

SERIOUS ABOUT SOLVENCY[®]

Financial Stability Rating[®] (FSR) Survival Rates for Property & Casualty Insurers

FSRs issued 1989 through 2013

Evaluated as of June 30, 2014



A Chronology of Demotech's History Issuing FSRs

Since 1985, Demotech has proactively responded to the challenges faced by the insurance industry. In the late 1980s, independent, regional, and specialty insurance companies were not rated by rating agencies. In response to this market vacuum, Demotech pioneered a rating service for independent, regional, and specialty carriers. In 1989, Demotech gained acceptance from the Federal National Mortgage Association (Fannie Mae) for Financial Stability Ratings® (FSRs) of A or better. In 1990, FSRs received similar acceptance from the Federal Home Loan Mortgage Corporation (Freddie Mac). In 1993, the United States Department of Housing and Urban Development (HUD) published its acceptance of FSRs of A or better to qualify insurers to provide general liability insurance.

Once FSRs were accepted by major financial institutions, our analytical capabilities were needed, and tested, quickly. In the early to mid-1990s, rating agencies abandoned insurers focused on property insurance in the state of Florida. This was due, in large part, to nearly two dozen insurer insolvencies in the aftermath of Hurricane Andrew. None of these carriers had been rated by Demotech. In 1996, Demotech was asked to assign FSRs to Property & Casualty (P&C) insurance companies domiciled in Florida in response to the requirements to rate insurers depopulating Florida's residual market mechanism. Today we review and follow carriers writing nearly 60% of Florida's property insurance market in addition to 350 insurers operating outside of Florida.

In January 2005, FSRs of A or better were deemed acceptable for an insurer to qualify to provide professional and general liability insurance to the owners or operators of skilled nursing facilities utilizing HUD's Section 223(f) and 232 Programs.

In 2011, The Florida State University College of Business, Risk Management and Insurance compared FSRs with insurer ratings issued by A.M. Best, Moody's, Standard and Poor's, and Fitch. Their independent study reviewed thousands of insurer ratings issued over a nine year period. The resulting paper, "A Comprehensive Examination of Insurer Financial Strength Ratings," and its executive summary contained these conclusions:

1. *Demotech serves the needs of another unique group of insurers, namely those that are geographically focused.*
2. *Comparisons of Demotech ratings to other agencies show relative consistency in the factors that drive Demotech ratings compared to agencies such as A.M. Best, Moody's, Standard and Poor's, and Fitch.*
3. *There is also general consistency in the firms that each agency would categorize as financially secure.*
4. *These results have important public policy implications for insurers, regulators and consumers as they work to better understand the ratings process. Of particular importance to most is the comparability of Demotech ratings to other agencies.*
5. *Given that lenders often have requirements related to the use of rated insurers and some states require ratings to operate in a state, the results suggest that Demotech provides an important service within the ratings community and plays a very important role in the insurance market.*

In 2013, Fannie Mae MultiFamily revised its Selling and Servicing Guide to accept FSRs of A or better earned by captives and risk retention groups writing general or professional liability insurance on senior housing facilities.

In 2014, HUD re-affirmed our acceptance in its Section 232 Handbook and expanded our acceptances to include their Section 241(a) program. Also in 2014, Demotech earned the ACQ Global Awards 2014 — US — Niche Financial Analysis Provider of the Year (Insurance) award. This came on the heels of being nominated by *Intelligent Insurer* for its international Global Award — Best Rating Agency.

In the first six months of 2015, Demotech was advised that we had secured the ACQ Global Awards 2015 — US — Niche Financial Analysis Provider of the Year (Insurance) award for the second consecutive year. We also earned *Finance Monthly's* Innovation and Excellence Awards 2015 — USA — Excellence in Financial Analysis award. Similarly in 2015, Demotech earned the ACQ Global Awards 2015 — US — Gamechanger of the Year (Financial Analysis) award.

Also in 2015, an increasing number of informed third parties including umbrella insurance carriers, premium finance companies, insurance agents' errors and omissions insurers, and regulatory websites specifically reference FSRs of A or better to supplement their third party insurer rating requirements, preliminary rating eligibility criteria or to enhance the information available to consumers.

Introduction

Demotech, Inc. previously published retrospective analyses examining and documenting the capability of Financial Stability Ratings® (FSRs) to discern between financially stable and below stable Property & Casualty insurers beginning with *Serious About Solvency*® in 2004. To do so, we utilized each Financial Stability Rating® or Preliminary Financial Stability Rating® (PFSR) promulgated since 1989. This 2015 update to *Serious About Solvency*® reviews PFSRs and FSRs issued from the inception of our rating service in 1989 through 2013, evaluated as of June 30, 2014. Future updates will be prepared on a regular basis.

Financial Stability Ratings®

Financial Stability Ratings® are a leading indicator of financial stability. Demotech's rating process provides an objective baseline for assessing solvency based upon changes in financial stability, as manifested over time in an insurer's balance sheet and income

statement. FSRs are based upon a series of quantitative ratios and considerations which together comprise the Financial Stability Analysis Model.

An FSR summarizes Demotech's opinion as to an insurer's ability to insulate itself from the business cycle that exists in the general economy as well as the underwriting cycle in the insurance industry. An FSR also summarizes our opinion as to the relative ability of an insurer to honor meritorious claims during a downturn in general economic conditions as well as a downturn in the underwriting cycle.

As financial stability is independent of size, well managed, properly reinsured P&C insurers can be more stable than larger, highly leveraged P&C insurers. This conclusion is reasonable given that the survival rates of insurers earning FSRs of A or better are well within both the range of our anticipated survival rates and the published survival rates of other rating services. This occurred with a large proportion of our PFSRs and FSRs assigned to regional, specialty, or relatively new insurance companies. Our methodology has effectively

Exhibit 1: Financial Stability Ratings® Definitions

Stable FSRs

A" (A Double Prime), Unsurpassed

Regardless of the severity of a general economic downturn or a deterioration in the insurance cycle, one hundred percent of the insurers receiving a Preliminary Financial Stability Rating® of A" (A Double Prime) are expected to have positive surplus as regards policyholders as of eighteen months from the date of rating assignment or affirmation.



A' (Prime), Unsurpassed

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-nine percent of all the insurers countrywide receiving a Preliminary Financial Stability Rating® of A' (A Prime) are expected to have positive surplus as regards policyholders as of eighteen months from the date of rating assignment or affirmation.



A, Exceptional

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-seven percent of all the insurers countrywide receiving a Preliminary Financial Stability Rating® of A are expected to have positive surplus as regards policyholders as of eighteen months from the date of rating assignment or affirmation.



Below Stable FSRs

S, Substantial

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-five percent of all the insurers countrywide receiving a Preliminary Financial Stability Rating® of S are expected to have positive surplus as regards policyholders as of eighteen months from the date of rating assignment or affirmation.

M, Moderate

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety percent of all the insurers countrywide receiving a Preliminary Financial Stability Rating® of M are expected to have positive surplus as regards policyholders as of eighteen months from the date of rating assignment or affirmation.

L, Licensed

Insurers earning a Preliminary Financial Stability Rating® of L are Licensed by state regulatory authorities. Our evaluation precludes assignment at a Preliminary Financial Stability Rating® category referenced above.

discerned between insurers that are likely to be financially stable and those that are not. As such, Demotech can assist financially stable insurers of any size.

Demotech's focus on financial stability is unique. While operating profit remains an important criterion in the assignment of FSRs, the ability of an insurer to remain financially stable under a variety of economic stress tests requires a focus on balance sheet integrity, including a review of the quality and quantity of reinsurance protection purchased and the adequacy of the insurer's carried loss and loss adjustment expense reserves. Although other rating agencies appear to be willing to assign their higher ratings to carriers that self-report loss and loss adjustment expense reserve inadequacy, Demotech remains focused on the adequacy of loss and loss adjustment expense reserves.

Description of Our Analysis Process

All rating services rely on the truth and accuracy of information contained in the annual and quarterly statements filed with the Departments of Insurance or opined upon by actuaries and auditors. Similarly, the methodology utilized by Demotech relies on the accuracy of the underlying records of the company, as sworn to or attested by responsible officers of the insurer. We do not audit insurers or their financial statements.

Our Financial Stability Analysis Model includes a tactile review of quarterly and annual statements as well as the computation and analysis of critical financial ratios to assess the current and anticipated financial stability of the insurance company. We generally require the following information to finalize a Financial Stability Rating® issued to an established insurer:

Exhibit 2: P&C Impairments by Year by FSR

Number of Impairments within 12 Months of Assignment of FSR							
Year of FSR	A"	A'	A	S	M	L	NR*
1989	0	0	0	0	0	0	0
1990	0	0	0	0	0	0	2
1991	0	0	0	0	0	0	0
1992	0	1	1	0	0	0	0
1993	0	0	0	0	1	1	2
1994	0	0	0	0	6	6	6
1995	0	0	0	2	2	1	6
1996	0	0	3	11	3	3	36
1997	0	0	0	0	0	0	1
1998	0	0	1	1	0	3	7
1999	0	0	3	2	1	2	11
2000	0	0	2	2	2	15	8
2001	0	0	0	5	5	22	5
2002	0	0	4	1	6	14	5
2003	0	0	0	2	2	5	12
2004	0	0	3	0	2	5	3
2005	0	0	2	1	0	3	1
2006	0	0	0	0	0	5	4
2007	0	0	0	0	0	0	2
2008	0	0	3	0	1	0	6
2009	0	0	5	1	1	1	4
2010	0	0	1	1	0	6	17
2011	0	0	2	1	2	2	3
2012	0	0	2	1	1	9	2
2013	0	0	1	0	1	11	1
Total	0	1	33	31	36	114	144
Total Number of FSRs Assigned 1989-2013	6,288	9,974	15,240	5,283	2,293	2,809	*NR: Not Rated

- Five years of statutory annual statements
- Current year statutory quarterly statements
- Most recent statement of actuarial opinion and report
- Summary of the current reinsurance program
- Most recent independent audit
- Most recent management discussion and analysis
- Business plan and projections.

Our Financial Stability Analysis Model can be applied to financial information compiled under statutory insurance accounting principles or generally accepted accounting principles.

Assignment of Financial Stability Ratings®

Exhibit 1 presents the definitions that comprise our current range of FSR categories. Our opinion of financial stability incorporates potential downturns in general economic conditions as well as the underwriting cycle and includes an expectation of the percentage of companies that will remain solvent.

We utilize our quantitative model to analyze the financial stability of P&C insurers whenever representative historical operating results are available. We assign a Preliminary Financial Stability Rating® (PFSR) to each insurer and notify the insurer of the PFSR assigned. If the insurer concurs, we ask that company to finalize the rating. Only finalized FSRs are published. The insurers finalizing their FSRs are primarily insurers earning PFSRs of A or better. Throughout the remainder of this report, although we refer to Financial Stability Ratings®, we utilized Preliminary Financial Stability Ratings® in the determination and analysis of survival rates. This assures that our analyses reflect all ratings issued, whether finalized or not.

Given that the focus of our rating service is to assist P&C insurance companies that were denied preliminary eligibility based upon their lack of an otherwise acceptable rating, the publication of FSRs of A or better was consistent with our goal. However, an unintended side effect of our business model was the inability of third parties to measure the full range of FSRs or to assess the relative survival rates for all categories of FSRs. We address these two issues in this update as we did in our previous reports.

Survival and Impairment Rates

Our focus is the protection of policyholders, insurance agents, claimants, third parties, and reinsurers from impairment. Accordingly, survival is defined as the avoidance of impairment. Voluntary action by an insurance company, such as surrender of a license, merger into an affiliate, purchase by a solvent insurer, a capital infusion by a third party or other activity that resulted in the continuous ability to honor meritorious claims and other obligations was defined as survival. Impairment includes rehabilitation, liquidation, involuntary receivership or conservatorship, license suspension or revocation, supervision or other legal or regulatory remedy instituted by a Department of Insurance or regulatory authority for the purpose of protecting the interests of policyholders or claimants. Exhibit 2 presents P&C impairments by the year of impairment and FSR assigned in the 12 months prior to

impairment. Carriers rated M or L along with companies that were not rated constituted the overwhelming majority, 325 out of 359 or 91%, of impairments over the twenty-five year period of June 30, 1989 through June 30, 2014.

As the overwhelming majority of insurance policies issued by insurers are twelve-month policies, Demotech utilized a static pool analysis with valuations of impairment as of each twelve months to ascertain the effectiveness of FSRs. Static pool analysis tracks successes and failures from each group of rated insurers over the life of the group.

As we generally promulgate FSRs in the second half of each calendar year, we utilized survival information as of June 30 of each subsequent year. Accordingly, our initial valuation point was twelve months after the assignment of an FSR. The second observation point was twelve months after the initial valuation point; the third observation point was twelve months after that date; and so on. The survival results for FSRs issued from 1989 through 2013 are presented in Exhibit 3. Exhibit 3 also presents impairment rates. Impairment rates were calculated as the complement of the respective survival rates. Exhibit 3 was compiled as of June 30, 2014.

The results for Stable versus Below Stable FSRs demonstrate that FSRs effectively differentiate between Stable insurers and those categorized as Below Stable. At each valuation point, the impairment rate for Stable companies is well below the overall average and the impairment rate for insurers Below Stable is well above the overall average impairment rate.

The survival rates associated with insurance companies earning FSRs of A or better, Stable companies, are quite impressive. They compare favorably to our expectations as well as to the published survival rates of other rating agencies for stable insurers.

Conclusion: The Reliability of Our Financial Stability Analysis Model

The results of our ongoing analysis bode well for those interested in utilizing FSRs as an opinion of the long-term survival of insurance companies. Consumers, agents, insurance carriers, reinsurers, stand-alone umbrella insurance markets, insurance agents' errors and omissions markets, and premium financing companies can provide coverages or services to insurance companies assigned an FSR of A or better and be confident of the anticipated survival rate of the insurers.

Demotech has been analyzing the financial stability of insurance companies since 1989. This retrospective analysis of 41,887 Financial Stability Ratings® indicates that insurers earning FSRs of A or better, recognized by Demotech as Stable companies, had survival rates at or above our published expectations as well as at or above the survival rates of comparable ratings issued by other third party rating services. The reliability of Financial Stability Ratings®, along with the conclusions from The Florida State University's landmark examination and the growing number of acceptances and awards earned by Demotech, proves that FSRs can be utilized to identify financially stable insurers regardless of the size of the insurer or its business model. 🌐

Exhibit 3: Survival and Impairment Rates – Stable vs. Below Stable

Survival Rates

Property & Casualty Financial Stability Ratings®
FSRs issued from 1989 through 2013 evaluated as of June 30, 2014

FSR	Time Period (Months)														
	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180
A*	100.00%	100.00%	99.93%	99.78%	99.65%	99.59%	99.44%	99.37%	99.23%	99.04%	98.82%	98.65%	98.34%	98.10%	97.81%
A'	99.99%	99.90%	99.66%	99.39%	99.15%	98.92%	98.67%	98.37%	98.13%	97.91%	97.74%	97.42%	97.22%	96.93%	96.61%
A	99.79%	99.24%	98.60%	97.98%	97.24%	96.54%	95.80%	95.04%	94.23%	93.67%	93.05%	92.68%	92.34%	91.97%	91.69%
S	99.45%	98.82%	97.97%	97.12%	96.16%	95.00%	93.69%	92.43%	91.42%	90.65%	89.96%	89.58%	89.10%	88.74%	88.26%
M	98.56%	96.30%	94.70%	93.45%	92.62%	91.40%	89.78%	88.18%	86.49%	84.48%	83.41%	82.29%	81.70%	80.74%	79.98%
L	96.01%	92.56%	89.70%	86.98%	84.64%	83.26%	81.73%	80.61%	79.56%	78.04%	77.22%	76.38%	75.57%	74.72%	74.28%
Stable	99.90%	99.61%	99.21%	98.80%	98.35%	97.94%	97.48%	97.02%	96.54%	96.18%	95.79%	95.49%	95.20%	94.88%	94.59%
Below Stable	98.32%	96.59%	95.06%	93.67%	92.42%	91.19%	89.76%	88.46%	87.28%	86.04%	85.23%	84.59%	84.02%	83.45%	82.92%
Total	99.51%	98.86%	98.18%	97.53%	96.88%	96.27%	95.57%	94.89%	94.23%	93.63%	93.14%	92.74%	92.38%	91.99%	91.63%

Impairment Rates

Property & Casualty Financial Stability Ratings®
FSRs issued from 1989 through 2013 evaluated as of June 30, 2014

FSR	Time Period (Months)														
	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180
A*	0.00%	0.00%	0.07%	0.22%	0.35%	0.41%	0.56%	0.63%	0.77%	0.96%	1.18%	1.35%	1.66%	1.90%	2.19%
A'	0.01%	0.10%	0.34%	0.61%	0.85%	1.08%	1.33%	1.63%	1.87%	2.09%	2.26%	2.58%	2.78%	3.07%	3.39%
A	0.21%	0.76%	1.40%	2.02%	2.76%	3.46%	4.20%	4.96%	5.77%	6.33%	6.95%	7.32%	7.66%	8.03%	8.31%
S	0.55%	1.18%	2.03%	2.88%	3.84%	5.00%	6.31%	7.57%	8.58%	9.35%	10.04%	10.42%	10.90%	11.26%	11.74%
M	1.44%	3.70%	5.30%	6.55%	7.38%	8.60%	10.22%	11.82%	13.51%	15.52%	16.59%	17.71%	18.30%	19.26%	20.02%
L	3.99%	7.44%	10.30%	13.02%	15.36%	16.74%	18.27%	19.39%	20.44%	21.96%	22.78%	23.62%	24.43%	25.28%	25.72%
Stable	0.10%	0.39%	0.79%	1.20%	1.65%	2.06%	2.52%	2.98%	3.46%	3.82%	4.21%	4.51%	4.80%	5.12%	5.41%
Below Stable	1.68%	3.41%	4.94%	6.33%	7.58%	8.81%	10.24%	11.54%	12.72%	13.96%	14.77%	15.41%	15.98%	16.55%	17.08%
Total	0.49%	1.14%	1.82%	2.47%	3.12%	3.73%	4.43%	5.11%	5.77%	6.37%	6.86%	7.26%	7.62%	8.01%	8.37%

How to Interpret Survival and Impairment Rates

To facilitate the interpretation of the results published in this analysis, the following explanation is provided. The time frame presented at the top of each column refers to the duration of time that has elapsed since the insurer was assigned the applicable PFSR or FSR.

Please refer to the bottom table, "Impairment Rates Property & Casualty Financial Stability Ratings®" in Exhibit 3 above. When examining the row with the FSR of A, the 0.21%, less than one-quarter of one percent, in the column labeled 12 means that 0.21% of the insurers assigned an A were impaired within twelve months. Alternately, 99.79% (100.00% less the 0.21%) were not impaired during the initial twelve months after being assigned a FSR of A. Moving one column to the right to the column headed 24, we see that 0.76% of the companies assigned a FSR of A were impaired within two years of assignment of an FSR of A. In other words, 99.24% of the insurers assigned an A (100.00% less 0.76%) survived at least twenty-four months after the assignment of A. Moving all the way to the right at 180 months, only 8.31% failed within fifteen years of being assigned a FSR of A. 91.69% (100.00% less 8.31%) of the insurers assigned a FSR of A fifteen years earlier have survived at least the intervening fifteen years. These survival rates compare quite favorably to the published survival rates of other rating services.

As Demotech restricted our initial FSRs to A (no FSRs of A" or A' were assigned in 1989), as of the date of this review and analysis, only FSRs of A have a 25 year review period (June 30, 1989 through June 30, 2014). See Exhibit 4 for the full 25 year results related to all FSRs.

Exhibit 4: 25 Years of Survival and Impairment Rates

Survival Rates

Property & Casualty Financial Stability Ratings®

FSRs issued from 1989 through 2013 evaluated as of June 30, 2014

FSR	Time Period (Months)																									
	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	252	264	276	288	300	
A*	100.00%	100.00%	99.93%	99.78%	99.65%	99.59%	99.44%	99.37%	99.23%	99.04%	98.82%	98.55%	98.34%	98.10%	97.81%	97.70%	97.70%	97.70%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%	97.00%
A'	99.99%	99.90%	99.66%	99.39%	99.15%	98.92%	98.67%	98.37%	98.13%	97.91%	97.74%	97.42%	97.22%	96.93%	96.61%	96.44%	96.22%	95.99%	95.70%	95.56%	95.31%	94.85%	94.85%	94.85%	94.85%	94.85%
A	99.79%	99.24%	98.60%	97.98%	97.24%	96.54%	95.80%	95.04%	94.23%	93.67%	93.05%	92.68%	92.34%	91.97%	91.69%	91.46%	90.95%	90.63%	90.38%	89.90%	89.44%	88.93%	88.10%	88.10%	88.10%	88.10%
S	99.45%	98.82%	97.97%	97.12%	96.16%	95.00%	93.69%	92.43%	91.42%	90.65%	89.96%	89.58%	89.10%	88.74%	88.26%	87.86%	87.42%	86.87%	86.31%	85.26%	84.98%	83.69%	83.69%	83.69%	83.69%	83.69%
M	98.56%	96.30%	94.70%	93.45%	92.62%	91.40%	89.78%	88.18%	86.49%	84.48%	83.41%	82.29%	81.70%	80.74%	79.98%	78.85%	77.80%	76.90%	76.44%	75.78%	74.22%	74.22%	74.22%	74.22%	74.22%	74.22%
L	96.01%	92.56%	89.70%	86.98%	84.64%	83.26%	81.73%	80.61%	79.56%	78.04%	77.22%	76.38%	75.57%	74.72%	74.28%	73.57%	72.72%	71.57%	69.25%	68.64%	65.07%	65.07%	65.07%	65.07%	65.07%	65.07%

Impairment Rates

Property & Casualty Financial Stability Ratings®

FSRs issued from 1989 through 2013 evaluated as of June 30, 2014

FSR	Time Period (Months)																									
	12	24	36	48	60	72	84	96	108	120	132	144	156	168	180	192	204	216	228	240	252	264	276	288	300	
A*	0.00%	0.00%	0.07%	0.22%	0.35%	0.41%	0.56%	0.63%	0.77%	0.96%	1.18%	1.35%	1.66%	1.90%	2.19%	2.30%	2.30%	2.30%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
A'	0.01%	0.10%	0.34%	0.61%	0.85%	1.08%	1.33%	1.63%	1.87%	2.09%	2.26%	2.58%	2.78%	3.07%	3.39%	3.56%	3.78%	4.01%	4.30%	4.44%	4.69%	5.15%	5.15%	5.15%	5.15%	5.15%
A	0.21%	0.76%	1.40%	2.02%	2.76%	3.46%	4.20%	4.96%	5.77%	6.33%	6.95%	7.32%	7.65%	8.03%	8.31%	8.54%	9.05%	9.37%	9.62%	10.10%	10.56%	11.07%	11.90%	11.90%	11.90%	11.90%
S	0.55%	1.18%	2.03%	2.88%	3.84%	5.00%	6.31%	7.57%	8.58%	9.35%	10.04%	10.42%	10.90%	11.26%	11.74%	12.14%	12.58%	13.13%	13.69%	14.74%	15.02%	16.31%	16.31%	16.31%	16.31%	16.31%
M	1.44%	3.70%	5.30%	6.55%	7.38%	8.60%	10.22%	11.82%	13.51%	15.52%	16.59%	17.71%	18.30%	19.26%	20.02%	21.15%	22.20%	23.10%	23.56%	24.22%	25.78%	25.78%	25.78%	25.78%	25.78%	25.78%
L	3.99%	7.44%	10.30%	13.02%	15.36%	16.74%	18.27%	19.39%	20.44%	21.96%	22.78%	23.62%	24.43%	25.28%	25.72%	26.43%	27.28%	28.43%	30.75%	31.36%	34.93%	34.93%	34.93%	34.93%	34.93%	34.93%

Demotech Milestones

- 1985** Founded by Joseph L. Petrelli and Sharon M. Romano Petrelli to serve the financial analysis and actuarial services needs of regional and specialty insurers.
- 1986** First to issue Financial Stability Ratings® (FSRs) for health maintenance organizations (HMOs).
- 1987** First to issue FSRs for public entity liability self-insured pools through the development of our Management Audit Process.
- 1989** First to review and rate independent regional and specialty insurance companies.
First to have Property & Casualty insurance company rating process formally reviewed and accepted by Fannie Mae. An FSR of A or better eliminates the need for property insurance cut-through endorsements.
- 1990** First to have Property & Casualty insurance company rating process formally reviewed and accepted by Freddie Mac.
Began offering Property & Casualty insurance companies and Title underwriters loss cost analysis and rate, rule and form filing assistance.
Responded to the National Association of Insurance Commissioners requirements for Property & Casualty insurers to submit Statements of Actuarial Opinion related to loss and loss adjustment expense reserves concurrent with the 1990 Property & Casualty annual statement.
- 1992** First to analyze the financial position of each Title underwriter in the industry.
- 1993** First to have Property & Casualty insurance company rating process formally reviewed and accepted by HUD.
- 1994** Fannie Mae issued Title underwriter acceptance guidelines, naming Demotech as an approved Title underwriter rating service.
- 1995** First to promulgate Commercial Real Estate Recommendations to provide financial due diligence of Title underwriters involved in larger real estate transactions.
- 1996** Contacted by the Florida Office of Insurance Regulation when the property insurance market required newly established insurers to obtain ratings. Demotech developed evaluation procedures for the assignment of FSRs to newly formed companies.
Coordinated the first seminar regarding the implementation of statements of actuarial opinion for Title underwriters on behalf of the Conference of Consulting Actuaries.
- 1999** Co-authored the Commerce Clearing House publication describing the evolution of the Canadian Title insurance industry.
- 2001** Completed the initial loss and loss adjustment expense review of the Iowa Finance Authority – Title Guaranty Division.
- 2002** Revitalized the Ohio Title Insurance Rating Bureau, Inc. (OTIRB).
- 2003** Auto-Owners Insurance Group made umbrella insurance available to insurers earning an FSR of A or better.
Assisted the North Carolina Title Insurance Rating Bureau with the development and filing of Closing Services coverage.
Assisted OTIRB with its first rate revision since 1980.
- 2004** Published *Serious about Solvency – Financial Stability Rating® Survival Rates 1989 through 2004*. Introduced *Demotech Performance of Title Insurance Companies* and Quarterly Updates, presenting consolidated statutory financial information for the Title insurance industry.
- 2005** HUD approved Demotech's rating process for general and professional liability insurance under Notice H04-15, Professional Liability Insurance for Section 232 and 223(f) Programs.
- 2006** Joseph L. Petrelli, ACAS, MAAA, FCA, authored *What We've Got Here Is a Failure to Communicate – How Traditional Financial Reporting Contributes to Misunderstanding of Title Insurance Loss Activity*.

- 2007** Demotech introduced its Company Classification System.
Demotech designated as the Official Research Partner of *Insurance Journal*.
Expanded operations into a larger facility reflecting our increased capacity to serve our clients.
- 2008** Introduced Insurance Agents' Errors and Omissions Insolvency Gap Legal Defense Coverage.
- 2009** Expanded the Insolvency Gap Coverage to include indemnity as well as legal defense.
- 2010** Celebrated 25th Anniversary.
- 2011** The Florida State University published "A Comprehensive Examination of Insurer Financial Strength Ratings" comparing and contrasting Demotech to A.M. Best, Moody's, Standard & Poor's and Fitch.
- 2012** Financial Stability Ratings® added to SNL Financial's products, www.snl.com.
- 2013** A leading insurance agents' errors and omissions insurance carrier retained Demotech to perform a financial due diligence on the carriers that request an extension of insolvency coverage.
Introduced Stakeholder Team Accomplishment Recognition™ Award to identify Property & Casualty insurers that successfully addressed the diverse needs of all corporate stakeholders.
- 2014** Achieved the milestone of more than 400 insurance entities being actively reviewed, rated and monitored.
Fannie Mae MultiFamily accepted captive insurers and risk retention groups rated A or better by Demotech as regards professional and general liability insurance coverage for senior housing facilities.
Nominated for Intelligent Insurer Global Award — Best Rating Agency.
ACQ Global Awards 2014 — US — Niche Financial Analysis Provider of the Year (Insurance).
ACQ Law Awards 2014 — US — Niche Lawyer of the Year — W. Burke Coleman, III, Esquire, Demotech's Legal Counsel and Compliance Manager.
- 2015** ACQ Global Awards 2015 — US — Niche Financial Analysis Provider of the Year (Insurance).
Finance Monthly Innovation and Excellence Awards 2015 — USA — Excellence in Financial Analysis.
ACQ Global Awards 2015 — US — Gamechanger of the Year (Financial Analysis).
Demotech celebrates its 30th Anniversary September, 2015.

About Demotech, Inc.

Demotech, Inc. is a financial analysis firm specializing in evaluating the financial stability of regional and specialty insurers while also reviewing and analyzing national carriers. Since 1989, Demotech has served the insurance industry by assigning accurate and reliable Financial Stability Ratings® (FSRs) for Property & Casualty insurers and Title underwriters. As we enter 2015 and 2016, we will expand our analysis to other sectors of the insurance industry. FSRs will continue to be a leading indicator of financial stability, providing a measurable objective baseline of the anticipated future solvency of an insurer. Similarly, Demotech's philosophy will remain consistent: to review and evaluate insurers based on their area of focus and execution of their business model rather than on financial size. Visit www.demotech.com for additional information or to view the more than four hundred risk-bearing entities that we review and rate.

This analysis was prepared by Barry J. Koestler II, CFA, Chief Ratings Officer.
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