

A.M. Best Revises Outlook To Stable From Negative For Mercer Insurance Group and Its Members

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A.M. Best Co. has revised the outlook to stable from negative and affirmed the financial strength rating of A (Excellent) and issuer credit ratings (ICR) of "a" of **Mercer Insurance Group** (Mercer) (Pennington, NJ). The ratings apply to the following four inter-company reinsurance pool members: **Mercer Insurance Company** (Lock Haven, PA), **Mercer Insurance Company of New Jersey, Inc.** (Pennington, NJ), **Franklin Insurance Company** (Lock Haven, PA) and **Financial Pacific Insurance Company** (FPIC) (Rocklin, CA). Concurrently, A.M. Best has revised the outlook to stable from negative and affirmed the ICR of "bbb" of **Mercer Insurance Group, Inc.** (Mercer, Inc.) (headquartered in Pennington, NJ).

The revised outlook reflects Mercer's improved level of capitalization in 2009 as surplus grew due to profitable after-tax operating results, a capital contribution from its parent and a decrease in the group's non-admitted deferred tax assets. In addition, the equity in the group's fixed income portfolio significantly improved during the year, further bolstering economic capital.

The ratings reflect Mercer's favorable capitalization, solid operating performance and conservative management philosophy. The group continues to record favorable underwriting results, which have been an important driver of strong pre-tax returns on both revenue and surplus that either meet or exceed industry peers.

These positive rating factors are partially offset by Mercer's elevated expense structure and the risks associated with possible further adverse development on its construction defect liabilities. These concerns are partially mitigated by the strong expense control initiatives implemented during 2009 that resulted in a reduction in the expense ratio, despite a modest decline in net premium volume, historically strong reserve positions taken on more recent accident years and the fact that its construction defect claims are reserved above the actuarial mid-point suggested by its outside actuaries.

The rating outlook reflects A.M. Best's expectations that strong earnings will continue to add to Mercer's capital base, further protecting the capital position against potential volatility in both the capital markets and loss reserve position.

For Best's Credit Ratings, an overview of the rating process and rating methodologies, please visit [Best's Ratings & Analysis](#).

The principal methodologies used in determining these ratings, including any additional methodologies and factors that may have been considered, can be found at [Best's Credit Rating Methodology](#).

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