

Is it time for Florida to turn the page on Demotech?

By [Kyle Ulrich](#)

Here we go again. In documents obtained by FAIA, Demotech has notified multiple carriers of their intent to downgrade the company's rating from "A Exceptional" to "S Substantial." Also included was a press release dated July 26, 2022, attempting to explain Demotech's role in the Florida market, recent events, and legislative reforms, and stating that all "carrier Financial Stability Ratings (FSRs) have now been updated" on their website. Yet another chapter in Demotech's tumultuous saga of rating Florida's domestic insurance market is about to unfold.

How We Got Here

Before we unpack this latest chapter, it's worth noting how we got here and why Demotech has such a stranglehold on the Florida property market. The rating company's prominence was born from Hurricane Andrew, a historic catastrophe that occurred 30 years ago this August and forever altered the landscape of our state's property insurance market. In the wake of the storm, more than a dozen insurance companies disappeared due to insolvency, and national carriers rapidly fled.

No insurance companies also meant no rating agencies. While Florida law does not require an insurance company to be rated, the secondary mortgage market, dominated by Fannie Mae and Freddie Mac, which back roughly 62 percent of all residential mortgages, does. Because most banks and lending entities adopt the standards set by the secondary market, no rating agencies meant no mortgage loans could be originated in Florida. You get it—panic in the streets!

Enter, Demotech. Founded by Joe Petrelli and his wife, the small rating company obtained Fannie Mae's/Freddie Mac's blessing, making Demotech's "A" rating acceptable to the secondary mortgage market and, thus, the de facto standard for practically all of Florida's domestic property insurers.

Where We Are Now

After 25 years, Demotech virtually holds a monopoly on issuing financial strength ratings to Florida domestic carriers while being largely unknown/unnecessary in other parts of the country. To be clear, other rating agencies operate in the marketplace, but none have reached critical mass here in Florida, making Demotech option one of one. Worse yet, they know it. Over the years, Demotech's founder Joe Petrelli has pushed himself further into the limelight by publicly engaging in political theater threatening carrier downgrades, and holding pressers to explain the company's unchecked behavior and rating methodologies.

Demotech has been very outspoken about legislative reforms it deems necessary to stabilize the market, making recommendations to the Florida Legislature while threatening company downgrades in what appears to many to be an attempt at showing the company's strength and power in Florida. Many of their previous downgrade warnings against companies, mostly unnamed (in 2017, 2018, 2020, 2021, and 2022), never came to pass. Instead, almost all Demotech rating downgrades are usually only days ahead of a company's insolvency proceedings. That often begs the question, "Does a Demotech rating mean anything or provide the intended peace of mind to agents, consumers, and lenders?"

After a series of grandstanding letters and correspondence with government and industry leaders leading up to the 2022 Special Session, Joe Petrelli, who called for much of what was passed, said

reforms were "too little, too late." This, despite new laws that provide desperately needed reforms and eliminate much of the litigation risk plaguing the very companies Demotech rates.

The Latest Chapter

Like many others in the industry and government, agents are again anxious about how this latest Demotech chapter will unfold and what will happen to millions of Florida policyholders who could soon find themselves in default of their mortgage requirements. At this moment, we don't have a reliable indicator to predict the outcome.

If the estimates of how many carriers could be downgraded are accurate (17 companies), millions of homeowners may find themselves insured by a company that doesn't have a financial strength rating suitable to Fannie or Freddie. At the same time, many agents will question whether they have adequate coverage under their E&O policy, given varying insolvency exclusion provisions. FAIA has several articles about [carrier downgrades](#), including [sample letters](#) and [tips for how your agency should react](#) that agents can easily reference as this situation unfolds.

Where Do We Go From Here?

Stability and predictability are what every business needs to sustain itself. It is abundantly clear that Florida's property market has been held hostage by unscrupulous trial lawyers, public adjusters, and contractors for years. Now, the actions of one rating company could add to the list. Unfortunately, because of the inconsistent actions of Demotech over the years, industry observers often roll their eyes every time Joe Petrelli speaks. Whatever the reason for Petrelli's latest maneuvers and whether he'll go through with them, the subject commands our attention.

Are there ulterior motives for the timing of these downgrades? For years, Joe Petrelli has unsuccessfully tried to convince Fannie and Freddie to accept Demotech's "S Substantial" rating. Does downgrading a large number of companies primarily operating in Florida, one of the largest insurance markets in the world, provide the leverage he needs to get approval?

Is now the time for insurers, lawmakers, and regulators to look for a more stable and predictable alternative to Demotech?