



Demotech, Inc.

Guidance on Financial Stability Ratings[®] and Catastrophe Reinsurance Program Reporting for Florida Property Insurers

2012 Update and Addendum

April 17, 2012

Introduction

The Demotech discussion document, *Guidance on Financial Stability Ratings and Catastrophe Reinsurance Program Reporting for Florida Property Insurers*, published in March 2010, remains in effect. This communication serves as an update and addendum to our on-going efforts to communicate our thought process and review processes and methodology.

The purpose of this update is to provide insight on our data requirements and other items we believe to be relevant to the company's catastrophe reinsurance program. As with the originally published *Guidance on Financial Stability Ratings[®] and Catastrophe Reinsurance Program Reporting for Florida Property Insurers*, nothing in this addendum should be viewed as a safe harbor or bright-line indicator for financial performance that we deem acceptable.

Annual Statement Review

Demotech has completed our review and evaluation of the 2011 financial results for rated companies writing property insurance in Florida and communicated with the companies. At this time, Financial Stability Ratings[®] (FSRs) have been affirmed as noted on our website, www.demotech.com. We will begin the review and evaluation of the first quarter 2012 financial statements and the *Exhibit A – Proposed Data Call* submissions as soon as they become available.

Catastrophe Reinsurance Program Reporting

Demotech has turned its focus to the 2012 catastrophe season. This update is being presented to allow management to plan accordingly as they complete the renewal of their respective catastrophe reinsurance program:

- The *Exhibit A – Proposed Data Call* was distributed on March 27 and was due back to Demotech on or before April 9. The *Exhibit A – Final Data Call* will be issued in early June and due back to Demotech mid-June.
- Effective June 1, 2012, Demotech no longer recognizes, or in any way reflects credit for, participation in the Florida Hurricane Catastrophe Fund's (FHCF) TICL program.



- The Administration of the Florida Hurricane Catastrophe Fund as well as some legislators have stated that the FHCF is short of being able to meet statutory commitments for the Mandatory Layer. Based on our evaluation of this statement and published reports on the FHCF, Demotech will no longer provide full credit for the Mandatory Layer of the FHCF. Companies in continuing to qualify for a Financial Stability Rating[®] at the A level or above will need to demonstrate to our satisfaction:
 - A position of adequate liquidity under a variety of economic stress tests that we believe are reasonable
 - A catastrophe reinsurance program that reflects conservative limits and net retentions, for single and multiple events, relative to exposure and event return period considering, at a minimum, Occurrence Exceedance Probability, Aggregate Exceedance Probability, Tail Value at Risk and Average Annual Loss
 - That following an event, reinsurance recoverable from the FHCF will be recognized and qualified as an admitted asset regardless of the time lag associated with the FHCF's funding efforts
 - Completed *Exhibit B* to be filed with *Exhibit A – Final Data Call* in the first part of June. The *Exhibit B* will request information on Occurrence Exceedance Probability, Aggregate Exceedance Probability, Tail Value at Risk and Average Annual Loss.

Summary

Some believe that a significant catastrophic event, coupled with the uncertainty of funding by the credit markets, may affect FHCF's ability to address its obligations in a timely manner. As our ability to assign Financial Stability Ratings[®] depends upon the evaluation of each facet of the catastrophe reinsurance of Florida's property insurers, companies seeking assignment or affirmation of a Financial Stability Rating[®] will be required to demonstrate their stability as well as the capability to absorb the impact of funding or timing issues relative to their relationship with the FHCF. This correspondence, previously issued updates and *Guidance on Financial Stability Ratings and Catastrophe Reinsurance Program Reporting for Florida Property Insurers* provide direction on our thought process and our methodology.

If you have specific questions on your situation, contact Bob Warren, Barry Koestler or me.

Thank you.

Joseph L. Petrelli
President