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## FOR IMMEDIATE RELEASE

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### Republic Indemnity Insurance Pool – Rating Supplement

#### **A.M. Best Lowers the Financial Strength Ratings of Two California Worker's Compensation Carriers**

The lowering of Republic Indemnity's rating is driven by the deterioration in underwriting performance over recent years and, more importantly, A.M. Best's expectation that management will be challenged to restore earnings to levels consistent with Best's "A" rating level standards given current market conditions. For the past five-year period, underwriting results have been impacted by onerous pricing and terms prevailing in the pool's predominant California workers' compensation market. Calendar year underwriting results reflect prior accident year reserve strengthening and increasing loss cost trends, ultimately resulting in a combined ratio for the period of 118. Additionally, erratic underwriting performance has produced volatile overall returns as indicated by the pool's pre-tax operating return on revenue and equity measures which have ranged considerably for the period. Given Republic's limited product and geographic diversification, future-operating results will remain dependent on sustained improvement in the California workers' compensation market. Despite strong rate firming experienced over the past 18 months, A.M. Best maintains a negative view of this market.

Despite this rating action, the pool's rating does reflect its strong capitalization, management's specialized and disciplined underwriting expertise and conservative operating strategies amid highly competitive market conditions. The pool's capitalization was strengthened during 2000 with a capital contribution of \$38 million provided by its ultimate parent, American Financial Group, Inc. (AFG), to fund operating losses, loss reserve strengthening and strong

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premium growth experienced during the year and planned for 2001. Premium growth results from strong rate increases achieved on new and renewal business, while its exposure base decreased. Additionally, A.M. Best's view of capitalization reflects confidence with carried loss reserves, the demonstrated financial and operational support provided by AFG and strong reinsurance program.

For the past five-year period, operating results, led by investment income, are positive but very volatile. Underwriting losses have been partially offset by the pool's low cost operating structure which also improves management's operational flexibility. Investment income continues to be favorable, driven by the long term bond portfolio. For the past five-year period, the pool's investment yield averages over 7% which is above industry norms.

This rating applies to the Republic Indemnity Insurance Pool which is comprised of **Republic Indemnity Company of America**, and its wholly owned subsidiary **Republic Indemnity Company of California**. The companies operate under an intercompany reinsurance pooling agreement.

**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](http://www.ambest.com).**

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