



## **Guidance on Financial Stability Ratings<sup>®</sup> and Catastrophe Reinsurance Program Reporting for Florida Property Insurers**

### *2012 Update and Addendum*

December 16, 2011

### **Introduction**

The Demotech discussion document, *Guidance on Financial Stability Ratings<sup>®</sup> and Catastrophe Reinsurance Program Reporting for Florida Property Insurers*, published in March 2010, remains in effect. This communication serves as an update and addendum.

### **Quarterly Review Update – Third Quarter 2011**

Demotech has completed our review and evaluation of the third quarter 2011 financial results for rated companies writing property insurance in Florida. At this time, Financial Stability Ratings<sup>®</sup> (FSRs) have been affirmed as noted on our website, [www.demotech.com](http://www.demotech.com). We will begin the review and evaluation of year-end 2011 financial statements as soon as they become available.

### **Catastrophe Reinsurance Program Reporting**

Now that the 2011 Atlantic hurricane season is over, Demotech has turned its focus to the 2012 season. This update is being presented to allow management to plan accordingly as they enter the renewal season for catastrophe reinsurance:

- The *Exhibit A – Proposed Data Call* will be distributed in mid-March and due back to Demotech the first week in April. The *Exhibit A – Final Data Call* will be issued in early June and due back to Demotech mid-June. These timeframes are consistent with prior years and specific dates will be forthcoming for both data calls in the near future.
- The format of *Exhibit A* will remain consistent with prior requests. However, in addition to the standard format for Exhibit A, if a company is not using the most current approved version of its selected catastrophe model, we will require that the company provide the data using the most recent approved version of the model in addition to the selected version for *Exhibit A*, Section I. If the company is utilizing a blended approach, the requirement extends to using the most recent approved version of those models used for the company's *Exhibit A*, Section I. As in prior years, we are not requiring the use of specific models, specific versions or specific parameters. The purpose of the request for the current version data is to provide Demotech with information for our comprehensive review and analysis of the company's overall catastrophe reinsurance program. As such, company management needs to be prepared to submit the data under both scenarios if not using the most current approved version of the selected model(s).



- At this date, although Demotech expects to allow full credit for the Mandatory Layer of the Florida Hurricane Catastrophe Fund (FHCF), we will base our final decision on the most recent financial position of the FHCF.
- Effective with the season beginning June 1, 2012, Demotech will no longer recognize, or in any way reflect credit for, participation in the FHCF's TICL program. Management needs to take appropriate actions to ensure the company's program is acceptable without participation in the TICL program.
- As referenced earlier, Demotech is not recognizing, endorsing or recommending any specific catastrophe model, model version or specific modeling parameters. Additionally, Demotech does not mandate, endorse or prefer the use of a single model over a blending of models.

## Summary

Demotech strives to maintain consistency and transparency in the evaluation of Florida property writers' catastrophe reinsurance programs. The requirement to provide the data utilizing the most current approved model version and Demotech's position regarding the TICL program reflect issues we believe to be pertinent to our review, evaluation and assignment of Financial Stability Ratings<sup>®</sup>.

The purpose of this update is to provide insight and to communicate the evolution of our data call requirements and other items relevant to a company's catastrophe reinsurance program renewal efforts. As with the originally published *Guidance on Financial Stability Ratings<sup>®</sup> and Catastrophe Reinsurance Program Reporting for Florida Property Insurers*, nothing in this addendum should be considered or interpreted as a safe harbor or bright-line indicator for acceptable financial performance. If you have any questions, please contact Bob Warren, Barry Koestler or me.

Thank you.

Joseph L. Petrelli  
President