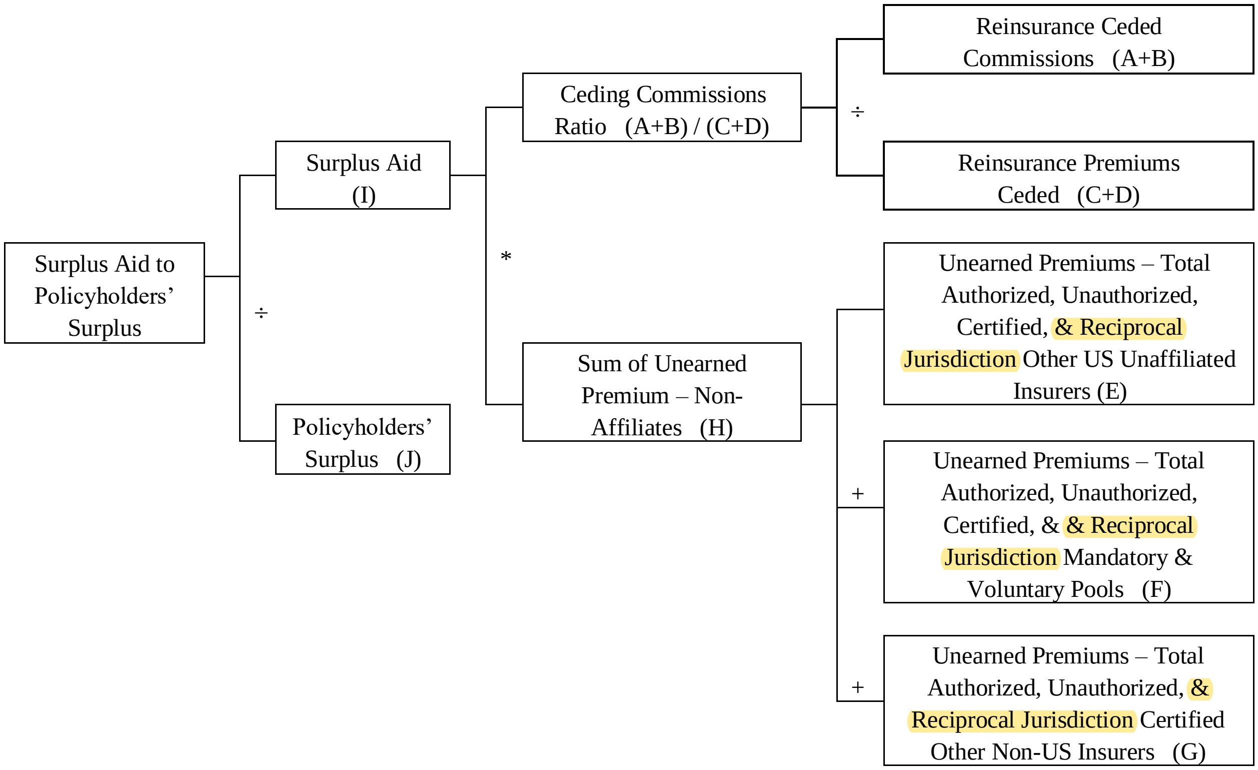
P/C OVERALL RATIO 4 – SURPLUS AID TO POLICYHOLDERS' SURPLUS



A. Reinsurance Ceded Commissions	Page 11, Line 2.3, Column 2	________
B. Reinsurance Ceded Contingent Commissions	Page 11, Line 2.6, Column 2	________
C. Reinsurance Premiums Ceded – Affiliates	Page 8, Line 35, Column 4	________
D. Reinsurance Premiums Ceded – Non-Affiliates	Page 8, Line 35, Column 5	________
E. Unearned Premiums – Total Authorized, Unauthorized, Certified, & Reciprocal Jurisdiction Other US Unaffiliated Insurers	Page 22, Line (0999999 + 2399999 + 3799999 + 5199999), Column 13, * 1000	________
F. Unearned Premiums – Total Authorized, Unauthorized, Certified & Reciprocal Jurisdiction Mandatory and Voluntary Pools	Page 22, Line (1099999 + 1199999 + 2499999 + 2599999 + 3899999 + 3999999 + 5299999 + 5399999), Column 13, * 1000	________
G. Unearned Premiums – Total Authorized, Unauthorized, Certified & Reciprocal Jurisdiction Other Non-US Insurers	Page 22, Line (1299999 + 2699999 + 4099999 + 5499999), Column 13, * 1000	________
H. Sum of Unearned Premiums (E+F+G)		________
I. Surplus Aid = [(A+B) / (C+D)] * H		________
J. Policyholders' Surplus	Page 3, Line 37, Column 1	________

Result = 100 * I / J ________ %

- If (C+D) or I is zero or negative, result is zero.
- If I is positive and J is zero or negative, result is 999.

The use of surplus aid reinsurance treaties may be an indication that company management believes policyholders' surplus to be inadequate. Additionally, the continued solvency of insurers with a large portion of policyholders' surplus resulting from surplus aid may depend on the continuing participation in the treaty with the reinsurer.

P/C Overall Ratio 4 – Surplus Aid to Policyholders' Surplus

The usual range for the ratio includes results less than 15 percent.

The Surplus Aid to Policyholders' Surplus ratio is important for the following reasons:

1. The existence of significant amounts of surplus aid may be an indication that policyholders' surplus is inadequate.
2. Surplus aid could improve results on other ratios enough to conceal important areas of concern.

For the reasons previously stated, all insurers with ratios greater than 15 percent should be given careful scrutiny regardless of their scores on other ratios. The following ratio results should be recalculated with policyholders' surplus adjusted to remove surplus aid:

1. Gross and Net Premiums Written to Policyholders' Surplus (Ratios 1 and 2).
2. Gross Change in Policyholders' Surplus (Ratio 7). The previous year's policyholders' surplus should also be adjusted to remove surplus aid.
3. Gross Agents' Balances (in collection) to Policyholders' Surplus (Ratio 10).
4. Estimated Current Reserve Deficiency to Policyholders' Surplus (Ratio 13).

These adjustments can be made without recalculating the numerator. Divide the result for each ratio by the difference between one and the surplus aid ratio result expressed as a decimal.

If an insurer's IRIS value falls outside the usual range for several of the above ratios, they should be given higher priority. Reinsurance treaties of all insurers with a Surplus Aid to Policyholders' Surplus ratio of more than 15 percent should be reviewed. This analysis should determine the potential impact on the insurer's solvency should the treaty be cancelled.

Branded Risk(s): ST, PR/UW

