

Demotech, Inc.

**Financial Stability Ratings®
Synopsis of Major Benefits**

Financial stability is independent of size.

Financial Stability Ratings® (FSRs) are a leading indicator of the financial stability of Property and Casualty (P&C) insurers and Title underwriters. An FSR summarizes our opinion as to the insurer's ability to insulate itself from the business cycle that exists in the general economy as well as the underwriting cycle that exists in the insurance industry. Thus, an FSR summarizes our opinion as to the relative ability of an insurer to survive a downturn in general economic conditions as well as a downturn in the underwriting cycle.

FSRs are not an endorsement of any particular insurer or its products. Insureds and agents need to independently evaluate their relationship with a particular insurer as well as the applicability of that insurer's products to the needs of the insured or agent. FSRs present our opinion of the ability of the insurer to meet its insurance related obligations based upon our assessment of financial information.

Our focus is unique. While we acknowledge and recognize the importance of profitability, we believe that balance sheet strength and financial integrity are the ultimate determinants of the long term financial stability required to honor meritorious claims. Accordingly, while operating profit remains an important element in the assignment of FSRs, the ability of an insurer to remain financially stable under a variety of economic stress tests requires a focus on balance sheet integrity. Quality and quantity of reinsurance, relative adequacy of loss and loss adjustment expense reserves, the liquidity and quality of assets and rate adequacy are some of the more critical items we evaluate.

Our rating process provides an objective baseline for assessing solvency based upon changes in financial stability, as manifested in an insurer's balance sheet. FSRs are based upon a series of quantitative ratios and considerations that comprise our Financial Stability Analysis Model.

The Financial Stability Analysis Model is the major component of the FSR assignment process and can be applied to statutory insurance accounting data or data compiled under Generally Accepted Accounting Principles (GAAP). The Financial Stability Analysis Model includes a tactile review as well as computation and analysis of critical financial ratios to determine the current and anticipated financial stability of the insurance company being reviewed. The Financial Stability Analysis Model cross checks and analyzes financial statement calculations and relationships.

A critical item to determine the financial stability of a P&C insurer is the calculation of financial stability ratios measured against our financial stability benchmarks. These ratios and benchmarks have been compiled on an industry-wide basis and have been substantiated by third parties.

Since our incorporation in 1985, Demotech has proactively responded to the challenges faced by the insurance industry. In 1989, Demotech gained acceptance from the Federal National Mortgage Association (Fannie Mae) for FSRs of A or better. In 1990, we received similar accreditation from Federal Home Loan Mortgage Corporation (Freddie Mac). In 1993, the United States Department of Housing and Urban Development (HUD) published its acceptance of FSRs of A or better. The acceptance of FSRs of A or better leveled the playing field for regional P&C insurance companies while simultaneously assisting insurance agents, reinsurers and insurance carriers through the elimination of reinsurance endorsements and cut-through endorsements.

Similarly, in 1996 we began reviewing newly formed P&C insurance companies incorporated in the State of Florida to facilitate their efforts to depopulate the Florida residual market mechanism. In 2005, FSRs of A or better were deemed acceptable for qualification under HUD's Section 232 and 223 (f) Programs, thereby assisting financially stable risk retention groups writing nursing facility general and professional liability insurance.

We encourage you to contact us with any current needs or problems you are experiencing. We are confident we can provide a solution.

