



COMMONWEALTH OF PUERTO RICO
OFFICE OF THE COMMISSIONER OF INSURANCE

May 14, 2008

RULING LETTER NUMBER: 2008-89-AP

TO ALL DOMESTIC PROPERTY AND CONTINGENCY INSURERS AUTHORIZED
TO UNDERWRITE CATASTROPHE INSURANCE IN PUERTO RICO

**VERIFICATION OF ACQUISITION OF PROTECTION TO COVER
CATASTROPHE EXPOSURE**

Dear Sirs and Madams:

The Catastrophe Loss Reserve mechanism was established through the approval of Chapter 25 of the Puerto Rico Insurance Code, which requires that all insurers underwriting catastrophe risks during the years in which no catastrophic event occurs shall separate a portion of the premiums received to cover such risk in a reserve solely designated for the payment of losses caused by such events.

Public Law No. 227, enacted on October 13, 2006, amended said Chapter 25 to further require that Property and Contingency insurers should establish a minimum retention on purchasing reinsurance. Furthermore, Rule 72 of the Regulations of the Insurance Code requires all insurers that underwrite catastrophe insurance in Puerto Rico to acquire and maintain at all times reinsurance protection to cover catastrophe exposure. The definition of "catastrophe exposure" provided by the law is stated in terms of the Probable Maximum Loss that the insurer would suffer due to the occurrence of a catastrophic event, estimated using a risk-simulation model.

During the past two years, this Office has been requesting information from insurers to verify compliance with this requirement. These requests have been made as formal Requests for Information.

In order to carry out an annual verification of compliance with this requirement, without having to use the mechanism of a form request for information on a case by case, we are requiring in this Ruling Letter that no later than March 31 of each year all insurers file the following with the Commissioner:

1. Information on all policies in effect as of December 31 of every year that insure hurricane and earthquake risk, detailed by business line, type of policy, and risk classification (Example: Walk-ups Condominiums, Homeowner, construction risk, business risk, and others). The following information should be provided for each category:
 - Number of policies
 - Amount of value insured
 - Premiums collected
2. Copy of the study or calculation of the Probable Maximum Loss (PML).
3. Summary of the current catastrophe reinsurance program. Copies of treaties or coverage notes should be included.

For this first year, the information required herein should be submitted within 30 days of the date of this letter. If the contract expires on or before September 30, 2008, the information submitted should be updated within 30 days of the time when the new reinsurance program enters into effect.

Strict compliance with the provisions of this Ruling Letter is hereby ordered.

Very truly yours,

SIGNED

Dorelisse Juarbe-Jimenez
Commissioner of Insurance

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