Demotech, Inc.

Impact of Storms on the Florida Property Insurance Market 1990-2010

Demotech, Inc. Special Report

December 2011

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Introduction

Over the past twenty years, the US has experienced some of the deadliest, costliest and strongest tropical cyclones ever recorded. These cyclones have affected many different parts of the US and left a tremendous amount of damage in their wake.

Florida is one state in particular that has frequently faced tropical cyclones and has seen immense destruction and devastation from them. Florida is so well-known for the abundant number of hurricanes that have hit the state, that it has been nicknamed "the Hurricane State."

More recorded hurricanes have hit Florida than any other state. Between the years of 1990 and 2011, Florida recorded damage from 96 different tropical cyclones. During this twenty-one year period, there was never a hurricane season in which Florida was not affected.

A timeline of the hurricanes, tropical storms and tropical depressions to affect Florida between 1990 and 2011 (Exhibit I) and a description (Exhibit II) of the effect each of these cyclones had in Florida show that Florida has seen numerous catastrophes and destruction over the years. Since 2000, there has been at least $74 billion worth of damage due to tropical cyclones in Florida. Exhibit III presents detailed descriptions of each hurricane and tropical storm that affected Florida from 2004 to 2010 and the amount of damage caused.

Exhibit V lists the insurance companies that were stated as impaired between 1992 and 2010. This exhibit also provides tables that show the number of Demotech, Inc. rated companies declared insolvent and the last Financial Stability Rating® (FSR) assigned prior to failure, regardless of when the last FSR was issued for each of those years. The Florida Homeowners Market Share Reports show the 25 insurance companies with the greatest amount of Direct Premium Written each year and the total Direct Premium Written for all Florida insurance companies from 1995 to 2010.

Demotech, Inc. researched the tropical cyclones that impacted Florida over the past twenty years and how these cyclones influenced the insurance industry and the success of Florida insurance companies. We are taking this opportunity to share our findings.

Incorporated in 1985, Demotech, Inc. is a financial analysis firm serving the needs of the Title and Property & Casualty insurance industries. Since 1989, Demotech has assisted financially stable insurers through the acceptance of our Financial Stability Ratings® of A or better by Fannie Mae, Freddie Mac and HUD. As the first company to have its review and analysis process formally reviewed and accepted by Fannie Mae, Freddie Mac and HUD, Demotech withstood the scrutiny of three separate due diligences. Today, Demotech reviews and rates more than 300 risk bearing entities.

Exhibit I

Timeline Summary of Cyclones in Florida

May 24-26, 1990 **Tropical Depression One**

July 24–August 2, 1990 **Hurricane Bertha**

October 3-9, 1990 **Hurricane Klaus**

October 9-12, 1990 **Tropical Storm Marco**

June 29-July 4, 1991 **Tropical Storm Ana**

October 13-16, 1991 **Tropical Storm Fabian**

June 25-26, 1992 **Tropical Depression One**

August 16-28, 1992 **Hurricane Andrew**

September October 3, 1992 **Tropical Storm Earl**

May 30-June 1, 1993 **Tropical Depression One**

June 30-July 8, 1994 **Tropical Storm Alberto**

August 14-18, 1994 **Tropical Storm Beryl**

September 29-August 4, 1994 **Tropical Depression Ten**

November 11-22, 1994 **Hurricane Gordon**

June 2-8, 1995 **Tropical Storm Allison**

July 28-August 4, 1995 **Tropical Storm Dean**

August 1-7, 1995 **Hurricane Erin**

August 22-29, 1995 **Tropical Storm Jerry**

October 3-7, 1995 **Hurricane Opal**

July 11–13, 1996 **Hurricane Bertha**

August 23–September 9, 1996 **Hurricane Fran**

October 4-8, 1996 **Tropical Storm Josephine**

October 14–27, 1996 **Hurricane Lili**

July 14-28, 1997 **Hurricane Danny**

September 1-5, 1998 **Hurricane Earl**

September 13-23, 1998 **Tropical Storm Hermine**

September 19-October 1, 1998 **Hurricane Georges**

November 4-5, 1998 **Tropical Storm Mitch**

August 28-September 8, 1999 **Hurricane Dennis**

September 7-19, 1999 **Hurricane Floyd**

September 16-22, 1999 **Tropical Storm Harvey**

October 13-19, 1999 **Hurricane Irene**

August 21-24, 2000 **Hurricane Debby**

September 5-10, 2000 **Tropical Depression Nine**

September 13-21, 2000 **Tropical Storm Gordon**

September 19-24, 2000 **Tropical Storm Helene**

October 15–20, 2000 **Tropical Storm Leslie**

June 4-18, 2001 **Tropical Storm Allison**

August 2-7, 2001 **Tropical Storm Barry**

September 10-16, 2001 **Hurricane Gabrielle**

November 4-6, 2001 **Hurricane Michelle**

July 9-15, 2002 **Tropical Storm Arthur**

August 4–9, 2002 **Tropical Storm Bertha**

September 1-6, 2002 **Tropical Storm Edouard**

September 12-17, 2002 **Tropical Storm Hanna**

September 20-29, 2002 **Tropical Storm Isidore**

October 2-5, 2002 **Hurricane Lili**

October 10-12, 2002 **Tropical Storm Kyle**

April 20–24, 2003 **Tropical Storm Ana**

June 27-July 3, 2003 **Tropical Storm Bill**

July 8–17, 2003 **Hurricane Claudette**

July 25-27, 2003 **Tropical Depression Seven**

August 13-20, 2003 **Hurricane Erika**

August 30-September 4, 2003 **Tropical Storm Grace**

September 3–8, 2003 **Tropical Storm Henri**

September 6–19, 2003 **Hurricane Isabel**

August 11-14, 2004 **Tropical Storm Bonnie**

August 12-15, 2004 **Hurricane Charley**

September 3-11, 2004 **Hurricane Frances**

September 2-26, 2004 **Hurricane Ivan**

September 25-30, 2004 **Hurricane Jeanne**

October 6-15, 2004 **Tropical Storm Matthew**

June 8-13, 2005 **Tropical Storm Arlene**

July 5-9, 2005 **Hurricane Cindy**

July 8-18, 2005 **Hurricane Dennis**

August 23-30, 2005 **Hurricane Katrina**

September 6-17, 2005 **Hurricane Ophelia**

September 17-26, 2005 **Hurricane Rita**

October 4-7, 2005 **Tropical Storm Tammy**

October 22-24, 2005 **Hurricane Wilma**

June 11-15, 2006 **Tropical Storm Alberto**

August 24-September 1, 2006 **Hurricane Ernesto**

May 9-11, 2007 **Tropical Storm Andrea**

May 31-June 5, 2007 **Tropical Storm Barry**

August 13–23, 2007 **Hurricane Dean**

September 11-15, 2007 **Hurricane Humberto**

September 18-23, 2007 **Tropical Depression Ten**

October 25-November 4, 2007 **Hurricane Noel**

December 11–13, 2007 **Tropical Storm Olga**

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August 15-27, 2008 **Tropical Storm Fay**

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August 28–September 7, 2008 **Tropical Storm Hanna**

September 8-15, 2008 **Hurricane Ike**

August 15-18, 2009 **Tropical Storm Claudette**

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November 4-10, 2009 **Hurricane Ida**

June 25-July 2, 2010 **Hurricane Alex**

July 22-24, 2010 **Tropical Storm Bonnie**

August 10–11, 2010 **Tropical Depression Five**

August 25–September 4, 2010 **Hurricane Earl**

September 28-29, 2010 **Tropical Storm**

July 17 –22, 2011 **Tropical Storm Bret**

August 25-September 5, 2011 **Hurricane Irene**

September 1–11 2011 **Tropical Storm Lee**

Exhibit II

Description of Florida Cyclones from 1990-2010

Date	Storm Name	Description
May 24-26, 1990	Tropical Depression One	A pre-season tropical depression that hit the Florida Straits, producing 6.2 inches of rainfall.
July 24–August 2, 1990	Hurricane Bertha	Killed two surfers in northern Florida.
October 3-9, 1990	Hurricane Klaus	Caused moderate winds throughout Florida. In eastern Florida, Klaus caused rough seas which led to beach erosion.
October 9-12, 1990	Tropical Storm Marco	Made landfall in Florida and dropped moderate precipitation throughout the state.
June 29-July 4, 1991	Tropical Storm Ana	The storm moved over South Florida, went northward along the southwest coast, then northeast towards St. Augustine dropping light to moderate rainfall.
October 13-16, 1991	Tropical Storm Fabian	Fabian moved across the Florida Straits, where maximum sustained winds increased to 45 mph. Fabian produced light rainfall.
June 25-26, 1992	Tropical Depression One	Dropped heavy rainfall in western Florida and caused $2.1 million in damage. Two people were killed.
August 16-28, 1992	Hurricane Andrew	A Category 5 hurricane that destroyed 25,524 homes and damaged another 101,241. Caused $25.5 billion in damage and is currently the second costliest US hurricane.
September 26-October 3, 1992	Tropical Storm Earl	Dropped over 7 inches of rain in northeastern Florida.
May 30-June 1, 1993	Tropical Depression One	Passed through southeastern Florida, producing rainfall up to 9.4 inches.
June 30-July 8, 1994	Tropical Storm Alberto	Made landfall near Destin, Florida on July 3rd causing heavy rainfall and extensive flooding which left $80 million in damage.
August 14-18, 1994	Tropical Storm Beryl	Struck Panama City, rainfall exceeded 10 inches in some areas. Resulted in $6.9 million in damages.
September 29-October 4, 1994	Tropical Depression Ten	Heavy rainfall caused flooding. The damage totaled $5 million.
November 11-22, 1994	Hurricane Gordon	Made landfall near Fort Myers, causing around $400 million in damage across the southern portion of the state, 8 were killed.
June 2-8, 1995	Tropical Storm Allison	Struck twice and produced a 6.8 foot storm surge along with scattered tornadoes. Estimated $860,000 damage.
July 28-August 4, 1995	Tropical Storm Dean	Produced over 5 inches of rain in western Florida.
August 1-7, 1995	Hurricane Erin	Struck twice in Florida, damaging thousands of homes and causing approximately $700 million worth of damage. Two people were killed.
August 22-29, 1995	Tropical Storm Jerry	Made landfall near Jupiter. Heavy rainfall across the entire state caused flooding and $20.5 million in damage.
October 3-7, 1995	Hurricane Opal	Caused rainfall and spawned a tornado. Destroyed large portions of coastal towns totaling over $1 billion in damage.
July 11–13, 1996	Hurricane Bertha	Caused three deaths and rip currents.
August 23–September 9, 1996	Hurricane Fran	Caused large swells.
October 4-8, 1996	Tropical Storm Josephine	Josephine made landfall in Taylor County and spawned at least 16 tornadoes. Thirty houses were damaged and there was widespread coastal flooding.
October 14–27, 1996	Hurricane Lili	Caused moderate rainfall, up to 12 inches, in southern Florida.
July 14-28, 1997	Hurricane Danny	Produced strong winds and moderate rainfall up to 6.78 inches.
September 1-5, 1998	Hurricane Earl	Made landfall near Panama City and caused heavy rainfall. $70 million worth of damage done in Florida.
September 13-23, 1998	Tropical Storm Hermine	Produced moderate rainfall, up to 14.14 inches, throughout the state.
September 19-October 1, 1998	Hurricane Georges	Moved into the Florida Panhandle as a tropical storm late on the 29th producing rain and strong winds, damaging or destroying over 1,500 homes.
November 4-5, 1998	Tropical Storm Mitch	Made landfall near Naples and caused up to 11.2 inches of rain. Spawned 5 tornadoes which injured 65 people and killed another two. 645 homes were destroyed causing $40 million worth of damage in the states.
August 28-September 8, 1999	Hurricane Dennis	Killed four people on the eastern coast of Florida.
September 7-19, 1999	Hurricane Floyd	Paralleled the eastern coast. Damaged at least 330 homes by fallen trees.
September 16-22, 1999	Tropical Storm Harvey	Damaged $15 million worth of property caused by heavy rain and flooding.
October 13-19, 1999	Hurricane Irene	Made landfall in Key West, causing heavy rainfall and flooding. Thousands of people were isolated from the flooding and at least eight died. The states' damages totaled $800 million.
August 21-24, 2000	Hurricane Debby	Produced heavy rainfall across southern Florida.
September 5-10, 2000	Tropical Depression Nine	Caused light rainfall in the western Florida Panhandle. One surfer was killed.
September 13-21, 2000	Tropical Storm Gordon	Dropped 9.48 inches of rain in Mayo causing at least $5.1 million in damage from flooding and fallen trees. Many homes were damaged.
September 19-24, 2000	Tropical Storm Helene	Floodwaters damaged hundreds of homes; the total damage was over $1 million.
October 15–20, 2000	Tropical Storm Leslie	About 93,000 homes were flooded from the rainfall across southeastern Florida, totaling $950 million in damages. Three indirect deaths were caused.
June 4-18, 2001	Tropical Storm Allison	Heavy rainfall destroyed 10 homes and damaged another 599. The total damage was $20 million. There were 8 deaths in Florida.
August 2-7, 2001	Tropical Storm Barry	Produced heavy rainfall across much of Florida, causing $1.5 million in damage. Caused two deaths.
September 10-16, 2001	Hurricane Gabrielle	Tracked across Florida on the 14th, causing rainfall and strong winds. There was $230 million worth of damage done.
November 4-6, 2001	Hurricane Michelle	Minor damage was caused when Michelle passed through the south of the state, spawning two tornadoes and rainfall.

July 9-15, 2002	Tropical Storm Arthur	Produced heavy rainfall across parts of Florida.
August 4–9, 2002	Tropical Storm Bertha	High surf caused one death.
September 1-6, 2002	Tropical Storm Edouard	Produced rain, causing some flooding and minimal damage.
September 12-17, 2002	Tropical Storm Hanna	Produced moderate rainfall throughout the state. Caused three deaths.
September 20-29, 2002	Tropical Storm Isidore	Caused rainfall, tornadoes and damage of over $11 million statewide.
October 2-5, 2002	Hurricane Lili	Produced rainfall in Pensacola.
October 10-12, 2002	Tropical Storm Kyle	Produced up to 2.05 inches of precipitation toward the east of the state.
April 20–24, 2003	Tropical Storm Ana	Caused two deaths.
June 27-July 3, 2003	Tropical Storm Bill	Left over 7 inches of rainfall, damaging at least 40 houses. Rip currents caused two deaths. The total damage was over $1 million.
July 8–17, 2003	Hurricane Claudette	Caused one death.
July 25-27, 2003	Tropical Depression Seven	Produced light precipitation to the east.
August 13-20, 2003	Hurricane Erika	Dropped heavy rain across the state.
August 30-September 4, 2003	Tropical Storm Grace	Dropped rain over portions of Florida.
September 3–8, 2003	Tropical Storm Henri	Caused over 9 inches of rain which led to minor flooding and damage.
September 6–19, 2003	Hurricane Isabel	One surfer was killed.
August 11-14, 2004	Tropical Storm Bonnie	Caused light rainfall and minor damage on Saint Vincent Island.
August 12-15, 2004	Hurricane Charley	Made landfall at Punta Gorda, damaged thousands of homes and knocked over tens of thousands of trees. Ultimately left $13.5 billion worth of damage.
September 3-11, 2004	Hurricane Frances	Caused $8.32 billion worth of damage from heavy rainfall, including damage to 15,000 homes. Caused 37 deaths.
September 2-26, 2004	Hurricane Ivan	Strong winds downed more than 125,000 ft^3 of a forest, and a storm surge severely damaged the Interstate 10 bridge in Pensacola. The damage totaled $8 billion and fourteen people were killed.
September 25-30, 2004	Hurricane Jeanne	Dropped rainfall up to 11.97 inches and produced hurricane force winds that caused about $3.5 billion worth of damage and killed three people.
October 6-15, 2004	Tropical Storm Matthew	Caused light rainfall across western Florida.
June 8-13, 2005	Tropical Storm Arlene	Moderate precipitation throughout the state left over $3.5 million in damage.
July 5-9, 2005	Hurricane Cindy	Left minor damage from beach erosion and fallen trees.
July 8-18, 2005	Hurricane Dennis	Made landfall near Navarre Beach late on the 10th. Produced rainfall and tornadoes throughout the state. The state total damage was $1.5 billion and 14 deaths were caused.
August 24-September 1, 2005	Hurricane Katrina	Caused $523 million worth of damage due to gusty winds and heavy rainfall.
September 6-17, 2005	Hurricane Ophelia	One surfer was killed.
September 17-26, 2005	Hurricane Rita	Hit 50 miles south of the Florida Keys and produced a 5 foot storm surge which damaged up to 200 houses.
October 4-7, 2005	Tropical Storm Tammy	Produced moderate rainfall and light damage.
October 22-24, 2005	Hurricane Wilma	Caused winds and moderate rain, the winds left 98% of southern Florida without power. Hundreds of homes were damaged or destroyed totaling $20.6 billion. Caused five deaths in the state.
June 11-15, 2006	Tropical Storm Alberto	The tropical storm made landfall southeast of Tallahassee on the 13th. It produced rain and flooded many homes.
August 25-September 4, 2006	Hurricane Ernesto	Spawned two tornadoes and moderate rainfall which flooded 13 houses.
May 9-11, 2007	Tropical Storm Andrea	Produced strong waves which led to beach erosion.
May 31-June 5, 2007	Tropical Storm Barry	Dropped moderate rainfall causing slick roads and minor damage.
August 13–23, 2007	Hurricane Dean	Rip currents caused one death.
September 11-15, 2007	Hurricane Humberto	Dropped light rainfall on the western Florida Panhandle.
September 18-23, 2007	Tropical Depression Ten	Produced light rainfall and spawned a tornado.
October 25-November 4, 2007	Hurricane Noel	Produced strong winds and high waves on the east coast.
December 10–12, 2007	Tropical Storm Olga	Dropped moderate precipitation.
July 15-22, 2008	Tropical Storm Cristobal	Dropped moderate rainfall, causing minor damage and some streets to flood.
July 20–25, 2008	Hurricane Dolly	Killed one and injured four others.
August 14-28, 2008	Tropical Storm Fay	Made a record breaking four landfalls throughout the state and caused extreme flooding.
August 29-September 5, 2008	Hurricane Gustav	Produced six tornadoes and heavy rain throughout the state. The hurricane caused four people in Florida to drown.
September 4–September 7, 2008	Tropical Storm Hanna	High rip currents caused three deaths.
September 8-15, 2008	Hurricane Ike	Caused severe damage and flooding along the Florida Panhandle.
August 15-18, 2009	Tropical Storm Claudette	Spawned a tornado which damaged 11 homes and left $103,000 in damage.
August 15-24, 2009	Hurricane Bill	Produced high waves along the east coast, causing one death.
November 4-10, 2009	Hurricane Ida	Brought rainfall and strong waves which caused power outages and $250,000 in damage.
June 29-July 6, 2010	Hurricane Alex	High storm tides from Alex caused tar balls from an oil spill to wash onshore.
July 22-24, 2010	Tropical Storm Bonnie	Brought light rainfall and winds.
August 9–20, 2010	Tropical Depression Five	High surf caused two deaths.
August 20–September 4, 2010	Hurricane Earl	Rip currents caused one death.
September 28-29, 2010	Tropical Storm Nicole	Brought brief yet heavy rainfall up to 2 inches along the coastline.
July 17-22, 2011	Tropical Storm Bret	Caused high surf on the Eastern coast and left several people injured.
August 25-September 5, 2011	Hurricane Irene	Caused scattered power outages and rainfall across the state. High waves killed two surfers.
September 1-11, 2011	Tropical Storm Lee	Spawned a few tornadoes across northwestern Florida.

-All $ figures are actual amounts, not converted to 2011 US Dollars.

Exhibit III
Detailed Description of Florida Cyclones from 2004-2010

During the past seven years, many tropical cyclones have affected Florida. These storms have caused an immense amount of damage. As the following charts show, 6 of the 8 Category 5 hurricanes to affect Florida in the past twenty-one years were between 2004 and 2011, as well as 6 of the 11 Category 4 hurricanes. Exhibit 3 provides a detailed description of each of the 40 tropical cyclones that affected Florida between 2004 and 2011, causing a total of more than $53 billion worth of damage in the state.

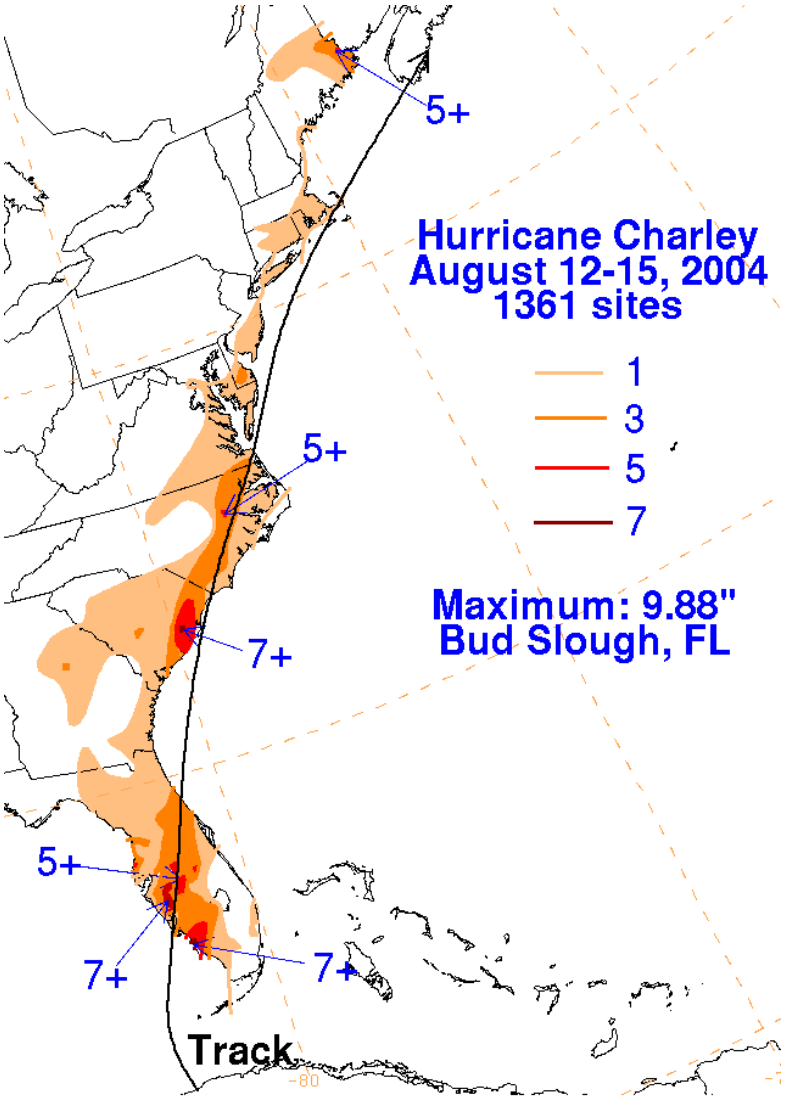
Type of Cyclone and Number to Affect Florida between 1990 and 2011	
Tropical Depressions	**8**
Tropical Storms	**44**
Category 1 Hurricanes	**13**
Category 2 Hurricanes	**7**
Category 3 Hurricanes	**5**
Category 4 Hurricanes	**11**
Category 5 Hurricanes	**8**

Type of Cyclone and Number to Affect Florida between 2004 and 2011	
Tropical Depressions	**2**
Tropical Storms	**16**
Category 1 Hurricanes	**5**
Category 2 Hurricanes	**3**
Category 3 Hurricanes	**2**
Category 4 Hurricanes	**6**
Category 5 Hurricanes	**6**

Map images used in Exhibit III are from The National Oceanic and Atmospheric Administration's (**NOAA**) Hydrometerological Prediction Center website: http://www.hpc.ncep.noaa.gov/.

Exhibit III - A

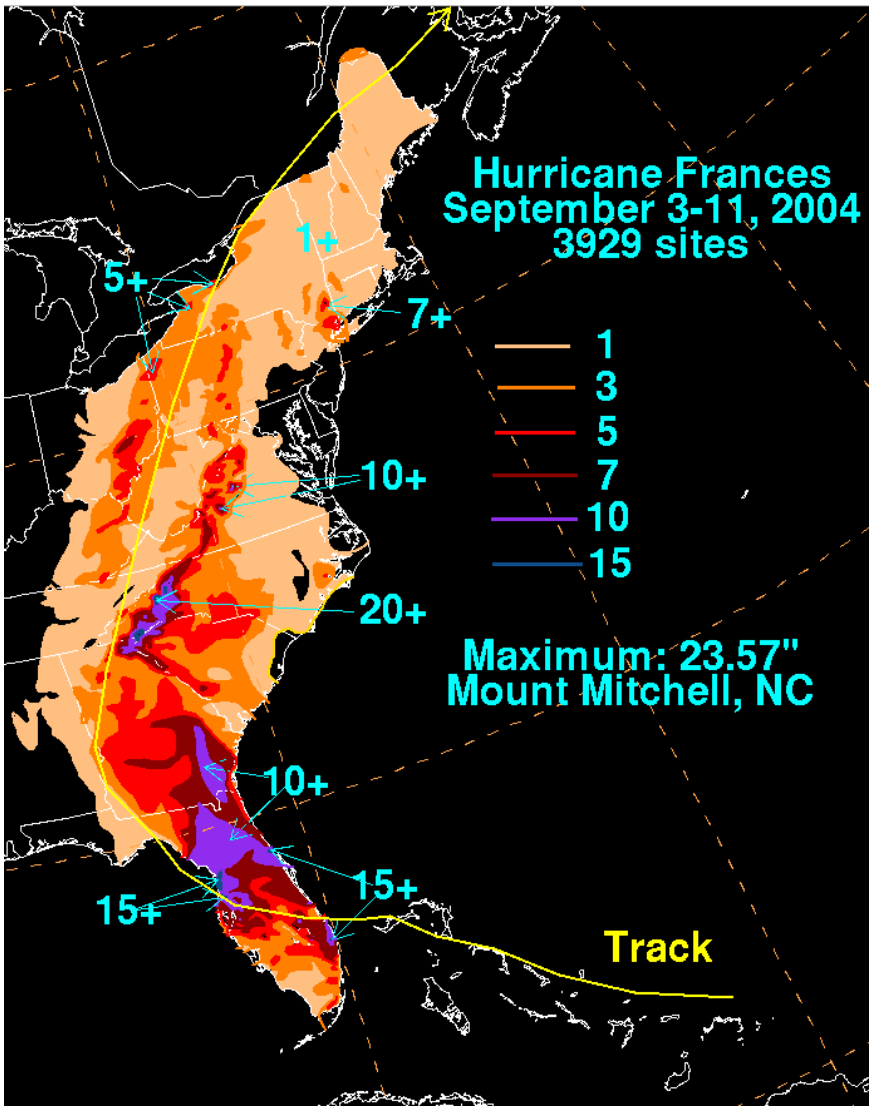
August 12 - August 15, 2004
Hurricane Charley



Hurricane Charley was the second major hurricane of the 2004 Atlantic hurricane season, after Hurricane Alex which struck in the beginning of August and left damage in North Carolina and Virginia. Charley left a total of $16.3 billion in damage, $13.5 billion of which was in Florida. This Category 4 hurricane knocked over tens of thousands of trees in Florida, and damaged thousands of homes.

Exhibit III - B

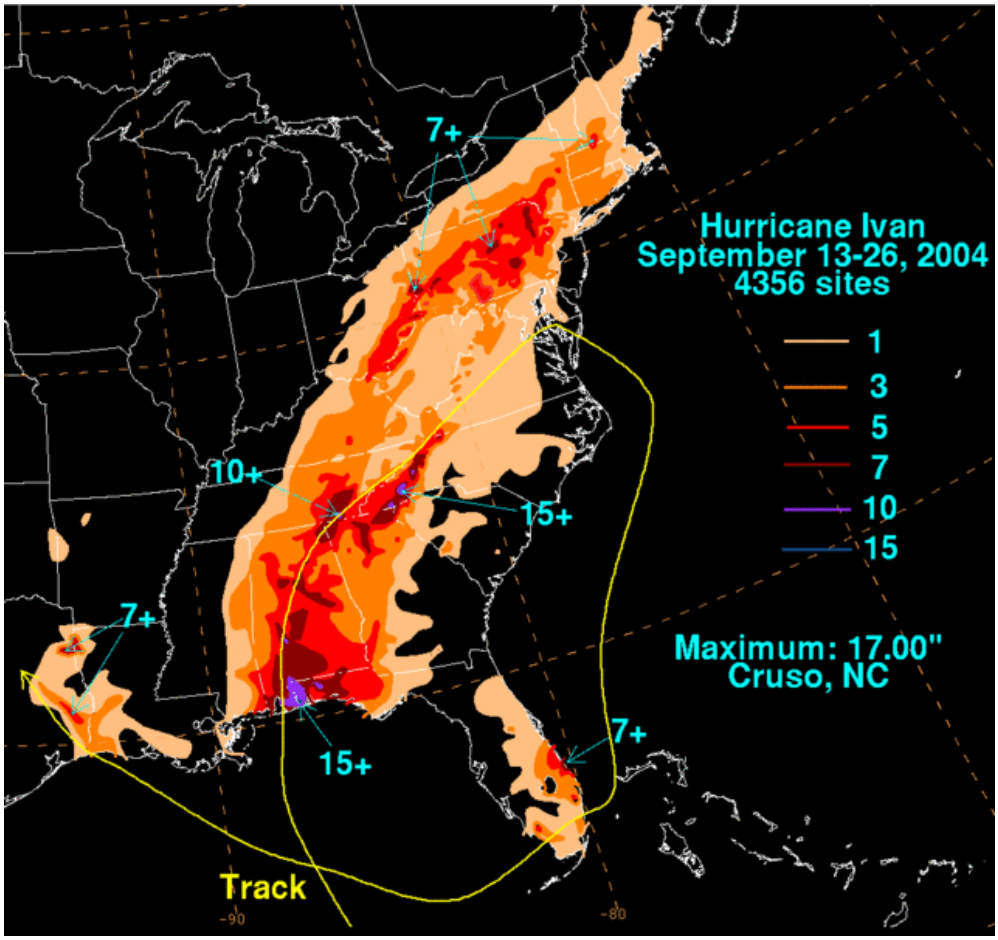
September 3 - September 11, 2004
Hurricane Frances



Hurricane Frances was a Category 4 hurricane that caused 49 fatalities and $12 billion worth of damage. Nearly 70% of the damage was done in Florida, totaling $8.32 billion. Parts of Florida received over 13 inches of rainfall.

Exhibit III - C

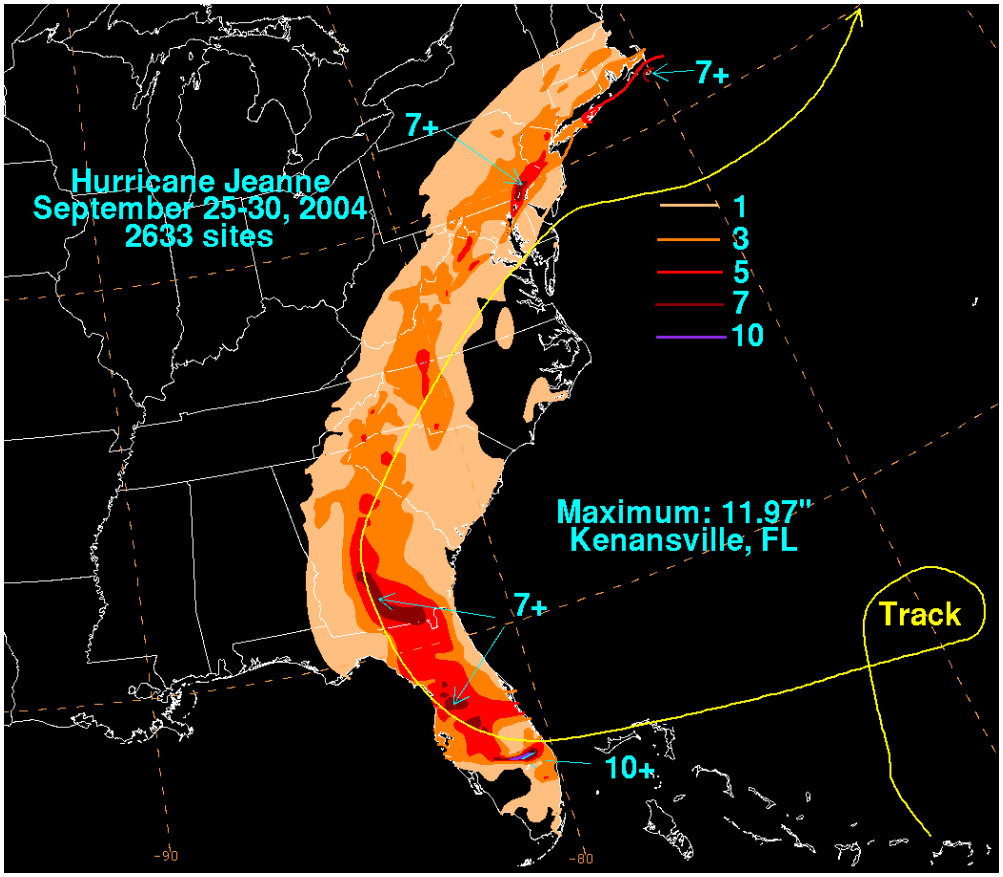
September 2 - September 26, 2004
Hurricane Ivan



Hurricane Ivan was a Category 5 hurricane that caused over 120 deaths and $18 billion in damages. A forest in Florida had over 125,000 ft³ torn down by the hurricane and a storm surge severely damaged the Interstate 10 bridge in Pensacola. The damage totaled $8 billion in the state of Florida and fourteen people were killed.

Exhibit III - D

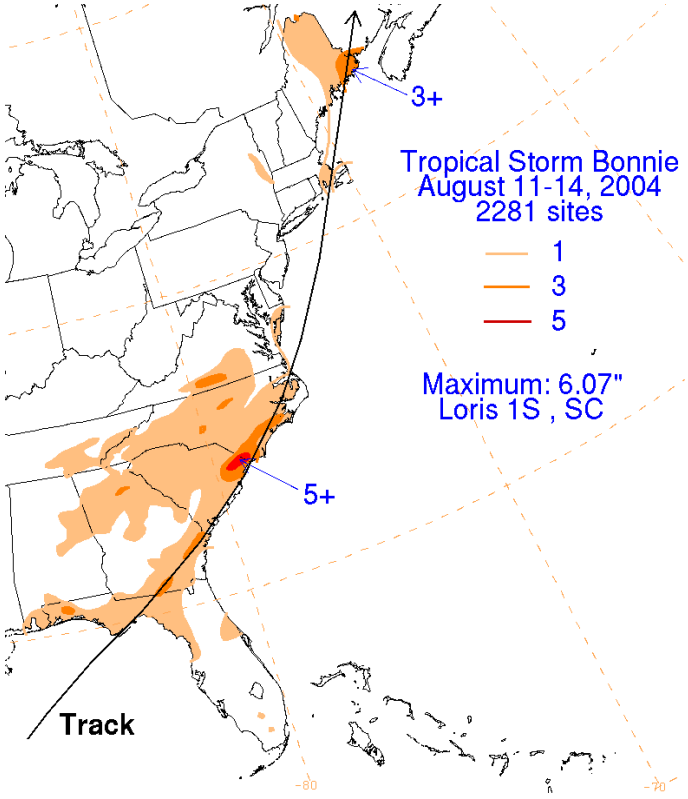
September 25 - September 30, 2004
Hurricane Jeanne



The deadliest hurricane of the 2004 Atlantic hurricane season, Hurricane Jeanne caused over 3,000 fatalities. This Category 3 hurricane left $7 billion worth of damage, half of which was in Florida. Jeanne is the 13th costliest hurricane in US history.

Exhibit III - E

2004
Tropical Storms and Tropical Depressions

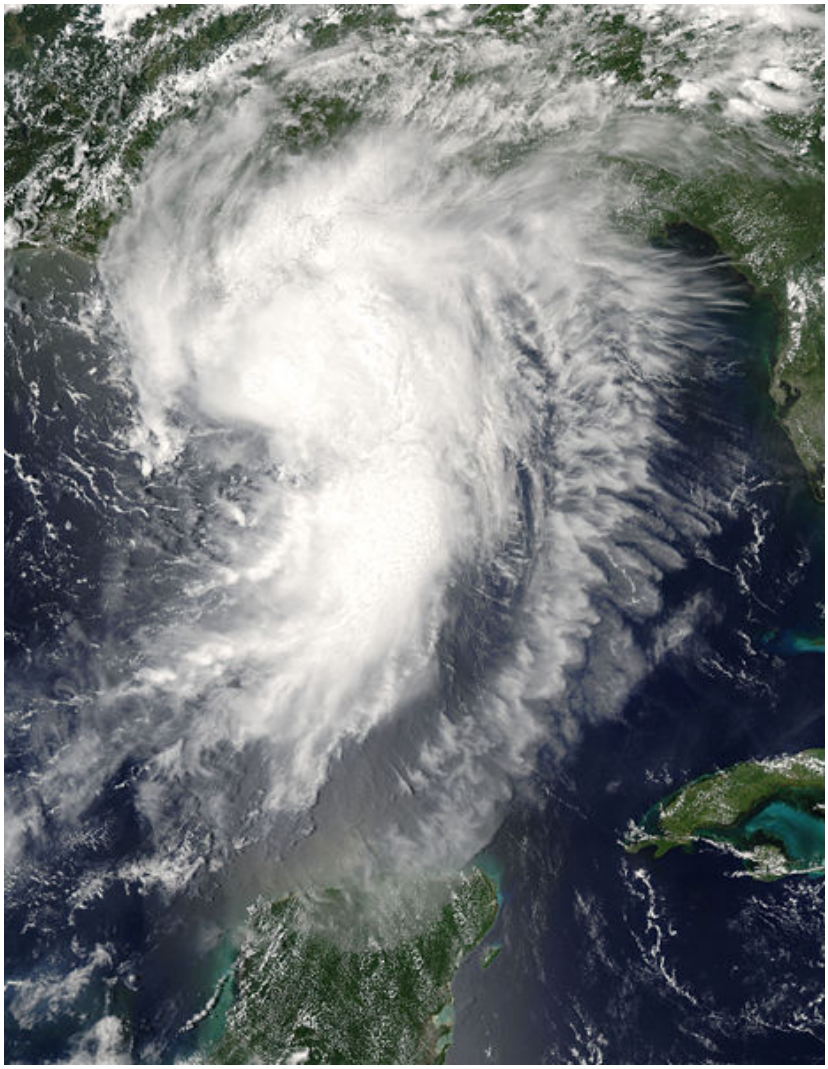


Tropical Storm Bonnie, August 11 - August 14, 2004 - Tropical Storm Bonnie was a smaller tropical storm that caused minimal property damage, totaling $1.27 million. The human toll from Tropical Storm Bonnie was four deaths. In Florida, Bonnie caused flooding and minor damage on Saint Vincent Island.

Tropical Storm Matthew, October 6 - October 15, 2004 – The thirteenth tropical storm of the 2004 Atlantic hurricane season left minor damage, totaling $305,000. Matthew brought heavy rainfall to the Gulf Coast and caused light rainfall across western Florida.

Exhibit III - F

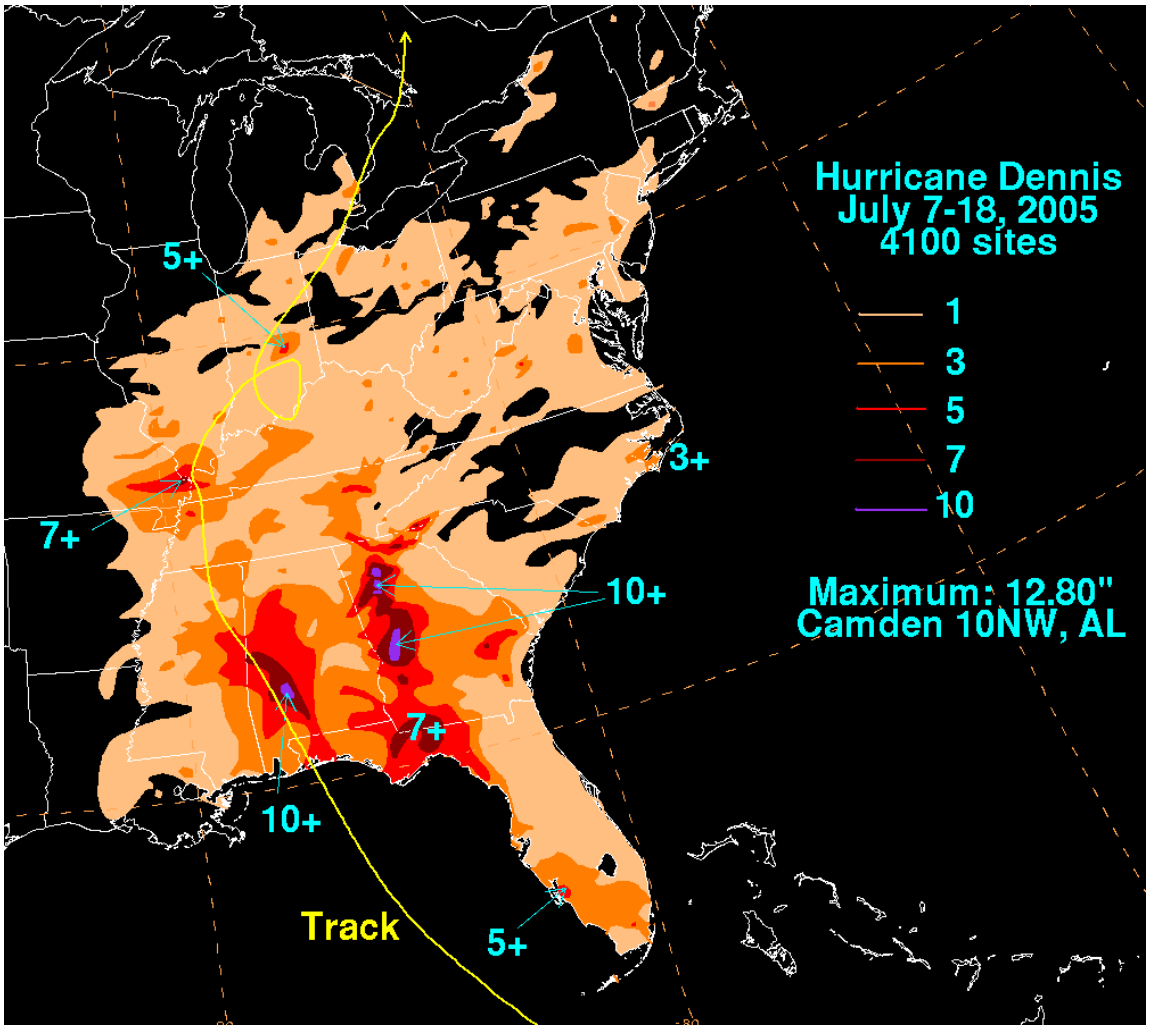
July 5 - July 9, 2005
Hurricane Cindy



Hurricane Cindy was the first hurricane of the 2005 Atlantic hurricane season. Cindy caused 5 fatalities and left behind $320 million in damages. The hurricane caused heavy rainfall and spawned tornadoes across the Southeastern US. The storm left minor damage from beach erosion and fallen trees in Florida.

Exhibit III - G

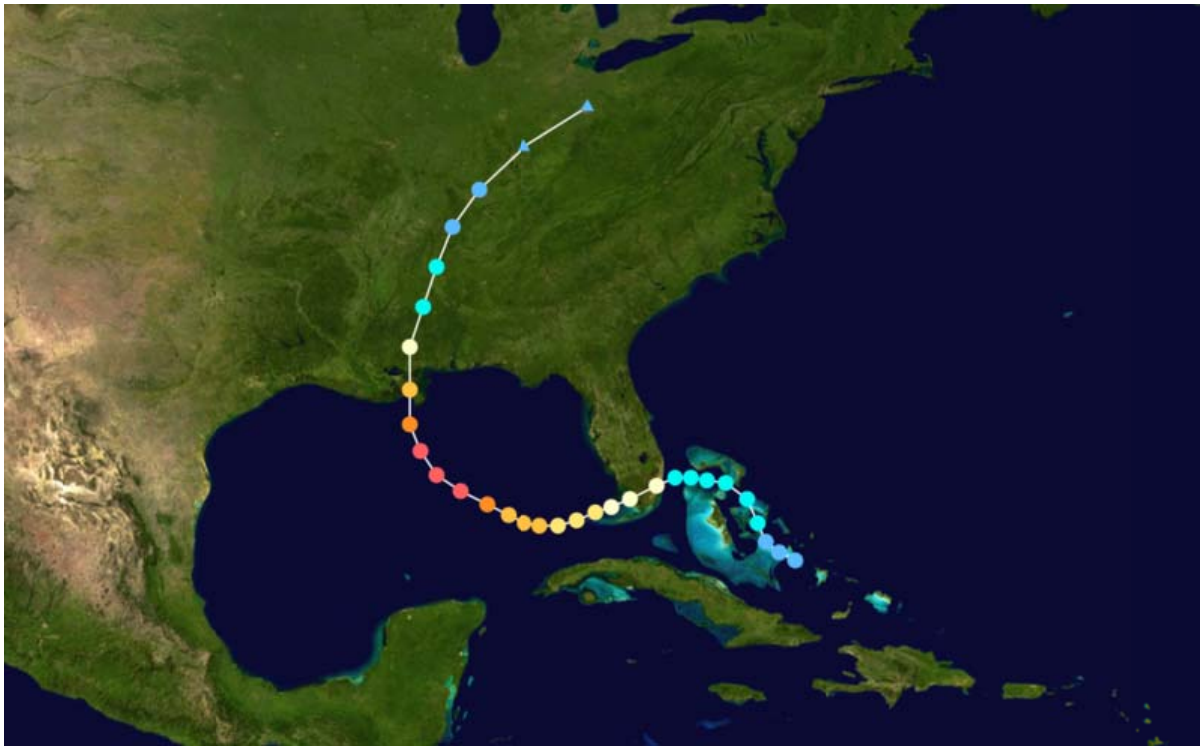
July 8 - July 18, 2005
Hurricane Dennis



Hurricane Dennis was the first major hurricane of the 2005 Atlantic hurricane season. Dennis struck Cuba twice as a Category 4 hurricane and hit the US as a Category 3. Of the total $4 billion in damage and 89 deaths caused, $1.5 billion of the damage and 14 of those deaths were in Florida.

- H

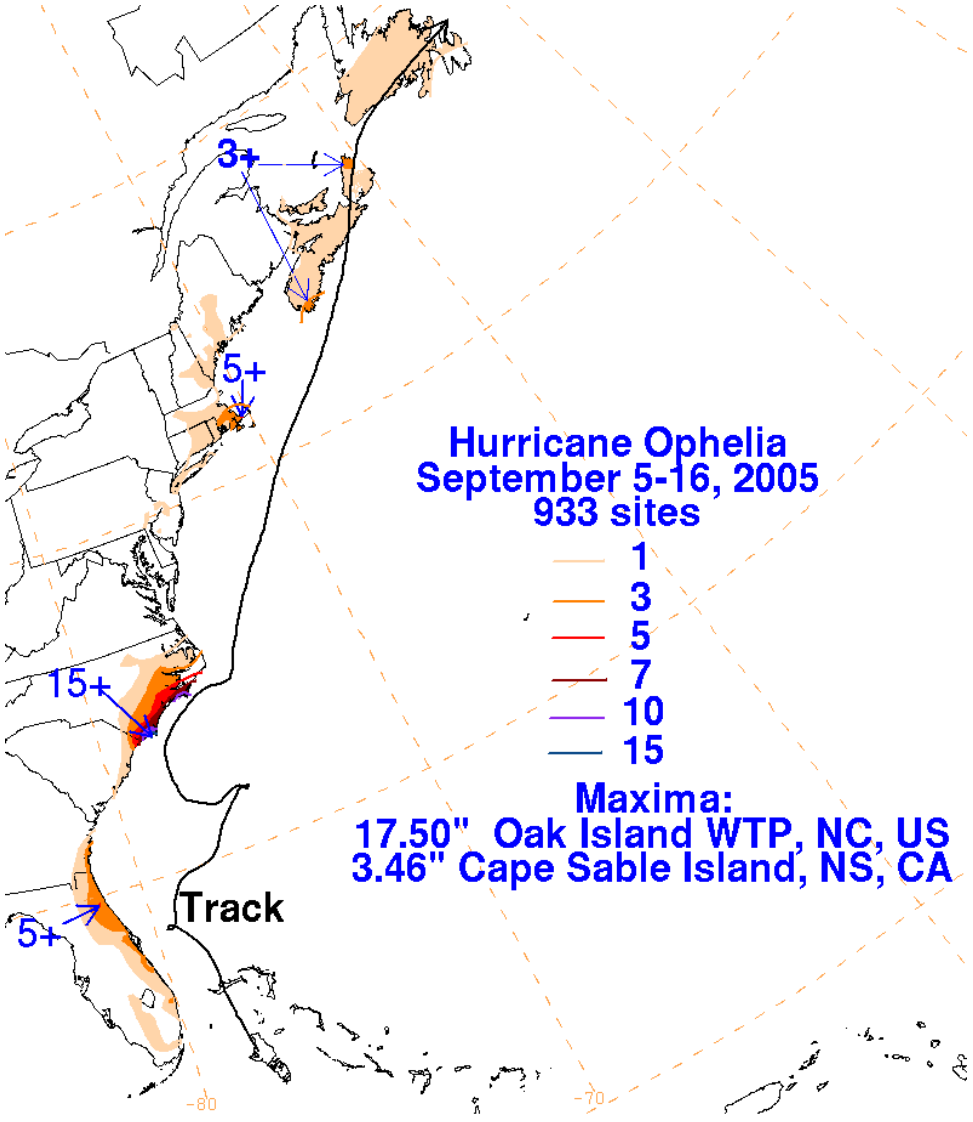
August 24 - September 1, 2005
Hurricane Katrina



A Category 5 hurricane causing a total of $108 billion in damage, Hurricane Katrina is the costliest hurricane in US history. Katrina is also the third deadliest US hurricane and the third strongest hurricane to make landfall in the US. The winds and heavy rainfall caused by Katrina left $523 million worth of damage in Florida.

Exhibit III - I

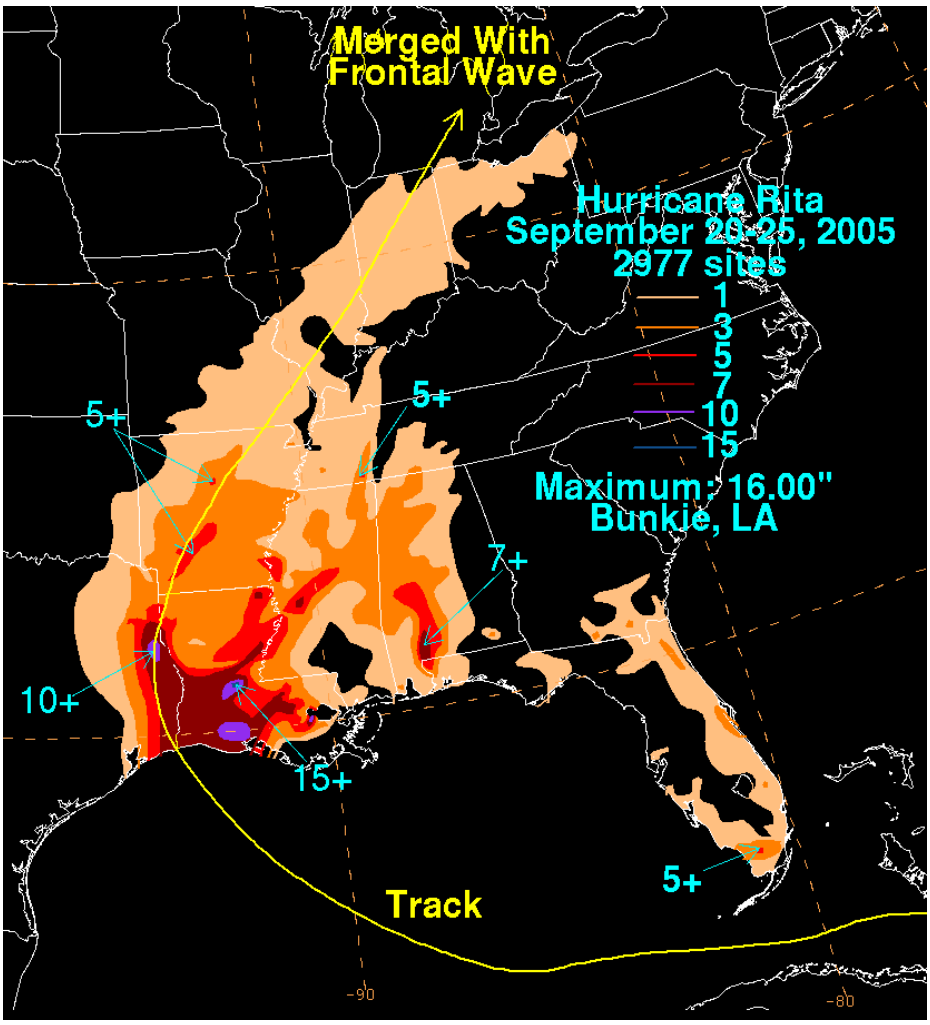
September 6 - September 17, 2005
Hurricane Ophelia



Hurricane Ophelia was a 2005 hurricane that tracked along the Eastern US coastline. Ophelia left damage and beach erosion along the coast from Florida to North Carolina. Ultimately, Ophelia caused three deaths and $70 million in damage. Florida received substantial rainfall and one death was caused by Ophelia.

Exhibit III - J

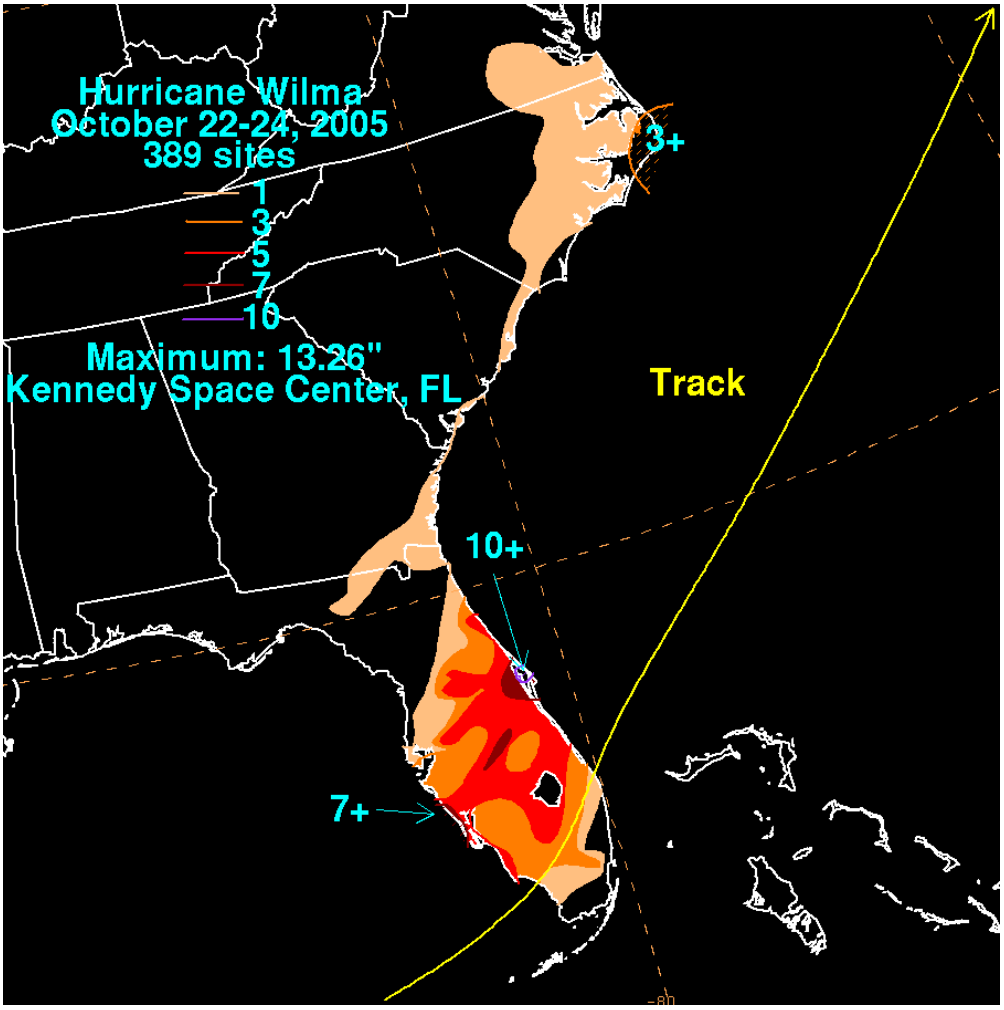
September 17 - September 26, 2005
Hurricane Rita



Ranked the fourth most intense Atlantic hurricane ever recorded, Hurricane Rita was a Category 5 hurricane that left over 100 people dead and caused $10 billion in damage. Rita hit 50 miles south of the Florida Keys and produced a storm surge which damaged approximately 200 houses in Florida.

Exhibit III - K

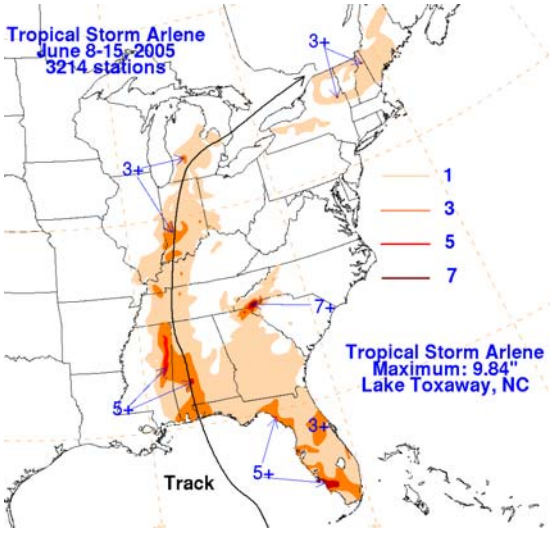
October 22 - October 24, 2005
Hurricane Wilma



The twenty-second storm of the 2005 season, Hurricane Wilma broke multiple records. Setting the record for most storms in a season, Wilma also ranked as the most intense Atlantic hurricane ever to strike, causing the pressure to drop to a record low 882 hPa. Wilma was a Category 5 hurricane that left 98% of southern Florida without power and left hundreds of homes damaged or destroyed. The total damage in Florida was $20.6 billion, just over 70% of the total $29.1 billion caused by Wilma.

Exhibit III - L

2005
Tropical Storms and Tropical Depressions



Tropical Storm Arlene, June 8 - June 13, 2005 – The first named storm of the 2005 season, Arlene left minor damages totaling $11.8 million. This tropical storm generated one fatality and over $3.5 million in damage in Florida, caused mostly by moderate precipitation.

Tropical Storm Tammy, October 4 - October 7, 2005 – Tropical Storm Tammy was a short tropical storm that left $30 million in damage and caused 10 indirect fatalities. Tammy caused light damage and moderate rainfall across Florida.

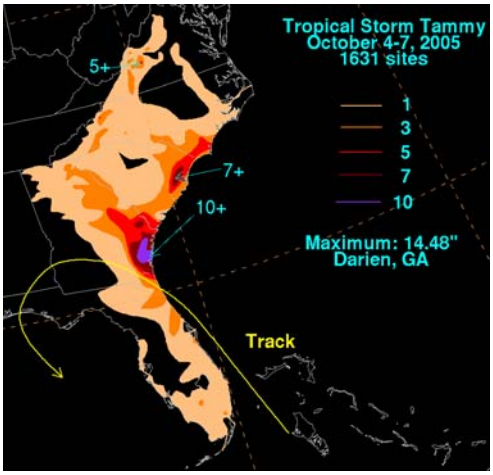
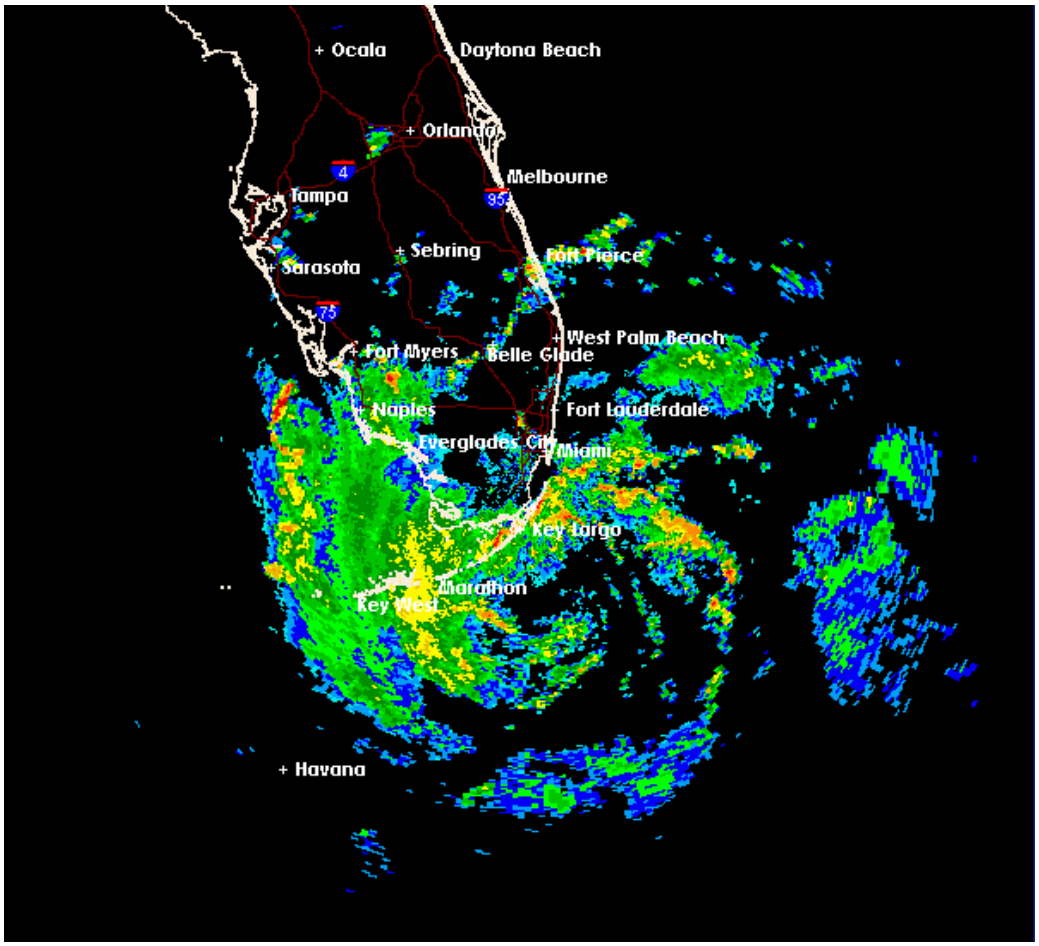


Exhibit III - M

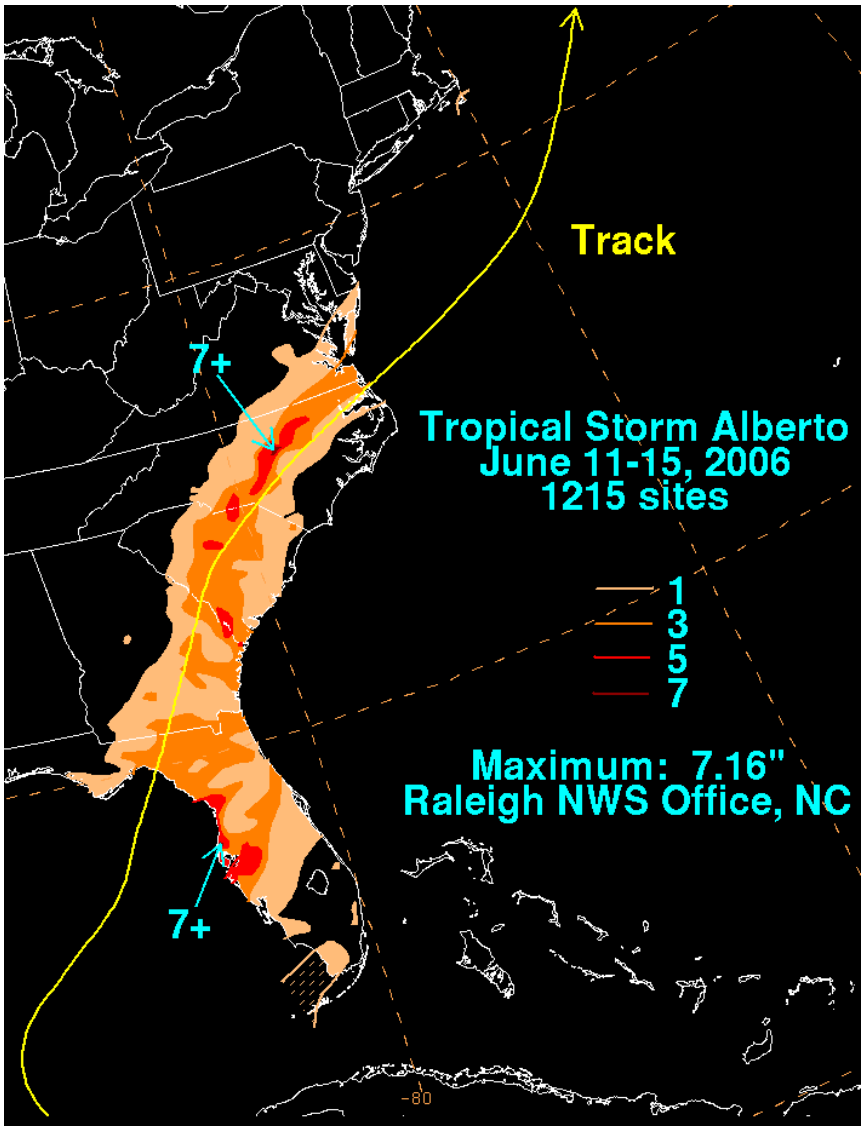
August 25 - September 4, 2006
Hurricane Ernesto



For the 2006 Atlantic hurricane season, Ernesto was the costliest tropical cyclone. This Category 1 hurricane caused $500 million in damage and at least 11 people dead. In Florida, Hurricane Ernesto spawned two tornadoes and produced rainfall across the state which caused flooding.

Exhibit III - N

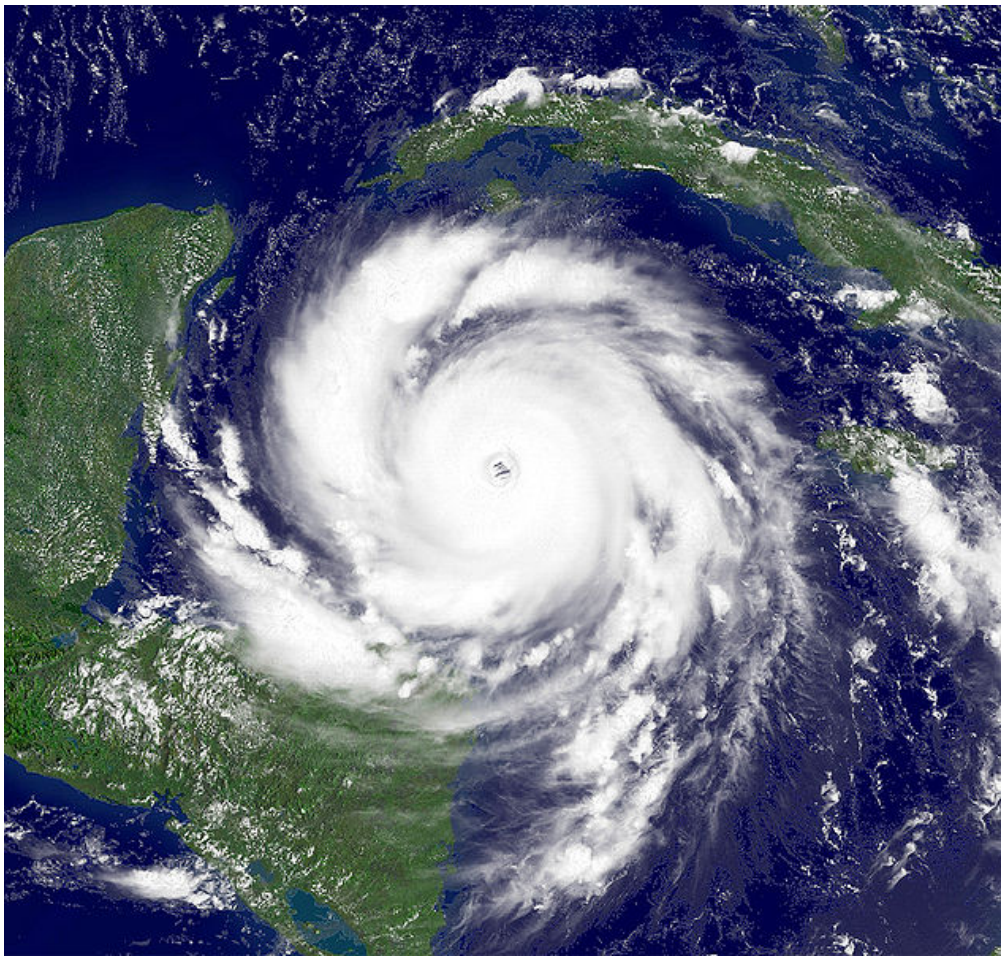
2006
Tropical Storms and Tropical Depressions



Tropical Storm Alberto, June 11 - June 15, 2006 – Alberto caused $420,000 in damage, and at least three fatalities. In Florida, Alberto made landfall southeast of Tallahassee, which led to heavy rain and flooding.

Exhibit III - O

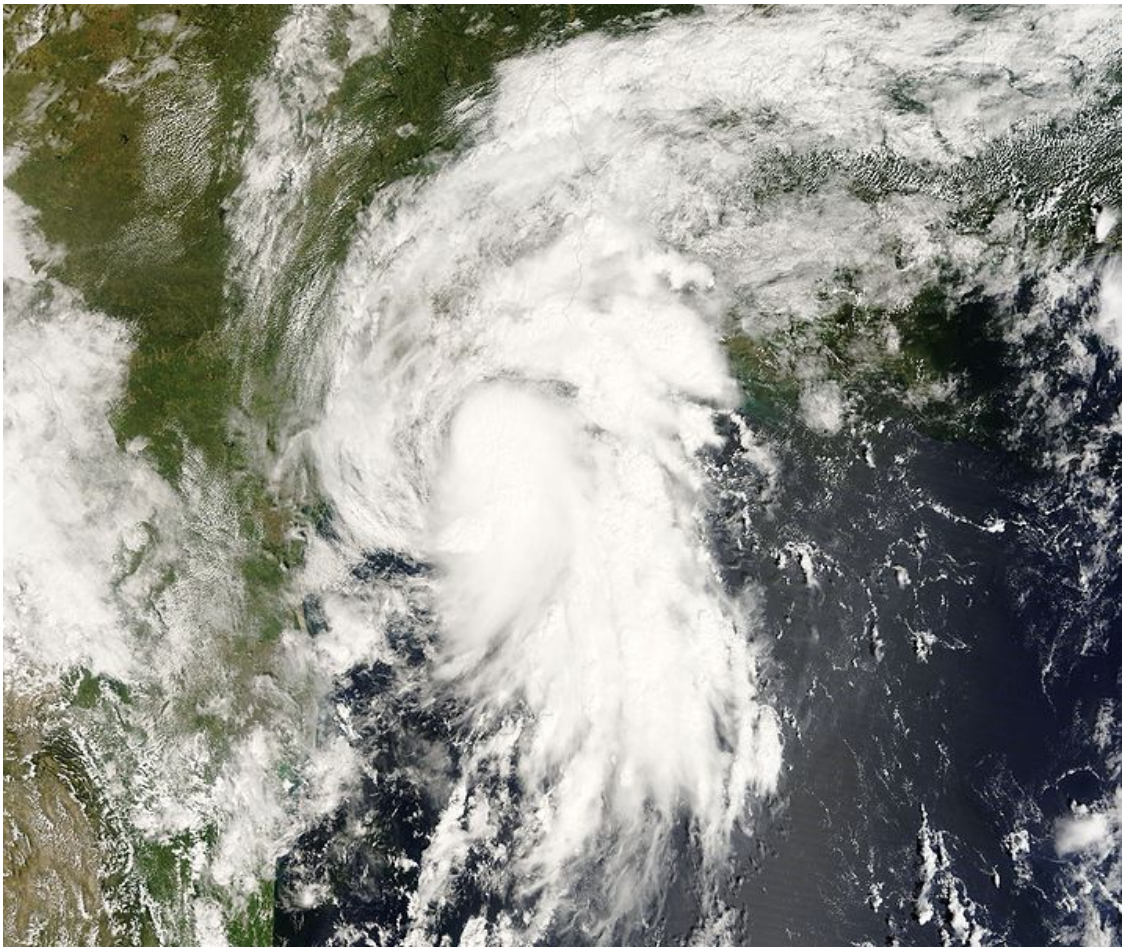
August 13 - August 23, 2007
Hurricane Dean



Hurricane Dean was a Category 5 hurricane that hit in August of 2007. Dean is tied as the seventh most intense Atlantic hurricane ever to strike. Fifteen different countries were affected by Dean, with the greatest amount of damage caused in France and Jamaica. In Florida, Dean caused one death due to strong rip currents.

Exhibit III - P

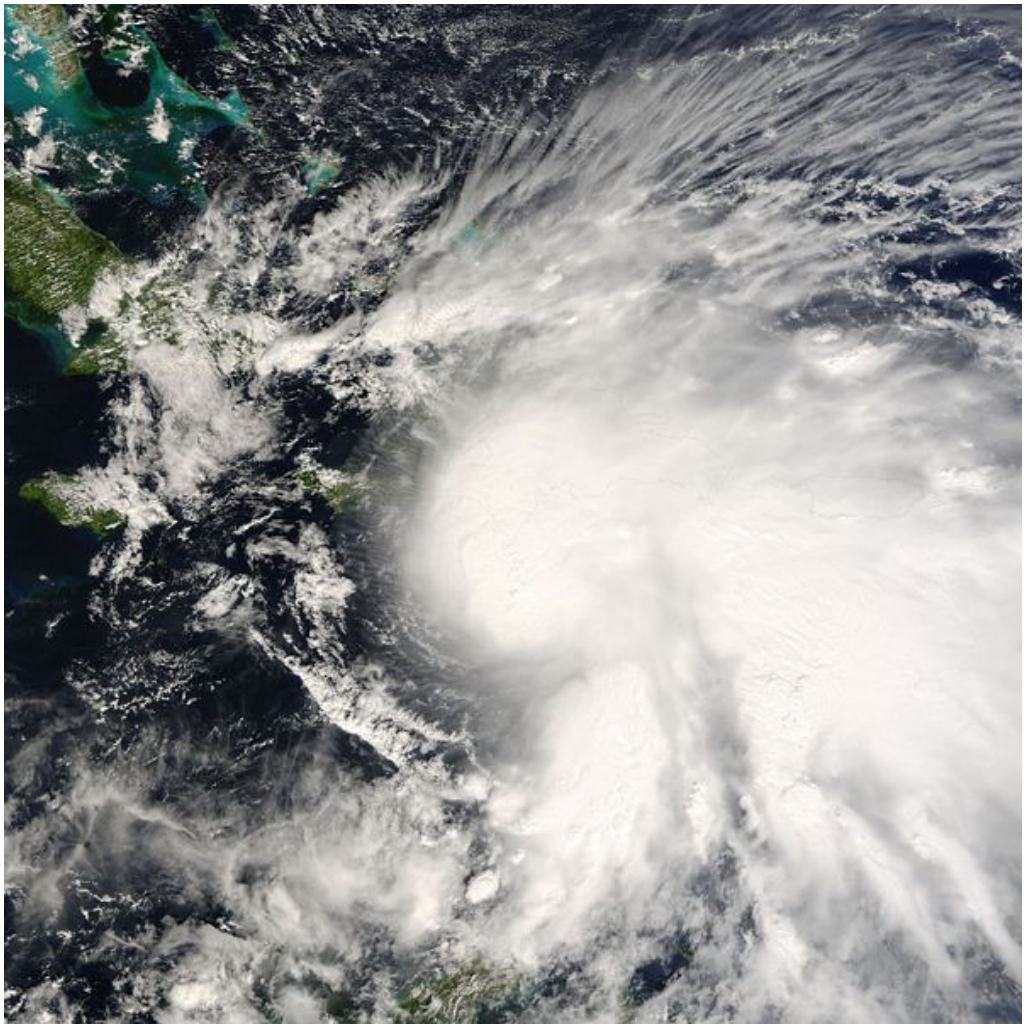
September 11 - September 15, 2007
Hurricane Humberto



Hurricane Humberto was a 2007 hurricane that caused $50 million in damage. The damage was prominently flooding followed by downed trees and power lines. This Category 1 hurricane caused power outages to hundreds of thousands of Americans. Humberto produced heavy rainfall on the western Florida Panhandle.

Exhibit III - Q

October 25 - November 4, 2007
Hurricane Noel



The sixth hurricane of the 2007 Atlantic season, Hurricane Noel, caused 222 total fatalities and $580 million in damage. The Category 1 hurricane produced strong winds and high waves in Florida, predominately along the eastern coastline.

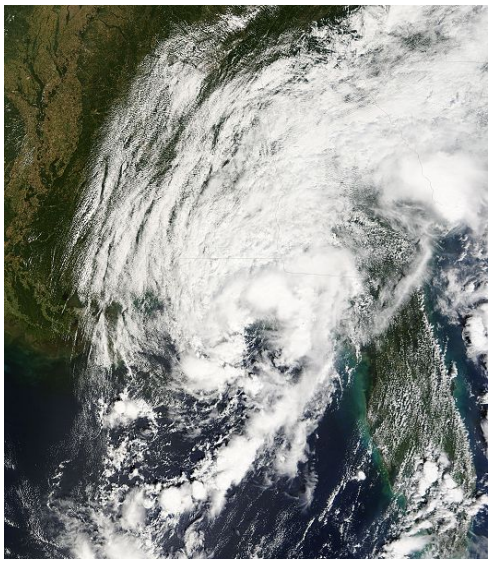
Exhibit III - R

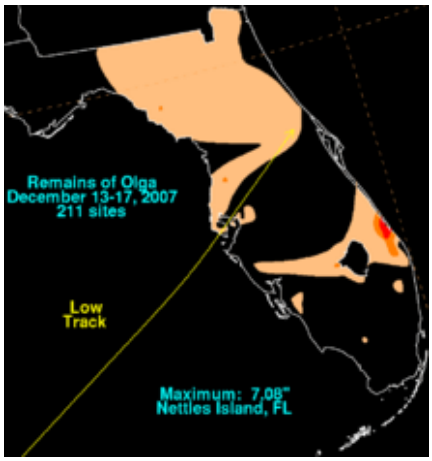
2007
Tropical Storms and Tropical Depressions

Subtropical Storm Andrea, May 9 - May 11, 2007 – Andrea left minimal damage in her wake, but caused six indirect deaths. The storm produced strong waves in Florida, which led to beach erosion.

Tropical Storm Barry, May 31 - June 5, 2007 - Tropical Storm Barry resulted in one direct and two indirect fatalities. This storm also generated about $118,000 worth of damage. Barry dropped moderate rainfall in Florida, leaving minor damage and causing slick roads.

Tropical Depression #10, September 18 - September 23, 2007 – Tropical Depression #10 affected the southeastern US, hitting Georgia, Florida, and Alabama, and leaving $6.2 million worth of damage. The storm made landfall on the Florida Panhandle and spawned a tornado. The storm also produced light rainfall across the state.

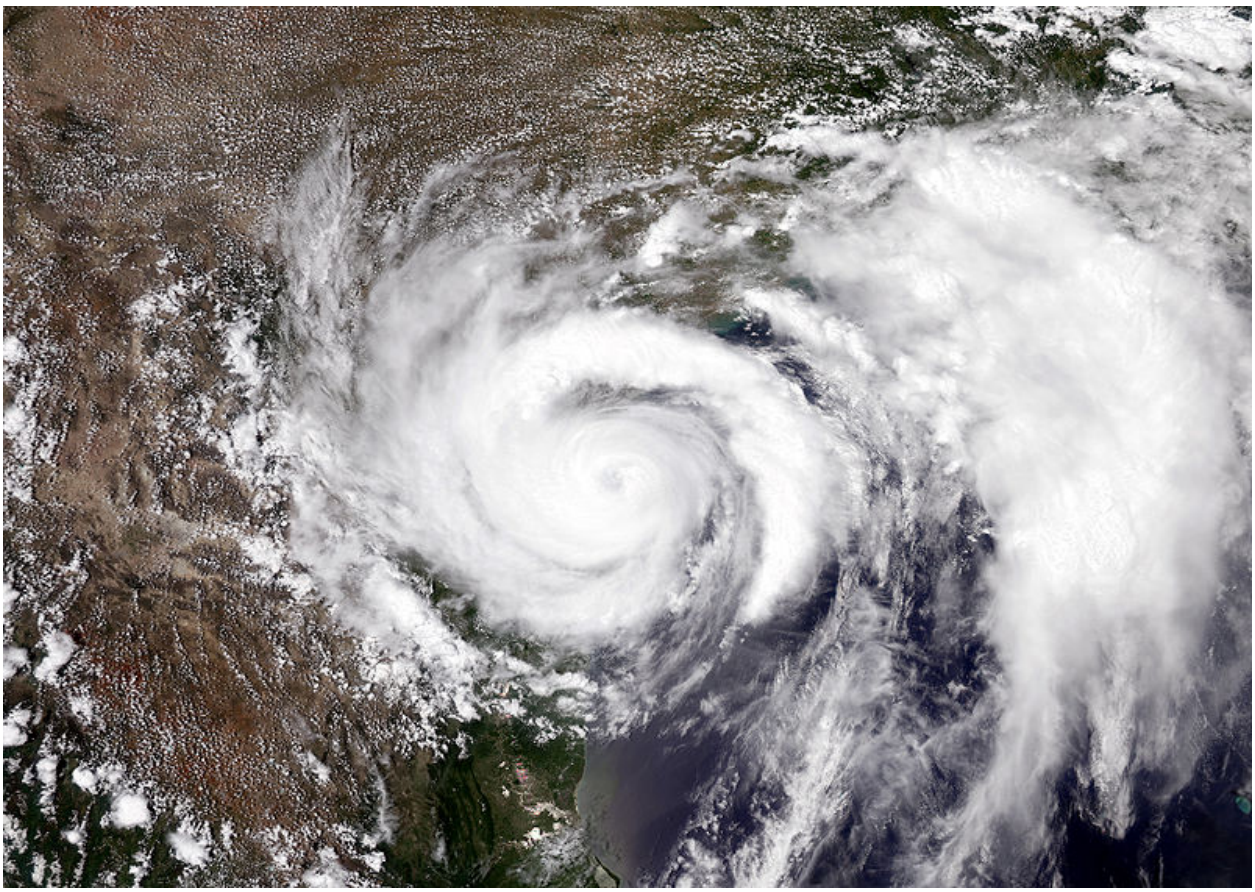




Tropical Storm Olga, December 10 - December 17, 2007 - The last named storm of the 2007 Atlantic hurricane season, Tropical Storm Olga, left $45 million in damage and caused 40 direct deaths. Olga created moderate precipitation across Florida.

Exhibit III - S

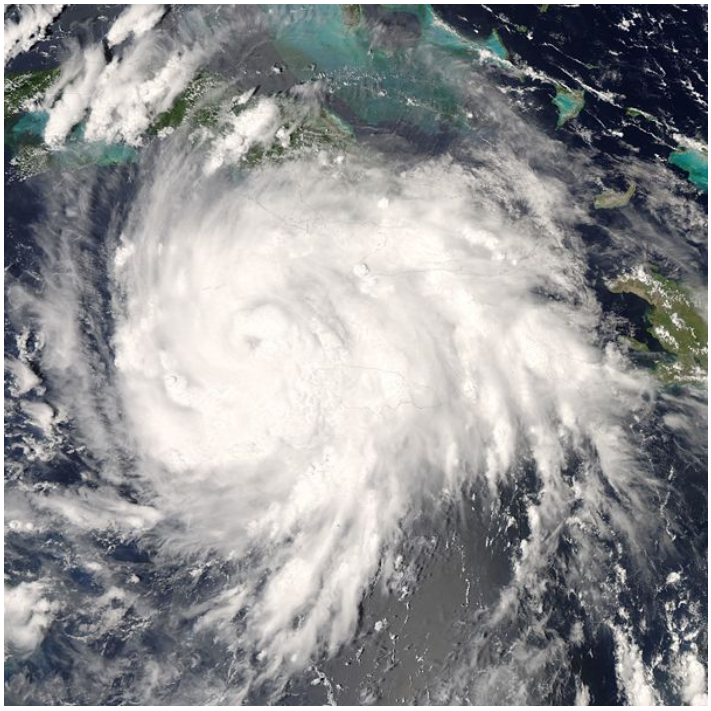
July 20 - July 25, 2008
Hurricane Dolly



Hurricane Dolly was a 2008, Category 2, Atlantic hurricane. Dolly caused a total of 22 deaths and $1.35 billion in damage. Most of the damage in the US was in Texas. In Florida, one person was killed and another four were severely injured at beaches located along the Panhandle.

Exhibit III - T

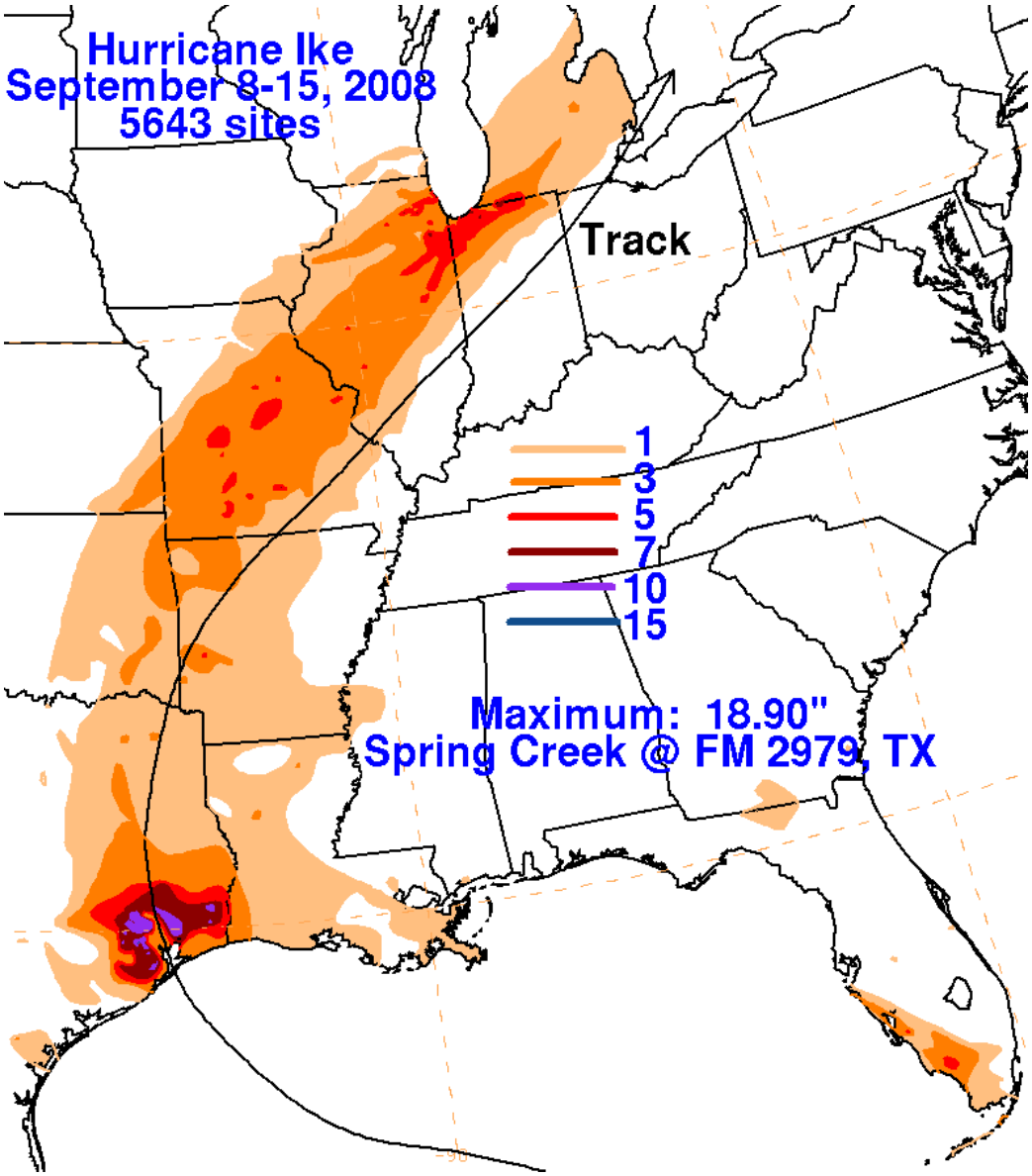
August 24 - September 4, 2008
Hurricane Gustav



Hurricane Gustav was a 2008 Atlantic hurricane that prompted the largest evacuation in US history. The total damage caused was at least $6.6 billion. Gustav was a Category 4 hurricane which produced six tornadoes in Florida and heavy rain, up to 4.12 inches. This hurricane also produced strong rip currents and three waterspouts. In southern Florida, the rip currents caused four people to drown.

Exhibit III - U

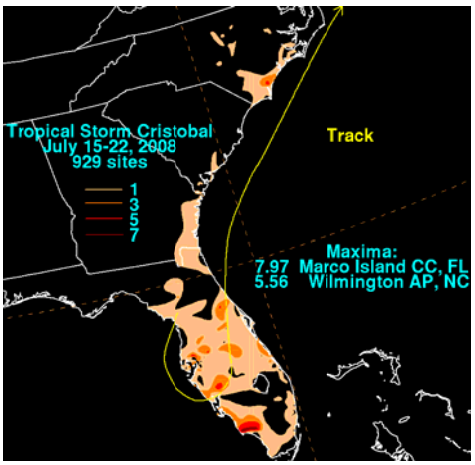
September 8 - September 15, 2008
Hurricane Ike



The third costliest US Atlantic hurricane, Hurricane Ike left $29.5 billion in damage, the majority of which was in Louisiana and Texas. In Florida, this Category 4 hurricane caused severe damage and flooding along the Florida Panhandle.

- V

2008
Tropical Storms and Tropical Depressions



Tropical Storm Cristobal, July 15 - July 22 – Cristobal caused $10,000 in damage. In Florida, this tropical storm dropped light rainfall which caused minor damage and some streets to flood.

Tropical Storm Fay, August 14 - August 28, 2008 - A major tropical storm, Tropical Storm Fay ultimately caused 36 deaths and $560 million in damage, as well as spawning 81 tornadoes throughout the state. Fay was the first storm to hit the same state four times, and was the first storm to prompt storm warnings across every coast in Florida. Fay made four landfalls throughout Florida causing extreme flooding and is currently ranked as the 4th wettest tropical cyclone in Florida.

Tropical Storm Hanna, August 31 - September 7, 2008 – The deadliest storm of the 2008 Atlantic hurricane season, Hanna, left over 535 people dead. Hanna caused $160 million worth of damage, as well as flooding along the eastern US coast. In Florida, the high rip currents produced by Hanna caused three deaths.

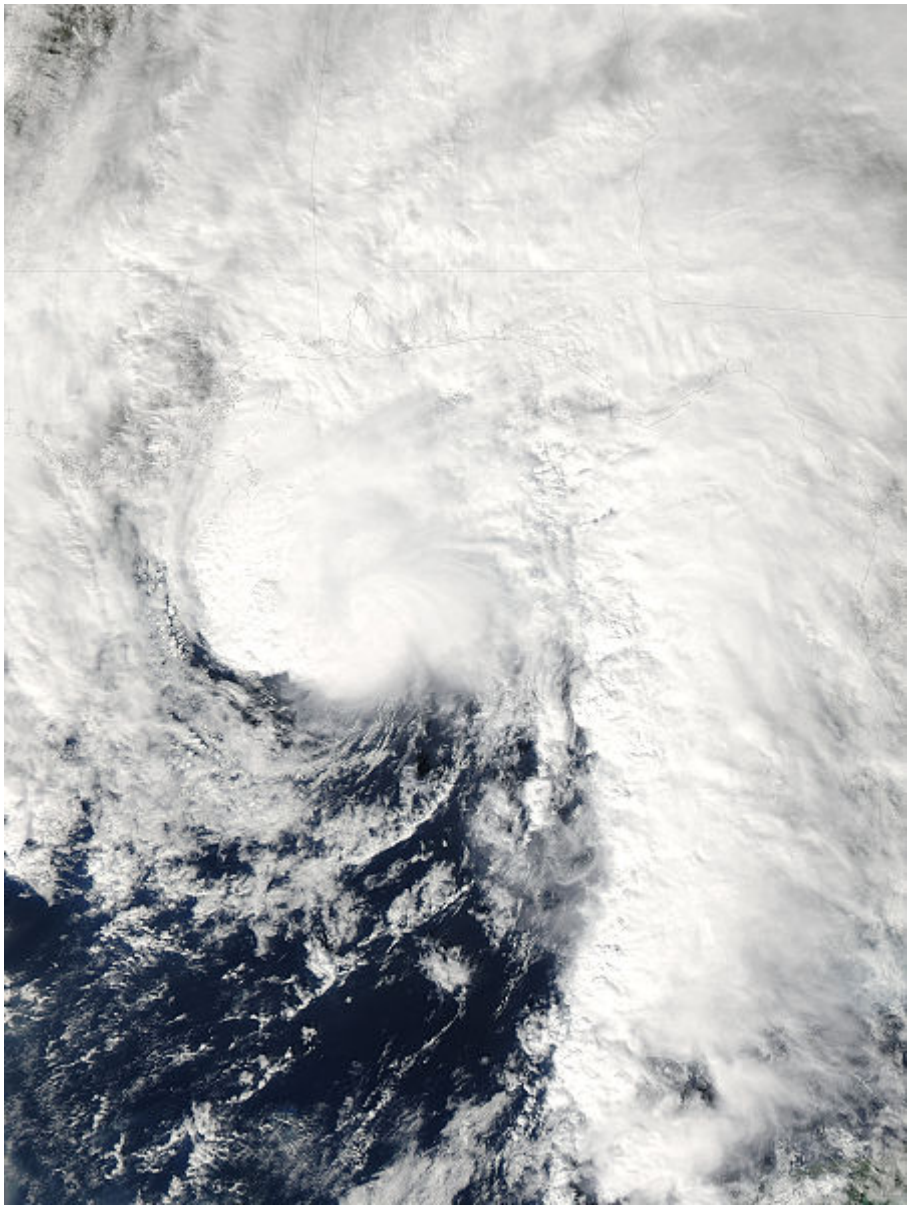
Exhibit III - W

August 15 - 24, 2009
Hurricane Bill

Hurricane Bill was a Category 5 hurricane that left a total of $46.2 million in damage. Bill produced high waves on the eastern coast of Florida. This hurricane caused two fatalities, one of which was at New Smyrna Beach in Florida.

Exhibit III - X

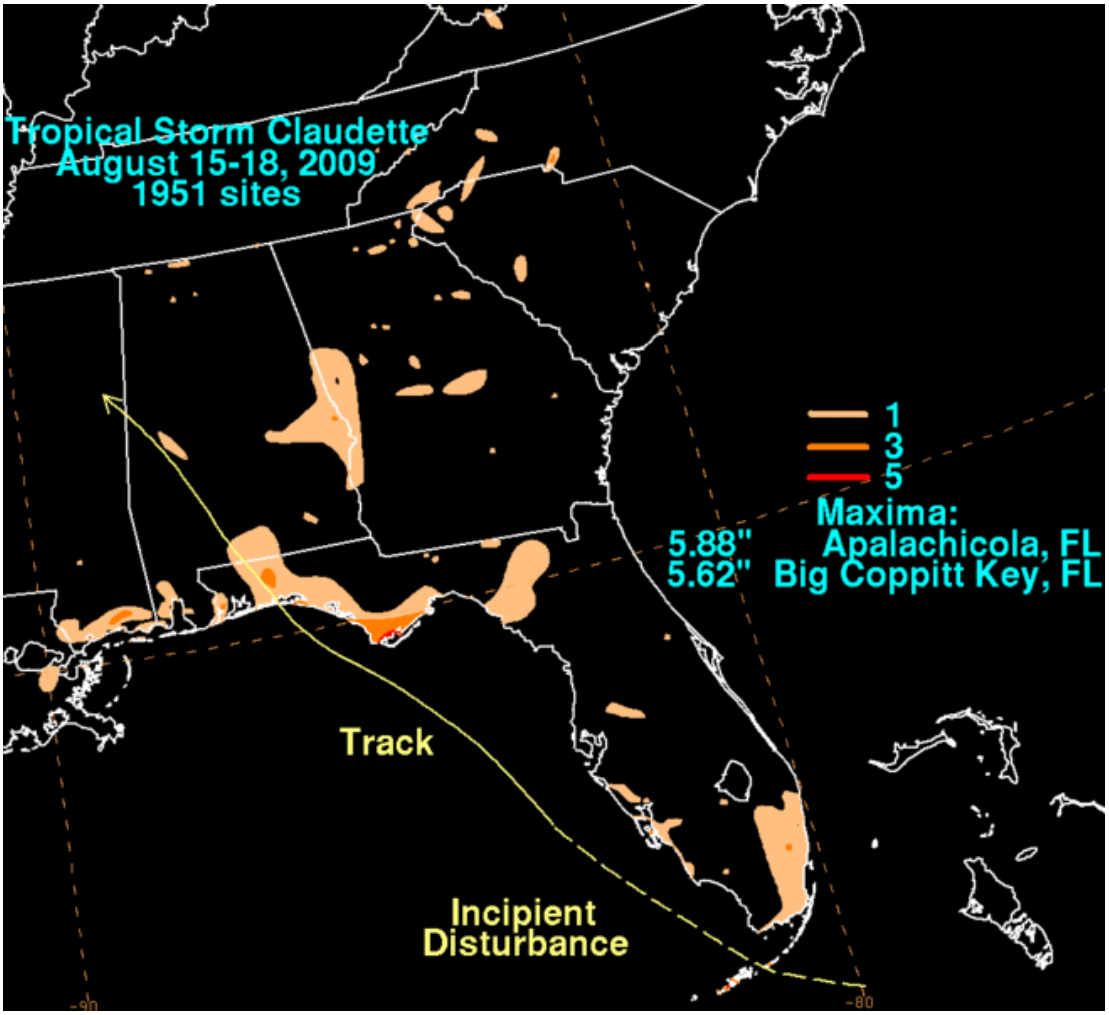
November 4 - November 10, 2009
Hurricane Ida



Ida, classified as a Category 2 hurricane, was the strongest hurricane of the 2009 season. It caused $11.3 million in damage and one fatality. There was $250,000 worth of damage in Florida, mostly due to rainfall and strong waves on the Panhandle which caused power outages.

Exhibit III - Y

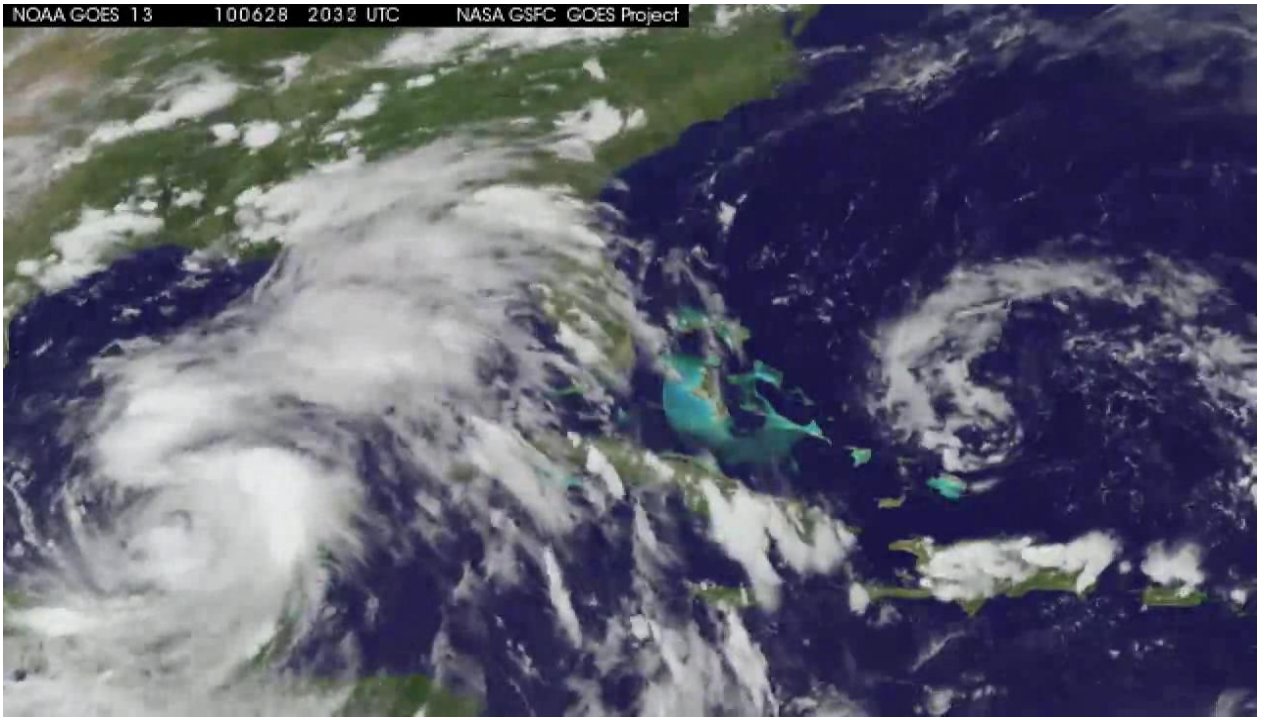
2009
Tropical Storms and Tropical Depressions



Tropical Storm Claudette, August 15 - August 18, 2009 – Tropical Storm Claudette was the first tropical cyclone of the 2009 Atlantic hurricane season to damage the US. This storm left $228,000 worth of damage. $103,000 of that damage was in Florida, where Claudette spawned a tornado and damaged multiple homes.

Exhibit III - Z

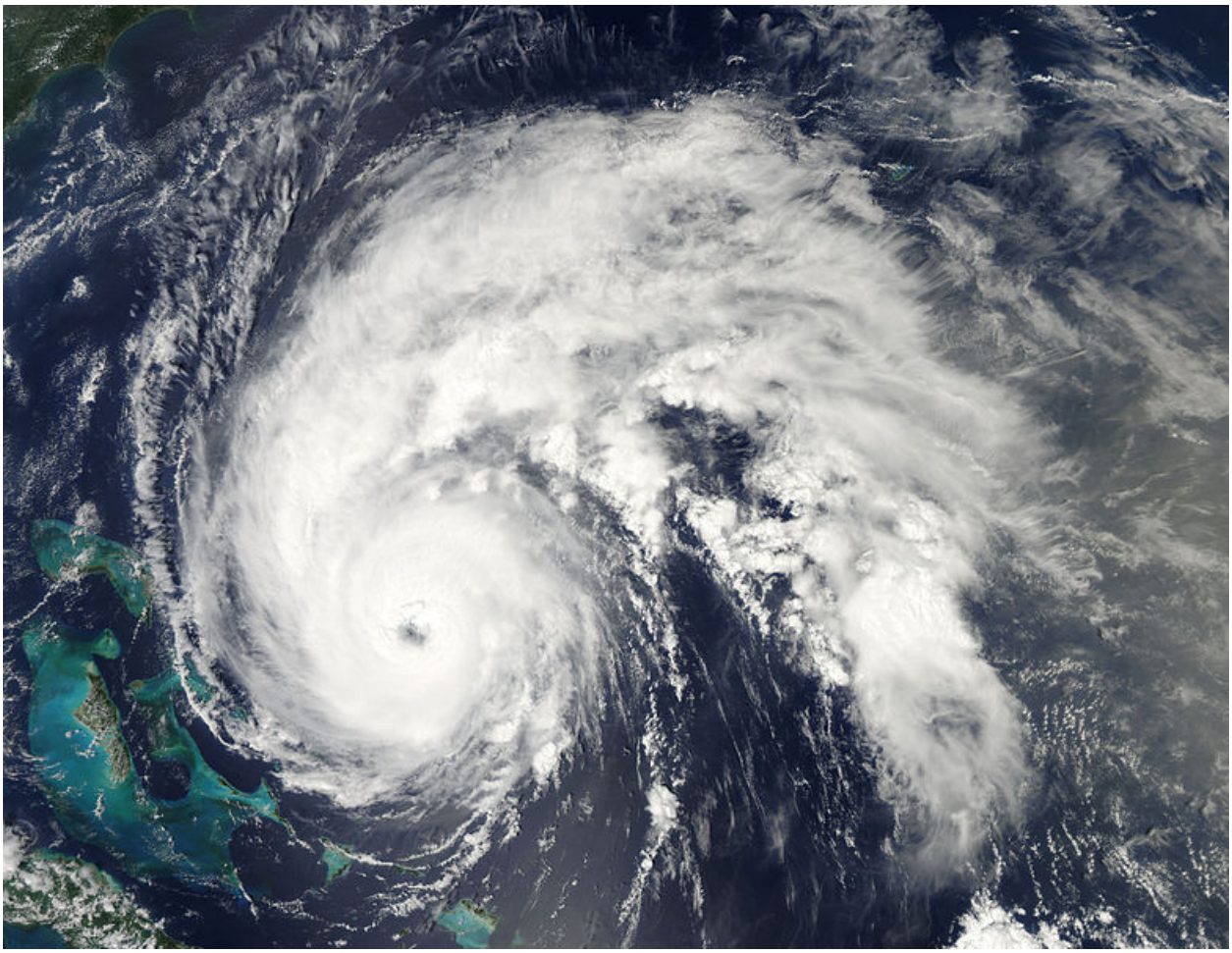
June 29 - July 6, 2010
Hurricane Alex



The first named storm of the 2010 Atlantic hurricane season, Hurricane Alex, was a Category 2 hurricane that caused $1.885 billion worth of damage and at least 51 deaths. Alex was the strongest hurricane in terms of wind speed since 1966's Hurricane Alma. Hurricane Alex was also the first Atlantic hurricane to strike in June since 1995. Alex caused tar balls from an oil spill to wash onshore in Florida.

Exhibit III - AA

August 25 - September 5, 2010
Hurricane Earl



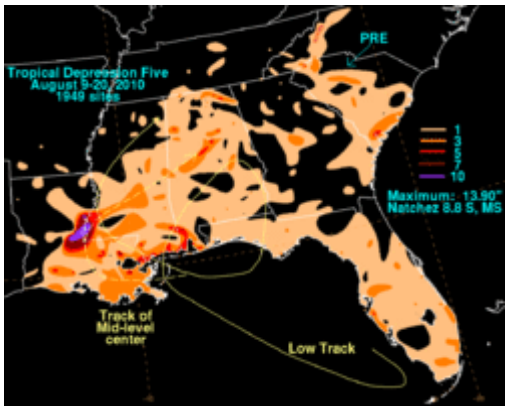
Hurricane Earl was a late August Category 4 hurricane. Earl caused damage in southeastern US, mainly in South Carolina and Georgia. In Florida, there was minimal damage. Unfortunately, there were three fatalities caused from high waves and strong rip currents.

Exhibit III - AB

2010
Tropical Storms and Tropical Depressions

Tropical Storm Bonnie, July 22 – July 25, 2010 – A tropical storm that left $1.5 million in damage and one fatality. Bonnie caused light rainfall and winds in southern Florida.

Tropical Depression #5, August 9 - August 20, 2010 – This Tropical Depression formed off the southwestern coast of Florida. The storm caused two deaths in Florida and $7.1 million total in damage.



Tropical Storm Nicole, September 28 - September 29, 2010 – The last tropical storm of the 2010 Atlantic hurricane season, Tropical Storm Nicole caused major damage totaling $238.6 million. This storm also caused 13 confirmed deaths and produced heavy rainfall in Florida.

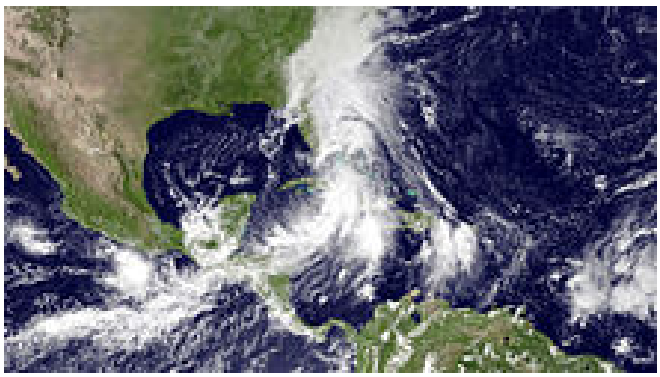


Exhibit III - AC

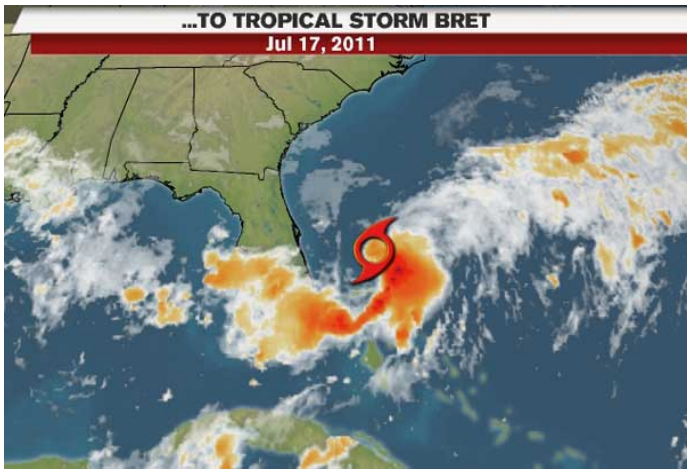
August 25 - September 5, 2011
Hurricane Irene

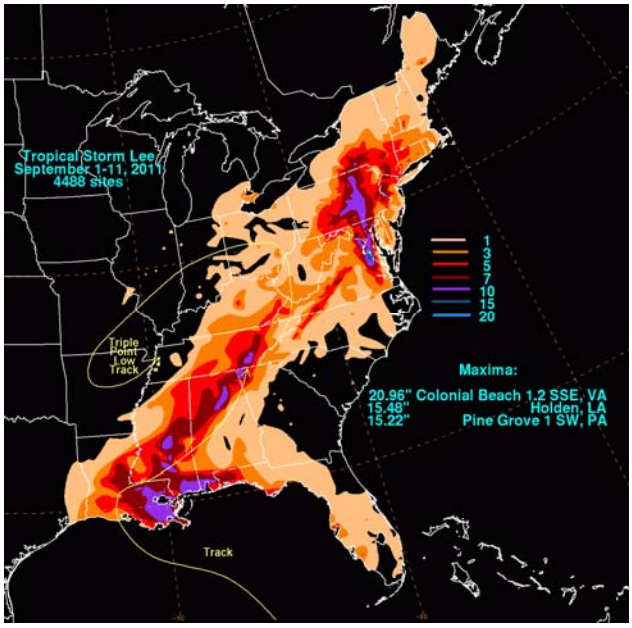
Hurricane Irene was a Category 3 hurricane which left a total of $10.1 billion in damages and 56 fatalities. Irene caused scattered power outages and rainfall across the state of Florida, as well as high waves along the Eastern coast which killed two surfers and injured at least eight more.

Exhibit III - AD

2011
Tropical Storms and Tropical Depressions

Tropical Storm Bret, July 17 – July 22, 2011 – Tropical Storm Bret caused high surf, up to 7 feet tall, off the Eastern coast of Florida. Bret also left many people injured.





Tropical Storm Lee, September 1 – September 11 2011 – Lee spawned a few minor tornadoes in northwestern Florida.

Exhibit IV

Explanation of Financial Stability Ratings® From Demotech, Inc.

A Financial Stability Rating® (FSR) summarizes our opinion as to an 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.

A'' (A Double Prime), ***Unsurpassed***
Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A" (A double prime) possess Unsurpassed financial stability related to maintaining surplus as regards policyholders at an acceptable level.

Regardless of the severity of a general economic downturn or a deterioration in the insurance cycle, one hundred percent of the insurers receiving a Financial Stability Rating® of A" (A double prime) are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.

A' (A Prime), ***Unsurpassed***
Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A' (A prime) possess Unsurpassed financial stability related to maintaining surplus as regards policyholders at an acceptable level.

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-nine percent of the insurers receiving a Financial Stability Rating® of A' (A prime) are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.

A, ***Exceptional***
Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of A possess Exceptional financial stability related to maintaining surplus as regards policyholders at an acceptable level.

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-seven percent of the insurers receiving a Financial Stability Rating® of A are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.

S, *Substantial*
Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of S possess Substantial financial stability related to maintaining surplus as regards policyholders at an acceptable level.

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety-five percent of the insurers receiving a Financial Stability Rating® of S are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.

M, *Moderate*
Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, insurers earning a Financial Stability Rating® of M possess Moderate financial stability related to maintaining surplus as regards policyholders at an acceptable level.

Regardless of the severity of a general economic downturn or deterioration in the insurance cycle, at least ninety percent of the insurers receiving a Financial Stability Rating® of M are expected to have positive surplus as regards policyholders as of eighteen months from the initial date of rating assignment.

L, *Licensed*
Insurers earning a Financial Stability Rating® of L are Licensed by state regulatory authorities. Our evaluation of their financial stability precludes assignment at a Financial Stability Rating® category referenced above.

Exhibit V- Impairments, Market Share Reports, and Number of Insolvencies

Financial Stability Ratings® (FSRs) - Historical FSRs in Florida

A list of the Financial Stability Ratings® (FSRs) issued to companies in Florida was compiled by Demotech, Inc. The FSRs issued from 1992 through 2011 included 700 individual ratings. Each of the companies was given a current status: Active, Inactive (merged or no longer writing business) or Insolvent (in liquidation, rehabilitation or regulatory supervision).

For the companies designated as Insolvent, the last FSR assigned prior to failure was noted if the FSR was issued within eighteen months of the company being declared insolvent. The FSRs were then tallied and the insolvencies were assigned to an FSR category based on the last FSR assigned to the company. The result was the chart at the bottom of this page, which shows that there were 639 total FSRs assigned at the A level or above and eight companies that were designated as Insolvent within eighteen months of having been assigned an FSR of A.

	Cumulative FSRs in Florida 6/30/1992-6/30/2010	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/2010
A"	29	0
A'	84	0
A	475	6
S	35	0
M	10	1
L	16	2

	Cumulative FSRs in Florida 6/30/1992-6/30/2011	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/2011
A"	35	0
A'	93	0
A	511	8*
S	35	0
M	10	1
L	16	2

*Includes HomeWise Insurance Company which was liquidated 11/4/2011.

1992 Impairments

- Charter American Casualty Insurance Co*
- First Miami Insurance Co*
- First Southern Insurance Co*
- Florida Fire and Casualty Insurance Co*
- Great Republic Insurance Co Inc*
- Guardian Property and Casualty Insurance Co*
- Insurance Co of Florida*
- NOVA Southern Insurance Co*
- Ocean Casualty Insurance Co*
- Regency Insurance Co*
- Trans-Florida Casualty Insurance Co*

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992	6/30/1992
A"	0	0
A'	0	0
A	1	0
S	1	0
M	0	0
L	0	0

1993 Impairments

- American Property and Casualty Co Inc*
- Cypress Insurance Co of Florida*
- General Insurance Co*
- RUMGER Insurance Co (aka Manatee Ins Co)*
- Union General Insurance Co*

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/1993	6/30/1992-6/30/1993
A"	0	0
A'	0	0
A	1	0
S	5	0
M	1	0
L	1	0

1994 Impairments

- Dealers Insurance Co Inc*
- Insurance Co of the Americas*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/1994	6/30/1992-6/30/1994
A"	0	0
A'	0	0
A	2	0
S	9	0
M	3	0
L	2	0

No Florida Homeowners Market Share data available for 1992-1994.

Demotech obtained the Florida market share information from a third party vendor of data from the National Association of Insurance Commissioners (NAIC). Neither the NAIC or its authorized vendor, SNL Financial/Highline Data, endorse any analysis or conclusion based upon the use of the NAIC's data.

1995

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 1995**	**% of Total**	**Direct Premium Earned 1995**	**Loss Incurred 1995**	**DCC Incurred 1995**
State Farm Fire and Casualty Co	504,823,127	30.0%	474,813,735	264,759,435	15,222,703
Allstate Ins Co	279,704,546	16.6%	279,011,695	158,277,172	6,152,416
Nationwide Mutual Fire Ins Co	78,843,286	4.7%	71,932,398	56,600,744	1,263,833
United Serv Automobile Assn	68,428,873	4.1%	64,296,071	74,122,137	6,408,625
LM Property and Casualty Ins. Co.	35,081,722	2.1%	34,917,162	5,286,781	1,643,212
Standard Fire Ins Co	33,479,098	2.0%	29,227,231	14,666,200	705,347
Metropolitan Property & Casualty Ins Co	30,481,823	1.8%	22,422,426	10,005,637	230,121
Automobile Ins Co of Hartford CT	28,679,065	1.7%	25,193,068	14,613,745	477,667
Liberty Mutual Fire Ins	28,241,781	1.7%	26,064,423	13,196,523	352,134
Florida Farm Bureau General Ins Co	23,155,863	1.4%	20,599,639	15,695,697	62,447
Federal Ins Co	22,936,310	1.4%	21,942,547	10,313,733	965,904
Auto Owners Ins Co	22,742,136	1.3%	21,442,796	13,097,842	1,101,356
USAA Casualty Ins Co	22,701,544	1.3%	20,682,321	15,908,821	847,372
Travelers Indemnity Co	22,321,060	1.3%	19,210,987	10,010,259	700,832
Government Employees Ins Co	21,203,910	1.3%	21,450,590	12,710,184	810,993
Hartford Ins Co of The Midwest	21,025,107	1.2%	19,548,122	10,912,815	439,786
State Farm General Ins Co	18,895,207	1.1%	18,816,099	11,709,711	45,782
Florida Farm Bureau Casualty Ins Co	18,578,858	1.1%	16,320,282	10,380,361	255,991
Firemans Fund Ins Co	17,663,992	1.0%	15,542,383	9,414,109	648,828
Phoenix Ins Co	17,477,117	1.0%	16,812,633	10,355,727	329,131
Clarendon National Ins Co	16,942,944	1.0%	13,649,149	4,116,791	613,572
Allstate Indemnity Co	13,974,666	0.8%	13,691,641	10,259,611	507,735
Liberty American Select Ins Co	13,910,652	0.8%	12,962,829	3,135,051	383,570
21st Century Centennial Ins Co	12,036,950	0.7%	13,283,639	2,610,988	137,602
Owners Ins Co	11,505,250	0.7%	10,639,484	4,817,213	255,428
Top 25 Total	**1,384,834,887**	**82.2%**	**1,304,473,350**	**766,977,287**	**40,562,387**
26-50 Total	**152,682,196**	**9.1%**	**137,678,821**	**74,254,094**	**5,856,060**
All Other Total	**147,456,618**	**8.8%**	**153,494,127**	**92,064,479**	**8,112,463**
Total	**1,684,973,701**	**100.0%**	**1,595,646,298**	**933,295,860**	**54,530,910**

1995 Impairments

- First Alliance Insurance Co*
- United States Employer Consumer Self-Insurance Fund*

	Cumulative FSRs in Florida 6/30/1992-6/30/1995	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/1995
A"	0	0
A'	1	0
A	6	0
S	18	0
M	3	0
L	2	0

*Companies not rated by Demotech, Inc.

1996

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 1996**	**% of Total**	**Direct Premium Earned 1996**	**Loss Incurred 1996**	**DCC Incurred 1996**
State Farm Fire and Casualty Co	515,187,692	27.8%	505,746,330	202,476,351	6,444,962
Allstate Ins Co	244,250,877	13.2%	285,122,955	97,462,808	6,554,003
Nationwide Mutual Fire Ins Co	105,128,943	5.7%	90,936,257	42,987,315	1,351,096
United Serv Automobile Assn	74,828,393	4.0%	72,138,027	19,847,142	954,244
Castle Key Ins Co	53,612,655	2.9%	4,708,210	1,758,223	126,495
Clarendon National Ins Co	50,049,397	2.7%	28,640,682	7,124,935	746,869
Standard Fire Ins Co	36,218,005	2.0%	35,905,751	13,553,695	814,121
LM Property and Casualty Ins. Co.	35,371,294	1.9%	34,498,634	18,421,373	-199,572
Liberty Mutual Fire Ins	33,164,475	1.8%	29,600,090	12,803,890	731,575
Automobile Ins Co of Hartford CT	27,858,334	1.5%	29,476,683	10,299,533	572,411
Florida Farm Bureau General Ins Co	27,711,091	1.5%	25,434,288	8,683,008	136,698
USAA Casualty Ins Co	27,131,619	1.5%	25,030,411	10,096,092	621,835
Hartford Ins Co of The Midwest	26,898,375	1.5%	23,834,580	10,433,860	617,785
Federal Ins Co	25,225,412	1.4%	24,118,596	4,585,417	176,527
Florida Farm Bureau Casualty Ins Co	24,197,208	1.3%	21,406,046	6,253,127	136,367
Auto Owners Ins Co	20,927,043	1.1%	21,368,828	5,237,030	285,155
Metropolitan Property & Casualty Ins Co	20,683,333	1.1%	21,316,924	6,942,415	354,999
First Community Ins Co	20,058,723	1.1%	8,331,656	3,794,427	241,215
Firemans Fund Ins Co	19,758,168	1.1%	18,728,372	3,415,422	503,619
Travelers Indemnity Co	18,307,229	1.0%	22,251,563	6,566,940	-12,662
State Farm General Ins Co	16,848,451	0.9%	17,608,561	6,915,238	283,042
Liberty American Select Ins Co	15,640,426	0.8%	14,788,633	3,252,539	293,689
Lexington Ins Co	15,101,538	0.8%	12,202,824	6,313,274	385,851
Phoenix Ins Co	14,988,387	0.8%	17,540,881	6,291,275	46,222
Government Employees Ins Co	14,048,758	0.8%	18,077,546	8,378,134	601,660
Top 25 Total	**1,483,195,826**	**80.0%**	**1,408,813,328**	**523,893,463**	**22,768,206**
26-50 Total	**184,775,423**	**10.0%**	**169,254,271**	**64,298,767**	**4,412,032**
All Other Total	**185,631,562**	**10.0%**	**170,506,859**	**67,210,757**	**7,442,618**
Total	**1,853,602,811**	**100.0%**	**1,748,574,458**	**655,402,987**	**34,622,856**

1996 Impairments

- PCA Property and Casualty Insurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida 6/30/1992-6/30/1996	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/1996
A"	0	0
A'	1	0
A	11	0
S	27	0
M	3	0
L	2	0

1997

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 1997**	**% of Total**	**Direct Premium Earned 1997**	**Loss Incurred 1997**	**DCC Incurred 1997**
State Farm Fire and Casualty Co	517,625,506	23.9%	519,618,166	203,195,224	11,382,666
Castle Key Ins Co	283,518,286	13.1%	184,787,731	54,889,687	1,909,571
Nationwide Mutual Fire Ins Co	114,365,306	5.3%	111,349,803	35,638,026	1,422,433
Clarendon National Ins Co	91,806,471	4.2%	76,223,171	19,591,366	2,809,142
Clarendon Select Ins Co	86,252,895	4.0%	45,485,443	9,257,699	1,797,143
United Serv Automobile Assn	84,849,121	3.9%	79,444,035	17,480,472	-1,921,701
Florida Select Ins Co	44,436,418	2.1%	21,171,963	6,033,906	192,957
Liberty Mutual Fire Ins	40,668,423	1.9%	36,748,233	13,391,054	492,146
Hartford Ins Co of The Midwest	34,502,813	1.6%	31,696,052	11,332,011	371,540
First Floridian Auto & Home Ins Co	33,427,611	1.5%	20,904,650	7,957,458	734,075
USAA Casualty Ins Co	33,113,124	1.5%	29,900,797	8,392,414	-506,508
LM Property and Casualty Ins. Co.	32,973,743	1.5%	35,447,456	14,253,600	1,801,036
Standard Fire Ins Co	30,654,210	1.4%	34,114,849	11,727,402	700,289
Southern Family Ins Co	29,461,886	1.4%	14,380,672	3,876,408	432,377
Florida Farm Bureau General Ins Co	28,664,359	1.3%	28,401,412	8,274,239	105,505
First Community Ins Co	28,271,289	1.3%	26,105,589	8,514,838	518,994
Florida Family Mutual Ins Co	28,066,021	1.3%	12,256,652	2,945,494	121,749
New Hampshire Ins Co	27,795,000	1.3%	22,204,000	8,512,799	1,435,756
Federal Ins Co	27,481,858	1.3%	26,596,962	-450,020	-40,582
Florida Farm Bureau Casualty Ins Co	26,790,229	1.2%	25,647,277	7,622,257	209,287
Automobile Ins Co of Hartford CT	22,504,856	1.0%	25,641,681	8,251,076	609,060
Firemans Fund Ins Co	22,368,184	1.0%	21,133,512	19,216,999	1,064,962
Lexington Ins Co	20,602,221	1.0%	17,233,568	2,866,060	816,751
Auto Owners Ins Co	18,884,156	0.9%	20,102,461	5,819,049	336,839
Omega Ins Co	18,682,555	0.9%	17,135,726	2,369,779	445,419
Top 25 Total	**1,727,766,541**	**79.8%**	**1,483,731,861**	**490,959,297**	**27,240,906**
26-50 Total	**247,203,673**	**11.4%**	**211,519,464**	**68,223,548**	**5,203,449**
All Other Total	**191,095,801**	**8.8%**	**323,230,209**	**124,666,501**	**13,847,897**
Total	**2,166,066,015**	**100.0%**	**2,018,481,534**	**683,849,346**	**46,292,252**

1997 Impairments

- Armor Insurance Co*
- Associated Business Owners Self-Insurers Fund*
- Casualty Insurance Co of Florida*
- United Southern Assurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida 6/30/1992-6/30/1997	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/1997
A"	0	0
A'	1	0
A	28	0
S	27	0
M	3	0
L	2	0

1998

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 1998**	**% of Total**	**Direct Premium Earned 1998**	**Loss Incurred 1998**	**DCC Incurred 1998**
State Farm Fire and Casualty Co	548,066,595	22.5%	520,051,868	199,313,985	12,505,334
Castle Key Ins Co	297,030,380	12.2%	288,289,650	92,712,777	1,312,829
Clarendon Select Ins Co	119,755,561	4.9%	105,059,389	26,574,730	3,871,028
Nationwide Mutual Fire Ins Co	115,421,403	4.7%	114,150,383	44,029,780	481,275
Clarendon National Ins Co	89,094,820	3.7%	91,749,192	32,155,831	4,728,712
United Serv Automobile Assn	84,571,637	3.5%	82,726,984	24,797,126	2,158,149
First Floridian Auto & Home Ins Co	48,767,731	2.0%	41,634,583	15,790,795	148,307
Liberty Mutual Fire Ins	45,896,944	1.9%	44,269,116	17,201,898	626,835
Harbor Specialty Ins Co	44,575,057	1.8%	25,740,341	11,782,042	1,452,246
Florida Select Ins Co	42,719,198	1.8%	44,478,604	16,434,716	887,793
Hartford Ins Co of The Midwest	36,929,441	1.5%	35,143,913	13,918,013	516,958
Florida Family Mutual Ins Co	36,925,980	1.5%	32,200,351	12,037,515	1,504,691
USAA Casualty Ins Co	35,104,952	1.4%	33,349,214	11,539,412	843,267
LM Property and Casualty Ins. Co.	34,511,256	1.4%	32,355,339	14,327,543	67,120
Southern Family Ins Co	34,314,335	1.4%	32,003,062	10,298,297	284,525
Federal Ins Co	32,061,888	1.3%	28,691,490	5,196,779	587,896
Florida Farm Bureau General Ins Co	29,200,216	1.2%	29,011,045	9,465,450	126,300
First Community Ins Co	28,815,165	1.2%	29,234,480	10,400,628	706,527
Florida Farm Bureau Casualty Ins Co	28,660,974	1.2%	27,810,393	9,281,160	240,075
Lexington Ins Co	25,553,929	1.0%	23,390,448	2,577,434	-537,537
Omega Ins Co	24,959,925	1.0%	21,642,222	5,048,084	726,949
Firemans Fund Ins Co	24,857,285	1.0%	23,467,393	5,445,933	-107,125
Geovera Specialty Ins Co	24,357,082	1.0%	19,557,948	5,073,206	876,792
New Hampshire Ins Co	21,902,017	0.9%	24,043,696	9,416,352	-85,190
Standard Fire Ins Co	20,280,178	0.8%	25,031,351	9,928,943	601,723
Top 25 Total	**1,874,333,949**	**76.9%**	**1,775,082,455**	**614,748,429**	**34,525,479**
26-50 Total	**316,652,894**	**13.0%**	**255,035,947**	**81,150,085**	**2,850,476**
All Other Total	**247,094,669**	**10.1%**	**254,945,447**	**61,964,735**	**2,970,985**
Total	**2,438,081,512**	**100.0%**	**2,285,063,849**	**757,863,249**	**40,346,940**

1998 Impairments

- Associated Business and Commerce Insurance Corp*
- Biscayne Insurance Co*
- Florida Preferred Mutual Insurance Co*
- Florida Workers Compensation Fund*
- United Business Owners Self-Insurance Fund*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida 6/30/1992-6/30/1998	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/1998
A"	0	0
A'	1	0
A	54	0
S	30	0
M	3	0
L	2	0

1999

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 1999**	**% of Total**	**Direct Premium Earned 1999**	**Loss Incurred 1999**	**DCC Incurred 1999**
State Farm Florida Ins Co	441,087,638	16.4%	141,733,981	56,950,438	3,028,589
Castle Key Ins Co	305,989,911	11.4%	301,557,017	75,145,546	1,930,292
Clarendon National Ins Co	142,284,834	5.3%	100,951,912	34,534,085	5,166,783
State Farm Fire and Casualty Co	132,983,297	4.9%	410,237,230	160,776,547	10,973,977
Clarendon Select Ins Co	131,465,477	4.9%	124,077,832	31,037,703	4,563,573
Nationwide Mutual Fire Ins Co	121,735,574	4.5%	118,000,082	40,685,664	1,891,628
United Serv Automobile Assn	99,466,912	3.7%	94,071,018	26,435,583	-310,795
First Floridian Auto & Home Ins Co	63,702,762	2.4%	55,443,518	20,044,616	635,867
Liberty Mutual Fire Ins	45,498,408	1.7%	45,459,026	20,108,780	546,319
Federal Ins Co	44,386,214	1.7%	38,449,603	9,196,826	454,084
USAA Casualty Ins Co	42,795,232	1.6%	39,662,106	12,331,443	116,331
Florida Select Ins Co	41,062,766	1.5%	41,467,454	15,173,948	1,356,363
Hartford Ins Co of The Midwest	38,477,996	1.4%	37,798,142	15,012,582	278,280
LM Property and Casualty Ins. Co.	35,203,521	1.3%	34,580,099	13,545,042	257,964
Southern Family Ins Co	34,942,921	1.3%	36,165,334	15,580,018	657,452
Tower Hill Preferred Ins Co	33,529,456	1.2%	27,683,339	8,134,024	0
Harbor Specialty Ins Co	33,523,496	1.2%	31,269,889	6,566,393	1,459,491
Florida Family Mutual Ins Co	31,740,103	1.2%	30,879,557	11,194,779	187,388
Omega Ins Co	29,928,525	1.1%	27,930,286	7,477,131	1,145,328
Florida Farm Bureau Casualty Ins Co	29,260,876	1.1%	28,587,976	8,512,013	473,279
First Community Ins Co	29,214,064	1.1%	28,324,104	9,540,913	57,619
American Superior Ins Co	29,063,051	1.1%	20,851,289	7,869,844	711,481
Florida Farm Bureau General Ins Co	27,918,278	1.0%	28,193,463	8,364,806	278,657
Firemans Fund Ins Co	27,194,309	1.0%	25,858,255	7,945,288	226,527
Lexington Ins Co	23,767,731	0.9%	24,615,920	1,046,994	830,789
Top 25 Total	**2,016,223,352**	**75.0%**	**1,893,848,432**	**623,211,006**	**36,917,266**
26-50 Total	**358,867,199**	**13.4%**	**327,396,890**	**117,673,538**	**9,587,487**
All Other Total	**311,579,860**	**11.6%**	**319,205,706**	**105,095,188**	**5,050,664**
Total	**2,686,670,411**	**100.0%**	**2,540,451,028**	**845,979,732**	**51,555,417**

1999 Impairments

- Fidelity National Insurance Co*
- Florida Transportation Builders Association Mutual, Inc*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/1999	6/30/1992-6/30/1999
A"	1	0
A'	4	0
A	81	0
S	30	0
M	3	0
L	3	0

2000

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2000**	**% of Total**	**Direct Premium Earned 2000**	**Loss Incurred 2000**	**DCC Incurred 2000**
State Farm Florida Ins Co	583,296,400	20.1%	556,952,383	243,081,644	12,540,580
Castle Key Ins Co	312,825,277	10.8%	309,946,075	68,452,480	3,257,969
Clarendon National Ins Co	158,386,180	5.4%	160,101,577	47,223,948	6,628,920
Clarendon Select Ins Co	133,975,289	4.6%	133,805,350	34,145,237	4,809,255
United Serv Automobile Assn	104,630,465	3.6%	101,758,648	28,304,629	1,303,005
Nationwide Ins Co of Florida	74,849,983	2.6%	19,338,331	6,162,260	184,418
First Floridian Auto & Home Ins Co	71,289,644	2.5%	67,653,591	26,774,549	1,228,290
Nationwide Mutual Fire Ins Co	60,424,757	2.1%	108,096,734	36,432,481	1,637,400
Federal Ins Co	57,490,362	2.0%	50,946,301	19,784,263	1,670,463
Florida Select Ins Co	51,366,669	1.8%	47,787,116	14,798,820	-61,220
USAA Casualty Ins Co	47,457,806	1.6%	44,679,716	10,307,426	305,708
Liberty Mutual Fire Ins	47,210,221	1.6%	46,391,346	17,822,455	417,053
Tower Hill Preferred Ins Co	40,508,706	1.4%	38,990,205	8,181,954	359,340
Hartford Ins Co of The Midwest	40,180,606	1.4%	39,315,969	11,914,716	479,763
Harbor Specialty Ins Co	37,914,874	1.3%	37,485,431	9,590,473	593,285
LM Property and Casualty Ins. Co.	34,094,066	1.2%	35,259,815	11,360,405	219,014
American Superior Ins Co	33,911,175	1.2%	32,480,493	9,881,506	1,428,880
Southern Family Ins Co	32,975,831	1.1%	34,397,903	11,465,152	-47,603
Qualsure Ins Corp	32,749,248	1.1%	11,716,264	2,390,118	35,246
Omega Ins Co	32,637,708	1.1%	31,760,586	8,972,537	1,212,257
First Community Ins Co	32,019,687	1.1%	30,664,027	12,527,708	252,333
Florida Farm Bureau Casualty Ins Co	31,570,171	1.1%	30,358,732	10,179,623	361,574
Firemans Fund Ins Co	30,418,494	1.0%	28,931,506	8,472,497	716,450
Florida Farm Bureau General Ins Co	28,066,300	1.0%	27,955,641	8,796,569	335,350
Florida Family Mutual Ins Co	27,925,437	1.0%	32,005,849	11,823,962	730,258
Top 25 Total	**2,138,175,356**	**73.6%**	**2,058,779,589**	**678,847,412**	**40,597,988**
26-50 Total	**428,468,409**	**14.7%**	**398,910,230**	**116,584,900**	**2,998,868**
All Other Total	**339,545,315**	**11.7%**	**385,762,393**	**107,895,328**	**5,743,749**
Total	**2,906,189,080**	**100.0%**	**2,843,452,212**	**903,327,640**	**49,340,605**

2000 Impairments

- Caduceus Self Insurance Fund*
- Queensway Casualty Insurance Co*
- Queensway International Indemnity Co*
- Superior American Insurance Co*
- Superior Guaranty Insurance Co*
- Superior Insurance Co*
- Union American Insurance Co*
- Unisource Insurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2000	6/30/1992-6/30/2000
A"	4	0
A'	8	0
A	108	0
S	30	0
M	3	0
L	3	0

2001

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2001**	**% of Total**	**Direct Premium Earned 2001**	**Loss Incurred 2001**	**DCC Incurred 2001**
State Farm Florida Ins Co	650,452,856	21.2%	629,626,795	374,989,444	18,302,349
Castle Key Ins Co	324,927,747	10.6%	318,528,102	101,700,420	2,543,663
Clarendon National Ins Co	146,001,613	4.8%	149,667,925	52,307,167	7,252,551
Nationwide Ins Co of Florida	145,701,476	4.7%	127,357,447	54,024,252	1,871,779
Clarendon Select Ins Co	120,593,764	3.9%	125,394,383	42,907,710	6,704,426
United Serv Automobile Assn	113,651,339	3.7%	109,179,382	26,964,682	764,041
Federal Ins Co	68,825,166	2.2%	63,409,621	24,137,828	2,148,740
First Floridian Auto & Home Ins Co	67,936,108	2.2%	71,961,531	29,195,958	1,813,645
USAA Casualty Ins Co	55,217,738	1.8%	51,301,650	15,010,513	503,828
Liberty Mutual Fire Ins	52,579,393	1.7%	49,250,898	25,266,318	843,988
Florida Select Ins Co	51,701,263	1.7%	51,871,284	19,652,583	2,220,514
Hartford Ins Co of The Midwest	43,438,881	1.4%	41,471,865	16,236,389	925,302
Tower Hill Preferred Ins Co	40,056,149	1.3%	37,888,211	14,417,633	260,915
Southern Family Ins Co	39,205,604	1.3%	36,177,541	14,048,305	347,883
Qualsure Ins Corp	38,174,014	1.2%	35,646,225	9,867,165	319,330
American Strategic Ins Co	36,979,429	1.2%	31,562,069	12,391,668	431,395
LM Property and Casualty Ins. Co.	33,546,866	1.1%	34,573,013	7,725,601	-1,346,479
Firemans Fund Ins Co	33,232,524	1.1%	31,704,770	8,838,431	706,645
Harbor Specialty Ins Co	33,061,636	1.1%	35,578,004	13,394,151	1,503,119
Geovera Specialty Ins Co	32,807,115	1.1%	27,851,263	11,703,780	2,074,917
Florida Farm Bureau Casualty Ins Co	32,668,170	1.1%	32,576,849	13,195,388	708,581
American Superior Ins Co	32,372,577	1.1%	32,760,184	13,737,013	1,814,388
Vanguard Fire & Casualty Co	31,775,361	1.0%	26,125,111	7,475,453	96,521
Florida Family Mutual Ins Co	31,657,513	1.0%	32,624,650	12,386,110	1,392,687
First Community Ins Co	31,115,299	1.0%	32,219,895	15,956,608	611,671
Top 25 Total	**2,287,679,601**	**74.5%**	**2,216,308,668**	**937,530,570**	**54,816,399**
26-50 Total	**461,220,740**	**15.0%**	**427,220,651**	**162,790,626**	**8,133,750**
All Other Total	**323,100,281**	**10.5%**	**352,558,835**	**157,675,541**	**8,105,765**
Total	**3,072,000,622**	**100.0%**	**2,996,088,154**	**1,257,996,737**	**71,055,914**

2001 Impairments

- Fortune Insurance Co*
- Underwriters Guarantee Insurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida 6/30/1992-6/30/2001	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/2001
A"	7	0
A'	13	0
A	130	0
S	30	0
M	7	0
L	4	0

2002

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2002**	**% of Total**	**Direct Premium Earned 2002**	**Loss Incurred 2002**	**DCC Incurred 2002**
State Farm Florida Ins Co	788,082,279	21.5%	718,339,380	288,081,946	22,600,704
Castle Key Ins Co	350,710,717	9.6%	335,330,756	124,503,790	6,768,722
Citizens Prop Ins Corp	229,210,800	6.3%	173,231,995	62,202,347	2,909,774
Nationwide Ins Co of Florida	156,932,449	4.3%	151,906,062	64,424,008	2,039,442
United Serv Automobile Assn	117,415,902	3.2%	116,127,009	33,278,623	603,509
Clarendon National Ins Co	110,534,320	3.0%	124,640,328	63,851,029	5,660,167
Clarendon Select Ins Co	104,431,419	2.9%	109,440,065	31,583,852	4,942,834
Federal Ins Co	80,296,485	2.2%	74,218,906	28,732,300	605,148
Qualsure Ins Corp	64,103,370	1.7%	49,580,940	14,169,498	1,407,412
USAA Casualty Ins Co	61,237,505	1.7%	58,342,566	17,941,448	417,632
Liberty Mutual Fire Ins	61,115,409	1.7%	56,717,387	31,318,389	2,025,487
First Floridian Auto & Home Ins Co	56,242,411	1.5%	59,294,488	27,258,094	2,386,200
Vanguard Fire & Casualty Co	54,821,783	1.5%	42,691,900	13,600,341	14,776
Florida Select Ins Co	54,630,846	1.5%	53,887,094	17,636,871	358,499
American Strategic Ins Co	53,203,122	1.5%	44,290,900	15,889,311	1,946,126
Atlantic Preferred Ins Co	52,727,215	1.4%	26,124,562	7,082,204	56,627
Hartford Ins Co of The Midwest	50,847,272	1.4%	47,089,729	19,913,668	1,831,764
Geovera Specialty Ins Co	49,855,360	1.4%	42,375,362	12,681,114	320,488
Southern Family Ins Co	42,279,429	1.2%	40,894,745	19,619,524	766,522
Tower Hill Preferred Ins Co	40,539,142	1.1%	41,027,568	15,042,331	282,662
Cypress Prop & Casualty Ins Co	38,485,403	1.1%	33,337,336	10,809,845	329,251
Florida Farm Bureau Casualty Ins Co	37,105,233	1.0%	35,272,456	14,573,109	977,840
Lexington Ins Co	34,951,290	1.0%	31,727,021	10,169,237	663,960
Mosaic Ins Co	34,623,535	0.9%	28,735,119	10,378,976	400,594
LM Property and Casualty Ins. Co.	34,528,446	0.9%	33,767,997	17,527,005	1,126,553
Top 25 Total	**2,758,911,142**	**75.3%**	**2,528,391,671**	**972,268,860**	**61,442,693**
26-50 Total	**555,244,441**	**15.2%**	**517,124,333**	**201,118,191**	**13,452,581**
All Other Total	**348,986,331**	**9.5%**	**353,685,208**	**138,245,420**	**6,767,629**
Total	**3,663,141,914**	**100.0%**	**3,399,201,212**	**1,311,632,471**	**81,662,903**

2002 Impairments

- Aries Insurance Co

	Cumulative FSRs in Florida 6/30/1992-6/30/2002	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/2002
A"	10	0
A'	18	0
A	151	0
S	33	0
M	8	0
L	4	0

2003

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2003**	**% of Total**	**Direct Premium Earned 2003**	**Loss Incurred 2003**	**DCC Incurred 2003**
State Farm Florida Ins Co	901,536,634	21.0%	847,333,501	286,864,613	21,308,885
Citizens Prop Ins Corp	449,605,057	10.5%	344,424,550	159,018,075	6,383,837
Castle Key Ins Co	372,269,713	8.7%	366,217,534	99,648,297	2,775,847
Nationwide Ins Co of Florida	187,784,341	4.4%	171,098,235	77,506,117	3,332,988
United Serv Automobile Assn	130,890,297	3.0%	123,170,490	32,153,802	1,048,919
Clarendon Select Ins Co	93,322,926	2.2%	98,251,077	28,358,819	2,292,927
Federal Ins Co	89,054,291	2.1%	85,662,326	34,389,998	1,982,872
Atlantic Preferred Ins Co	76,733,235	1.8%	63,814,641	19,347,691	286,936
Liberty Mutual Fire Ins	74,358,228	1.7%	68,024,861	25,579,592	2,067,953
USAA Casualty Ins Co	71,085,113	1.7%	65,273,603	16,725,895	770,433
First Floridian Auto & Home Ins Co	70,559,641	1.6%	62,957,809	30,124,683	2,520,344
Mosaic Ins Co	68,954,641	1.6%	62,951,349	17,868,952	0
American Strategic Ins Co	65,451,493	1.5%	59,817,618	17,922,264	2,285,799
Castle Key Ind Co	64,885,643	1.5%	42,211,252	10,160,112	1,758,989
Geovera Specialty Ins Co	62,177,528	1.4%	56,458,489	20,793,734	1,770,068
Qualsure Ins Corp	62,142,232	1.4%	68,961,005	21,027,193	1,039,888
Hartford Ins Co of The Midwest	56,550,066	1.3%	53,287,062	21,690,096	1,739,232
Vanguard Fire & Casualty Co	55,759,786	1.3%	55,899,844	21,580,055	29,180
Clarendon National Ins Co	54,991,832	1.3%	85,539,766	34,559,346	1,848,309
Tower Hill Preferred Ins Co	53,286,846	1.2%	42,809,187	15,339,535	332,526
Florida Select Ins Co	52,151,675	1.2%	53,377,893	22,217,023	54,652
Cypress Prop & Casualty Ins Co	50,992,727	1.2%	43,691,761	16,221,282	806,805
Lexington Ins Co	46,471,109	1.1%	41,252,178	4,853,778	501,128
Liberty American Select Ins Co	45,243,644	1.1%	40,060,357	10,718,235	943,262
Florida Farm Bureau Casualty Ins Co	39,670,068	0.9%	38,401,695	14,943,098	1,104,352
Top 25 Total	**3,295,928,766**	**76.7%**	**3,040,948,083**	**1,059,612,285**	**58,986,131**
26-50 Total	**629,528,742**	**14.6%**	**584,173,548**	**206,918,945**	**13,829,617**
All Other Total	**372,213,819**	**8.7%**	**372,884,962**	**130,877,811**	**12,111,281**
Total	**4,297,671,327**	**100.0%**	**3,998,006,593**	**1,397,409,041**	**84,927,029**

2003 Impairments

- Union American Insurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2003	6/30/1992-6/30/2003
A"	12	0
A'	26	0
A	171	0
S	34	0
M	9	0
L	5	1

2004

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2004**	**% of Total**	**Direct Premium Earned 2004**	**Loss Incurred 2004**	**DCC Incurred 2004**
State Farm Florida Ins Co	1,035,896,721	20.6%	965,982,042	2,911,581,301	17,203,711
Citizens Prop Ins Corp	517,903,023	10.3%	499,721,038	515,025,493	11,168,453
Castle Key Ins Co	372,945,257	7.4%	370,427,518	1,533,388,631	16,617,160
Nationwide Ins Co of Florida	225,686,079	4.5%	203,634,885	681,637,364	4,833,663
Atlantic Preferred Ins Co	145,517,605	2.9%	109,776,271	145,219,698	381,730
United Serv Automobile Assn	145,245,164	2.9%	137,648,219	413,696,029	770,879
Clarendon Select Ins Co	117,678,947	2.3%	110,757,715	346,462,659	451,235
Liberty Mutual Fire Ins	112,269,757	2.2%	88,456,184	223,485,380	2,867,823
Florida Preferred Prop Ins Co	107,166,173	2.1%	69,798,667	93,424,551	65,326
Castle Key Ind Co	98,586,971	2.0%	84,924,762	334,740,419	1,001,915
Federal Ins Co	95,297,429	1.9%	91,300,886	91,932,038	2,384,537
First Floridian Auto & Home Ins Co	92,834,682	1.8%	80,631,260	107,547,990	3,271,643
USAA Casualty Ins Co	86,171,941	1.7%	78,578,976	150,127,334	560,306
American Strategic Ins Co	85,450,628	1.7%	76,279,767	145,972,218	13,301,907
Sunshine State Ins Co	81,449,541	1.6%	81,099,575	140,497,911	2,463,699
Tower Hill Preferred Ins Co	75,886,351	1.5%	67,590,934	166,506,362	1,952,118
Geovera Specialty Ins Co	74,694,896	1.5%	69,948,749	169,010,290	15,536,091
Liberty American Select Ins Co	71,952,136	1.4%	60,331,811	569,195,694	4,760,368
Hartford Ins Co of The Midwest	67,368,510	1.3%	62,077,950	181,712,068	18,412,061
United Prop & Casualty Ins Co	65,188,327	1.3%	41,734,394	91,005,402	675,779
Cypress Prop & Casualty Ins Co	58,029,132	1.2%	54,726,928	209,233,704	729,033
Vanguard Fire & Casualty Co	56,203,489	1.1%	55,174,301	182,051,570	41,782
Florida Select Ins Co	53,968,323	1.1%	51,845,172	116,268,680	414,835
Mosaic Ins Co	51,699,061	1.0%	55,524,898	132,901,973	0
Federated National Ins Co	51,034,200	1.0%	33,225,593	102,261,916	5,518,494
Top 25 Total	**3,946,124,343**	**78.3%**	**3,601,198,495**	**9,754,886,675**	**125,384,548**
26-50 Total	**745,487,604**	**14.8%**	**671,758,838**	**2,070,726,678**	**33,691,193**
All Other Total	**347,264,759**	**6.9%**	**354,206,318**	**1,196,441,379**	**35,998,824**
Total	**5,038,876,706**	**100.0%**	**4,627,163,651**	**13,022,054,732**	**195,074,565**

2004 Impairments

- American Superior Insurance Co
- Cumberland Casualty and Surety Co*
- New America Insurance Co

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida 6/30/1992-6/30/2004	Company Insolvencies within 18 months of last FSR in Florida 6/30/1992-6/30/2004
A"	13	0
A'	35	0
A	201	0
S	34	0
M	10	0
L	6	1

2005

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2005**	**% of Total**	**Direct Premium Earned 2005**	**Loss Incurred 2005**	**DCC Incurred 2005**
State Farm Florida Ins Co	1,175,848,939	19.3%	1,097,835,372	1,274,636,062	17,177,314
Citizens Prop Ins Corp	511,493,021	8.4%	515,156,045	620,972,059	22,383,248
Castle Key Ins Co	375,827,109	6.2%	370,083,519	416,521,583	-3,341,000
Nationwide Ins Co of Florida	269,152,615	4.4%	248,030,218	334,928,058	9,008,375
Atlantic Preferred Ins Co	197,126,519	3.2%	168,833,022	629,445,421	808,332
Florida Preferred Prop Ins Co	173,427,646	2.8%	140,002,056	421,768,345	425,944
United Serv Automobile Assn	157,367,104	2.6%	151,156,840	249,340,935	951,847
Liberty Mutual Fire Ins	138,817,360	2.3%	123,634,303	114,668,584	2,289,825
First Floridian Auto & Home Ins Co	120,498,302	2.0%	105,032,065	106,752,653	4,783,932
Geovera Specialty Ins Co	111,695,287	1.8%	88,455,468	126,369,841	17,851,033
Federal Ins Co	110,634,180	1.8%	101,749,514	35,361,442	1,209,338
United Prop & Casualty Ins Co	104,978,215	1.7%	82,416,156	220,994,558	1,891,269
Castle Key Ind Co	99,239,939	1.6%	99,972,246	4,195,957	1,566,237
USAA Casualty Ins Co	96,577,252	1.6%	91,172,848	127,892,595	939,464
Tower Hill Preferred Ins Co	96,293,790	1.6%	84,830,989	173,283,859	1,889,115
Clarendon Select Ins Co	94,207,388	1.5%	111,729,976	355,631,346	-3,455,095
Gulfstream Prop & Casualty Ins Co	93,418,769	1.5%	31,969,242	116,485,028	488,702
American Strategic Ins Co	85,747,547	1.4%	87,791,515	47,538,023	1,640,063
Tower Hill Prime Ins Co	83,639,919	1.4%	61,726,607	77,743,153	842,160
Universal Ins Co of NA	81,510,111	1.3%	43,798,173	71,190,689	662,906
Universal Property & Casualty Ins	77,651,347	1.3%	55,240,538	63,421,214	58,729
Federated National Ins Co	77,513,454	1.3%	64,449,810	181,620,917	12,024,360
Vanguard Fire & Casualty Co	73,489,860	1.2%	63,584,485	183,187,676	33,695
Hartford Ins Co of The Midwest	72,441,907	1.2%	69,389,875	202,478,750	10,254,870
Sunshine State Ins Co	69,634,445	1.1%	75,826,917	180,000,413	2,532,753
Top 25 Total	**4,548,232,025**	**74.5%**	**4,133,867,799**	**6,336,429,161**	**104,917,416**
26-50 Total	**1,042,790,076**	**17.1%**	**909,566,083**	**1,197,179,417**	**30,916,111**
All Other Total	**513,253,377**	**8.4%**	**482,597,740**	**782,580,459**	**3,642,146**
Total	**6,104,275,478**	**100.0%**	**5,526,031,622**	**8,316,189,037**	**139,475,673**

2005 Impairments

- Senior Citizens Mutual Insurance Co*

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2005	6/30/1992-6/30/2005
A"	14	0
A'	41	0
A	234	1
S	34	0
M	10	1
L	12	1

2006

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2006**	**% of Total**	**Direct Premium Earned 2006**	**Loss Incurred 2006**	**DCC Incurred 2006**
State Farm Florida Ins Co	1,444,278,768	17.9%	1,278,613,177	470,749,312	16,252,714
Citizens Prop Ins Corp	1,298,388,455	16.1%	900,978,861	220,600,253	11,677,407
Castle Key Ins Co	399,286,784	5.0%	397,396,167	190,010,089	7,337,397
Universal Property & Casualty Ins	338,419,633	4.2%	171,608,502	50,002,064	1,541,709
Nationwide Ins Co of Florida	290,076,303	3.6%	287,621,357	10,406,659	5,295,836
United Serv Automobile Assn	194,040,375	2.4%	174,133,551	24,934,187	694,812
Universal Ins Co of NA	186,151,076	2.3%	131,340,324	28,133,641	-49,560
Liberty Mutual Fire Ins	176,177,561	2.2%	157,027,404	104,295,081	107,392
St Johns Ins Co Inc	146,404,816	1.8%	104,640,502	33,456,888	1,075,499
Federal Ins Co	143,813,528	1.8%	128,564,532	26,679,991	1,003,849
American Strategic Ins Co	141,367,611	1.8%	96,046,435	19,645,368	2,006,638
United Prop & Casualty Ins Co	138,913,586	1.7%	122,444,678	107,660,125	910,855
First Floridian Auto & Home Ins Co	125,959,242	1.6%	125,702,161	16,195,825	-870,817
USAA Casualty Ins Co	121,898,977	1.5%	108,158,557	20,851,544	905,839
Gulfstream Prop & Casualty Ins Co	118,088,454	1.5%	108,309,030	42,367,020	2,299,334
Federated National Ins Co	115,574,807	1.4%	96,720,252	47,650,611	-923,307
Florida Peninsula Ins Co	114,706,859	1.4%	70,123,641	4,279,440	0
Geovera Specialty Ins Co	110,034,616	1.4%	113,952,462	71,775,424	-3,762,581
Tower Hill Preferred Ins Co	110,008,007	1.4%	103,826,321	38,748,996	521,304
Castle Key Ind Co	104,211,498	1.3%	102,732,402	24,418,526	813,359
Tower Hill Prime Ins Co	103,346,223	1.3%	92,991,123	45,779,435	502,512
First Protective Ins Co	89,864,708	1.1%	57,176,281	8,678,226	315,498
Sunshine State Ins Co	89,351,182	1.1%	77,403,488	-6,032,255	989,786
Tower Hill Select Ins Co	88,244,957	1.1%	76,192,799	27,790,341	285,541
Cypress Prop & Casualty Ins Co	88,206,411	1.1%	72,612,138	42,316,432	695,418
Top 25 Total	**6,276,814,437**	**78.0%**	**5,156,316,145**	**1,671,393,223**	**49,626,434**
26-50 Total	**1,173,916,954**	**14.6%**	**1,078,925,150**	**281,646,821**	**-9,711,284**
All Other Total	**598,805,970**	**7.4%**	**543,798,078**	**182,603,261**	**2,347,719**
Total	**8,049,537,361**	**100.0%**	**6,779,039,373**	**2,135,643,305**	**42,262,869**

2006 Impairments

- Atlantic Preferred Insurance Co (FSR of A withdrawn May 2004)
- Florida Preferred Property Insurance Co (FSR of A withdrawn June 2005)
- Florida Select Insurance Co
- Southern Family Insurance Co (FSR of A withdrawn May 2004)

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2006	6/30/1992-6/30/2006
A"	15	0
A'	46	0
A	278	2
S	34	0
M	10	1
L	14	1

2007

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2007**	**% of Total**	**Direct Premium Earned 2007**	**Loss Incurred 2007**	**DCC Incurred 2007**
State Farm Florida Ins Co	1,560,468,694	18.2%	1,569,897,613	402,649,233	25,970,693
Citizens Prop Ins Corp	1,502,253,598	17.5%	1,439,028,267	463,137,866	15,326,883
Universal Property & Casualty Ins	449,795,430	5.2%	430,096,095	86,127,275	3,397,011
Royal Palm Ins Co	246,083,238	2.9%	131,240,887	26,744,268	2,437,040
Nationwide Ins Co of Florida	243,237,028	2.8%	275,445,010	90,946,749	3,167,428
St Johns Ins Co Inc	234,956,932	2.7%	192,513,660	44,127,330	2,116,994
United Serv Automobile Assn	234,742,738	2.7%	218,719,689	50,607,721	595,928
Castle Key Ins Co	211,096,887	2.5%	319,775,823	101,570,108	6,564,254
Liberty Mutual Fire Ins	189,398,607	2.2%	188,580,031	42,460,324	5,705,211
Universal Ins Co of NA	173,729,567	2.0%	190,215,253	35,079,742	2,117,367
Federal Ins Co	152,418,657	1.8%	149,619,806	36,962,184	981,534
USAA Casualty Ins Co	143,395,168	1.7%	135,855,124	30,090,375	757,304
United Prop & Casualty Ins Co	117,442,276	1.4%	130,703,549	19,959,842	4,137,277
American Strategic Ins Co	113,842,792	1.3%	145,528,723	30,325,947	1,861,737
American Home Assurance Co	111,777,355	1.3%	95,515,003	18,432,794	1,285,304
First Floridian Auto & Home Ins Co	103,991,236	1.2%	125,856,683	48,317,200	1,642,783
First Protective Ins Co	103,320,384	1.2%	105,998,371	20,910,054	1,885,740
Asi Assur Corp	102,099,252	1.2%	85,022,921	35,513,835	695,398
Tower Hill Prime Ins Co	100,573,747	1.2%	108,035,312	24,211,951	1,572,459
Federated National Ins Co	100,481,479	1.2%	119,902,197	40,805,263	4,250,305
Tower Hill Preferred Ins Co	93,341,478	1.1%	102,464,616	20,552,647	1,668,736
Southern Fidelity Ins Co Inc	92,542,922	1.1%	76,098,554	25,886,844	0
Security First Ins Co	90,976,540	1.1%	59,862,875	10,106,657	33,993
Hartford Ins Co of The Midwest	87,249,857	1.0%	91,189,085	25,200,956	-75,900
Tower Hill Select Ins Co	84,742,006	1.0%	88,775,114	19,463,063	931,481
Top 25 Total	**6,643,957,868**	**77.4%**	**6,575,940,261**	**1,750,190,228**	**89,026,960**
26-50 Total	**1,325,232,193**	**15.4%**	**1,362,553,934**	**315,004,895**	**12,039,289**
All Other Total	**616,074,984**	**7.2%**	**674,270,093**	**137,507,356**	**9,481,067**
Total	**8,585,265,045**	**100.0%**	**8,612,764,288**	**2,202,702,479**	**110,547,316**

2007 Impairments

- Vanguard Fire & Casualty Co (FSR of A withdrawn in 2005)

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2007	6/30/1992-6/30/2007
A"	16	0
A'	55	0
A	331	2
S	34	0
M	10	1
L	14	2

2008

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2008**	**% of Total**	**Direct Premium Earned 2008**	**Loss Incurred 2008**	**DCC Incurred 2008**
State Farm Florida Ins Co	1,131,723,746	15.6%	1,320,416,445	547,100,224	33,310,002
Citizens Prop Ins Corp	1,035,505,843	14.3%	1,257,427,269	470,930,288	29,050,017
Universal Property & Casualty Ins	460,146,437	6.4%	456,549,851	124,009,576	3,384,667
St Johns Ins Co Inc	278,741,752	3.8%	257,881,684	78,366,662	2,696,770
United Serv Automobile Assn	201,578,471	2.8%	215,588,922	73,868,437	1,495,217
Homewise Preferred Ins Co	178,204,662	2.5%	120,290,841	37,995,529	3,402,039
Royal Palm Ins Co	172,663,087	2.4%	208,881,095	54,358,696	2,211,098
Liberty Mutual Fire Ins	158,984,132	2.2%	173,705,650	64,027,449	6,576,044
Federal Ins Co	154,578,791	2.1%	151,379,446	33,696,176	1,459,484
Castle Key Ins Co	151,730,049	2.1%	166,601,033	75,203,150	3,398,052
Florida Peninsula Ins Co	144,659,847	2.0%	112,150,918	13,383,546	639,906
Nationwide Ins Co of Florida	140,456,356	1.9%	178,812,157	134,364,202	6,399,092
American Home Assurance Co	135,224,566	1.9%	124,736,540	33,142,668	2,458,251
Universal Ins Co of NA	125,224,754	1.7%	144,834,368	32,065,460	2,440,661
USAA Casualty Ins Co	120,608,621	1.7%	130,103,098	36,697,850	581,031
United Prop & Casualty Ins Co	113,780,533	1.6%	118,543,906	31,471,855	4,456,400
Asi Assur Corp	97,587,258	1.3%	103,694,890	28,408,125	1,025,311
Tower Hill Prime Ins Co	96,829,818	1.3%	97,073,097	29,930,227	1,754,726
First Protective Ins Co	80,135,860	1.1%	87,935,220	13,211,718	1,379,088
American Strategic Ins Co	78,675,907	1.1%	92,341,333	25,573,933	1,239,713
Security First Ins Co	76,826,006	1.1%	83,097,710	15,718,187	699,700
Tower Hill Preferred Ins Co	75,922,845	1.0%	83,220,306	34,359,028	1,792,764
Tower Hill Select Ins Co	75,515,509	1.0%	78,390,787	24,686,707	1,098,013
Hartford Ins Co of The Midwest	72,522,024	1.0%	77,819,358	39,540,179	-2,479,085
Sunshine State Ins Co	71,747,421	1.0%	65,119,963	17,646,828	1,222,693
Top 25 Total	**5,429,574,295**	**74.9%**	**5,906,595,887**	**2,069,756,700**	**111,691,654**
26-50 Total	**1,191,882,830**	**16.4%**	**1,239,550,844**	**357,490,991**	**15,492,633**
All Other Total	**624,441,874**	**8.6%**	**603,359,686**	**201,764,858**	**9,604,890**
Total	**7,245,898,999**	**100.0%**	**7,749,506,417**	**2,629,012,549**	**136,789,177**

- **No impairments in 2008**

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2008	6/30/1992-6/30/2008
A"	17	0
A'	63	0
A	384	2
S	35	0
M	10	1
L	14	2

2009

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2009**	**% of Total**	**Direct Premium Earned 2009**	**Loss Incurred 2009**	**DCC Incurred 2009**
State Farm Florida Ins Co	888,326,215	12.8%	959,832,528	448,278,673	46,470,104
Citizens Prop Ins Corp	790,756,469	11.4%	882,461,699	369,351,455	4,525,822
Universal Property & Casualty Ins	507,449,768	7.3%	490,019,287	165,692,245	3,949,262
St Johns Ins Co Inc	269,871,393	3.9%	275,205,230	78,859,873	4,310,603
United Serv Automobile Assn	216,976,043	3.1%	208,644,196	65,791,188	2,114,397
Florida Peninsula Ins Co	173,244,486	2.5%	157,048,164	33,178,292	3,966,289
Royal Palm Ins Co	153,912,280	2.2%	168,371,765	61,075,259	2,380,268
Homewise Preferred Ins Co	150,587,501	2.2%	166,254,041	93,727,952	-427,628
Federal Ins Co	144,221,673	2.1%	150,654,339	36,676,362	-1,272,527
American Home Assurance Co	141,904,658	2.0%	136,631,883	46,137,319	3,239,575
Liberty Mutual Fire Ins	141,886,561	2.0%	152,036,647	86,408,672	4,957,668
Castle Key Ins Co	137,169,337	2.0%	144,523,262	68,519,790	4,002,721
United Prop & Casualty Ins Co	134,906,455	1.9%	129,347,642	41,218,184	6,168,924
USAA Casualty Ins Co	128,690,223	1.9%	124,572,078	33,382,461	921,148
Nationwide Ins Co of Florida	128,325,482	1.9%	136,166,071	85,167,909	5,964,500
Universal Ins Co of NA	112,221,995	1.6%	118,454,421	44,080,727	4,171,870
Northern Capital Ins Co	103,481,993	1.5%	88,656,026	33,873,225	5,771,421
Security First Ins Co	93,783,488	1.4%	82,721,853	20,583,985	1,478,207
Homeowners Choice Prop & Cas Ins Co	92,683,022	1.3%	68,554,907	19,374,211	1,016,776
Sunshine State Ins Co	91,364,079	1.3%	83,126,070	23,825,892	2,562,963
Tower Hill Prime Ins Co	90,473,909	1.3%	91,487,055	32,361,982	1,890,859
Asi Assur Corp	87,245,119	1.3%	92,586,874	22,897,487	1,940,982
First Protective Ins Co	82,042,950	1.2%	81,575,120	19,673,130	1,604,608
Southern Fidelity Ins Co Inc	72,077,208	1.0%	68,509,464	22,548,343	0
Olympus Ins Co	71,455,516	1.0%	60,705,265	15,272,974	820,038
Top 25 Total	**5,005,057,823**	**72.2%**	**5,118,145,887**	**1,967,957,590**	**112,528,850**
26-50 Total	**1,273,223,935**	**18.4%**	**1,265,973,600**	**457,609,789**	**30,649,104**
All Other Total	**653,992,016**	**9.4%**	**639,491,204**	**269,560,023**	**20,858,138**
Total	**6,932,273,774**	**100.0%**	**7,023,610,691**	**2,695,127,402**	**164,036,092**

2009 Impairments

- American Keystone Insurance Co
- Commercial Insurance Alliance*
- Coral Insurance Co
- First Commercial Insurance Co*
- First Commercial Transportation and Property Insurance Co*
- Magnolia Insurance Co

*Companies not rated by Demotech, Inc.

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2009	6/30/1992-6/30/2009
A"	23	0
A'	73	0
A	432	3
S	35	0
M	10	1
L	15	2

2010

Florida Homeowners Market Share Report					
Company	**Direct Premium Written 2010**	**% of Total**	**Direct Premium Earned 2010**	**Loss Incurred 2010**	**DCC Incurred 2010**
Citizens Prop Ins Corp	1,156,647,315	15.3%	965,072,025	436,092,444	28,888,968
State Farm Florida Ins Co	980,590,404	13.0%	994,185,248	398,327,276	51,390,548
Universal Property & Casualty Ins	603,334,906	8.0%	557,600,093	159,003,198	14,302,318
St Johns Ins Co Inc	248,124,870	3.3%	259,300,270	71,657,092	6,145,175
United Serv Automobile Assn	221,075,163	2.9%	218,358,777	58,759,762	1,591,624
Florida Peninsula Ins Co	179,228,009	2.4%	180,108,919	58,874,976	7,761,861
Royal Palm Ins Co	147,859,244	2.0%	149,290,461	74,974,441	5,614,930
Federal Ins Co	138,344,759	1.8%	139,172,213	31,680,608	749,432
American Home Assurance Co	137,667,154	1.8%	141,528,306	24,722,040	1,185,570
Castle Key Ins Co	135,302,913	1.8%	135,703,630	39,043,779	2,387,945
United Prop & Casualty Ins Co	135,192,152	1.8%	134,463,241	46,259,337	6,461,956
Homewise Ins Co	128,332,164	1.7%	90,074,371	23,415,054	138,102
USAA Casualty Ins Co	127,838,148	1.7%	127,895,239	27,750,032	1,719,382
Security First Ins Co	127,204,125	1.7%	112,681,814	34,011,914	3,040,452
Liberty Mutual Fire Ins	123,102,196	1.6%	131,772,177	117,776,009	6,824,017
Tower Hill Prime Ins Co	119,008,976	1.6%	103,263,952	34,211,394	3,140,489
Homeowners Choice Prop & Casualty Ins Co	116,063,121	1.5%	106,084,544	28,458,504	2,736,765
Tower Hill Preferred Ins Co	111,877,610	1.5%	103,373,462	46,498,365	3,858,459
Universal Ins Co of NA	104,973,010	1.4%	110,553,936	57,284,084	5,755,389
Castle Key Ind Co	96,271,718	1.3%	64,979,805	15,262,167	1,557,612
First Protective Ins Co	88,606,874	1.2%	85,525,861	24,977,869	866,592
Nationwide Ins Co of Florida	88,535,681	1.2%	113,957,048	76,608,253	6,777,538
Tower Hill Select Ins Co	87,753,336	1.2%	76,642,857	35,384,425	3,229,773
Olympus Ins Co	84,218,665	1.1%	76,783,311	18,546,804	1,372,259
Sunshine State Ins Co	81,401,750	1.1%	93,655,929	29,611,402	4,017,063
Top 25 Total	**5,568,554,263**	**73.6%**	**5,272,027,489**	**1,969,191,229**	**171,514,219**
26-50 Total	**1,370,033,555**	**18.1%**	**1,312,519,261**	**489,568,741**	**39,308,178**
All Other Total	**629,860,540**	**8.3%**	**700,897,522**	**314,085,730**	**24,823,396**
Total	**7,568,448,358**	**100.0%**	**7,285,444,272**	**2,772,845,700**	**235,645,793**

2010 Impairments

- Northern Capital Insurance Co

	Cumulative FSRs in Florida	Company Insolvencies within 18 months of last FSR in Florida
	6/30/1992-6/30/2010	6/30/1992-6/30/2010
A"	29	0
A'	84	0
A	475	6
S	35	0
M	10	1
L	16	2

Florida Property Carriers Ordered into Rehabilitation or Liquidation

Demotech, Inc. reviews and analyzes hundreds of insurance companies countrywide. Participation in our process requires quarterly and annual reviews and updates in order to affirm the Financial Stability Rating® assigned to the carrier. As is the case with all other rating services or organizations issuing ratings, the data prepared by the insurer is reviewed for reasonableness and consistency but is not audited. Furthermore, in some jurisdictions, political or regulatory risk, in the form of suppressed pricing levels, mandated credits or other qualitative considerations that might be counter to an insurer's perspective on actuarially sound rates, can influence market conditions.

Demotech's ability to identify financially stable insurers has been documented internally as well as through independent analysis, including a comparison to other rating services. Our countrywide and Florida track records on solvency, as measured over the past fifteen years, have been excellent.

Unfortunately for all involved in the insurance process, no rating service has a perfect record. This was made clear in Florida back in the early 1990's when several insurers, unrated by Demotech but reviewed and rated by another rating service, were placed into rehabilitation and subsequently liquidation.

Since 1996, Demotech has taken the lead to review and rate insurers focused on Florida's property insurance marketplace. From 1996 to date, Demotech has issued more than 630 insurer ratings in Florida at the A level or higher. Despite the storms, changes in regulatory focus and legislative revisions that have occurred over the past sixteen years, only eight carriers entered regulatory supervision within eighteen months of being assigned a Financial Stability Rating® of A or higher. The following provides a brief synopsis of the situation underlying those occurrences in chronological order.

American Superior Insurance Company
On December 15, 2004, the State of Florida Department of Financial Services ordered American Superior into liquidation. The impact of Hurricane Charley in August, Frances and Ivan in September in addition to the impact of Tropical Storm Bonnie was too much for the Company to overcome. American Superior had a concentration of business in the Panhandle area of Florida and this geographical area was devastated by these storms.

Florida Preferred Property Insurance Company
After communications with the State of Florida, Demotech maintained the Financial Stability Rating® of A for Florida Preferred Property Insurance Company through May of 2005. The FSR was subsequently withdrawn in early June of 2005. Regarding other members of the Poe Financial Group, we ceased rating Southern Family Insurance Company, Inc. and Atlantic Preferred Insurance Company in May of 2004.

According to the Florida Department of Financial Services, Florida Preferred, Southern Family and Atlantic Preferred were liquidated on June 1, 2006.

Coral Insurance Company
On March 27, 2009, the State of Florida Office of Insurance Regulation issued an Order suspending Coral Insurance Company's (Coral) certificate of authority for six months due to Coral's surplus as regards policyholders being below the minimum required by the State. We subsequently withdrew our Financial Stability Rating® of A, *Exceptional*, on March 30, 2009. On April 9, 2009, prior to the end of the six month suspension, the State of Florida Department of Financial Services ordered Coral into rehabilitation.

Prior to the withdrawal of our FSR, United Insurance Holdings Corporation and Coral had negotiated a non-binding letter of intent to acquire substantially all of the assets and assume certain liabilities of Coral, LLC. Furthermore, in February 2009, Coral had made a decision to cease writing new business. These factors, in conjunction with a multi-million dollar capital infusion that was negotiated and completed in the fourth quarter of 2008, created a scenario in which we were comfortable with the financial information presented to us.

However, on March 30, we were informed that Coral's auditor discovered that reinsurance recoverable of approximately $2 million had been booked incorrectly during the preparation of Coral's year-end 2008 financial statement. The correction resulted in a $4 million difference in surplus, $2 million to reverse the erroneous credit and another $2 million to account for the charge. Despite the revisions, Coral ended 2008 with a positive net worth of nearly $1.8 million.

The underlying issue was the preparation of inaccurate financial statements. The inaccuracies were identified by Coral's independent auditor subsequent to the preparation and publishing of the year end 2008 statement.

American Keystone Insurance Company
On October 9, 2009, the State of Florida Department of Financial Services ordered American Keystone Insurance Company into rehabilitation. On September 11, 2009, American Keystone had been downgraded to a Financial Stability Rating® (FSR) of M, *Moderate*, our lowest descriptive FSR, from the previously assigned FSR of S, *Substantial*. After American Keystone was ordered into rehabilitation, our FSR of M was withdrawn.

During an analysis of American Keystone's August 2009 financial statements, the State of Florida Office of Insurance Regulation noted that American Keystone's surplus as regards policyholders was $3,664,851, $335,149 below the minimum required by statute. During a review of cash flow projections received by the Office from American Keystone, the Office determined that American Keystone owed approximately $8.8 million to the Florida Hurricane Catastrophe Fund and about $7.2 million to private reinsurers that had not been properly reported on their financial statements.

These reinsurance payables represented about $16 million and were not recognized as earned on the August 2009 financial statements submitted to the Office of Insurance Regulation, nor were they recognized on the statements provided to Demotech. The Office commented that if the future payments due reinsurers had been recognized as earned on the August 30 financial statements, surplus would have been negative.

In fact, in contrast to $16 million of ceded reinsurance being due and payable at August 30, the June 30, 2009 quarterly statement presented to Demotech reported that American Keystone was due a credit of approximately $5.5 million as regards reinsurance. Had American Keystone properly recorded and reported ceded reinsurance balances in its financial statements, its financial situation would have been fairly presented.

Magnolia Insurance Company
On December 2, 2009, the Financial Stability Rating® of *A*, *Exceptional,* assigned to Magnolia Insurance Company was suspended. The rating that had been maintained as a result of numerous conversations, emails, assertions and teleconferences with Magnolia's management, investors, advisors and consultants.

Based on the extended discussions and negotiation process that had occurred, the impetus for assigning an FSR of A was the implementation of the business plan that had been presented to us, in conjunction with anticipation of a substantial capital infusion. The business plan involved implementation of processing systems, the addition of experienced insurance personnel, a significant capital contribution and a revision in the Company's reinsurance program.

Throughout the discussions, it was Demotech's belief, based upon assurances from a multi-billion dollar, international, publicly traded entity that the capital infusion was imminent. Just before the capital was to be infused, the entity withdrew from the entire process. Magnolia was liquidated by the State of Florida on April 30, 2010.

Northern Capital Insurance Company
Management had been actively involved in raising funds to bolster the surplus of the Company and thereby enhance the protection available to its policyholders. However, the Company did not meet the time table that they had presented to Demotech. On February 18, 2010, our FSR was withdrawn. On May 1, 2010, the company was liquidated.

National Group Insurance Company
We received and reviewed the year-end 2010 annual statement for National Group Insurance Company (NGIC) as well a related company in its group, National Insurance Company (NIC). NGIC ceded 100% of its business to NIC. Due to our concerns, we received and reviewed management's comments along with the companies' first quarter 2011 statements.

NIC was placed into rehabilitation in Puerto Rico and due to the relationship regarding reinsurance, there was concern regarding NGIC's exposure to catastrophe losses and potential collectability of reinsurance recoverable from NIC. We withdrew the FSR for NGIC on May 25, 2011. The company was liquidated by the State of Florida on October 10, 2011.

HomeWise Insurance Company
Demotech, Inc. withdrew the Financial Stability Rating® of A, *Exceptional,* assigned to HomeWise Insurance Company on August 25, 2011. The company's Louisiana book of business was acquired by Lighthouse Property Insurance Corporation. Homeowners Choice Property & Casualty Insurance Company acquired the Florida policies of HomeWise Insurance Company. On November 4, 2011, HomeWise entered liquidation.

Summary
Although Financial Stability Ratings® (FSRs) may be new to you, we have been reviewing and rating insurers since 1989. The graph on page 63 summarizes the effectiveness of our FSRs, including FSRs assigned to property insurance writers in Florida. The impressive survival rate of insurers designated as Stable underscores our capability to provide reliable information.

Also important is that in 2010, Florida State University's College of Business Risk Management and Insurance compared FSRs with ratings issued by A.M. Best, Standard and Poor's, Moody's and Fitch. The study reviewed thousands of insurer ratings issued over a nine year period. The results were released in ***A Comprehensive Examination of Insurer Financial Strength Ratings*.*** The study and its executive summary contained the following excerpts:

1. *Demotech serves the need of another unique group of insurers, namely those that are geographically focused*.

2. *Comparisons of Demotech ratings to other agencies show relative consistency in the factors that drive Demotech ratings compared to agencies such as A.M. Best, Moody's, Standard and Poor's, and Fitch*.

3. *There is also general consistency in the firms that each agency would categorize as financially secure.*

4. *These results have important public policy implications for insurers, regulators and consumers as they work to better understand the ratings process. Of particular importance to most is the comparability of Demotech ratings to other agencies*.

5. *Given that lenders often have requirements related to the use of rated insurers and some states require ratings to operate in a state, the results suggest that Demotech serves an important service within the ratings community and plays a very important role in the insurance market*.

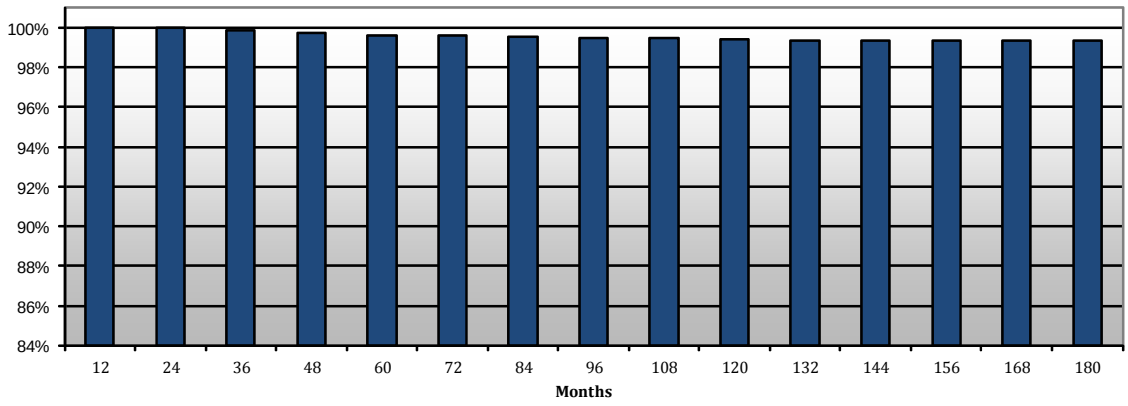
By accepting carriers rated A or better by Demotech in addition to maintaining other rating criteria, consumers, agents, reinsurers and other parties interested in the financial stability of insurers can have access to a proven source of independent insurer analysis.

*Refer to Appendix A on Page 64 for a full copy of *A Comprehensive Examination of Insurer Financial Strength Ratings*

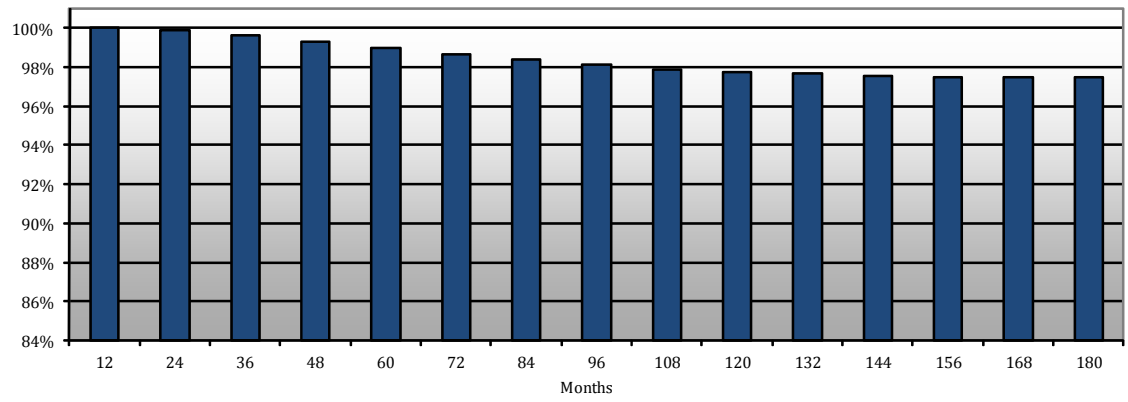
Months of Survival Subsequent to Rating Assignment

Latest Fifteen Years ending December 31, 2008

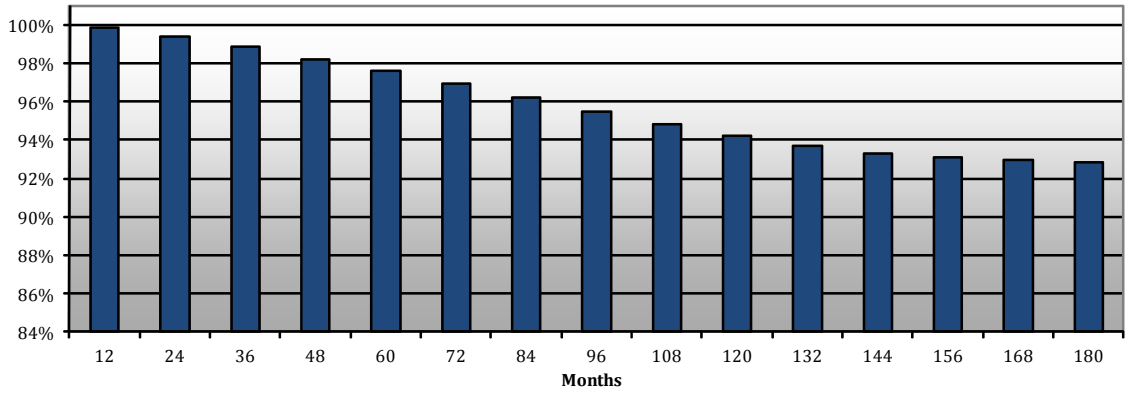
Demotech, Inc. A"



Demotech, Inc. A'



Demotech, Inc. A



Source: Demotech, Inc.'s Serious About Solvency dated December 2009.

Appendix A

A Comprehensive Examination of Insurer Financial Strength Ratings

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A Comprehensive Examination of Insurer Financial Strength Ratings

Abstract

While unsolicited financial strength ratings have been studied in the banking literature, these sometimes controversial ratings have not been studied in insurance. Utilizing data from multiple sources including a proprietary dataset, we provide the most comprehensive examination of insurer financial strength ratings to date and the first analysis of unsolicited ratings for US property-liability insurers. Similar to bank ratings, we find that insurers' unsolicited ratings tend to be lower than solicited ratings. We also find some consistency in the importance of organizational and key financial characteristics when comparing the results for unsolicited and solicited ratings across the agencies.

Key Words: Financial Strength Ratings, Selection-Bias, Unsolicited Ratings, Demotech, A. M. Best

Introduction

Financial strength ratings are an important tool for firms, investors, consumers, and regulators. As a result, they have been the subject of extensive academic, regulatory, and industry scrutiny.[1] Research has focused on a wide variety of topics including the determinants of ratings, differences across rating agencies, reasons to obtain ratings, and the impacts of ratings on business. One particular area of investigation has been on the topic of unsolicited ratings. While most financial strength ratings are based on publicly available information as well as proprietary information provided by the firms being rated, unsolicited ratings are based solely on public information. Existing research in the banking literature has shown that unsolicited ratings, sometimes called shadow ratings, are lower than solicited ratings (e.g., Poon, 2003; Poon and Firth, 2005; Poon, Lee, and Gup, 2009).[2] Differences in solicited and unsolicited ratings may be partially due to the fact that banks with unsolicited ratings are typically smaller and have weaker financial profiles than banks with solicited ratings (Poon and Firth, 2005). Given that ratings can have a considerable impact on a firm's business, this is a significant issue.

A major problem unwinding the differences between solicited and unsolicited ratings often relates to the limited data available for unsolicited ratings. Utilizing data from multiple sources including a proprietary dataset, we are able to provide a comprehensive study of both unsolicited and solicited ratings of multiple agencies for the very first time. More specifically, our sample includes solicited ratings from five rating agencies (i.e., A. M. Best, S&P, Moody's, Fitch, and Demotech) as well as unsolicited ratings from three agencies (S&P, Fitch, and Demotech) over a nine-year time period for property-liability insurers. Our sample of unsolicited ratings includes Demotech provisional ratings which are quite similar to the

[1] The importance of ratings is highlighted in the case of AIG before the government bailout. As reported in Wall Street Journal (September 16, 2008), AIG had to "post $14.5 billion in collateral to bolster its credit rating" as well as "additional collateral to investment banks and others it trades with" after its credit downgrades.

[2] Poon (2003), Poon and Firth (2005), and Poon, Lee and Gup (2009) study solicited and unsolicited bank ratings across different countries.

unsolicited ratings of the other rating agencies in the sense that these ratings are based on publicly available information only and initiated by the rating agency.[3] However, unlike traditional unsolicited ratings, provisional ratings are generally assigned to all insurers with available data in a given year. Additionally, it is important to note that these ratings are not publicly available.[4] Inclusion of provisional ratings provides several advantages in the study of unsolicited ratings. First, it allows us to track a large sample of insurers rated with a process similar to traditional unsolicited ratings. Second, the fact that Demotech does not release the provisional ratings to the public provides an interesting contrast to the rating practices of S&P and Fitch, both of which do make public their unsolicited ratings without consent of insurers. To our knowledge, this type of comparison has not been possible in prior ratings studies. Lastly, given that all insurers with available data are generally assigned a provisional rating by Demotech, this also helps to reduce the problems associated with sample selection that are often present in other studies of unsolicited ratings. Similar to prior literature, for both solicited and unsolicited ratings samples, we also use the extensive financial data available for insurers in an effort to control for the potential selection bias (i.e., Cantor and Packer, 1997; and Pottier and Sommer, 1999). This is critical when one realizes that not all firms receive unsolicited and solicited ratings from all of the agencies due to firm characteristics such as firm age, size, and/or geographic focus as well as internal decisions made by the rating agencies.

In summary, our study accomplishes several goals. First, based on the structure of the data and analysis, we are able to examine the distribution of ratings across the various rating agencies. Second, we contrast the types of firms with published ratings from the various

[3] To our knowledge this is the first time the provisional ratings have been studies in the rating literature.

[4] The provisional ratings are proprietary and made available for this study by Demotech. Demotech generally creates a provisional rating based on publicly available data for all insurers each year and provides that information to the firm. If the insurer elects to finalize this rating, then a fee is paid and the rating is made public. While the insurer is given the opportunity to provide additional information, the finalized rating is still based largely on publicly available information.

agencies (solicited and unsolicited) as well as the characteristics that have the most influence on ratings. Our initial presentation of summary statistics allows the reader to better understand which insurers possess various types of unsolicited and solicited ratings as well as the differences in the distribution of these financial strength ratings. Next, we provide an analysis of the characteristics impacting the ratings as well as the relative importance of these characteristics across ratings agencies. This builds on the prior studies in the area of insurance which have considered both the determinants of financial strength ratings as well as differences in the rating methodologies of these agencies (e.g., Harmelink, 1974; Pottier and Sommer, 1999; and Gaver and Pottier, 2005).[5] Finally, the inclusion of Demotech provisional ratings allows for a comprehensive study of unsolicited insurer financial strength ratings for the very first time and provides some insight as to whether differences are observed between unsolicited ratings that are made available to the public and those that are not. A better understanding of these issues for property-liability insurers not only helps to better understand different types of ratings but also has key public policy implications for the regulators, consumers, and investors relying on these ratings as well as the insurers rated by the agencies.

The remainder of the paper is organized as follows. First, we examine some background information related to the financial ratings literature. This is followed by a discussion of the data and methodology. Finally, a discussion of the results as well as conclusions and public policy implications is presented.

Background Information

A variety of studies have examined the determinants of insurer financial strength ratings from various rating agencies. Similar to prior studies examining bank financial ratings (Poon, 2003;

[5] Other studies have examined the similarities and differences of financial ratings across different firms and industries (e.g., Cantor and Packer, 1997; Van Roy, 2006; and Poon, Lee and Gup, 2009).

and Poon and Firth, 2005), studies related to insurers generally find that financial characteristics including capitalization, liquidity, profitability, and firm size are important in determining insurer ratings (e.g., Harmelink, 1974; Pottier and Sommer, 1999; and Gaver and Pottier, 2005).[6] We draw on the variables considered in prior literature to identify the factors important in determining financial strength ratings.

While the studies generally find that financial and operational traits are important determinants of ratings, they also find that there are differences across rating agencies (e.g., Cantor and Packer, 1997; Pottier and Sommer, 1999; Van Roy, 2006; and Poon, Lee and Gup, 2009). For example, in a study of property-liability insurers, Pottier and Sommer (1999) indicate that rating agencies exhibit systematic differences in the relative importance given to the different factors they consider. Authors have tested whether these are real differences or merely the artifacts of selection bias, given that different agencies rate different insurers. Given the mixed results of prior literature, we control for potential selection bias in the current study.[7]

Studies examining unsolicited ratings are limited to the banking literature. Examples include Poon (2003), Poon and Firth (2005), and Poon, Lee and Gup (2009). The general conclusion from these studies is that banks' unsolicited ratings tend to be lower than solicited ratings, even after controlling for self-selection bias. One limitation of these studies is that each studies the unsolicited ratings from one particular rating agency only (i.e., S&P, Fitch, and S&P, respectively) and no research has examined the unsolicited ratings across multiple rating agencies. To the best of our knowledge, no prior studies in the insurance literature have investigated unsolicited insurer ratings. It is our hope that by taking advantage of unsolicited

[6] More specifically, Gaver and Pottier (2005) find that all of these variables are important determinants of insurer ratings while Pottier and Sommer (1999) find that firm size and investment in junk bonds are significant determinants for all three of the rating agencies examined.

[7] Cantor and Packer (1997) find that sample selection bias does not explain the average rating differences and that observed differences in average ratings rather reflect differences in rating models. While Pottier and Sommer (1999) find some evidence of selection bias in the rating determinants model for A. M. Best, none of their rating differences models show evidence of sample selection (Pottier and Sommer, 1999, p. 639).

ratings from multiple agencies as well as a proprietary dataset from Demotech, our study will help fill both voids in the literature.

While issues related to the determinants of ratings as well as the potential impact from selection bias and unsolicited ratings are important from an academic standpoint, research has found that the existence of ratings significantly impacts a variety of stakeholders. As indicated by Pottier and Sommer (1999), "insurer financial strength ratings are heavily relied upon by insurance agents, brokers, and consumers, are used by insurers in their advertising, provide a tool for regulators to assess insurer risk, and are often used in academic research as measurers of insolvency risk" (p. 622).[8] Evidence of this impact is found in Doherty and Phillips (2002) which documents an increase in rating stringency and concludes that the dramatic capital buildup in the insurance industry can be explained by the pressure experienced by insurers to maintain existing ratings.[9]

Data

The dataset is comprised of data from several sources for the period of 2000 to 2008. Insurers' demographic and financial information is from the National Association of Insurance Commissioners' ("NAIC") Database.[10] Insurers without required financial information are deleted. Demotech ratings (both provisional and finalized) are obtained from Demotech, Inc., and A. M. Best's ratings are obtained from A. M. Best Company. Finally, Fitch, Moody's, and S&P ratings are obtained from the SNL Database. Similar to Pottier and Sommer (1999), we

[8] Ratings also have been used in insolvency prediction (e.g., Ambrose and Seward, 1988; Singh and Power, 1992; Ambrose and Carroll, 1994; and Pottier, 1998).

[9] In addition, Epermanis and Harrington (2006) find that an insurer's A. M. Best rating decline is followed by significant premium declines both in the same year and in the following year.

[10] All continuous variables are winsorized at one percent level to minimize the impact of outliers.

condense the ratings into five categories using the descriptions provided by the agencies to facilitate comparison across the ratings agencies.[11]

We consider both unsolicited and solicited ratings in our analysis. Due to data limitations, the unsolicited ratings analysis is restricted to the ratings of Demotech, S&P, and Fitch.[12] As noted earlier, Demotech unsolicited ratings are different from the unsolicited ratings of both S&P and Fitch in two important ways: (1) the ratings are generally assigned to all insurers every year rather than a limited group; and (2) the ratings are not made available to the public unless the insurer pays for the rating to be finalized and released.[13] However, like traditional unsolicited ratings, Demotech provisional ratings are still initiated by the rating agency. To distinguish Demotech provisional ratings from the more traditional unsolicited ratings provided by S&P and Fitch, we refer to these as provisional ratings throughout the remainder of the paper.[14]

In the analysis of solicited ratings, or those initiated by the insurers, we consider the ratings of the four traditional rating agencies (i.e., A. M. Best, S&P, Moody's and Fitch) as well as Demotech. The inclusion of Demotech ratings provides an interesting contrast to traditional solicited ratings given the difference in the rating processes. Unlike traditional agencies, Demotech provides insurers with their provisional ratings and insurers decide whether to make

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[11] A detailed description of each of the rating agencies and the rating categories is provided in Appendix A. In addition, while we condense the ratings into five categories, there are no finalized Demotech ratings in the lowest category and very few observations in this category for the other rating agencies. This information also is summarized in a chart presented in Appendix A.

[12] Table 1 provides information related to unsolicited ratings. Data related to unsolicited financial strength ratings of insurers is somewhat limited. The agencies have generally discontinued this practice or limited the types of insurers to which it assigns these ratings. For example, in a press release in early 2009, Fitch announced that it will no longer issue unsolicited ratings, called 'q' ratings, though it noted it may issue 'q' scores (similar to 'q' ratings in the sense that it utilizes historical financial information) in the future if demanded by the market (Fitch, 2009). Additionally, recently an A. M. Best document indicates that it only assigns unsolicited ratings, called 'pd' or public data ratings, to "Canadian property/casualty insurers and HMOs and health insurers (United States)" for which the company does not currently provide traditional solicited ratings (A. M. Best, 2009). Other than Demotech, only S&P and Fitch offered unsolicited ratings for some part of the sample period. For S&P, a majority of these ratings were only available through 2003 when there was a significant decline in the unsolicited ratings issued. For Fitch, the unsolicited ratings were only available since 2006.

[13] More information on the process of finalizing a rating is provided below.

[14] Provisional rating is the term used by Demotech. For more details regarding Demotech ratings, see Appendix A.

the ratings public. If an insurer elects to finalize the rating, some additional information may be requested that could impact the final rating released to the public; however, for the reduced sample of insurers which elect to finalize their ratings, , the provisional rating provided to the insurer is typically the same as the final rating released to the public. To distinguish these ratings from the more traditional solicited ratings, we refer to these as finalized ratings.

Table 1 provides a summary of the number of insurers rated by each of the rating agencies for the years of our sample.[15] Given that Demotech generally provides its provisional ratings to all insurers with the needed publicly available financial information, it is not surprising that Demotech has the highest number of provisional (unsolicited) ratings. S&P and Fitch have provided approximately the same number of unsolicited ratings; however, the time periods over which these ratings have been provided differ. As shown in the table, while S&P provided a number of unsolicited ratings through 2003, this number dropped significantly in subsequent years. In addition, we do not have any Fitch unsolicited ratings prior to 2006. In terms of solicited ratings, the major two rating agencies in the sample are A. M. Best and S&P with 4,274 and 3,144 firm-year observations respectively. This is followed by Fitch, Demotech, and Moody's.

Next, for the agencies for which we have both unsolicited (or provisional) and solicited (or finalized) ratings, we compare the percentage of ratings in each of the categories. This information is summarized in Table 2. First, we contrast the Demotech provisional and finalized ratings. It appears that there is approximately the same percentage of insurers with ratings in the top two categories. However, we find that there is a much larger percentage of insurers with ratings in the good/strong finalized category than the good/strong provisional category (50

[15] Note the total across the rating agencies exceeds the total number of insurer-year observations indicated earlier since insurers are rated by multiple agencies in a given year.

Table 1 – Number of Ratings in Sample by Year[16]

Panel A: Provisional and Unsolicited Ratings

Year	Demotech (Provisional)	S&P	Fitch
2000	1829	218	N/A
2001	1712	258	N/A
2002	1591	247	N/A
2003	1731	355	N/A
2004	806	119	N/A
2005	1452	72	3
2006	1604	36	426
2007	1575	26	446
2008	1605	N/A	500
Total	13905	1331	1375

Panel B: Finalized and Solicited Ratings

Year	Demotech (finalized)	A. M. Best	S&P	Moody's	Fitch
2000	195	200	351	146	73
2001	181	548	366	177	196
2002	185	515	363	174	186
2003	177	518	379	214	212
2004	175	516	350	211	248
2005	190	493	365	211	264
2006	207	496	367	198	279
2007	221	498	324	200	307
2008	235	490	279	144	317
Total	1766	4274	3144	1675	2082

percent compared to 32 percent). We also find that while no insurer with a finalized rating receives a rating less than fair/adequate rating, 11 percent of provisional ratings fall in this category. More extreme differences are observed when comparing the unsolicited and solicited ratings of S&P and Fitch. With S&P, for insurers soliciting ratings, 46 percent receive ratings in the top two categories. However, for unsolicited ratings, only 12 percent of insurers receive ratings in these categories. Also, while only 1 percent of insurers soliciting ratings receive a less

[16] Note that the number of observations is low for A. M. Best in 2000 and Demotech in 2004. This is due to data limitations. To ensure this is not influencing the results obtained, these two models are repeated excluding these data years from the sample. The unreported results are generally consistent with those presented in the following section.

Table 2 – Unsolicited and Solicited Ratings Comparison

	Demotech				S&P				Fitch			
	Provisional		Finalized		Unsolicited		Solicited		Unsolicited		Solicited	
	#	%	#	%	#	%	#	%	#	%	#	%
Superior/Extremely Strong/Exceptional	2956	21%	348	20%	10	1%	354	11%	0	0%	194	9%
Excellent/Very Strong	4052	29%	518	29%	140	11%	1085	35%	0	0%	1121	54%
Good/Strong	4486	32%	889	50%	273	21%	1470	47%	546	40%	653	31%
Fair/Adequate	934	7%	11	1%	585	44%	198	6%	699	51%	90	4%
Less than Fair/Adequate	1477	11%	0	0%	323	24%	37	1%	130	9%	24	1%
	13905		1766		1331		3144		1375		2082	

than fair/adequate rating, 24 percent of insurers fall into this category when considering unsolicited ratings. Finally, for Fitch, we find that only 5 percent of insurers seeking ratings receive a rating in the bottom two categories, and 60 percent of insurers receive unsolicited ratings in these categories. To determine if the differences in the distributions are econometrically significant, we conduct a Wilcoxon rank-sum test for the ratings of each of the three agencies. Using the full distribution of ratings provided by the agencies, we reject the null hypothesis that the provisional (unsolicited) and finalized (solicited) ratings have identical distributions. This result is similar to the findings in the banking literature which suggest unsolicited ratings tend to be lower (i.e., Poon 2003).

For finalized and solicited ratings, we examine the number of insurers with multiple ratings. As shown in Table 3, the majority of insurers elect to only be rated by a single agency. This is not surprising given that the rating process can be costly for insurers. However, we do find that more than 30 percent of insurers seek multiple ratings.[17] Given the volume of insurers with multiple ratings, we control for the existence of another rating in our model. This is discussed in more detail in the following section.

Table 3 – Ratings Summary

Year	1 Rating	2 Ratings	3 Ratings	4 Ratings
2000	518	144	53	
2001	717	206	93	15
2002	690	210	103	1
2003	700	217	118	3
2004	702	209	124	2
2005	662	213	141	3
2006	698	209	141	2
2007	732	228	118	2
2008	760	209	93	2
Total	6179	1845	984	30

[17] These statistics are calculated on an insurer-year observation basis.

Finally, for insurers with multiple ratings, we compare those with secure ratings across the agencies.[18] As shown in Table 4, there appears to be strong consistency in the evaluation of the insurers by the agencies. More specifically, for all comparisons but Demotech and A. M. Best, we find in excess of 90 percent agreement (insurers receiving secure ratings by both agencies). For Demotech and A. M. Best, the percentage of agreement is less (i.e., 81 percent). This finding of such consistency in the evaluation of insurers makes it even more important to control for the existence of other rating(s) in the modeling.

Table 4 – Comparison of Secure Ratings among the Rating Agencies

Comparison Groups	Secure Rating by Both	Total Rated by Both	% Secure by Both
Demotech & A. M. Best	387	479	81%
Demotech & S&P	102	102	100%
Demotech & Moody's	46	46	100%
Demotech & Fitch	32	32	100%
A. M. Best & S&P	184	188	98%
A. M. Best & Moody's	30	30	100%
A. M. Best & Fitch	58	62	94%
S&P & Moody's	1328	1344	99%
S&P & Fitch	1487	1503	99%
Moody's & Fitch	1175	1191	99%

Methodology and Variable Descriptions

Methodology

Next we turn to our examination of the characteristics that influence the different types of ratings. We examine both the factors that impact the rating as well as whether these factors vary across agencies. We first consider Demotech provisional ratings and the unsolicited ratings of

[18] An insurer is considered to have a secure rating if it has a rating in one of the top two categories.

S&P and Fitch. Then, we consider Demotech finalized ratings and the solicited ratings of A. M. Best, S&P, Fitch, and Moody's.

For the Demotech provisional ratings, we use ordered probit modeling. Given that Demotech generally provides provisional ratings for the population of insurers, this modeling approach is most appropriate. However, for all other models (the unsolicited S&P and Fitch ratings, the finalized Demotech ratings, and the solicited ratings of the other four agencies), we use an estimation procedure that controls for potential selection bias.[19] This is necessary given that only some insurers are selected to receive unsolicited ratings by S&P and Fitch and only some insurers elect to be rated by each of the agencies. More specifically, we use a joint approach that models both the insurer's rating and the decision to rate insurer (or the decision by insurer *i* to be rated).[20] Given that the variable of interest (i.e., insurer rating) is only observed if a selection condition is met, the following system of equations is used:

$$y*_i = \mathrm{x}'_i \beta + \lambda \varepsilon_i + \tau_i \qquad \text{Eq. (1)}$$

$$S*_i = \mathrm{z}'_i \gamma + \varepsilon_i + \zeta_i \qquad \text{Eq. (2)}$$

Equation 1 is fitted using an ordinal probit regression model where y takes on a value of 1 through 5 based on the rating assigned to the insurer. Equation 2 is the endogenous decision model. This approach produces consistent estimators of β.[21]

For comparison purposes, we consider the same set of firm characteristics as potential determinants of financial ratings for each ratings series (i.e., provisional Demotech ratings, unsolicited ratings, Demotech finalized ratings, and solicited ratings models).[22] These

[19] It should be noted that for both the S&P and Fitch models, the sample period is limited to the period for which data is available as shown in Table 1.
[20] The modeling technique used is ssm in STATA. The summary of the modeling description was obtained from Miranda and Rabe-Hesketh (2006). See this article for additional details.
[21] We control for heteroskedasticity. There is no evidence of multicollinearity or autocorrelation.
[22] There is some variation in the variables included in the decision model. The discussion related to these variables and the results of these models can be found in Appendix B.

characteristics are divided into four categories: organizational characteristics; business mix; business risk; and financial strength and flexibility.

Variable Descriptions

With respect to the determinants of financial strength ratings models, we use a set of variables similar to those used in prior insurance literature (i.e., Pottier and Sommer, 1999). We divide the variables into four categories similar to those identified in the banking (i.e., Poon, 2003).

Organizational Characteristics. Prior literature has shown that different organizational forms are associated with systematically different levels of risk in terms of business written and investments (i.e., Lamm-Tennant and Starks, 1993; Downs and Sommer, 1999; Cole, He, McCullough, and Sommer, 2009). Our size measure is *Direct Premiums Written*.[23] We also include proxies to capture differences in organizational forms (*Mutual Indicator* and *Other Organization Type Indicator* with stock being the omitted category), group membership (*Group Indicator*), and insurer age (*Established Age*).

Business Mix. First, we include the *Line-of-Business Herfindahl* and the *Number of States Licensed* as measures of concentration. The measures are relatively standard measures of concentration and business mix in the insurance literature. To the extent that diversification reduces firm risk, more diversified firms are expected to have higher ratings. However, if diversification leads to a lack of efficiency in operations that adversely impact profitability, the opposite result may exist. We also include two variables to measure specific business focus as this may impact various aspects of the firm and therefore insurers' ratings: the *Percentage in Long-Tail Lines* and the *Percentage in Personal Lines*.[24]

[23] It should be noted that since larger firms are typically expected to have lower levels of insolvency risk (Cummin and Danzon, 1997; Cummins and Sommer, 1996), the size measure also can be considered a business risk measure.

[24] In general, long-tailed lines of business relate to liability, environmental, and bodily injury claims. With these types of claims, it typically takes a longer period from the time of the occurrence of the injury to final settlement of

Business Risk. We include *Stock to Cash and Invested Assets* as a measure of investment risk as varying levels of stock investment will correlate with varying levels of firm risk. We also include *2-Year Loss Development* as it is an important part of the assessment of an insurer's risk. According to A. M. Best, more than two thirds of an insurer's gross capital requirement usually is generated from its loss reserve and net premiums written components (A. M. Best, 2003). This measure allows for us to determine whether the insurer has been understating or overstating loss reserve estimates in recent periods. *Catastrophe Exposure* is proxied by the percentage of the insurer's premiums written in property insurance in states along the Gulf Coast and the Atlantic Seaboard. An insurer's exposure to catastrophic events creates greater uncertainty and thus is likely to be associated with lower financial strength ratings. Finally, two measures related to reinsurance are included: *Reinsurance Ceded* and *Recoverables to Surplus*. The extent of reinsurance use has a potentially conflicting impact on an insurer's business uncertainty (Borch, 1974; Berger, Cummins, and Tennyson, 1992). Given that reinsurance transfers part of the risk to a reinsurer, greater use of reinsurance may be associated with reduced uncertainty of the primary insurer's business. Alternatively, greater use of reinsurance can have several adverse effects for the primary insurer: it may make it "more susceptible to short-term dislocations in the overall market"; it ties its financial stability to that of the reinsurer; and it exposes it to potential uncertainty in payments if a claim dispute occurs (Doherty and Phillips, 2002, p. 62). In this respect, the use of reinsurance may complicate the assessment of the insurer's risk, which increases the information asymmetry and uncertainty regarding the company. The *Recoverables to Surplus* is another measure related to reinsurance. Higher levels of recoverables are likely related to a greater probability of insolvency. As discussed in prior research, we would expect this variable to be negatively related to the insurer's rating (i.e., Gaver and Pottier, 2005).

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the loss. This can lead to more error in loss reserving as well as more volatility of losses in general. Typically, due to their standardized nature, personal lines converages are considered less volatile than commercial coverages. It should be noted that both of these measures may also capture varying levels of business risk.

Financial Strength and Flexibility. Previous studies have established that insurers which are more profitable and well capitalized are associated with higher ratings (i.e., Kahane, Tapiero, and Jacques, 1986**;** MacMinn and Witt, 1987; Cummins, 1988; Doherty, 1989; Pottier and Sommer, 1999; Doherty and Phillips, 2002; Gaver and Pottier, 2005). *Capital to Assets* serves as a proxy for an insurer's capitalization while *Net Income to Assets* measures an insurer's profitability. We also include *Cash to Invested Assets* given that prior studies have found that the insurer's levels of liquidity also is likely to impact ratings (Kahane et al., 1986; Pottier and Sommer, 1999). An insurer with higher levels of investment in cash is expected to be associated with relatively lower uncertainty and likely higher ratings because cash is much easier to value and less risky than bonds and stocks. Finally, prior research has indicated that growth is important in determining insurer insolvency risk (Harrington and Danzon, 1994; Pottier and Sommer, 1999). We proxy growth with *Change in NPW*. The impact of growth on firm's uncertainty and potential impact on ratings is ambiguous as strong premium growth may indicate that policyholders' are confidence in the financial health of the insurer and thus indicate lower uncertainty; or, on the other hand, may be a result of a property-liability insurer's lowering underwriting standards or under-pricing (Harrington and Danzon, 1994).

Results

Summary Statistics. Table 5 provides summary statistics for the entire sample and separately for insurers with unsolicited and solicited ratings. It appears that insurers that solicit ratings tend to be larger and more diverse in terms of business mix and geographic operation. In addition, these insurers have smaller loss development factors.

Provisional and Unsolicited Ratings. We now turn to an analysis of whether the determinants of unsolicited financial ratings are consistent across the agencies. This includes an

analysis of the Demotech provisional ratings as well as the S&P and Fitch unsolicited ratings. As shown in Table 6,[25] it appears that organizational characteristics have less of an impact on the ratings assigned to insurers in comparison to the other categories. More specifically, four (*Stock to Cash & Invested Assets*, *2 year Loss Development,* and both reinsurance variables) of the five

Table 5: Summary Statistics[26]

	All	Unsol.	Sol.
Organizational Characteristics			
Direct Premiums Written	10.1733	10.3186	10.6565
Mutual Indicator	0.2021	0.2087	0.1847
Other Organization Type Indicator	0.1001	0.0664	0.0590
Group Affiliation	0.6521	0.6904	0.6617
Established Age	42.7033	44.8859	45.1690
Business Mix			
Line-of-Business Herfindahl	0.5173	0.4909	0.4702
Percentage in Long-Tail Lines	0.6980	0.6904	0.6963
Percentage in Personal Lines	0.3739	0.4009	0.3930
Number of States Licensed	16.0049	16.5506	19.5425
Business Risk			
Stock to Cash & Invested Assets	0.1143	0.1178	0.1122
2 Year Loss Development	-0.8428	-1.1127	-0.3846
Catastrophe Exposure	6.6966	6.6989	7.1536
Reinsurance Ceded	0.5319	0.5458	0.5519
Recoverables to Surplus	49.5773	48.3800	49.2293
Financial Strength and Flexibility			
Capital to Assets	0.4272	0.4306	0.4144
Net Income to Assets	0.0232	0.0231	0.0262
Cash to Invested Assets	0.1958	0.1679	0.1575
Change in NPW	19.9881	17.1664	17.0099

[25] It should be noted that for of the second-stage models, the likelihood ratio test for $\rho = 0$ rejects the null hypothesis at a significance level of .05 or better for S&P, but not for Fitch.

[26] Prior research has considered whether the financial profiles are statistically different between solicited and unsolicited samples using t-tests. Given the uniqueness of our sample (have data from multiple rating agencies), there are some firms that appear in both the unsolicited and solicited sub-samples so a complete comparison of these two sub-samples is not possible. However, t-tests conducted including the insurers that appear in only one sub-set show significant differences for all but one of the variables at the five percent level. For that variable (*Catastrophe Exposure*), the t-test shows significant differences at the 10 percent level. It should be noted that the Demotech provisional ratings are included in the unsolicited group and Demotech finalized ratings are included in the solicited group.

business risk measures are significant for all three agencies while this is only the case for two (*Direct Premiums Written* and *Group Affiliation*) of the five organizational characteristics. The mutual variable also is significant in the Demotech model. Additionally, all of the financial strength measures are significant for S&P and Demotech and three of the four for Fitch. Finally, as it relates to business mix, while only one of the variables, *Line-of-Business Herfindahl*, is significant for S&P, all of these variables are significant for Demotech and three of the four for Fitch.

An examination of the sign and size of the coefficients provides some information as to the magnitude of the impact of the firm characteristics across the various agencies. Examining first the organizational characteristics, we find that size and group affiliation are associated which greater probabilities of being assigned a higher rating for S&P and Fitch in comparison to Demotech. In terms of business mix, we find that firms that are more concentrated in terms of business are over two times more likely to receive a lower rating from Fitch and three times more likely to receive a lower rating from S&P than from Demotech. In addition, while larger percentages of business in long-tail lines are associated with greater probabilities of being assigned higher ratings for Demotech and Fitch, larger percentages of business in personal lines are associated with greater probabilities of being assigned lower ratings by these agencies. The results for the business risk measures generally support the hypotheses that greater uncertainty is associated with the probability of being assigned a lower rating. The only exception is the *Reinsurance Ceded* variable which is positive for both S&P and Fitch. This suggests that these agencies may consider that insurers that cede more business are reducing their risk. While both capitalization and profitability are associated with the probability of being assigned a higher rating, the importance of these factors appears greater for Fitch. Interestingly, the measure of liquidity is associated with probability of receiving a lower rating. The impact of this variable is

Table 6: Determinants of Provisional and Unsolicited Financial Ratings

		Demotech (provisional)	S&P	Fitch
Organizational Characteristics				
	Direct Premiums Written	0.116***	0.348***	0.444***
		(0.00602)	(0.0359)	(0.0349)
	Mutual Indicator	0.0749**	-0.00519	0.206
		(0.0293)	(0.0840)	(0.163)
	Other Organization Type Indicator	-0.0407	-0.0146	0.154
		(0.0385)	(0.114)	(0.162)
	Group Affiliation	0.172***	0.591***	0.544***
		(0.0238)	(0.0744)	(0.103)
	Established Age	0.000131	-0.000455	0.000980
		(0.000284)	(0.000873)	(0.000984)
Business Mix				
	Line-of-Business Herfindahl	-0.480***	-0.646***	-1.472***
		(0.0377)	(0.134)	(0.153)
	Percentage in Long-Tail Lines	0.322***	0.145	0.768***
		(0.0333)	(0.152)	(0.211)
	Percentage in Personal Lines	-0.318***	0.126	-1.424***
		(0.0256)	(0.0995)	(0.174)
	Number of States Licensed	0.00129**	0.00128	-0.00282
		(0.000587)	(0.00220)	(0.00243)
Business Risk				
	Stock to Cash & Invested Assets	-0.140**	-1.540***	-1.369***
		(0.0637)	(0.241)	(0.301)
	2 Year Loss Development	-0.0112***	-0.00593***	-0.0101***
		(0.000522)	(0.00199)	(0.00266)
	Catastrophe Exposure	-5.51e-05	0.00312**	0.000322
		(0.000500)	(0.00158)	(0.00210)
	Reinsurance Ceded	-0.0712***	0.623***	0.686***
		(0.0201)	(0.0699)	(0.0998)
	Recoverables to Surplus	-0.00181***	-0.00307***	-0.00649***
		(0.000110)	(0.000640)	(0.000925)
Financial Strength and Flexibility				
	Capital to Assets	1.757***	1.529***	2.447***
		(0.0611)	(0.294)	(0.489)
	Net Income to Assets	3.120***	3.124***	6.897***
		(0.184)	(0.811)	(1.193)
	Cash to Invested Assets	-0.641***	-1.823***	-0.996**
		(0.0446)	(0.398)	(0.471)
	Change in NPW	0.000430***	0.00159**	-0.000899
		(0.000134)	(0.000723)	(0.00132)
	Observations	13905	1331	1375

Year indicator variables included in all models; standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 7: Determinants of Solicited Financial Ratings

	Demotech (finalized)	A. M. Best	S&P	Moody's	Fitch
Organizational Characteristics					
Direct Premiums Written	0.145***	0.354***	0.0703***	0.0311*	0.109***
	(0.0262)	(0.0202)	(0.0204)	(0.0185)	(0.0195)
Mutual Indicator	0.199**	0.334***	-0.349***	0.264***	-0.399***
	(0.0810)	(0.0555)	(0.103)	(0.102)	(0.120)
Other Organization Type Indicator	-0.324**	0.190***	0.160	-0.0344	0.309
	(0.143)	(0.0700)	(0.111)	(0.358)	(0.202)
Group Affiliation	0.323***	0.185**	0.427**	-0.771***	-0.330
	(0.0750)	(0.0730)	(0.201)	(0.295)	(0.372)
Established Age	0.00201**	0.000850	-0.00257***	-0.00182*	-0.00187**
	(0.000803)	(0.000610)	(0.000611)	(0.00109)	(0.000807)
Business Mix					
Line-of-Business Herfindahl	-0.732***	-0.455***	0.571***	-0.0888	0.681***
	(0.122)	(0.0793)	(0.119)	(0.110)	(0.150)
Percentage in Long-Tail Lines	0.612***	0.441***	-0.640***	-1.011***	-0.691***
	(0.149)	(0.0670)	(0.102)	(0.150)	(0.157)
Percentage in Personal Lines	-0.157	-0.838***	0.320***	0.0425	0.183**
	(0.100)	(0.0582)	(0.0732)	(0.132)	(0.0796)
Number of States Licensed	0.00718***	0.0201***	0.000157	-0.00174	-0.00653***
	(0.00224)	(0.00151)	(0.00110)	(0.00118)	(0.00144)
Business Risk					
Stock to Cash & Invested Assets	-0.806***	0.418***	1.020***	-0.506	1.589***
	(0.189)	(0.144)	(0.163)	(0.655)	(0.238)
2 Year Loss Development	-0.00769***	-0.00685***	-0.000737	-0.00262	-0.000358
	(0.00175)	(0.00109)	(0.00135)	(0.00182)	(0.00182)
Catastrophe Exposure	0.00335*	0.000596	0.00933***	0.0117***	0.0140***
	(0.00196)	(0.000900)	(0.00165)	(0.00185)	(0.00213)
Reinsurance Ceded	0.441***	0.0797	0.140***	0.0581	0.287***
	(0.0691)	(0.0842)	(0.0378)	(0.143)	(0.0472)
Recoverables to Surplus	-0.00430***	-0.00356***	-0.00163***	-0.000899**	-0.00303***
	(0.000438)	(0.000317)	(0.000246)	(0.000428)	(0.000417)
Financial Strength and Flexibility					
Capital to Assets	1.303***	3.139***	0.531***	0.552	0.389**
	(0.231)	(0.170)	(0.136)	(0.379)	(0.168)
Net Income to Assets	1.319**	1.653***	2.782***	2.087**	2.936***
	(0.528)	(0.374)	(0.612)	(0.867)	(0.842)
Cash to Invested Assets	-0.564***	-0.149	0.750***	0.0793	0.0492
	(0.120)	(0.0988)	(0.158)	(0.425)	(0.268)
Change in NPW	0.000978***	0.000322	0.00156***	0.00121*	0.00125**
	(0.000370)	(0.000329)	(0.000381)	(0.000664)	(0.000619)
Observations	16859	16859	16859	16859	16859

Year indicator variables included in all models; standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

twice as high for S&P than the other two agencies. Finally, growth is associated with being assigned a higher rating for both Demotech and S&P with the impact being much greater for S&P.

Solicited Ratings. The results for solicited ratings are presented in Table 7.[27] The results of the solicited models show some differences when compared to the results for the unsolicited models. First, more of the organizational characteristics are significant though the impact varies across the agencies. For example, the size measure is uniformly associated with the probability of being assigned a higher rating. However, mutual form is associated with the probability of receiving a higher rating for Demotech, A. M. Best, and Moody's but lower ratings for S&P and Fitch. In addition, age is associated with the probability of being assigned a higher rating for Demotech but a lower rating for S&P, Moody's, and Fitch. Second, while many of the same variables in the other categories that were found to significantly impact unsolicited ratings also are found to impact solicited ratings, the magnitude of the impact varies. In comparing the significance and signs of rating determinants for the three agencies providing both provisional (unsolicited) and finalized (solicited ratings), there are fewer differences between the models for Demotech ratings in comparison to S&P and Fitch. The result for Demotech is not surprising given the consistency in the provisional and finalized ratings noted earlier. Additionally, these differences observed for S&P and Fitch may be due, in part, to the incorporation of proprietary information into the rating process. It should be noted that certain organizational characteristics and key business risk and financial strength and flexibility measures are consistent in their impact on ratings.

[27] It should be noted that for of the second-stage models, the likelihood ratio test for $\rho = 0$ rejects the null hypothesis at a significance level of .05 or better for all of the ratings models except A. M. Best, generally indicating the presence of selection bias with the decision to be rated. This supports the use of a two-stage framework in modeling ratings.

Conclusions

In the area of insurance, prior studies have considered the determinants of financial strength ratings as well as differences in the rating methodologies of the various agencies. Unlike the banking literature, little attention has been paid to unsolicited ratings in the insurance area. In the banking literature, despite several studies examining unsolicited ratings, no prior studies have investigated unsolicited ratings across multiple rating agencies. Utilizing a proprietary dataset from Demotech that includes a large sample of provisional ratings combined with a limited sample of unsolicited S&P and Fitch ratings, we are able to perform a fairly comprehensive examination of insurer financial strength ratings. Moreover, the inclusion of both traditional solicited and unsolicited ratings combined with the provisional and finalized Demotech ratings provide us the opportunity to extend both the general rating literature as well as the insurance literature.

Consistent with the banking literature, our examination of the distributions of provisional (unsolicited) and finalized (solicited) ratings provides some evidence that ratings initiated by agencies tend to be lower than ratings initiated by insurers. We also find that there are statistically significant differences in the characteristics of insurers with provisional (solicited) and those with finalized (unsolicited) ratings. In addition, examining the sub-set of insurers that are rated by multiple agencies, we find that the insurers rated secure by one agency generally are considered secure by the other agencies.

We also find that after controlling for sample-selection bias, there is some variation in the factors influencing the determinants of ratings across agencies. However, when comparing the results for unsolicited (provisional) and solicited (finalized) ratings, we find there is some consistency in the importance of certain organizational and key financial characteristics. Also, when comparing results for which both ratings initiated by agencies and ratings initiated by

insurers are available, we find the greatest consistency in the results for Demotech in comparison to S&P and Fitch. Recall that the biggest difference between Demotech's unsolicited ratings and those of S&P and Fitch is that Demotech does not disclose unsolicited (provisional) ratings to the public, while the latter two agencies do. While such a difference in disclosure policy offers one possible explanation for the difference in ratings consistency, future research is warranted to explore the consistency/inconsistency between solicited and unsolicited ratings.

Our findings are of particular importance given that serious concerns have been raised regarding the accuracy of unsolicited ratings by both policymakers (e.g., U. S. Department of Justice, 1998) and researchers (e.g., Baker and Mansi, 2002). For example, the Department of Justice argues that unsolicited ratings may not be as accurate as solicited ratings because unsolicited ratings are not based on the same type of information as solicited ratings. Baker and Mansi (2002) express similar concerns that unsolicited ratings are less accurate than solicited ratings because the agencies do not have access to important private information obtained in the solicited ratings process. Our findings provide some evidence that though the distributions of unsolicited and solicited ratings differ, unsolicited insurer ratings may be as accurate as solicited ratings.

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Appendix A – Rating Agency Information

Primer on Rating Agencies

The primary insurer rating agency is A. M. Best. The major source of information used by A. M. Best in rating insurers' financial strength is each insurer's publicly available annual and quarterly financial statements filed with state regulators. This is then supplemented by other publicly available documents[28] as well as proprietary information including confidential documents provided by company management, Best's proprietary Background and Supplemental Rating Questionnaires, and insurer's annual business plans (A. M. Best, 2009). A. M. Best claims that the Financial Strength Rating (FSR) is an "independent opinion of an insurer's financial strength and ability to meet its ongoing insurance policy and contract obligations" based on "a comprehensive quantitative and qualitative evaluation of a company's balance sheet strength, operating performance and business profile" (A. M. Best, 2009). Financial Strength Ratings from A. M. Best are summarized in a wide spectrum of categories ranging from A++ to F.[29]

Standard and Poor' provides the second largest set of insurer ratings. Unlike A. M. Best, S&P rates both insurers and non-insurers. Like A. M. Best, the agency's ratings are based on a mix of publicly available information and proprietary data.[30] S&P only provides Financial Strength Ratings (FSRs) to insurers upon their fee-based request. The ratings represent S&P's opinion of the financial security characteristics of an insurance organization with respect to its ability to fulfill its obligation under its insurance policies and contracts in accordance with policy

[28] These documents include information such as SEC filings and GAAP financial statements, audit reports prepared by certified public accountants/actuaries, and loss reserve reports prepared by loss reserve specialists.

[29] Specifically, A. M. Best's ratings range from A++ and A+ (Superior), A and A- (Excellent), B++ and B+ (Good), B and B- (Fair), C++ and C+ (Marginal), C and C- (Weak), D (Poor), E (Under Regulatory Supervision), to F (In Liquidation), the lowest rating assigned. Certain insurers are assigned S (Rating Suspended), if Best cannot assign a rating due to sudden and significant events occurring to these insurers.

[30] According to the Rating Process published on S&P's website, sources of such information includes interim and annual earnings releases, regulatory and SEC filings, and press releases, as well as an one-day meeting between S&P analysts and senior management team of the insurer.

terms. The major factors considered in S&P's rating FSR process include the following: industry risk, business position, management and corporate strategy, enterprise risk management evaluation, operating performance, investments, capitalization, liquidity and financial flexibility. S&P ratings range from AAA to CC, while firms under regulatory actions are given a rating of R.[31]

Moody's and Fitch, while garnering a much smaller market share than A. M. Best and S&P, are the final two major insurer rating agencies. Like S&P, both agencies also rate both insurers as well as other types of firms and securities. Moody's approach to rating property and casualty insurers focuses on both qualitative and quantitative characteristics of insurers in the following seven areas: market position; brand and distribution; product risk and diversification; asset quality; capital adequacy; profitability; reserve adequacy; and financial flexibility. The first two factors are referred to as "business profile factors" and the remaining five are referred to as "financial profile factors". According to Moody's Global Rating Methodology for Property and Casualty Insurers (2008), the rating process also incorporates the use of proprietary and non-public data. Generally speaking, business profile factors represent about one-third of the overall rating determination and financial profile factors represent the remaining two-thirds. Moody's offers two types of financial strength ratings to insurers: Long-Term Insurer Financial Strength (IFS) Ratings and Short-Term Insurer Financial Strength (IFS) Ratings. The focus of this study

[31] S&P's FSRs range from AAA (Extremely Strong), AA (Very Strong), A (Strong), BBB (Good), BB (Marginal), B (Weak), CCC (Very Weak), to CC (Extremely Weak), the lowest rating category. Finally, NR is assigned to insurers not rated by S&P, implying that S&P has no opinion about such insurer's financial security. An insurer with a S&P ratings of 'BB' or lower is considered as having vulnerable characteristics that may outweigh its strengths. In that range, 'BB' indicates the least degree of vulnerability while 'CC' indicates the highest degree of vulnerability.

with respect to Moody's is the Long-Term IFS Rating which measures an insurer's ability to meet its senior policyholder claims and obligations and ranges from Aaa to C.[32]

Finally, like other agencies, Fitch's rating methodology relies on both quantitative and qualitative factors. In addition to the use of publicly available information in the rating process, Fitch also may conduct in-depth discussions with senior management of the insurers. Fitch's rating methodology focuses on the following six areas of analysis: industry review, organizational review, operational review, management review, corporate governance review, and financial review. Fitch's financial strength ratings on insurers range from AAA to C.[33]

The methodology of these rating agencies is in contrast to the Demotech process. As mentioned previously, Demotech is a relative newcomer in the insurer ratings market. Having rated property and casualty (P&C) insurers since 1989, Demotech did not begin to provide Financial Stability Ratings (FSRs) for newly incorporated P&C insurance companies until 1996. Demotech's Financial Stability Analysis (FSA) Model utilizes three sources of information: insurer's statutory annual and quarterly statements in the past five years; insurer's most recent actuarial opinion and report; and the most recent discussion and analysis from the insurer's management. Under the FSA Model, major financial factors considered include the following: changes in the composition of insurer's assets and liabilities; change in insurer's working capital, leverage ratios, operating ratios, and mix of business ratios; as well as consistency in insurer

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[32] Specifically, the Long-term IFS rating range from Aaa (Exceptional Financial Security), Aa (Excellent Financial Security), A (Good Financial Security), Baa (Adequate Financial Security), Ba (Questionable Financial Security), B (Poor Financial Security), Caa (Very Poor Financial Security), Ca (Extremely Poor Financial Security), to C (Extremely Poor Prospects of Ever Offering Financial Security), the lowest rating. The Short-Term IFS Rating reflects Moody's opinion of the insurer's ability to repay punctually its short-term (i.e., within one year or less) senior policyholder claims and obligations. Such ratings range from P-1 (Superior), P-2 (Strong), P-3 (Acceptable), and NP (All Other Cases). These are not as comparable to the other agencies' financial strength ratings and thus are not the focus of our analysis.

[33] Specifically, the ratings categories include: AAA (Exceptionally Strong), AA (Very Strong), A (Strong), BBB (Good), BB (Moderately Weak), B (Weak), CCC (Very Weak), CC (Average or Below Average), and C (Below Average or Poor).

operations. Based on its strictly quantitative model, Demotech assigns a Preliminary Financial Stability Rating (PFSR) to each P&C insurer and notifies the insurer of its rating. If an insurer agrees with the PFSR, then Demotech asks the insurer to finalize the rating. Only finalized ratings are made available to the general public, However, Demotech has released both preliminary and finalized ratings to us for this study. The full range of Demotech ratings includes A′′ (Unsurpassed), followed by A′ (Unsurpassed), A (Exceptional), S (Substantial), M (Moderate), and L (Licensed).

The differences in the rating scales and factors related to ratings provide some challenges in comparing ratings across firms. However, prior literature does provide some guidance in this area. Further, based on the different factors considered by each agency, it is apparent that differences across agencies are expected. Understanding these differences is important to those stakeholders who rely on the ratings.

Differences Between Demotech and Other Rating Agencies

The major rating agencies such as A. M. Best, S&P, Moody's, and Fitch rely on a combination of both publicly and privately available information to create their ratings. While much of the public data is quantitative in nature, some of the private information is qualitative and largely based on subjective managerial input from the insurers. With the exception of the provisional ratings of Demotech, all of the ratings rely at least in part on information provided by the management of the insurer. Due to the potential influence of the managers, the use of managerial input in ratings can pose difficulty in creating an unbiased picture of insurers. Additionally, for larger firms with more resources to use in the ratings process, this can create an informational advantage.

Also related to information asymmetries, most rating firms require insurers to meet certain size and/or age requirements to be eligible for rating. In contrast, Demotech does not require insurers to be of a minimum size and/or have a certain number of years in business to obtain a rating. This is evidenced by our sample of insurers. Specifically, we find a larger portion of Demotech-rated insurers have been established five years or less, close to 15 percent compared to less than two percent for the other agencies. Moreover, approximately 30 percent of Demotech-rated insurers have been in business 10 years or less, compared to less than 10 percent for the other agencies. Such differences make Demotech ratings particularly important in the Florida property insurance market, where a large number of newly established insurers make up a significant fraction of the market.[34] For example, in Florida, over 70 percent of the homeowners insurance written by private insurers is written by companies incorporated after Hurricane Andrew.[35] While these new entrants are not commonly rated by some of the established rating agencies, they are typically rated by Demotech.

Additionally, Demotech rates a large number of single state insurers. As such, Demotech serves the need of another unique group of insurers, namely those that are geographically focused.[36] The ability of new entrants and geographically focused insurers to obtain ratings is extremely important in product lines such as homeowners insurance where mortgage companies require that consumers hold homeowners insurance from a rated insurer, and insureds rely on ratings to help discern which firms will be able to pay future claims, especially after a catastrophe.

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[34] For more information on the Florida market, including the role of start-up property insurers see Cole, Macpherson, Maroney, McCullough, Newman, and Nyce (2009), Grace and Klien (2009), and Marlett (2009).

[35] This ratio is based on premium information obtained from the National Association of Insurance Commissioners Database.

[36] Note there is some overlap in these categories with approximately 18 percent of the insurers rated by Demotech being young (established 10 years or less) and geographically focused.

Lastly, Demotech offers both provisional and finalized ratings. Provisional ratings are provided for most insurers through an initial rating process which involves the use of only quantitative and publicly available data.[37] Insurers then have the option to finalize or not finalize their Demotech ratings. If insurers choose to finalize their ratings, the ratings are made available to the public. With other insurer rating agencies, access to preliminary ratings, if there are any, has not been available to researchers and thus no research has been conducted previously regarding preliminary ratings.[38]

[37] This is in contrast to other rating agencies that use both quantitative and qualitative data in their original assessment of insurers. Further, other rating agencies do not provide a preliminary rating to all firms with available financial information as Demotech does.

[38] Prior research in the area of bank rating has analyzed potential differences in solicited and unsolicited ratings. This provides an basis to study potential differences in preliminary ratings created for all insurers with available data and finalized ratings only prepared for a group requesting finalization of ratings. For example, Van Roy (2006) investigates whether and why differences exist between Fitch's solicited and unsolicited bank ratings. Although he finds no evidence that Fitch assigns different weights across solicited and unsolicited groups to bank characteristics, he does find that unsolicited bank ratings are significantly lower than solicited ones after controlling for observable bank characteristics. Also focused on solicited and unsolicited bank ratings, Poon et al. (2009) examine 460 commercial banks in 72 countries excluding the United States. Their results show that observed differences between solicited and unsolicited ratings are determined by the solicitation status (i.e., whether the rating is solicited), in addition to financial profile of the banks.

Summary of Data by Rating Agency and Rating Categories

	Demotech			A. M. Best			S&P			Moody			Fitch		
	Rating	**#**	**%**	**Rating**	**#**	**%**	**Rating**	**#**	**%**	**Rating**	**#**	**%**	**Rating**	**#**	**%**
Superior/Extremely Strong/Exceptional	A"	348	19.7%	A++	8	0.2%	AAA	354	11.3%	Aaa	120	6.6%	AAA	194	9.3%
				A+	143	3.3%									
Excellent/Very Strong	A'	518	29.3%	A	885	20.7%	AA+	239	7.6%	Aa1	26	1.4%	AA+	313	15.0%
				A-	1421	33.2%	AA	398	12.7%	Aa2	296	16.3%	AA	453	21.8%
							AA-	448	14.2%	Aa3	469	25.8%	AA-	355	17.1%
Good/Strong	A	889	50.3%	B++	714	16.7%	A+	589	18.7%	A1	127	7.0%	A+	213	10.2%
				B+	575	13.5%	A	649	20.6%	A2	431	23.7%	A	226	10.9%
							A-	232	7.4%	A3	237	13.0%	A-	214	10.3%
Fair/Adequate	S	11	0.6%	B	274	6.4%	BBB+	84	2.7%	Baa1	46	2.5%	BBB+	35	1.7%
				B-	124	2.9%	BBB	85	2.7%	Baa2	13	0.7%	BBB	20	1.0%
							BBB-	29	0.9%	Baa3	31	1.7%	BBB-	35	1.7%
									0.0%						
Less than Fair/Adequate	M	0	0.0%	C++	71	1.7%	BB+	15	0.5%	Ba1	11	0.6%	BB+	9	0.4%
	L	0	0.0%	C+	31	0.7%	BB	8	0.3%	Ba2	4	0.2%	BB	1	0.0%
				C	16	0.4%	BB-	6	0.2%	Ba3	5	0.3%	BB-	12	0.6%
				C-	6	0.1%	B+	2	0.1%	B1	1	0.1%	B+	0	0.0%
				D	6	0.1%	B	1	0.0%	B2	1	0.1%	B	0	0.0%
							B-	0	0.0%	B3	3	0.2%	B-	1	0.0%
							CCC	5	0.2%				CCC	0	0.0%
							CC	0	0.0%				CC	1	0.0%
													C	0	0.0%
		1766			4274			3144			1821			2082	

Appendix B – Decision Models

Factors Considered in Decision to Be Rated Models

Prior literature provides some guidance with respect to the types of firms that will solicit ratings; however, the literature does not always differentiate with respect to which type of agency the insurer will select. In our framework, we contrast potential differences in the selection process between traditional rating agencies, which can have fairly significant barriers to entry (related to costs and/or managerial input), with Demotech's solicited ratings, which have lower barriers. We do so by focusing on several factors that are anecdotally thought to impact a firm's selection of a rating agency (i.e., whether the insurer is rated by others, its age, and its business focus). We also control for other traditional factors know to impact the rating decision.

Since ratings are costly for insurers, the majority of insurers in our sample (i.e., ranging from 65 percent to 72 percent in a given year, as shown in Table 3) elect to be rated by only one agency. As such, we include *Rated by Others*, an indicator variable equal to one if the insurer is rated by at least another rating agency, and zero otherwise.[39] We expect that insurers with existing rating(s) will be less likely to elect to be rated by another agency.

Second, new insurers often have difficulty obtaining ratings due to barriers related to costs and/or minimum firm age requirements. Given the low levels of managerial data required and the lower cost structure, these barriers are lower for Demotech solicited ratings compared to other agencies. For this reason, it is predicted that younger insurers will be more likely to seek ratings from Demotech and less likely to seek ratings from traditional agencies. To test this hypothesis, we include *Age Under 10*, an indicator variable equal to one if the insurer has been established for less than 10 years, or zero otherwise.

[39] In alternate specifications of the model we include (1) a variable representing the number of other agency ratings the firm holds in a given year; and (2) individual indicator variables identifying which rating agency the insurer currently holds a rating from in a given year. The results were statistically similar

An initial review of the data suggests that Demotech rates a significantly larger percentage of mono-state insurers than all other agencies under our consideration.[40] This may be due to the fact that mono-state insurers face some barriers to being rated by the traditional rating agencies. Thus, we include a *Mono-State Indicator* as a measure of whether or not the insurer is geographically restricted to a single state. We include further controls related to business mix including measures to control for catastrophe exposure, line-of-business concentration, and the percentage of long-tailed lines written as well as the percentage of personal lines business.

We also include other variables in the model to control for issues related to size, risk, financial strength, organizational form, and organizational/operational characteristics. Specifically, *Direct Premiums Written* is the measure of size; *Capital to Assets* and *Net Income to Assets* are measures of financial risk; *Mutual Indicator* and *Other Organization Type Indicator* are measures of organizational form with the omitted category being stocks; and *Group Affiliation*, *Cash to Invested Assets*, *Change in NPW*, and *2-Year Loss Development* are measures of organizational/operational characteristics.

[40] More specifically, nearly 47 percent of the insurers that solicit Demotech ratings are mono-state insurers. While close to 38 percent of A. M. Best-rated insurers are mono-state insurers, the percentages for the other agencies are much lower, ranging between 8 percent and 13.5 percent.

Results of the Decision to Be Rated Models

Decision to Be Rated Model Results – Unsolicited Models

	S&P	Fitch
Constant	-2.058***	-1.533***
	(0.159)	(0.202)
Organizational Characteristics		
Direct Premiums Written	0.0805***	0.0729***
	(0.0113)	(0.0128)
Mutual Indicator	0.0861**	0.823***
	(0.0421)	(0.0549)
Other Organization Type Indicator	0.155**	0.00466
	(0.0682)	(0.0852)
Group Affilation	0.145***	0.284***
	(0.0469)	(0.0598)
Age Under 10	-0.500***	-0.431***
	(0.0623)	(0.0789)
Business Mix		
Line-of-Business Herfindahl	0.0901	0.0393
	(0.0645)	(0.0817)
Percentage in Long-Tail Lines	0.138**	0.547***
	(0.0647)	(0.0839)
Percentage in Personal Lines	0.397***	0.333***
	(0.0433)	(0.0561)
Mono-State Indicator	-0.214***	-0.390***
	(0.0424)	(0.0547)
Business Risk		
Catastrophe Exposure	-0.00328***	-0.000966
	(0.000906)	(0.00123)
2 Year Loss Development	0.00202**	-0.00209*
	(0.000850)	(0.00126)
Financial Strength and Flexibility		
Capital to Assets	-0.449***	-0.907***
	(0.102)	(0.139)
Net Income to Assets	0.757**	0.270
	(0.329)	(0.434)
Cash to Invested Assets	-0.611***	-1.512***
	(0.103)	(0.164)
Change in NPW	-0.000539*	-0.00185***
	(0.000290)	(0.000471)
Observations	14898	5798

Year indicator variables included in all models; standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Decision to Be Rated Model Results – Finalized and Solicited Models

	Demotech	A. M. Best	S&P	Moody's	Fitch
Constant	-1.211***	-0.892***	-3.934***	-4.099***	-5.023***
	(0.127)	(0.117)	(0.170)	(0.290)	(0.214)
Multiple Ratings Indicator					
Rated by Others	-0.304***	-0.518***	0.577***	1.405***	0.960***
	(0.0301)	(0.0291)	(0.0290)	(0.0558)	(0.0375)
Organizational Characteristics					
Direct Premiums Written	-0.0356***	0.0435***	0.227***	0.141***	0.175***
	(0.00827)	(0.00734)	(0.0102)	(0.0171)	(0.0116)
Mutual Indicator	0.0351	-0.144***	-0.862***	-0.500***	-0.709***
	(0.0366)	(0.0290)	(0.0510)	(0.0654)	(0.0577)
Other Organization Type Indicator	-0.501***	-0.529***	-0.129*	0.0822	-0.482***
	(0.0573)	(0.0444)	(0.0741)	(0.126)	(0.108)
Group Affiliation	-0.120***	-1.070***	1.260***	1.611***	1.484***
	(0.0371)	(0.0302)	(0.0614)	(0.136)	(0.0970)
Age Under 10	0.0605	-0.536***	-0.264***	0.183**	0.0274
	(0.0381)	(0.0409)	(0.0541)	(0.0774)	(0.0645)
Business Mix					
Line-of-Business Herfindahl	-0.0709	0.313***	-1.009***	-1.445***	-0.782***
	(0.0575)	(0.0454)	(0.0608)	(0.0875)	(0.0684)
Percentage in Long-Tail Lines	0.515***	-0.109***	-0.0225	-0.363***	-0.179***
	(0.0652)	(0.0409)	(0.0568)	(0.0768)	(0.0668)
Percentage in Personal Lines	0.636***	0.140***	-0.626***	-0.228***	-0.186***
	(0.0365)	(0.0326)	(0.0383)	(0.0552)	(0.0437)
Mono-State Indicator	0.175***	-0.112***	-0.115***	-0.476***	-0.0468
	(0.0312)	(0.0292)	(0.0381)	(0.0569)	(0.0459)
Business Risk					
Catastrophe Exposure	-0.00334***	0.00186***	0.000394	-0.00359***	0.00222**
	(0.000789)	(0.000587)	(0.000780)	(0.00139)	(0.000993)
2 Year Loss Development	-0.00127**	-0.00211***	0.00280***	0.00555***	0.00524***
	(0.000643)	(0.000634)	(0.000895)	(0.00117)	(0.000954)
Financial Strength and Flexibility					
Capital to Assets	-0.434***	0.197***	0.476***	-0.402**	-0.168
	(0.0835)	(0.0717)	(0.101)	(0.170)	(0.126)
Net Income to Assets	-0.358	0.451*	1.061***	0.565	2.312***
	(0.269)	(0.231)	(0.333)	(0.456)	(0.393)
Cash to Invested Assets	-0.00571	-0.627***	-0.00506	-1.228***	-0.828***
	(0.0549)	(0.0565)	(0.0848)	(0.222)	(0.137)
Change in NPW	0.000379**	-0.000146	-0.000290	-0.00132***	-0.000138
	(0.000161)	(0.000168)	(0.000249)	(0.000431)	(0.000308)
Observations	16859	16859	16859	16859	16859

Year indicator variables included in all models; standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1