



Successful catastrophe management requires the accurate identification of all potential costs. Due to rapidly growing exposure, the residual markets can add significant amounts of hidden catastrophe risk to insurance and reinsurance portfolios. Now, RMS offers residual market support to anticipate and plan for involuntary assessments. RMS Residual Markets products provide the resources needed to minimize hidden losses triggered by catastrophic events, positively impacting a company's bottom line.

## Residual Markets

### GROWING EXPOSURE FOR INSURERS OF LAST RESORT

Companies have become increasingly proficient at quantifying and managing voluntary writings in areas with unacceptably high exposure to catastrophe loss. However, insurers and reinsurers remain at risk due to the costs imposed by residual markets. The rate of growth of many residual markets is surpassing that of the property industry, further increasing the potential for assessments. RMS has been working with clients and the residual markets to understand these risks and has developed solutions to help address this issue.

### INCREASING THE NET COST OF CATASTROPHES

Due to their very nature, residual markets are writing risks that are not attractive to the voluntary market, and are building up large concentrations of exposure in high-risk areas. This risk is often highly correlated with an insurer's voluntary portfolio, but while reinsurers and insurers share in the risk, they lack the power to influence or manage the exposure. In the event of a major catastrophe, companies could be faced with substantial assessments at the time when they themselves have large claims to pay. In effect, they have

taken on large hidden exposures in peak hazard zones. When catastrophe strikes, these unknown and seemingly unquantifiable losses arise.

#### RMS RESIDUAL MARKETS REPORTS AND METRICS

- Exposure maps and statistics on drivers of key concentrations
- Metrics on exposure changes and trends to identify growth areas
- Descriptions of state residual associations for windpools, Cat funds, and guaranty funds
- Assessment triggers and procedures
- Probability of an association issuing an assessment and the range of potential assessments
- Event-by-event output to determine correlation with other portfolios

#### MANAGING RESIDUAL MARKET RISK

Extensive modeling expertise has allowed RMS to develop tools that provide insurers and reinsurers with the information needed to assess and manage residual market risk, allowing our clients to plan ahead and prepare for potential assessments. Our services quantify your residual market risk, and incorporate that risk into accumulation and portfolio management practices, underwriting and pricing strategies, and post-event loss estimation approaches.

## RESIDUAL MARKET ASSESSMENTS: SAMPLE ANALYSIS



The hurricanes of 2004 resulted in \$2.9 billion in Florida residual markets loss, with \$516 million of involuntary assessments

The probability of assessment is tied to the probability of catastrophic event occurrence. A severe storm or active hurricane season is likely to trigger assessments. The 2004 residual market-insured hurricane losses from hurricanes Charley, Frances, Ivan, and Jeanne resulted in involuntary market assessments of \$519 million in Florida, Mississippi, and Louisiana. In 2005, losses from hurricanes Wilma, Katrina, and Dennis triggered regular and emergency assessments in Florida, which reached \$163 million and \$888 million, respectively. In Mississippi, losses from Hurricane Katrina resulted in two assessments of \$295 million and \$250 million.

## RESIDUAL MARKET UPDATES

Stay current with the latest residual market policies that impact your book of business:

- Association information, including recent and upcoming legislation affecting potential assessments
- Reports on RMS interaction with residual market entities
- Quantification of reserves and funds to offset losses including reinsurance and government funding
- Semi-annual updates and updates triggered by significant changes in exposure (+/- 15%)
- Real-time hurricane analysis performed on up-to-date exposure

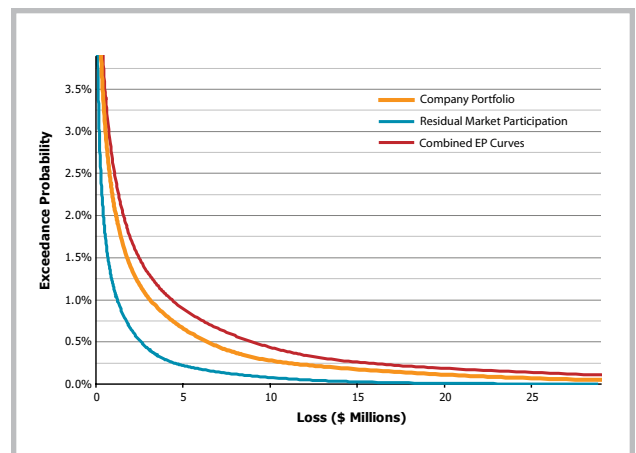
## ACCURATE DATA, ACCURATE RESULTS

RMS works with each windpool to obtain high-quality exposure data, and then incorporates data cleansing practices to enhance the accuracy of the information supplied by the residual market.

## IN THE EVENT OF A CATASTROPHE

When a catastrophic event occurs, RMS delivers customized loss estimates based on the windpool portfolio:

- Real-time event loss table updates adjusted to a client's participation percentage
- Adjusted results databases (RDMs) that include updates to event losses and associated standard deviations to group with your portfolio analysis



Companies need to consider the risk imposed by residual market mechanisms in regions with unacceptably high hurricane risk

## REGIONS AND ENTITIES

RMS is obtaining and analyzing exposure from a number of residual markets, and is working directly with pool representatives to obtain the most current and high-quality data possible. RMS will continue to interact and expand relationships with the various residual markets, increasing the breadth and depth of our offerings as we work toward modeling all significant residual market risk.