



March 23, 2009

Update Regarding Property Insurers Writing in Florida

As part of the on-going, participative financial review and analysis process that Demotech, Inc. initiated in Florida in the fall of 1996, we seek to continue our efforts to help sustain a property insurance market in Florida by affirming and maintaining Financial Stability Ratings[®] (FSRs). As part of this on-going effort, in November 2008, Demotech advised insurance carriers writing property insurance in Florida that the potential inability of the Florida Hurricane Catastrophe Fund (FHCF) to honor meritorious claims related to a significant event could adversely impact FSRs for certain insurance companies. Our correspondence was directed to each insurance company that is heavily dependent on the reinsurance provided by the FHCF. We also noted in our letter (see attachment 1) that an extension of FSRs beyond May 15, 2009 would require definitive financial information addressing our concerns.

We requested financial information that addressed participation in the FHCF, documentation of bridge loans or alternative financing providing liquidity during a period in which the FHCF would be raising capital, and any other precaution or protection regarding reinsurance collectability or catastrophe reinsurance. We sought documentation of contingency plans that an individual insurance company might have in place or a status report regarding progress towards finalized financial plans. In addition, we asked for documentation detailing how an insurance company would maintain short-term liquidity if a significant event or events strained the existing liquidity of the FHCF because of challenges experienced in raising capital due to the current state of the financial markets.

Alternatively stated, given that the FHCF has the statutory standing to fund its reinsurance liabilities post-event, as opposed to the pre-event funding requirement imposed on other reinsurers, Demotech was seeking information as to how an insurer would pay claims during the potential time lag between a significant event or events and the FHCF's receipt of bond proceeds.

Demotech's established review and analysis process for smaller property insurance companies writing in catastrophe-prone areas is heavily dependent on an objective evaluation of the quality, quantity and liquidity of reinsurance protection. In Florida, since some reinsurance is provided by an entity permitted to fund its losses post-event as opposed to pre-event, we must consider this an important part of our review and analysis procedure.

Demotech has reviewed and rated virtually all of the Florida-domiciled insurers that have been capitalized since 1996 and continues to monitor their financial stability whether or not we currently review and rate them. As such, we are uniquely positioned to develop a procedure to address the potential illiquidity associated with reinsurance reimbursements due from a reinsurer authorized to fund its liabilities post-event. Based upon the responses received to date from the 59 Florida property insurers that we currently review and rate, including those that are rated by other agencies, we may decide to develop, introduce and implement a process to identify carriers that have contingency plans that we deem sufficient. Refer to Attachment 2.

Although we reserve the right to reevaluate our position at any point in time, the purpose of this update is to provide an interim status report. Carriers that have established contingency plans that we deem sufficient are likely to see current FSRs affirmed, perhaps even upgraded, on or before May 15, 2009. Carriers that have decided to remain dependent on unspecified or undocumented solutions will receive communications regarding their FSR status on or about May 15, 2009.

Very truly yours,

A handwritten signature in black ink that reads "Joseph L. Petrelli".

Joseph L. Petrelli
President



November 2008

Recent Events Affecting Financial Stability Ratings[®] for Florida Property and Casualty Insurance Companies Require Supplemental Information

Since the fall of 1996, Demotech, Inc. has reviewed and assigned Financial Stability Ratings[®] to virtually all of the start-up Property and Casualty insurance companies writing property insurance in the State of Florida. This effort facilitated the depopulation of the Florida Residential Property Casualty Joint Underwriting Association and, more recently, its successor, Citizens Property Insurance Corporation.

From 1996 until the passage of House Bill 1A, two of the implicit and critical assumptions underlying our willingness to review and rate these relatively small and heavily reinsured carriers were the commitment of the State of Florida's Office of Insurance Regulation to require actuarially sound base rates and the breadth and scope of the private sector's response to the reinsurance needs of the carriers. Since the passage of HB 1A in January 2007, discussion related to rate adequacy has arisen. Similarly, the financial capability of the Florida Hurricane Catastrophe Fund to honor meritorious requests for reinsurance recoverables has been called into question.

In Demotech's view of the current situation, a decline in the base rates applicable to homeowners insurance has resulted from the implementation of HB 1A. Further, the published financial statements of the Florida Hurricane Catastrophe Fund indicate that a significant event would not be fully funded. Accordingly, even though Demotech understands that the State of Florida, or if necessary, the federal government, would likely step in to provide the Florida Hurricane Catastrophe Fund with a bridge loan or other support, Demotech does not have definitive financial information or confirmation of that critical assumption.

The potential inability of the Florida Hurricane Catastrophe Fund to honor meritorious claims related to a significant event adversely influences the Financial Stability Rating[®] of each of the carriers that are heavily dependent on the reinsurance provided by the Florida Hurricane Catastrophe Fund. Under current circumstances and conditions, we will provide, monitor and support Financial Stability Ratings[®] through the period ending May 15, 2009. An extension of Financial Stability Ratings[®] beyond May 15, 2009 will require definitive financial information regarding participation in the Florida Hurricane Catastrophe Fund, documentation of bridge loans or alternative financing mechanisms that provide liquidity during a period in which the Florida Hurricane Catastrophe Fund would be raising capital, and any other precaution or protection regarding reinsurance collectability or catastrophe reinsurance.

Please provide the requested information regarding specific plans for ensuring adequate funding relating to future reinsurance recoverables as it is finalized or updated. If you have any questions or comments, please contact me at 614-761-8602.

Very truly yours,

Joseph L. Petrelli
President



Demotech, Inc.
Financial Stability Rating® Status Review - FHCF Liquidity Position
Florida Property Insurers
As of 3/18/2009

Contingency Plan Description	Contingency Plan In Place	Contingency Plan In Process	Rated by Other Services	Rated by Demotech
Not Planning to Purchase TICL Layer	7	0	3	7
Adequate Cash/ Cash Equivalents Position	0	20	3	20
Relief Through Private Reinsurance Program	0	46	9	46
Capital Contribution	2	3	3	5
Private Letter of Credit Placement	3	13	2	16
Reduction of Exposure	14	1	10	15
Initial Response Outstanding			0	1

If you have any questions regarding this information, please contact Demotech, Inc. at 1-800-354-7207.