

DEMOTECH PRESS RELEASE

Strength Through the Storms and Through the Years – Demotech Rated Carriers

Columbus, Ohio, March 5, 2021: Given the impact of the extraordinary number of natural disasters that occurred in 2017, Demotech commissioned a special issue of The Demotech Difference to recognize the impact of disasters on the insurance industry and on the nation. Published in 2018, Strength Through the Storm was about promises made and promises kept, including the strength of Demotech-rated carriers that protect communities. If you did not receive a hard copy, an electronic copy can be found at: www.demotech.com/pdfs/demotech_difference/flexpaper/Strength_Through_The_Storm/index.html.

Unfortunately for property insurance carriers, particularly those licensed and writing in coastal areas, the natural disasters occurring in calendar years 2018 through 2020 seemed intent on making 2017 look like a walk in the park.

The six more infamous events of 2018 were the Montecito mudslides in California, Hurricane Michael, Camp Fire and Woolsey Fire, Hurricane Florence and the flooding in Ellicott City, Maryland. Michael struck Florida and cost the U.S. economy at least \$25 billion. Camp Fire was California's deadliest and most destructive fire at \$13 billion in losses, per CoreLogic. Hurricane Florence sat off the coast of the Carolinas for days causing wind damage as well as flooding. Ellicott City saw nearly eight inches of rain in one hour.

2019 saw inland flooding across many Central states. There were 14 unique billion-dollar disasters in the U.S. representing the fourth highest total number of events (tied with 2018). 2019, 2018 and 2017 each produced more than a dozen billion-dollar disasters impacting the United States and the insurance industry. 2019 was the fifth consecutive year in which 10 or more separate billion-dollar disaster events impacted the insurance industry.

Not to be outdone, the 2020 Atlantic hurricane season produced 30 named storms (highest on record), 13 hurricanes (second-highest on record), and 6 major hurricanes (tied for second-highest on record), more than double the activity of an average season (12 named storms, 6 hurricanes, and 3 major hurricanes). The 2020 season saw a record number of rapidly intensifying storms (10), landfalling U.S. named storms (12), and landfalling U.S. hurricanes (6). Every inch of the U.S. coast from Texas to Maine was under a watch or warning related to tropical cyclones during 2020. U.S. hurricane damage exceeded \$37 billion, which according to Aon was the eighth-highest annual total on record.

2021 is off to a fast start with Winter Storm Uri as a coast-to-coast storm producing snow and ice from the Pacific Northwest to the South, Midwest, and Northeast from February 12 through 16, 2021. Uri produced the coldest temperatures in decades in the south-central states.

With four years of record setting natural disasters buffeting the United States, a logical question is "what is the status of the property insurance marketplace in what most believe to be one of the most catastrophe prone geographical areas of the world – Florida?" As Demotech actively reviews and rates carriers writing approximately two-thirds of Florida's residential property insurance marketplace, we would respond as follows.

In addition to being one of the most catastrophe-exposed jurisdictions in the world, two recent analyses of the operating environment of insurers writing in Florida's marketplace concluded there is a need for meaningful and substantive tort reform in Florida. Both analyses encourage the Florida legislature to move quickly and decisively to level and reform the environment from one favoring plaintiff attorneys to a balanced environment protecting consumers from the incremental annual increases in their insurance premiums associated with the cost of fraud and abuse.

In an analysis entitled FLORIDA'S P&C INSURANCE MARKET: Spiraling Toward Collapse, Guy Fraker, cre8tfutures, wrote, in part:

Florida's residential P&C insurance marketplace faces convergence of existential threats in the form of increasingly unpredictable claims litigation, rising costs of risk capital and its persistently high exposure to natural catastrophe risks. Targeted legislative reforms are needed ...

Without intervening public policy solutions, the residential property insurance marketplace will experience an accelerated trajectory of unsustainability. Market conditions will force closures, adverse investment terms, investor lawsuits, market exits, and further consolidations. ... Without addressing the challenges ... other economic challenges to Florida become magnified, such as recovering from COVID-19, and rebuilding from the next hurricane to hit the state.

A review of The American Tort Reform Association's (ATRA) 2020/2021 JUDICIAL HELLHOLES indicated that ATRA had placed Florida, a former No. 1 Judicial Hellhole, on its Watch List. While acknowledging Governor Ron DeSantis' 'thoughtful and decisive leadership, as he continued to remake the Florida Supreme Court' through his appointments, ATRA stated that 'the legislature stalled in its efforts to pass long-sought, meaningful lawsuit reform.'

Clearly, the natural disasters of the past several years in the U.S. and elsewhere in the world have impacted the cost of reinsurance. In Florida, the cost and availability of reinsurance has also been impacted by the need to enact meaningful and significant tort reform. Concurrently, carriers focused on Florida have seen their attritional (net as to reinsurance) loss and loss adjustment expenses rise as they simultaneously address their retained cost associated with natural disasters.

Absent meaningful and significant tort reform, in their efforts to address the financial impact of natural disasters and an operating environment tilted toward plaintiff attorneys, the remedies available to Florida focused property insurers to sustain their Financial Stability Rating® (FSR) from Demotech include the following:

1. Infuse additional capital to replenish surplus and report acceptable financial metrics
2. Secure rate revisions that reflect the incremental cost of reinsurance
3. Secure rate revisions that reflect the frequency and severity of claims
4. Re-evaluate the Company's business model and/or plan so as to return to profitability
5. Re-underwrite the current book of business and, to the extent permitted by law, cancel or non-renew policies that are outliers.

These remedies are not mutually exclusive and may be concurrently implemented.

Well before other analyses identified the need for tort reform, Demotech communicated the need for meaningful and significant tort reform to remedy dysfunctions in Florida's residential

property insurance marketplace. We referenced revisions to judicial precedents that resulted in claims procedures, practices and protocols that heavily favored plaintiff attorneys, litigation of routine claims and suit as First Notice of Loss, among others. In addition to meeting our current financial metrics, absent meaningful and significant tort reform in 2021, more than ever, carriers must possess the financial wherewithal, managerial acumen, and access to additional capital to execute their business model in a dysfunctional marketplace.

This said, as of this date, FSRs assigned to the following Florida focused property insurance writers have been affirmed subsequent to our review of year-end 2020 financial information and a verification of the consistency of the filed year-end 2020 operating results with those presented to us during our dialogue in late January or early February 2021:

- American Integrity Insurance Company of Florida, Inc.
- American Platinum Insurance Company
- American Traditions Insurance Company
- Bankers Insurance Company
- Castle Key Indemnity Company
- Castle Key Insurance Company
- Edison Insurance Company
- First Community Insurance Company
- First Protective Insurance Company
- Florida Family Home Insurance Company
- Florida Family Insurance Company
- Florida Peninsula Insurance Company
- Frontline Insurance Unlimited Company
- Homeowners Choice Property & Casualty Insurance Company
- People's Trust Insurance Company
- Safe Harbor Insurance Company
- Safepoint Insurance Company
- Safepoint Insurance Company
- Security First Insurance Company
- Southern Oak Insurance Company
- TypTap Insurance Company
- US Coastal P&C Insurance Company

Demotech has withdrawn the Financial Stability Rating® (FSR) of A, *Exceptional*, assigned to American Capital Assurance Corp. This action was taken subsequent to Demotech's review and analysis of 2020 statutory financial information filed by American Capital Assurance Corp. and the company's decision to no longer participate in Demotech's rating process. As of March 4, 2021, American Capital Assurance Corp. is no longer followed or rated by Demotech.

Our review of our remaining Florida focused carriers as well as the additional 360 carriers we follow that write in other states is ongoing. We expect to have the reviews of Florida focused property insurers completed by March 19.

About Demotech, Inc.

Demotech, Inc. is a financial analysis firm specializing in evaluating the financial stability of regional and specialty insurers. Since 1985, Demotech has served the insurance industry by assigning accurate, reliable, and proven Financial Stability Ratings® (FSRs) for Property & Casualty insurers and Title underwriters. FSRs are a leading indicator of financial stability, providing an objective baseline of the future solvency of an insurer. Demotech's philosophy is to review and evaluate insurers based on their area of focus and execution of their business model rather than solely on financial size. Demotech was the first to review and rate independent regional and specialty insurers. Demotech's consistently increasing list of

accreditations and acceptances has resulted in rating and reviewing more than 400 insurers operating in the US. Visit www.demotech.com for additional information.

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