

TOWER HILL

Likely you've read media reports that the Tower Hill Companies were downgraded by A.M. Best from B "fair" to D "poor." It's also likely you're among those who contacted FAIA asking what it means and what you should do. As to the latter question, the answer is "nothing" unless you want to. While it's possible you may have an umbrella that requires a specific rating for the underlying policy, in the absence of that, we find little in this announcement requiring precipitous action by agents—why change anything since nothing has really changed at Tower Hill? The three Tower Hill companies, which combined have almost 254,000 policies in Florida, are actually in a better position to pay claims because Tower Hill decided to buy \$850 million in reinsurance in the private market, which leaves it in better stead than the majority of property insurers that rely only on TICL for the voluntary layer of coverage or Citizens, which relies on both TICL and back-end policyholder surcharges.

WHAT DOES IT MEAN?—As to what this means, well...it's really just another sign of what's wrong with Florida's property insurance scheme. In this case, Tower Hill wanted a rating from A.M. Best and therefore purchased funded reinsurance coverage from rated reinsurers capable of paying their claims. It did this even though Florida's scheme only permits carriers to reflect the cost of cheaper TICL coverage in their rates, even if they forego purchasing it as Tower Hill did. Thus, when A.M. Best changed its rating standards for Florida carriers to require they cover not one, but two, back-to-back 100-year storms based upon a near-term catastrophe model that portends greater losses, Tower Hill, or hardly any other Florida domestic for that matter, didn't make the grade. Keep in mind, there have never been back-to-back 100-year storms in a single season in recorded history, and the near term catastrophe model is not even legally permissible for ratemaking in Florida. Unlike carriers who rely only on the Cat Fund TICL coverage, Tower Hill's decision, while leading to a downgrade, also means it is more capable of paying its claims after a one-in-100-year event without waiting on a federal bailout.