



# Demotech, Inc.

It is clear to informed industry observers that Demotech has played a critical role in keeping the Florida property insurance market viable since 1996. It was more than 26 years ago when the Office of Insurance Regulation (then Department of Insurance) asked us to rate start-up property insurance carriers attempting to depopulate the Florida Residential Property Casualty Joint Underwriting Association. Since that time, we have been consistent in our review and evaluation of companies operating in that marketplace. We continue to be a stabilizing force even as the residential property insurance market has become plagued with litigation, and, some believe, fraud.

It has been reported that we sent out letters to rated clients stating that they were scheduled to be downgraded while allowing no discussion or appeal. This is factually inaccurate, as we have conducted discussions with all who requested a discussion, allowing them to state their case and further understand our rationale. Furthermore, we encouraged them to submit clarification or additional relevant information if they so desired. In several cases, this has led to us considering a different rating action. This is the same procedure that we have utilized since being invited to participate in Florida in 1996.

It is incongruous for an independent rating agency to be expected to discuss rating actions that are not finalized and include conversations and information intended to be private between the rating agency and the rated entity. As it would be injurious and prejudicial to publish rating actions prior to the completion of our process and finalization of our opinion, Demotech will not comment on potential rating changes until our process is concluded. We will continue to follow our rating methodology and remain an independent observer despite outside pressure.

As to references of our receipt of the NRSRO registration from the SEC, it is worth noting that a key part of NRSRO status is the ability and willingness to resist being leveraged or coerced into actions that are inconsistent with established methodology. Since we followed our methodology by reviewing financial statements and reinsurance information in addition to analyzing market conditions and regulatory risk, applying our established criteria, providing companies a chance to discuss our intended action, and examining any supplemental or clarifying information submitted, we have followed the applicable NRSRO requirements and our published rating process. It is inappropriate to revise potential rating actions in response to unhappiness with the outcomes or threats, including the threat of litigation.

In addition, it should be noted that although our published methodology allows for discussion and appeal of rating decisions, it does not include any requirement for Demotech to provide a remedy or allow a rated entity a certain period of time to correct issues. It is completely up to the entity to report acceptable financial results, as Demotech, an independent third party rating agency, is tasked only with reviewing and opining on those results.

As the current regulatory climate has become hostile and negative and we have and will expend a significant effort creating responses to third party letters, we will be taking additional time to review information and consider the issues affecting the companies operating in Florida. Our rating revisions originally scheduled to be released Tuesday, July 26<sup>th</sup> will be announced when we have completed all relevant discussions with rated entities.



We will be releasing all rating changes to the Florida focused insurers concurrently. Until that time, we will not be commenting further on individual companies nor responding to those outside of the rating process.