



## OFFICE OF INSURANCE REGULATION

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July 21, 2022

Joseph Petrelli  
President  
Demotech, Inc.  
2715 Tuller Parkway

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Affirmative Action / Equal Opportunity Employer

1. OIR has been advised that many carriers that have been notified of a pending downgrade have reached out to Demotech in an effort to provide additional information. The majority of carriers that have done so have reported to OIR that Demotech has been unwilling to consider additional information.  
Spec

to respond to the

raw and Demotech may consider any new

rs most of these letters were delivered on July 19, with a downgrade date of July 26 nearly two months into hurricane season. Does Demotech believe that a reasonable time to respond is one week? If Demotech has chosen not to allow carriers to provide additional information, does Demotech intend to amend its methodology to state this? If Demotech has chosen not to consider access to additional capital, does Demotech intend to amend its methodology to state this? If not, does Demotech intend to communicate this to carriers in any other fashion?

2. In a document published on its website labeled Exhibit 2 there are references in multiple places of an appeal process. However, other than as outlined above, there does not appear to be a formal appeal process in place. Does Demotech intend to allow carriers an opportunity to formally appeal ratings downgrades? Your notice letters to carriers did not outline this process. If so, does Demotech intend to more thoroughly describe the appeals process, including when
3. Similarly, Exhibit 2 states profitability of the entity assigned a rating, we believe that balance sheet strength and financial integrity are the ultimate determinates of the long-term However, most carriers are reporting to us that Demotech has placed a strong emphasis on underwriting results. While profitability is important, the ability of companies to withstand unprofitable years from a surplus position is even more important. Does Demotech plan to clarify its new position in updated methodology? If not, does Demotech plan to communicate to carriers in another fashion the increased importance placed on profitability?
4. Rating methodologies typically consider legislative changes or actions which impact ratings; however, your recent comments seem to imply that Demotec s the absence of policy as the mechanism to rate carriers. especially in a state it does not reside, is not a fair and consistent approach to rating. Did Demotech expect the positive benefits from recent Florida legislation to happen overnight? If not, does Demotech believe that seven weeks after passage of this legislation is a reasonable timeframe for years of litigation to cease? If not, what other factors did Demotech consider when making the assertion that the claims environment will continue to be unfavorable, given the positive progress the Florida legislature has made? Did Demotech expect carriers to immediately reflect underwriting results as of first quarter, despite the fact that first quarter results occurred before the effective date of SB 2D? Did Demotech consider allowing carriers to show quarters of underwriting results *after* the effective date of SB 2D before asserting that the claims environment would continue to be unfavorable? If Dem legislative proposals are not passed, can carriers be expected to play as pawns in a political game?

OIR does not regulate private rating agencies, and it is very important that this request not be misconstrued in any way as a request that Demotech deviate from its rating methodologies or as advocacy by OIR for or on behalf of any one or several insurance companies with respect to their assigned FSR. n is the protection of Floridians from harmful, unilateral action.

and those it has

perform a more comprehensive review, using consistent standards, of the proposed ratings prior to their effective date. Additionally, in the interest of stabilizing the private market and ensuring companies have all necessary information to take appropriate corrective action, we strongly encourage Demotech to clearly communicate its rating standards and methodology prior to these ratings becoming effective. As it stands, Demotech has not provided companies a meaningful path for review or appeal of these ratings and has been inconsistent in its application of its own posted methodology.

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