

An email sent from Joe Petrelli of Demotech to Charles Elmore in response to an editorial from the Post: <http://www.mypalmbeachpost.com/news/news/opinion/editorial-too-much-hot-air-in-inflated-homeowners-/ng6yt/#7b3dfbee.3599681.735470>

From: Joseph Petrelli <JPetrelli@demotech.com>
Date: Mon, 25 Aug 2014 20:39:27 +0000
To: CEI@pbpost.com<CEI@pbpost.com>
Subject: Recent article

Charles,

I read the referenced article in the Palm Beach Post. Having done so, I wanted to share a few facts. A couple of thoughts are on the published procedures and processes that underlie Weiss Ratings. Weiss utilizes public financial data to review insurers. They do not request nor analyze reinsurance treaties. In a catastrophe prone state like Florida, a rating that does not contemplate the quality and quantity of reinsurance purchased by an insurer is of extremely limited value. Similarly comments on the likelihood of carrier failures, without information on the quantity and quality of reinsurance purchased by a carrier or how that carrier's reinsurance protection responds to catastrophe models are, in my opinion, scare tactics.

As to our approach to reinsurance, prior to the 2014 storm season, Demotech advised insurers of the catastrophe reinsurance that they must purchase to qualify for a Preliminary Financial Stability Rating. Protection against a first event at a catastrophe modeling company's 1:100 year criteria, with triggers related to secondary uncertainty, demand surge and other factors in place, thereby increasing the amount of reinsurance required. Protection for a second event in that same season must be at a minimum of a 1:50 year level, with third and subsequent event reinsurance protection in place for the season. Florida has never experienced a single storm season with this level of intensity. To imply that failures are imminent despite carrier reinsurance protection being at historic high is unfair to your readers.

As a basis for comparison to the reinsurance programs purchased this season, Hurricane Andrew was a 1:30 year event. Due to inadequate reinsurance purchases prior to that storm season, (then) Commissioner of Insurance Tom Gallagher coordinated the liquidation of twenty-one (21) insurance companies domiciled in Florida. Andrew also caused the liquidation of other carriers domiciled outside of Florida. Contrast the doomsday scenario of that single 1:30 event to the reinsurance requirements outlined above. Andrew was a 1:30 event. Every property insurance carrier in Florida has purchased appreciably more reinsurance than any carrier had when Andrew made landfall. As to Citizen's being an A, of course it is, it has the statutory ability to assess Floridians AND it has purchased reinsurance to minimize the cost of those assessments.

I am hard pressed to wish ill winds on Floridians to demonstrate that the carriers that we review and rate will survive. Your readership should be advised the facts so that they feel comfortable protection against a first event at a 1:100 year criteria, protection for a second event in that same season at a minimum of a 1:50 year level, with third and subsequent event reinsurance protection in place for the season is the base line acceptable. Furthermore they deserve to know that Florida has never experienced a single storm season with this level of activity.

In closing, the insurance carriers providing residential property insurance coverage to Floridians are purchasing more reinsurance protection than ever before. In fact, the property insurance carriers in Florida, on average, purchase twice as much reinsurance as other states. Florida property insurance rates are higher because the Florida companies purchase reinsurance so that they will be able to pay claims and survive! The extra cost does not trickle to the bottom line as profit, in fact, it is an expense that gets paid whether the wind blow or not.

With nearly 60% of Homeowner's insurance premium spent on reinsurance, a rating that does not review, analyze and assess reinsurance is missing nearly 60% of the issue. I ask the Palm Beach Post to refrain from utilizing the power of the press to scare its subscribers.

Thank you.

Joe

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