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FOR IMMEDIATE RELEASE

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A.M. Best Comments on Catastrophe Stress Test

OLDWICK, N.J., Apr. 10, 2006—Given the recent enhancements made to many catastrophe management tools available to the insurance industry, **A.M. Best Co.** is making modifications to its catastrophe stress test, which in some cases will require less capital for a company to support its catastrophe exposure. Those companies that would be afforded additional leeway in the catastrophe stress test demonstrate a strong understanding of their catastrophe exposure, sound catastrophe risk management and the financial flexibility to replace a significant amount of lost capital after an event.

In establishing the level of capital requirements within the catastrophe stress tests, A.M. Best took into consideration expectations relating to data quality, overall catastrophe management, the historical accuracy of the catastrophe model output and the potential for enhancements to the catastrophe models. Over the past few months, many (re)insurers have incorporated considerable changes to the catastrophe models they use, which will likely improve the accuracy and increase the conservatism within the catastrophe models beyond the level anticipated by A.M. Best when the catastrophe stress test was implemented.

While consideration may be given to those insurers that demonstrate stronger catastrophe management and financial flexibility; those companies that continue to utilize less conservative

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modeling tools; are perceived to have weak catastrophe management or have limited financial flexibility; the more stringent capital requirements will remain in place.

As a result of these large increases in probable maximum loss (PML), A.M. Best has also heard many anecdotal tales of insurers “model shopping” in an effort to find the catastrophe model with the lowest indication, as well as other ways to manage the rating analysis. A.M. Best encourages all companies to manage their catastrophe exposure, not the rating analysis. There are several commercial catastrophe models and many private models that are used within the insurance industry. The model or models a company chooses to use should be based on the best interest of the company in understanding their catastrophe risk. In some cases, such as a single state writer, a scenario-based stress test or aggregate loss exposure may be a much better way to evaluate acceptable catastrophe risk than using a PML. A.M. Best will also consider the quality of data captured, model differences and management’s ultimate decisions in their management of catastrophe exposure.

Overall catastrophe management through underwriting, loss mitigation, exposure management and reinsurance or retrocessional reinsurance is critical to any company with significant catastrophe exposure within its operating market. A.M. Best’s confidence in a company’s enterprise risk management and specifically catastrophe exposure management, along with a company’s ability to replenish any lost capital following a catastrophe play a major role in the final view of a company’s capital needs and A.M. Best’s willingness to reduce its stressed capital requirements.

These refinements to the stress test will be included in an upcoming revision to the methodology paper, “Catastrophe Analysis in A.M. Best Ratings” originally published in

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November 2005.

A.M. Best Co. will host a conference call on Wednesday, April 12, 2006 to discuss the recent modifications to its catastrophe stress test. Complete details regarding Wednesday's conference call will be provided in a subsequent press release.

A.M. Best Co., established in 1899, is the world's oldest and most authoritative insurance rating and information source. For more information, visit A.M. Best's Web site at www.ambest.com.

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