



Demotech, Inc.

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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