Demotech, Inc. Financial Stability Ratings® Synopsis of Major Benefits







DRAGONFLY: 300 MILLION YEARS OLD

T-REX: EXTINCT

Nature knows size and survival are independent.

Demotech, Inc. had to prove that to the insurance industry.



Financial stability is independent of size.

Financial Stability Ratings® (FSRs) are a leading indicator of the financial stability of Property and Casualty (P&C) insurers and Title underwriters. An FSR summarizes our opinion as to the insurer's ability to insulate itself from the business cycle that exists in the general economy as well as the underwriting cycle that exists in the insurance industry. Thus, an FSR summarizes our opinion as to the relative ability of an insurer to survive a downturn in general economic conditions as well as a downturn in the underwriting cycle.

FSRs are not an endorsement of any particular insurer or its products. Insureds and agents need to independently evaluate their relationship with a particular insurer as well as the applicability of that insurer's products to the needs of the insured or agent. FSRs present our opinion of the ability of the insurer to meet its insurance related obligations based upon our assessment of financial information.

Our focus is unique. While we acknowledge and recognize the importance of profitability, we believe that balance sheet strength and financial integrity are the ultimate determinants of the long term financial stability required to honor meritorious claims. Accordingly, while operating profit remains an important element 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. Quality and quantity of reinsurance, relative adequacy of loss and loss adjustment expense reserves, the liquidity and quality of assets and rate adequacy are some of the more critical items we evaluate.

Our rating process provides an objective baseline for assessing solvency based upon changes in financial stability, as manifested in an insurer's balance sheet. FSRs are based upon a series of quantitative ratios and considerations that comprise our Financial Stability Analysis Model.

The Financial Stability Analysis Model is the major component of the FSR assignment process and can be applied to statutory insurance accounting data or data compiled under Generally Accepted Accounting Principles (GAAP). The Financial Stability Analysis Model includes a tactile review as well as computation and analysis of critical financial ratios to determine the current and anticipated financial stability of the insurance company being reviewed. The Financial Stability Analysis Model cross checks and analyzes financial statement calculations and relationships.

A critical item to determine the financial stability of a P&C insurer is the calculation of financial stability ratios measured against our financial stability benchmarks. These ratios and benchmarks have been compiled on an industry-wide basis and have been substantiated by third parties.

Since our incorporation in 1985, Demotech has proactively responded to the challenges faced by the insurance industry. In 1989, Demotech gained acceptance from the Federal National Mortgage Association (Fannie Mae) for FSRs of A or better. In 1990, we received similar accreditation from 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. The acceptance of FSRs of A or better leveled the playing field for regional P&C insurance companies while simultaneously assisting insurance agents, reinsurers and insurance carriers through the elimination of reinsurance endorsements and cut-through endorsements.

Similarly, in 1996 we began reviewing newly formed P&C insurance companies incorporated in the State of Florida to facilitate their efforts to depopulate the Florida residual market mechanism. In 2005, FSRs of A or better were deemed acceptable for qualification under HUD's Section 232 and 223 (f) Programs, thereby assisting financially stable risk retention groups writing nursing facility general and professional liability insurance.

We encourage you to contact us with any current needs or problems you are experiencing. We are confident we can provide a solution.



Benefits of Financial Stability Ratings®

Once an insurance company finalizes a Financial Stability Rating[®] (FSR), they become eligible to take part in the benefits and acceptances of FSRs. The following are some of the benefits associated with finalization of an FSR. Contact Douglas Powell, **dpowell@demotech.com**, for more information about these or other benefits.

Acceptance by Mortgage Lenders

Since 1989, FSRs of A or better have been acceptable to the secondary mortgage marketplace and virtually all mortgage lenders. If an agent, insured or underwriter is made aware of a situation in which a company's homeowners insurance policy is not immediately accepted by a lender, we will address this situation on the company's behalf.

Corporate Liability Coverage

Directors and Officers Liability, which includes Professional Liability for alleged wrongful acts along with errors and omissions in day to day operations, is available from **Allied World Assurance Company**. Credits are available to insurers earning an FSR of A or better. Contact Rick Bersnak, The Buren Insurance Group, Inc., at (614) 942-1226.

Stand-Alone Umbrella Insurance

Insurers receiving an FSR of A or better have access to several stand-alone umbrella insurance markets. Protect your account and your preferred customers by offering stand-alone personal, commercial and farm umbrella insurance policies. Some of these markets include:

- **Auto-Owners Insurance Company** Will quote stand-alone personal, commercial or farm umbrella insurance. Visit **www.auto-owners.com** to locate an agent in your operating territory.
- **RLI Insurance Corporation** Will quote personal umbrella insurance. Visit **www.rlipersonalumbrella.com** for more information.
- Safeco Insurance Company Will quote stand-alone umbrella insurance when Safeco writes the underlying automobile insurance policy. Visit www.safeco.com for more information.

Agents Errors and Omissions Insurance Coverage

Insurers earning an FSR of A or better have access to many insurance agents errors and omissions insurance carriers extending applicable coverage for insolvency. Contact the following for details:

- Westport Insurance Corporation any admitted carrier covered by an insurance guaranty fund.
- NAMICO Insurance Company, Inc. NAMIC Insurance Agency E&O Sales at (800) 336-2642.
- Allied World Assurance Company Rick Bersnak, The Buren Insurance Group, Inc., at (614) 942-1226.
- Century Surety Company Quadrant Insurance Managers at (614) 841-1425.
- ProSight Specialty Insurance Company Rick Bersnak, The Buren Insurance Group, Inc., at (614) 942-1226.

Your agents should be encouraged to contact Demotech regarding other carriers offering insurance agents errors and omissions insurance coverage, as this list is increasing rapidly.



Insolvency Gap Coverage

The insolvency gap coverage was created by Demotech to mitigate the insolvency exclusion that has crept into insurance agents errors and omissions insurance.

Since the early 2000's, most of the carriers writing insurance agents errors and omissions insurance have inserted an insolvency exclusion. This insolvency exclusion requires that the markets utilized by an agent have a rating at *a certain level or higher from a specific rating agency*.

To assist carriers unrated by specific rating agencies respond to the challenge created by this insolvency exclusion, Demotech contacted Westport, Utica Mutual and other errors and omissions insurance carriers to secure exceptions on behalf of a particular insurer or agent.

Although we have had success securing exceptions on behalf of insurers and agents, this approach is time-consuming as well as agent-specific. In contrast, insolvency gap coverage provides an insurer with the opportunity to address the insolvency exclusion on behalf of all of its agents.

The sole covered peril in the insolvency gap coverage is the insolvency of the designated insurance company. In the event of insolvency, the insolvency gap coverage policy will pay or defend claims. **The policy authorizes payment of the claim or defense on behalf of the covered agent.** Insureds of the designated insurance company have their claim paid or defended, thereby avoiding litigation with the producer or agent.

To discuss your company's eligibility, contact Joe Petrelli, Demotech, Inc., at (800) 354-7207.

Premium Financing Available

If your agent or insured needs acess to a premium financing service, Demotech has partnered with multiple firms that will provide premium financing as well as lending options for your agents against commissions from insurance carriers rated A or better. Some of these partnerships include:

- Premium Finance Specialists, Inc. (PFS) Founded in 1977, PFS has become the third largest company in
 the United States based on premium dollars financed, and is number one in the number of accounts financed.
 PFS has distinguished itself by meeting the needs of agencies and welcomes accounts under \$2,000. Their size
 and financial strength also enables them to be extremely competitive on large accounts. For more information,
 contact Mike Keegan at mike.keegan@premiumfinance.com or (800) 255-6316.
- US Premium Finance For information about their extraordinary service, carrier direct billing program, flexible
 terms and rates, user friendly software and multiple payment options, visit www.uspremiumfinance.com or
 contact Bill Villari at (866) 246-9691.





Demotech Services and Marketing Materials for FSR Clients

Demotech offers a variety of complimentary, as well as premium, services in an effort to support clients in promoting a duly earned Financial Stability Rating® (FSR). The following services and marketing materials are available to an insurance company upon finalization. Contact Douglas Powell, **dpowell@demotech.com**, for more information.

Company Monitoring and Analysis

Companies assigned an FSR are monitored and analyzed on a quarterly and annual basis to affirm the FSR assigned to them. Due to our understanding of the financial statements and other company information required or submitted, we are able to intervene on the company's behalf and answer questions pertaining to the assignment of an FSR posed from interested third parties.

Company Profile Page

Companies assigned an FSR have a company profile page available on **www.demotech.com**. Company profile pages contain the following information:

- **Company Contact Information** company name, NAIC number, address, website and additional comments pertaining to the company.
- **FSR Information** current FSR, FSR status and additional comments pertaining to the FSR of the company.
- Financial Statement Information publicly available statutory financial information and jurisdictions.

Press Release Service

Demotech offers a complimentary press release service if you wish to announce the assignment of an FSR to your company through various media outlets or post company press releases or other announcements to your Company Profile Page on **www.demotech.com**.

Agent Awareness Mailing

We will contact your agents and provide them with information explaining the FSR assigned to your company and its acceptances, as well as provide background information about Demotech.

FSR Seal for Your Website

Demotech will manage an FSR seal image on your company's website. The FSR seal image would present the FSR assigned to your company and provide a direct link to your Company Profile Page on **www.demotech.com**.

Print Marketing Material

We accomodate marketing ideas that a company may suggest in promoting the FSR assigned to them. To ensure consistency as well as to protect our registered trademarks, Demotech requires the review of any content that pertains to Demotech and Financial Stability Ratings® prior to distribution.

Premium Promotional and Marketing Materials

Demotech offers individualized FSR Brochures to present your organization's qualifications and FSR to agents, insureds, prospective insureds as well as other third parties. FSR Brochure options include prominent presentation of company information, FSR as well as an overview of the analysis and review process required to have an FSR assigned. Prices vary based on style and quantity ordered.



Solutions as Unique as Your Company

Demotech is committed to serving its clients while maintaining the highest standards. Innovative thinking, strategic analysis, commitment, insight and on-going involvement with the insurance industry allow us to provide solutions as unique as your company.

We encourage you to contact us with any current needs or problems you are experiencing. We are confident we can provide a solution.

Contact Douglas Powell at **dpowell@demotech.com** to discuss any needs or problems your company is experiencing.

Reminder: Financial Information Submission Deadlines

Demotech continuously monitors the financial stability of its rated clients. As such, Demotech requests quarterly and annual financial information be submitted in a timely manner so that we may conduct our review process as scheduled.

Please note the submission deadlines for statutory financial information. Financial information is due to Demotech by these dates so that we can monitor, affirm and update FSRs.

Send information by the following due dates:

- First Quarter Financial Information May 15th
- Second Quarter Financial Information August 15th
- Third Quarter Financial Information November 15th
- Year-End Financial Information March 1st

This information can be sent to Barry Koestler, Chief Ratings Officer, at **bkoestler@demotech.com** or addressed to:

Demotech, Inc. 2715 Tuller Parkway Dublin, OH 43017-2310.





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