

TOWER HILL DOWNGRADED, DISPUTES RATING CRITERIA

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THE CAPITAL, TALLAHASSEE, Aug. 27, 2009.....Gainesville-based Tower Hill Insurance Group's lack of confidence in the optional layer of the Florida Hurricane Catastrophe Fund has led to a ratings dust up, with major rating company A.M. Best downgrading the group's companies and the insurer in turn asking to drop out of the ratings company's portfolio.

A.M. Best on Wednesday said it downgraded the financial strength rating of three Tower Hill companies, Tower Hill Preferred Insurance, Tower Hill Prime Insurance and Omega Insurance, lowering their ratings from B, or fair, to D, or poor, citing the companies' hurricane exposure and concern about whether they had enough back up capital to deal with a major hurricane.

The ratings company requires insurers to have reinsurance that would allow them to pay claims from two 100-year hurricanes in the same season.

Tower Hill acknowledged that in not buying coverage in the optional layer of the Florida Hurricane Catastrophe Fund – known as the TICL - and instead relying on the mandatory CAT Fund coverage and private reinsurance, it doesn't have enough backup to meet A.M. Best's threshold. But it's not needed, the company said.

“The probability of such a series of events is one in 10,000, or a .01% probability of occurrence,” the company said in a statement released Thursday after it was downgraded. “There has not been such an event in recorded history.”

Tower Hill didn't purchase reinsurance in the optional layer of the Catastrophe Fund this year because it said it wasn't confident in the CAT Fund's ability to make good on its obligations. The company argued that its decision made its policyholders more secure.

“Entering the 2009 hurricane season, the Florida Hurricane Catastrophe Fund had a potential liability of \$27.5 billion and subsequently acknowledged in May that their current maximum reimbursement capability for the 2009 hurricane season is \$15.8 billion,” Tower Hill said. “After careful consideration, Tower Hill made the difficult decision to not purchase any of the voluntary, and currently unfunded, reinsurance coverage offered by the FHCF and instead replaced this coverage with reinsurance from the more dependable, albeit more expensive, private reinsurance market. The net impact of this decision is that Tower Hill and its policyholders are now more secure than ever in the event of a catastrophic loss.”

But A.M. Best said “uncertainties inherent in the companies' risk-adjusted capital positions and overall catastrophe reinsurance programs are reflected by the negative outlook.”

Tower Hill argued that it has plenty of reinsurance, \$850 million.

"This reinsurance coverage affords Tower Hill not only enough protection to survive a hurricane more devastating than a 140-year hurricane in a first event (the Florida OIR minimum requirement is a 100-year hurricane), but also a 60-year hurricane in a subsequent second event," the company said. "All of the Florida land-falling hurricanes since 1992, including Andrew, Charlie, Frances, Ivan, Jeanne, Katrina, Rita and Wilma, have been far less damaging than a projected 60-year hurricane."

Critics say the Tower Hill experience points out a major – and ironic – problem. While a ratings company like A.M. Best requires a large amount of reinsurance that could only likely be afforded by using cheaper state-backed underwriting, the ratings agency doesn't really give the company any credit for having optional CAT fund coverage, because the fund doesn't have enough money.

"This whole thing just points out the silly distortions that our state government has created," said Jeff Grady, CEO of the Florida Association of Insurance Agents. Rating agencies, Grady said, essentially make the companies buy optional CAT fund coverage and then say, "Now show us your real reinsurance."

The state acknowledges that the optional layer of the CAT fund is short, "yet they charge for it," Grady said. "It's almost extortion."

CAT Fund Director Jack Nicholson said Thursday that several companies didn't select the optional coverage this year because of the current state of the bond markets.

"Given the circumstances and economic conditions, it is easy to understand why companies would not purchase (optional state CAT Fund) TICL coverage," Nicholson said in an E-mail to the News Service. "That is not a reflection on the FHCF, but an understanding of the current financial markets."

Grady pointed out that the practical effect of Tower Hill dropping out of the A.M. Best rating system is effectively nothing – several other Florida insurers aren't rated by Best.

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