



Demotech, Inc.

Professionals Verify the Integrity of Reported Operating Results
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At year-end 2011, 2,763 property and casualty insurance companies domiciled in the United States submitted their annual statements to the National Association of Insurance Commissioners. Demotech's review of the data indicated that the balance sheets of these insurers reported \$601 billion of net loss and loss adjustment expense reserves and the year-end financial statements reflected \$442 billion of net premium written. At first blush it might seem reasonable to assume that this diversified group of 2,763 carriers writing nearly one-half trillion dollars of net written premium would have an extensive list of actuaries and auditors engaged to review their results, yet the number of professional firms engaged by the property/casualty insurance industry is quite concentrated.

Exhibit 1 compiles 20 of the 214 independent audit firms with the largest representation. These firms audited companies comprising 98% of the industry's net premium written, 98% of the net loss and loss adjustment expense reserves reported and 76% of the companies reporting data. Although the majority of the insurers are audited by one of the Big Four accounting firms, 143 insurers were exempt from the requirement or did not report a firm.

Similarly, Exhibit 2 compiles 20 of the 109 independent actuarial firms with the largest representation. The concentration of actuarial firms is not as extreme as that observed for audit firms, perhaps due to the fact that company actuaries can opine on reported loss and loss adjustment expense reserves. The enumerated independent actuarial firms provided opinions for companies comprising 43% of the loss and loss adjustment expense reserves, 39% of net premium written and 47% of the companies reporting. An additional 39% of companies had their actuarial opinion prepared by an employee of the company or were exempt. These companies accounted for an additional 56% of net premium written and an additional 60% of net loss and loss adjustment expense. (Disclosure: Demotech provides actuarial opinions for 38 insurers, or approximately 1.3% of those reporting data.)

Although the Big Four accounting firms have actuarial consulting practices, the data compiled in Exhibit 3 shows that only a minority of insurance companies engage the same auditing and actuarial firm. Demotech's review of the data indicated that larger insurance companies, measured by net premium written or loss and loss adjustment expense reserves, tended to have an audit from a Big Four accounting firm and an opinion from a company actuary, while smaller insurers tended to use a variety of other audit firms and independent actuarial firms.

In the somewhat uncertain economic environment in which US based insurers operate, it should be comforting to policyholders, producers, regulators, shareholders and interested parties that the property/casualty insurance industry must withstand regulatory scrutiny, independent audits, and reviews of reported loss and loss adjustment expense reserves prepared by credentialed actuaries. Few industries have the balance sheet integrity of the property/casualty industry, with fewer still having that integrity affirmed by a variety of professionals.

ABOUT DEMOTECH, INC.

Demotech, Inc. is a financial analysis firm specializing in evaluating the financial stability of regional and specialty insurers. Since 1985, Demotech has served the insurance industry by assigning accurate, reliable and proven Financial Stability Ratings[®] (FSRs) for Property & Casualty insurers and Title underwriters. FSRs are a leading indicator of financial stability, providing an objective baseline of the future solvency of an insurer. Demotech's philosophy is to review and evaluate insurers based on their area of focus and execution of their business model rather than solely on financial size. This philosophy was the catalyst for the Demotech Company Classification System, which was published in *Insurance Journal*, in order to stratify and categorize insurers into operational categories. Visit www.demotech.com for more information.

Exhibit 1**Audit Firms by Net Premiums Written**

Rank	Firm Name	Net	Net	Number of	Cumulative Market Share		
		Premiums Written (\$000's)	Loss & LAE Reserves (\$000's)		Companies	Premiums	Reserves
1	PricewaterhouseCoopers LLP	\$167,394,748	\$212,116,611	486	37.9%	35.3%	17.6%
2	Ernst & Young LLP	\$85,055,576	\$109,128,786	426	57.1%	53.5%	33.0%
3	Deloitte & Touche LLP	\$82,129,170	\$110,933,180	243	75.7%	71.9%	41.8%
4	KPMG LLP	\$77,862,254	\$129,807,444	400	93.3%	93.6%	56.3%
5	BDO USA LLP	\$3,981,864	\$3,704,026	77	94.2%	94.2%	59.1%
6	Johnson Lambert & Co. LLP	\$3,426,885	\$5,203,690	114	95.0%	95.0%	63.2%
7	Strohm Ballweg LLP	\$1,544,934	\$1,380,273	35	95.3%	95.3%	64.5%
8	WeiserMazars LLP	\$1,496,744	\$2,588,183	26	95.7%	95.7%	65.4%
9	ParenteBeard LLC	\$1,201,661	\$1,305,951	24	96.0%	95.9%	66.3%
10	Jaynes Reitmeier Boyd & Therrell PC	\$1,138,732	\$301,079	14	96.2%	96.0%	66.8%
11	Larson & Rosenberger LLP	\$1,064,262	\$891,597	29	96.5%	96.1%	67.8%
12	McGladrey LLP	\$784,553	\$3,534,272	31	96.6%	96.7%	68.9%
13	Blackman Kallick LLP	\$758,643	\$916,561	19	96.8%	96.9%	69.6%
14	Dixon Hughes Goodman LLP	\$727,262	\$1,418,709	9	97.0%	97.1%	70.0%
15	Crowe Horwath LLP	\$590,794	\$1,512,146	12	97.1%	97.3%	70.4%
16	Brown Schultz Sheridan & Fritz PC	\$566,401	\$471,188	28	97.2%	97.4%	71.4%
17	Buffamante Whipple Buttafaro PC	\$537,924	\$312,962	35	97.3%	97.5%	72.7%
18	Plante & Moran PLLC	\$511,014	\$558,132	9	97.5%	97.6%	73.0%
19	Eide Bailly LLP	\$495,364	\$340,904	9	97.6%	97.6%	73.3%
20	Saslow Lufkin & Buggy LLP	\$483,631	\$1,008,772	62	97.7%	97.8%	75.6%
	194 Other Firms	\$9,111,081	\$8,387,705	532	99.7%	99.2%	94.8%
	Exempt/Not Reported	\$1,112,915	\$4,873,474	143	100.0%	100.0%	100.0%
	Total	\$441,976,411	\$600,695,645	2,763			

Source: The National Association of Insurance Commissioners, Kansas City, MO by permission. Information is derived from a SNL Financial product. Neither the NAIC nor SNL Financial endorse any analysis or conclusion based upon the use of its data.

Exhibit 2

Actuarial Firms by Net Premiums Written

Rank	Firm Name	Net	Net	Number of	Cumulative Market Share		
		Premiums Written (\$'000's)	Loss & LAE Reserves (\$'000's)		Companies	Premiums	Reserves
1	PricewaterhouseCoopers LLP	\$70,247,920	\$54,724,123	129	15.9%	9.1%	4.7%
2	KPMG LLP	\$51,176,193	\$50,053,401	109	27.5%	17.4%	8.6%
3	Towers Watson & Co.	\$14,868,737	\$25,043,108	263	30.8%	21.6%	18.1%
4	Milliman Inc.	\$14,546,020	\$43,137,461	233	34.1%	28.8%	26.6%
5	Ernst & Young LLP	\$10,154,403	\$17,305,629	95	36.4%	31.7%	30.0%
6	Beneficial Consultants LLC	\$7,071,723	\$19,460,151	16	38.0%	34.9%	30.6%
7	Deloitte Consulting LLP	\$5,512,231	\$7,666,132	36	39.3%	36.2%	31.9%
8	Regnier Consulting Group Inc.	\$2,526,047	\$2,278,783	55	39.8%	36.6%	33.9%
9	Huggins Actuarial Services Inc.	\$1,830,571	\$1,774,113	49	40.3%	36.9%	35.6%
10	Crowe Actuarial	\$1,607,864	\$686,751	10	40.6%	37.0%	36.0%
11	Actuarial Advisors Inc.	\$1,350,877	\$601,603	21	40.9%	37.1%	36.8%
12	FTI Consulting Inc.	\$1,330,029	\$2,129,354	7	41.2%	37.4%	37.0%
13	Oliver Wyman	\$1,183,823	\$1,142,821	35	41.5%	37.6%	38.3%
14	Pinnacle Actuarial Resources Inc.	\$1,134,023	\$941,738	59	41.8%	37.8%	40.4%
15	Merlinos & Associates Inc.	\$1,127,759	\$819,217	46	42.0%	37.9%	42.1%
16	Perr & Knight Inc.	\$877,098	\$570,895	35	42.2%	38.0%	43.4%
17	Lewis & Ellis Inc.	\$780,174	\$419,539	32	42.4%	38.1%	44.5%
18	Streff Insurance Services Inc.	\$701,218	\$472,019	28	42.5%	38.2%	45.5%
19	Kufera Consulting Inc.	\$561,778	\$511,497	34	42.7%	38.2%	46.8%
20	Richard Sherman & Associates Inc.	\$399,899	\$3,184,344	2	42.8%	38.8%	46.8%
	89 Other Firms	\$5,208,028	\$5,435,755	392	43.9%	39.7%	61.0%
	Internal/Exempt	\$247,779,996	\$362,337,212	1,077	100.0%	100.0%	100.0%
	Total	\$441,976,411	\$600,695,645	2,763			

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Exhibit 3**Big 4 Audit Firms - Type of Actuarial Firm Used by Company**

Audit Firm	Actuarial Firm	Number of Companies	Percent of Total
PricewaterhouseCoopers LLP	Same as Audit	75	15.4%
	Other Firm	101	20.8%
	Internal/Exempt	310	63.8%
Ernst & Young LLP	Same as Audit	52	12.2%
	Other Firm	144	33.8%
	Internal/Exempt	230	54.0%
Deloitte & Touche LLP	Same as Audit	21	8.6%
	Other Firm	109	44.9%
	Internal/Exempt	113	46.5%
KPMG LLP	Same as Audit	67	16.8%
	Other Firm	129	32.3%
	Internal/Exempt	204	51.0%

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