

July 2014

RE: The Pennsylvania FAIR Plan
Hurricane Exposure Study

Periodically, the Pennsylvania FAIR Plan contracts with outside vendors to estimate our potential exposure to hurricanes. In 2014, the reinsurance brokerage firm of Guy Carpenter Inc. provided the Pennsylvania FAIR Plan with such a report, which is summarized below.

To provide the report, Guy Carpenter used two catastrophe models, the RMS Risklink 13.0 and the AIR Clasic/2 (version 15). These models forecasted losses from simulated storms against the FAIR Plan policy detail as of 4/01/14.

The models revealed that the Pennsylvania FAIR Plan exposure to hurricane loss decreased significantly because of a newer RMS model version producing lower loss estimates. In general the change results from adding actual hurricane data from 2010, 2011 and 2012 as well as using a longer historical record of sea surface temperature data. The number of risks decreased -5.0% and our total limits fell -0.1%. Using the higher loss results of the two models, the Pennsylvania FAIR Plan can expect:



<u>Storm Cycle</u>	<u>Probable Gross Loss</u>
100 Year	\$1,516,357
250 Year	\$4,866,574
500 Year	\$9,659,134
1,000 Year	\$16,819,179

The average aggregate annual loss was modeled to be \$86,253. The largest Pennsylvania loss event modeled was a maximum loss of \$140,100,000. As a point of reference, Hurricane Irene produced \$419,578 and Superstorm Sandy produced \$479,680 in FAIR Plan Incurred Loss.

To calculate your company's portion of any loss assessment that may result from such events, apply your participation factor against any modeled number. Your participation factor is noted on your year end equity letter mailed each February. You may also obtain your factor on the PIPSO secured website at www.pipso.com. Select Insurance Placement Facility of PA; Enter USERNAME pipsodata; enter PASSWORD bost27ma; select Percent Participation. Your reinsurance contracts should also be reviewed to be sure that residual market losses are included in your coverage, if so desired.

If you have any questions or would like to discuss any aspect of the review, please feel free to contact me at your convenience at 215-409-9120.

Best regards,

John M. Ogle, CPCU
President