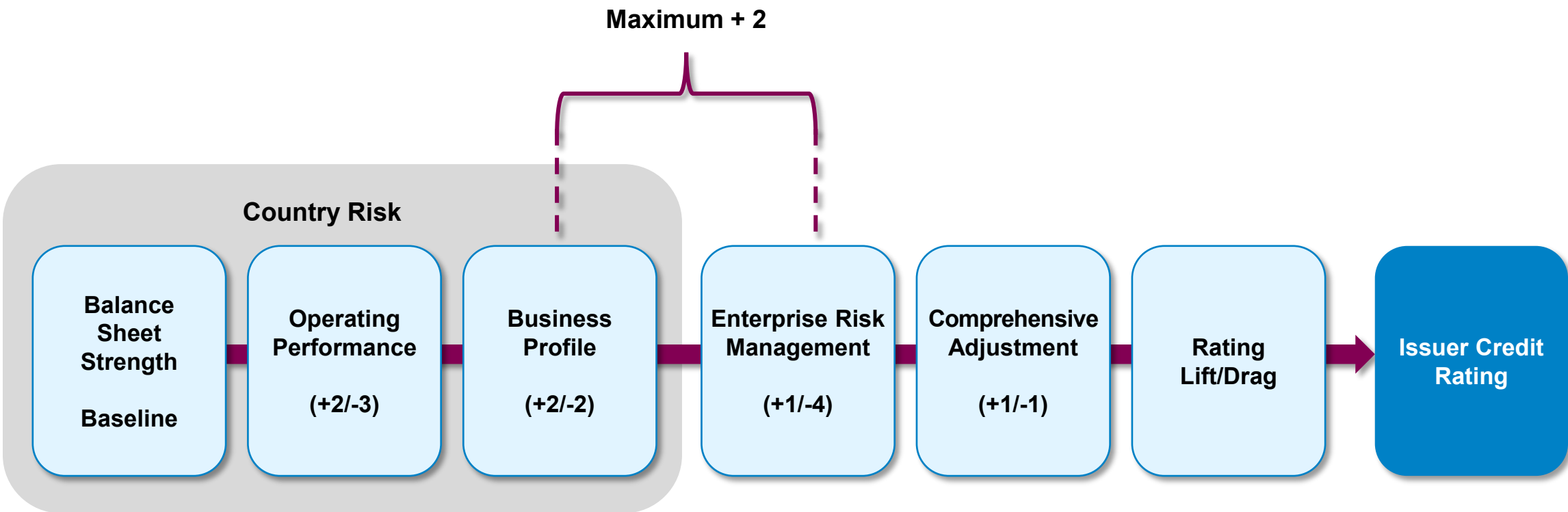
**Voting quorum –
minimum of six members,
including at least two
Directors or higher**

**Simple majority vote is
acceptable for the
approval of any rating
action**

**Chair can break tie or
refer the decision to a
higher committee**

**Voting members must
have at least 6 months'
experience, passed
compliance requirements
and have no conflicts of
interest**

BCRM – Building Block Assessments

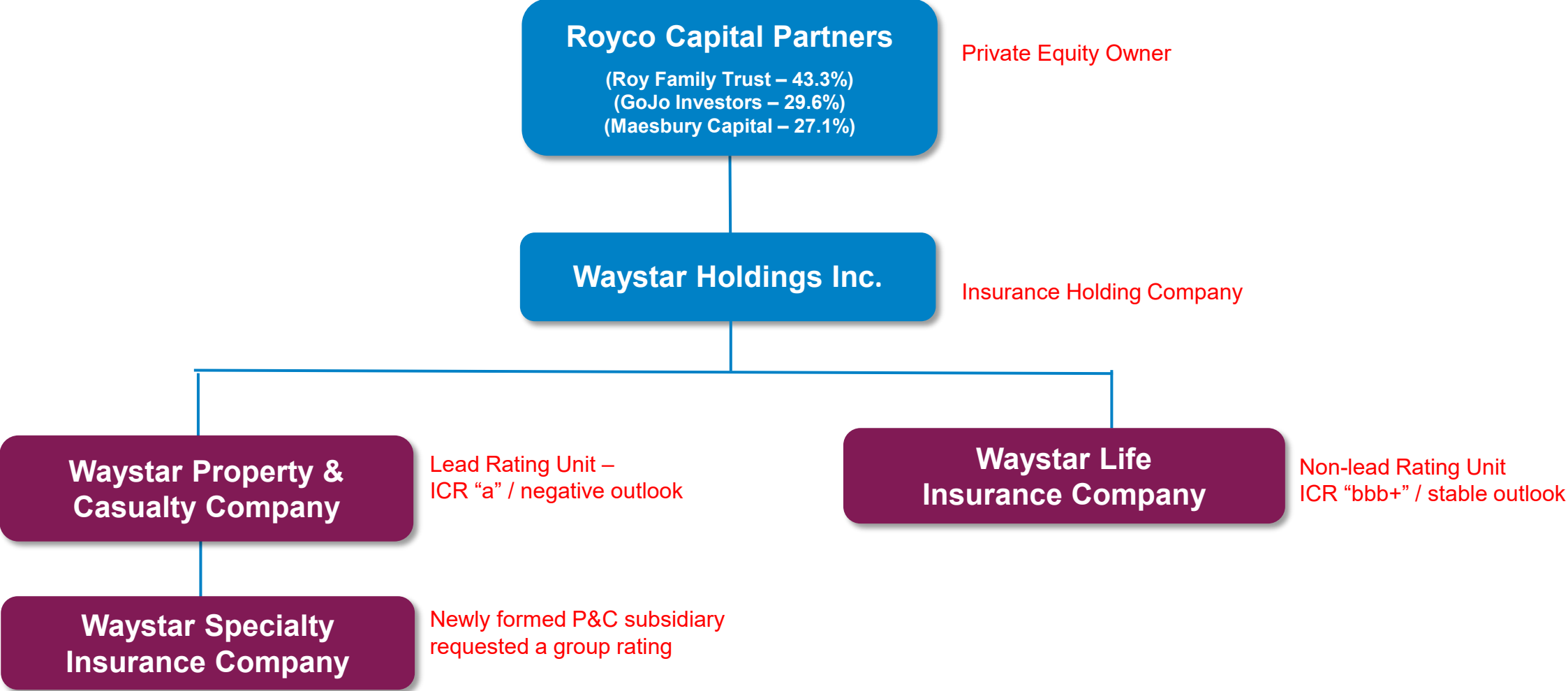


BCRM Rating Translation Table

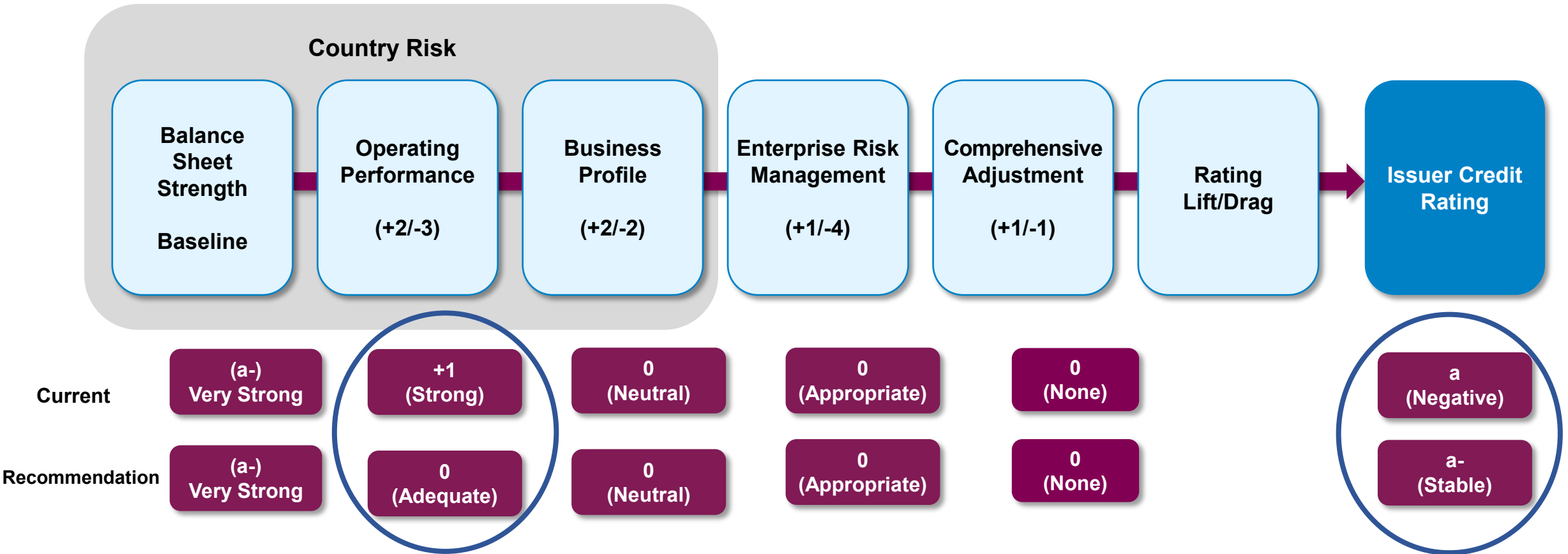
| Long-Term ICR | FSR |
|---------------|-----|
| aaa, aa+ | A++ |
| aa, aa- | A+ |
| a+, a | A |
| a- | A- |
| bbb+, bbb | B++ |
| bbb- | B+ |
| bb+, bb | B |
| bb- | B- |
| b+, b | C++ |
| b- | C+ |
| ccc+, ccc | C |
| ccc-, cc | C- |
| c | D |

Mock Committee

Organizational Structure

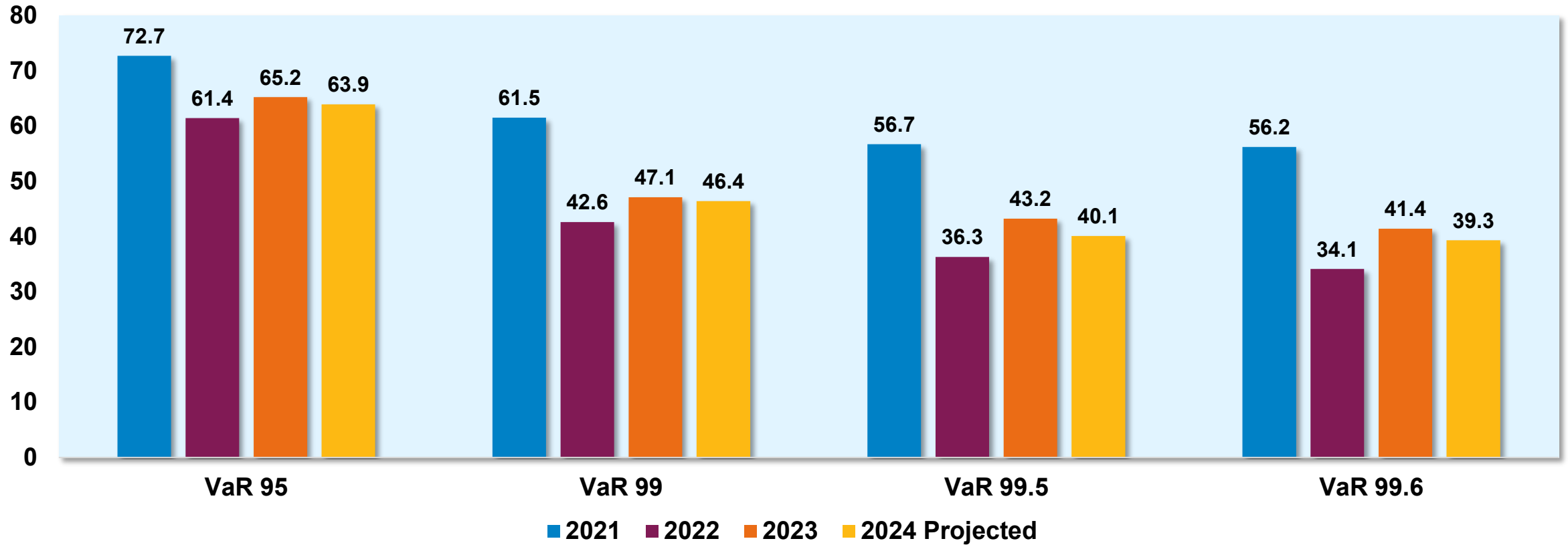


Building Blocks – Waystar Property & Casualty Company



Waystar P&C BCAR

BCAR Score



BCAR Guidelines

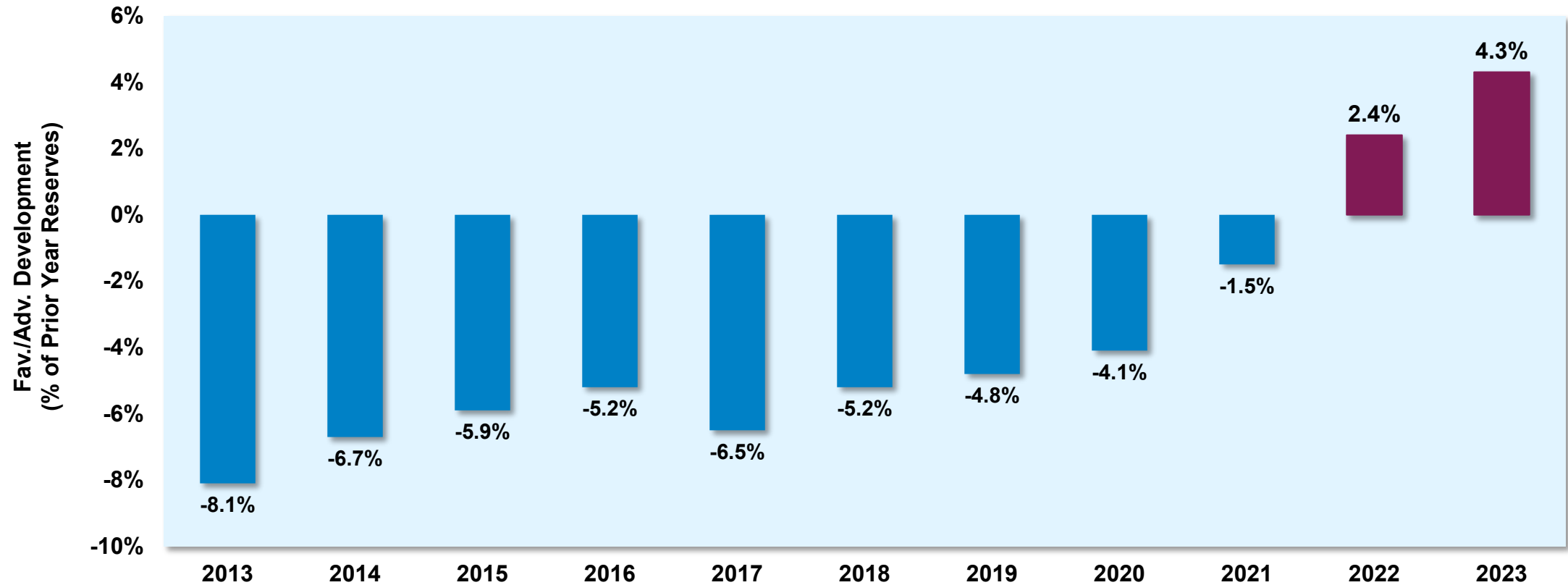
$$\text{BCAR} = \frac{(\text{Available Capital} - \text{Net Required Capital})}{\text{Available Capital}} \times 100$$

| VaR Level (%) | BCAR | BCAR Assessment |
|---------------|-----------------------------|-----------------|
| 99.6 | > 25 at 99.6 | Strongest |
| 99.6 | > 10 at 99.6 & ≤ 25 at 99.6 | Very Strong |
| 99.5 | > 0 at 99.5 & ≤ 10 at 99.6 | Strong |
| 99 | > 0 at 99 & ≤ 0 at 99.5 | Adequate |
| 95 | > 0 at 95 & ≤ 0 at 99 | Weak |
| 95 | ≤ 0 at 95 | Very Weak |

* Companies with < 20 million USD in capital & surplus cannot qualify in strongest category

Waystar P&C – Loss Reserves

Schedule P Part 2: One-Year Loss Reserve Development (by Year)



Balance Sheet Strength Sub-Assessments

| Quantitative Components | Assessment |
|----------------------------|------------|
| BCAR Assessment | Strongest |
| Volatility of BCAR | Neutral |
| BCAR Stress Testing | Neutral |
| Liquidity | Positive |
| Asset Liability Management | Neutral |
| Internal Capital Models | Neutral |
| Financial Leverage | Neutral |
| Operating Leverage | N/A |

| Qualitative Components | Assessment |
|----------------------------------|------------|
| Quality of Capital | Neutral |
| Quality of Reinsurance | Positive |
| Reinsurance Dependence | Neutral |
| Appropriateness of Reins Program | Neutral |
| Fungibility of Capital | Neutral |
| Financial Flexibility | Neutral |
| Quality of Assets | Positive |
| Strength of Reserves | Positive |
| Regulatory Capital Position | Neutral |

Rating Unit BSS Assessment = Strongest

Holding Company Analysis

- Insurance holding company is primarily owned by private equity firms
- Adjusted financial leverage is at 55%
- Interest coverage is adequate at 4x
- Debt is primarily in the form of convertible preferred stock as well as a surplus note at the P/C insurance company
- No other revenue streams outside of insurance operations
- Dividends from operating company used to service the debt
- Consolidated BCAR is at the Very Strong level

Holding Company Assessments

| Holding Co Analysis | Assessment |
|-----------------------------------|-------------|
| Consolidated BCAR | Very Strong |
| Financial Flexibility / Liquidity | Neutral |
| Unadjusted Financial Leverage | Negative |
| Adjusted Financial Leverage | Negative |
| Interest Coverage | Neutral |
| Operating Leverage | N/A |
| Intangible Assets | Neutral |

- Consolidated BCAR indicates risk-adjusted capitalization is at the “very strong” level
- Pressure from elevated financial leverage
- Overall holding company impact assessed as “negative”

Balance Sheet Strength Assessment

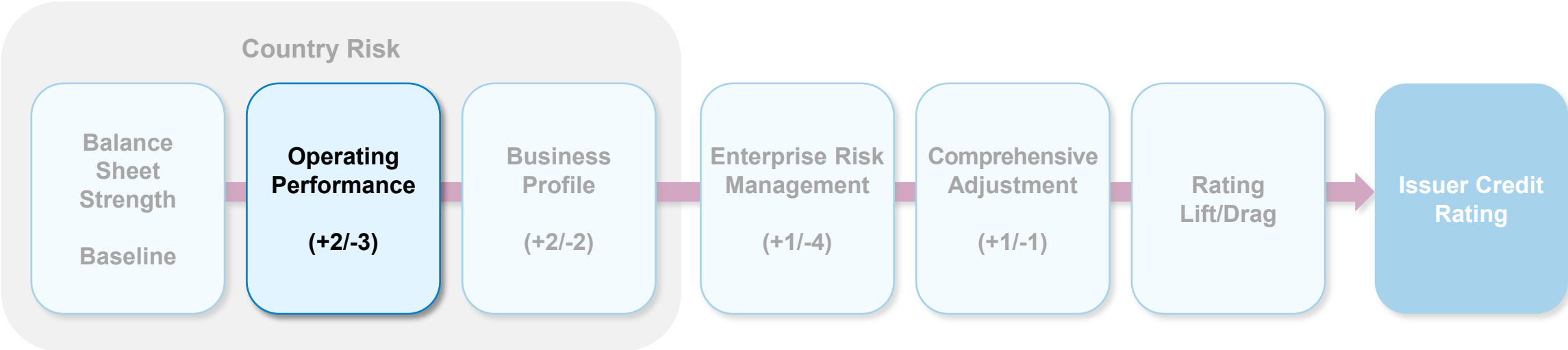
| | | Holding Company Impact | | | |
|------------------|-------------|------------------------|-------------|--------------------|---------------|
| | | Positive | Neutral | Negative | Very Negative |
| Lead Rating Unit | Strongest | Strongest | Strongest | Very Strong | Adequate |
| | Very Strong | Strongest | Very Strong | Strong | Weak |
| | Strong | Very Strong | Strong | Adequate | Very Weak |
| | Adequate | Strong | Adequate | Weak | Very Weak |
| | Weak | Adequate | Weak | Very Weak | Very Weak |
| | Very Weak | Weak | Very Weak | Very Weak | Very Weak |

Balance Sheet Strength Assessment

| Rating Unit Balance Sheet Assessment | Country Risk Tier | | | | | |
|--------------------------------------|--------------------|---------------|---------------|----------------|---------------|-------------|
| | CRT-1 | CRT-2 | CRT-3 | CRT-4 | CRT-5 | |
| | Strongest | a+/a | a+/a | a/a- | a-/bbb+ | bbb+/bbb |
| | Very Strong | a/a- | a/a- | a-/bbb+ | bbb+/bbb | bbb/bbb- |
| | Strong | a-/bbb+ | a-/bbb+ | bbb+/bbb/bbb- | bbb/bbb-/bb+ | bbb-/bb+/bb |
| | Adequate | bbb+/bbb/bbb- | bbb+/bbb/bbb- | bbb-/bb+/bb | bb/bb- | bb/bb-/b+ |
| | Weak | bb+/bb/bb- | bb+/bb/bb- | bb-/b+/b | b+/b/b- | b/b-/ccc+ |
| Very Weak | b+ and below | b+ and below | b- and below | ccc+ and below | ccc and below | |

Balance Sheet Strength Assessment = Very Strong (a-) ICR

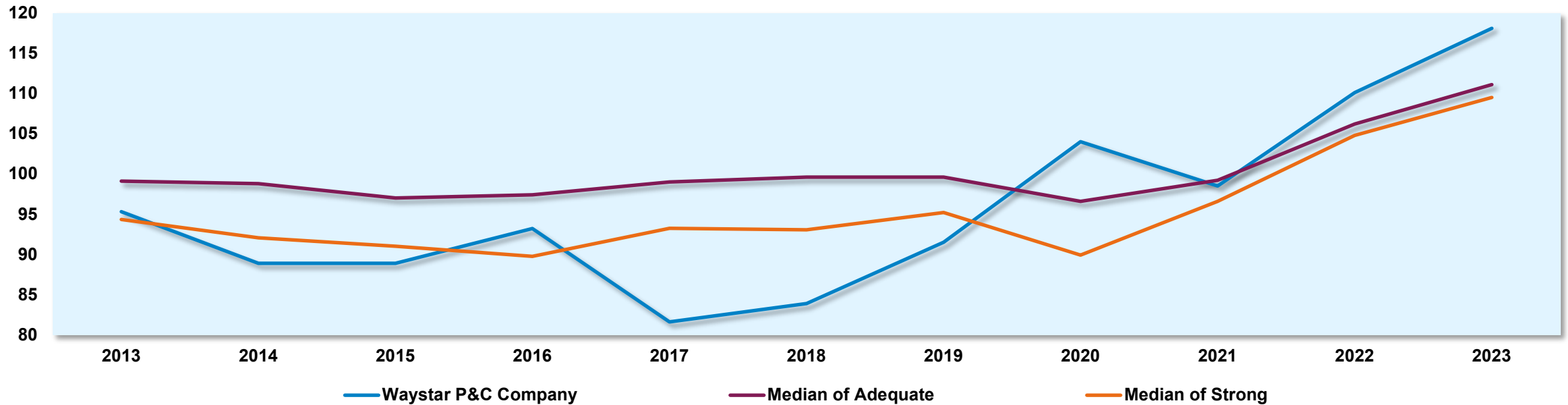
Building Blocks



a-
(Very Strong)

Operating Performance

Private Passenger Stand Auto & Homeowners Combined Ratio



| | Combined Ratio | | | | | | | | | | |
|--------------------|----------------|------|------|------|------|------|------|-------|------|-------|-------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Company | 95.3 | 88.9 | 88.9 | 93.2 | 81.6 | 83.9 | 91.5 | 104.0 | 98.5 | 110.1 | 118.1 |
| Median of Adequate | 99.1 | 98.8 | 97.0 | 97.4 | 99.0 | 99.6 | 99.6 | 96.6 | 99.2 | 106.2 | 111.1 |
| Median of Strong | 94.4 | 92.1 | 91.0 | 89.8 | 93.3 | 93.1 | 95.2 | 89.9 | 96.6 | 104.8 | 109.5 |

Operating Performance

5-Year Operating Performance Averages as of YE 2023

| | Investment Yield | Pretax ROR | Total ROR | Pretax ROE | Total ROE | Loss Ratio | Expense Ratio | Combined Ratio | Operating Ratio |
|--|------------------|------------|------------|------------|------------|-------------|---------------|----------------|-----------------|
| Private Passenger Auto & Homeowners | | | | | | | | | |
| Strong | 2.2 | 8.7 | 9.2 | 5.8 | 6.1 | 70.7 | 28.5 | 99.2 | 91.8 |
| Adequate | 2.4 | 2.8 | 4.0 | 3.5 | 4.0 | 71.3 | 31.2 | 102.5 | 96.2 |
| Total US P/C Industry | | | | | | | | | |
| Strong | 2.0 | 17.9 | 17.2 | 8.2 | 7.6 | 60.7 | 28.1 | 88.8 | 80.1 |
| Adequate | 2.2 | 5.6 | 6.1 | 3.8 | 4.5 | 67.6 | 31.7 | 99.3 | 92.3 |
| Waystar P&C Co | 2.3 | 5.2 | 6.4 | 4.7 | 5.1 | 74.8 | 29.6 | 104.4 | 97.5 |

Waystar P&C Response to Performance Pressure

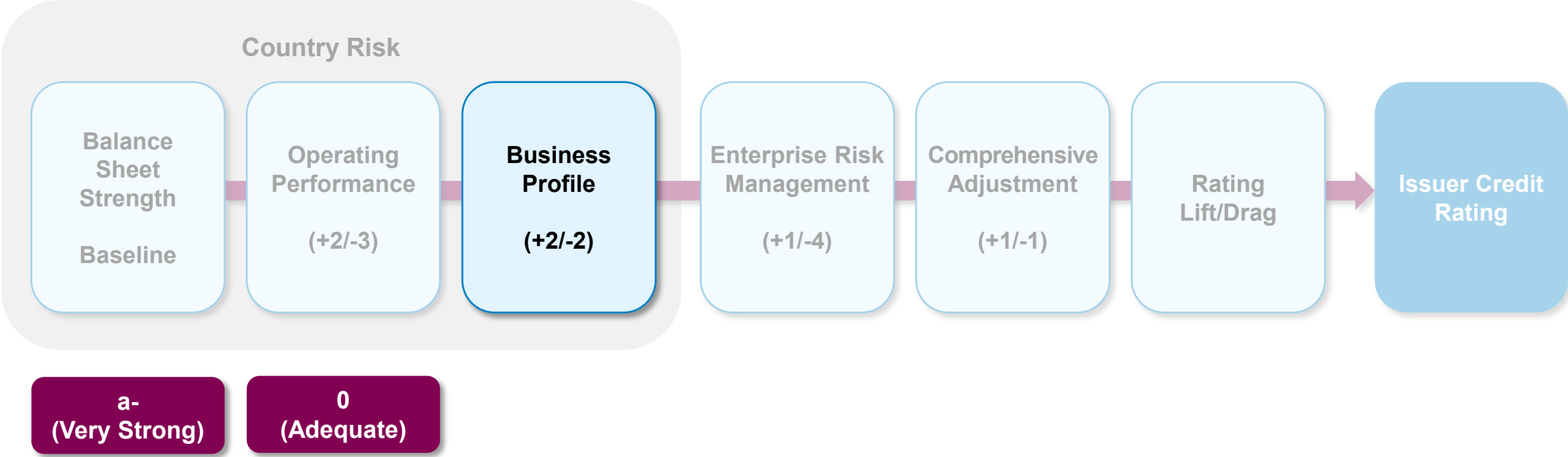
Rate Increases & Inflation Guard Factors

Tightening Underwriting Guidelines & Deductible Changes

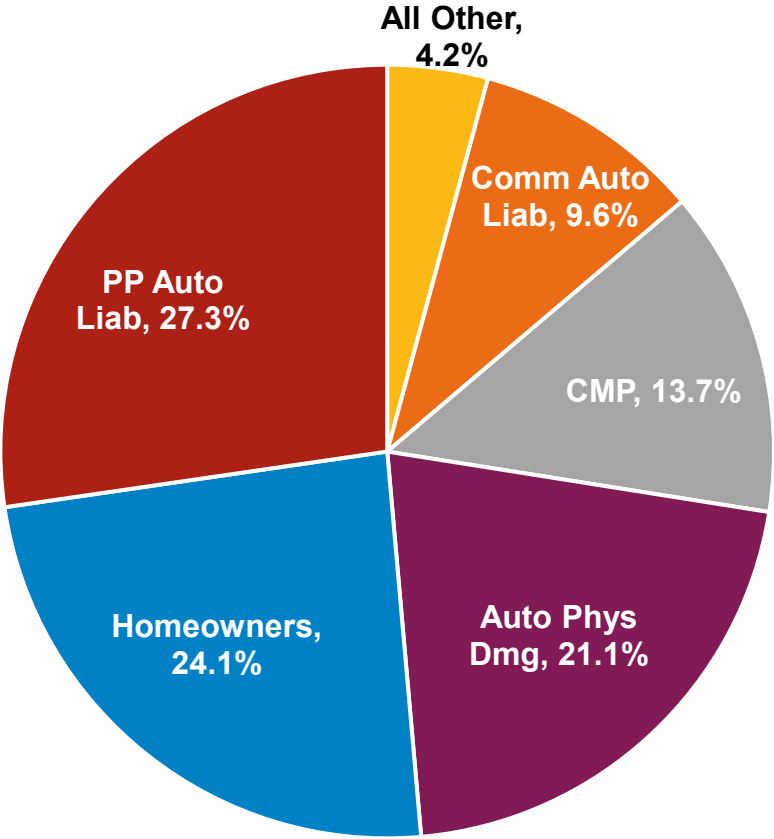
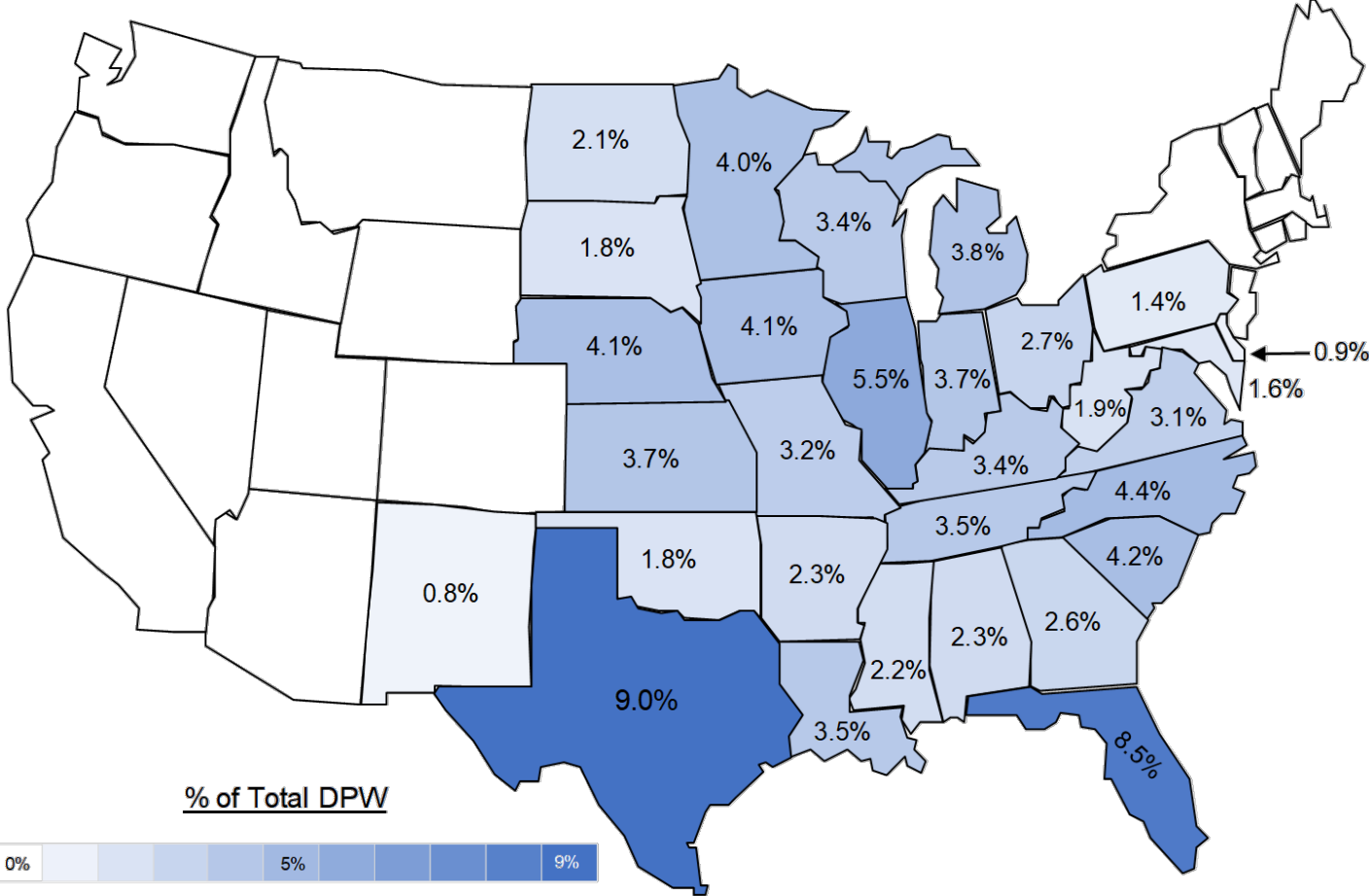
Concentration/Exposure Refinement

Improve Diversification – Targeted Commercial Lines Growth

Building Blocks



Geographic/Product Concentration



Business Profile

- Predominantly a personal lines writer with approximately 70% of the book in personal auto and homeowners
- Commercial products consist mostly of CMP and commercial auto for small businesses
- Geographic concentrations expose the company to severe weather-related events, including hurricanes and severe convective storms
- Well-established presence in their chosen markets
- Strong long-term agency relationships with active controls and monitoring
- Seasoned management team with extensive industry experience
- Targeting further product diversification through commercial lines growth
- Cyber product is added for 2024

Innovation

- Scored as:

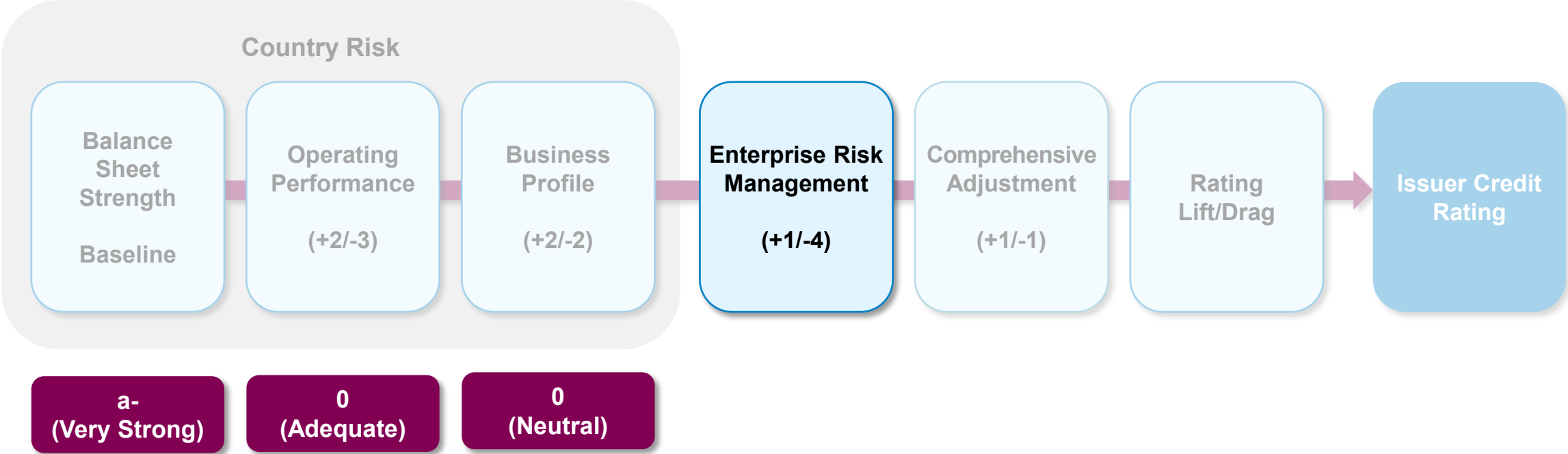


16 – Moderate

Business Profile Sub-Assessments

| Evaluation | Assessment |
|---------------------------------------|------------|
| Market Position | Neutral |
| Degree of Competition | Negative |
| Product/Geographic Concentration | Neutral |
| Distribution Channels | Positive |
| Pricing Sophistication/Data Quality | Neutral |
| Management Quality | Positive |
| Product Risk | Neutral |
| Regulatory/Event/Market/Country Risks | Neutral |
| Innovation | Neutral |

Building Blocks

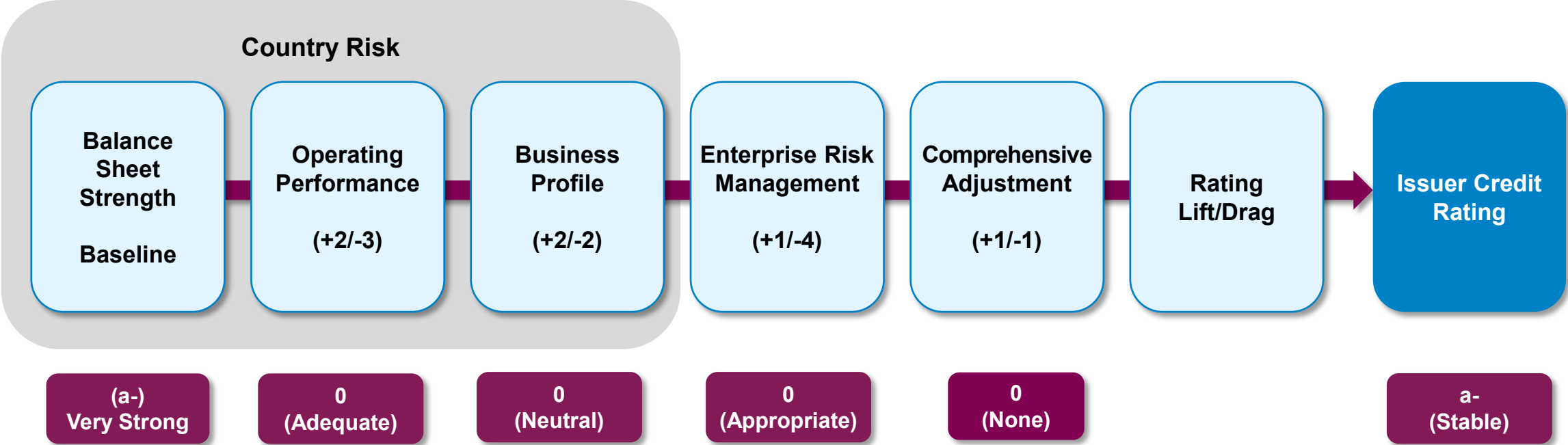


Enterprise Risk Management

| Framework Evaluation | Assessment |
|-----------------------------------|------------|
| Risk Appetite & Tolerances | Developed |
| Stress Testing & Non-Modeled Risk | Evolving |
| Risk Identification and Reporting | Developed |
| Risk Management & Controls | Developed |
| Governance & Risk Culture | Developed |

| Risk Evaluation (Capability) | Assessment |
|--|-------------|
| Product & Underwriting Risk | Appropriate |
| Reserving Risk | Appropriate |
| Concentration Risk | Appropriate |
| Reinsurance Risk | Appropriate |
| Liquidity & Capital Management | Appropriate |
| Investment Risk | Appropriate |
| Legislative/Regulatory/Judicial/Economic | Appropriate |
| Operational Risk | Appropriate |

Building Blocks



The Committee Vote

| | Balance Sheet | Operating Performance | Business Profile | ERM | |
|-------------------------|---------------------|-----------------------|------------------|--------------------|----------------|
| Doniella's Vote: | a- (Very Strong) | 0 (Adequate) | 0 (Neutral) | 0 (Appropriate) | a- Stable |
| Dan's Vote: | a- | 0 | 0 | 0 | a- Stable |
| Chris's Vote: | a- | 0 | 0 | 0 | a- Negative |
| Alan's Vote: | a- | 0 | 0 | 0 | a- Stable |
| Sharon's Vote: | a- | 0 | 0 | 0 | a- Negative |

Audience Polling

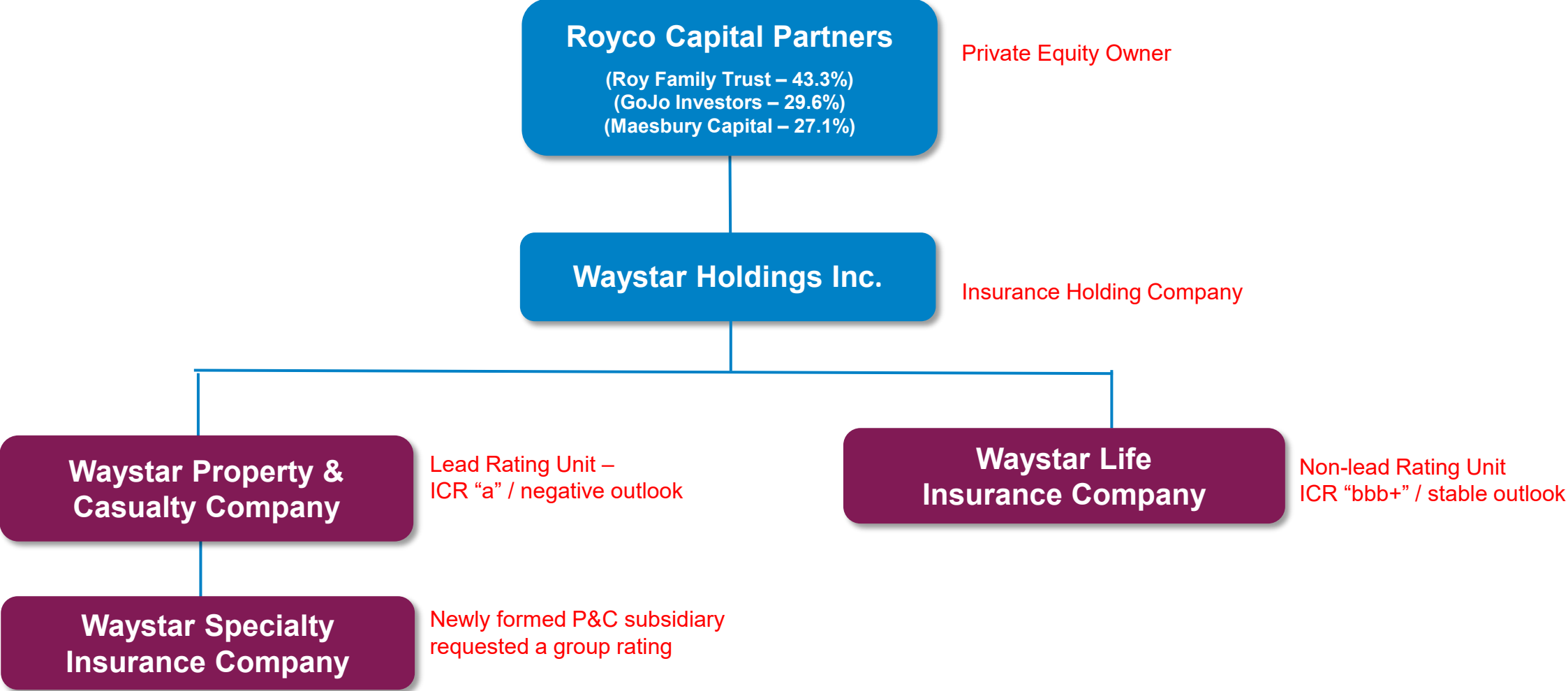
Polling Question – Final Vote

What is your vote on the ICR and outlook for Waystar Property & Casualty Company?

- a) Affirm “a” and maintain the negative outlook
- b) Downgrade to “a-” via a change in the Operating Performance Assessment to “Adequate” with a stable outlook
- c) Downgrade to “a-” via a change in the Operating Performance Assessment to “Adequate” with a negative outlook



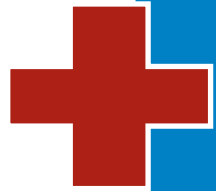
Organizational Structure



Waystar Specialty Overview

- New US-based company launched from shell purchased in 4Q 2023
- Capitalized with \$50 million
- Fully capitalized to support 5-year business plan
- Strategy targets excess & surplus lines coverages
- Distribution will be using program administrators / MGAs
- Common management, board, back-office functions with parent
- Shared ERM program with parent
- Management team hoping for a group rating with Waystar P&C Company

Waystar Specialty – Group Rating Considerations

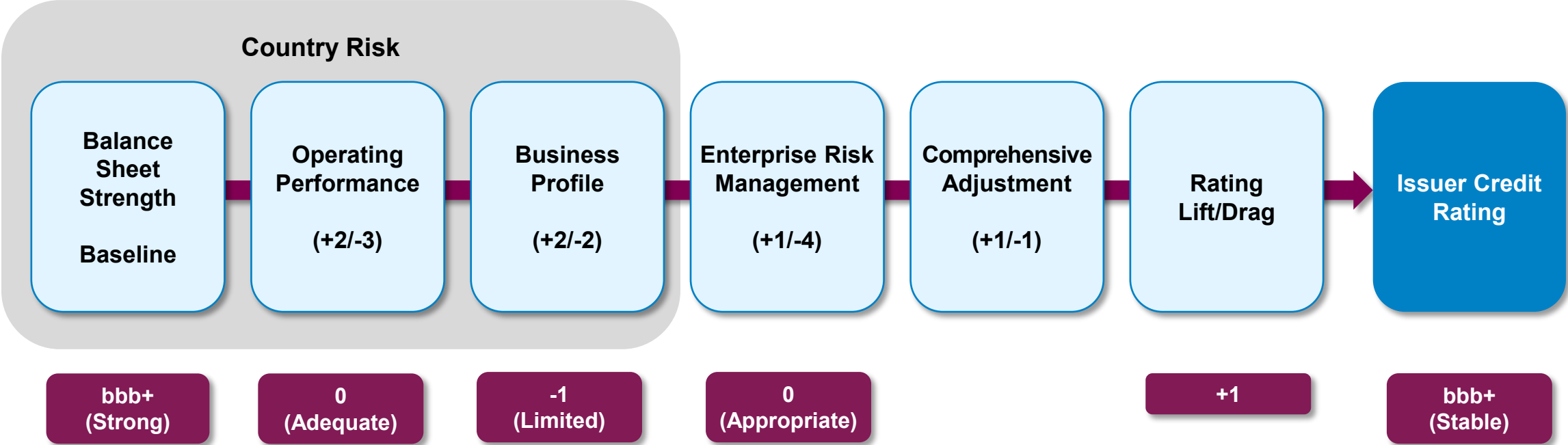


- Fully integrated into operations and management
- Carries the group's name and is easily identified with the group
- Necessary for rate flexibility / licensing
- Financial guarantee provided by the parent



- Newly established entity with no history of ongoing support
- Not material to the group's business profile currently
- Not a significant contributor to the group's earnings
- Parental guarantee does not include coverage for run-off liabilities and does not require at least 12 months for termination

Building Blocks – Waystar Specialty

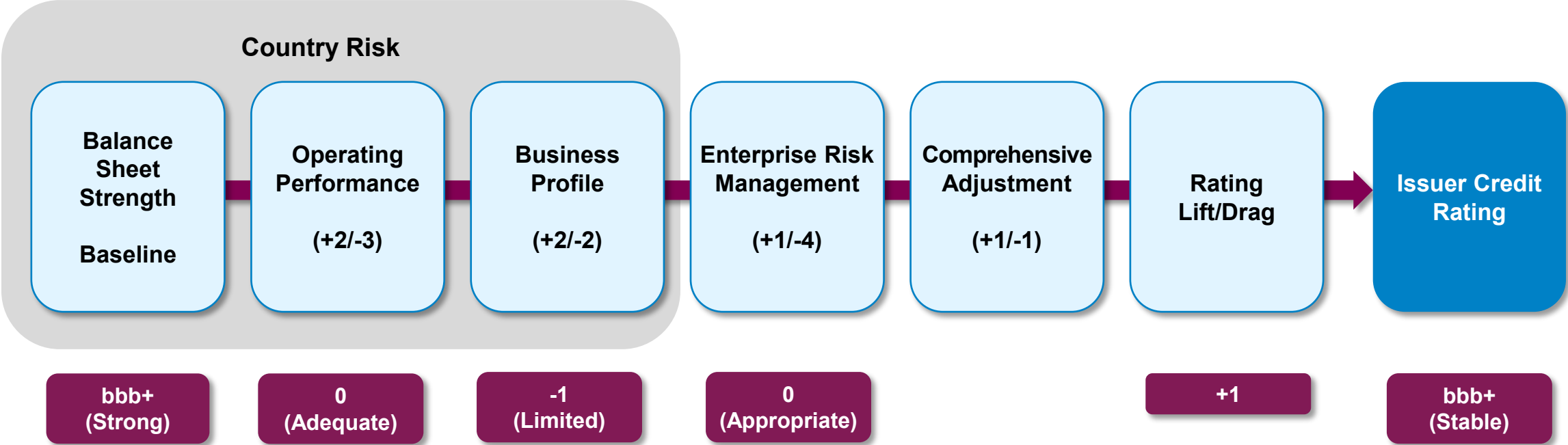


Waystar Life Insurance Company Overview

- Medium-risk portfolio with ordinary life and higher-risk deferred annuities
- Elevated exposure to higher-risk assets
- Unrealized losses on fixed income portfolio in 2022
- Recent growth in annuity sales
- Extended asset duration at more favorable rates during 2023
- Results impacted by higher COVID-related mortality claims in 2020/21
- Parent provides operational support

Brings Balance Sheet assessment from Very Strong to Strong

Building Blocks – Waystar Life



Decision and Summary

Rating Committee Outcome

- Chair confirms committee outcome based on voting
- Chair directs committee's attention to outlook statement and rating drivers for any potential revisions
- Analytical team asks for clarifying comments from the committee before close
- Chair completes a vote sheet with comments to document the outcome of the vote and the key parts of the committee discussion

Q&A



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