

Fla. Plans Reinsurance Program Amid Possible Downgrades

By **Ben Zigterman**

Law360 (July 27, 2022, 8:08 PM EDT) -- A day after Florida's top rating agency delayed plans to downgrade as many as 17 insurers, the state's Office of Insurance Regulation announced a temporary reinsurance program to avoid disruption if any carriers are eventually downgraded.

On Wednesday, the Florida Office of Insurance Regulation said the state-backed Citizens Property Insurance Corp. would assume the liability of an insurer's covered losses if they were downgraded by Demotech Inc., to avoid losing backing from Fannie Mae and Freddie Mac.



Florida's Office of Insurance Regulation announced a temporary reinsurance program to avoid the loss of backing from Fannie Mae and Freddie Mac if the state's top rating agency follows through on its plans to downgrade as many as 17 insurers. (Valera Golovnirov / SOPA Images/Sipa USA)(Sipa via AP Images)

The government-backed mortgage companies require mortgages to be backed by policies from insurers that meet certain financial ratings; however, they have an exception if a reinsurer assumes 100% of its liability for covered losses it can't pay because it is insolvent, according to a news release.

The temporary arrangement with Citizens would meet that exception, the OIR said, which would prevent disruptions in coverage.

"In the event we need to implement this temporary solution, consumers will not need to seek coverage elsewhere, agents will not need to move policies, and lenders can have confidence that these insurers continue to meet the mortgage qualifications," Insurance Commissioner David Altmaier said Wednesday in a news release. State CFO Jimmy Patronis also praised the arrangement in a news release.

Last week, Altmaier, Patronis and the Florida Association of Insurance Agents **blasted Ohio-based Demotech** after learning of the potential downgrades, originally slated for Tuesday.

They questioned the consistency of the methodology used in the ratings and suggested finding alternatives to Demotech.

In a letter Tuesday to Altmaier, CEO Joe Petrelli defended his company and said it would delay the downgrades so that it could respond to letters from Altmaier and Patronis, who wrote to Fannie Mae and Freddie Mac encouraging them not to rely on Demotech's ratings or take hasty action if there are downgrades.

"As our efforts to address the actionable appeals regarding proposed rating action were suspended to prepare responses to state officials, Demotech has postponed its previously scheduled release date of July 26, 2022, and has contacted the carriers that have not yet submitted a response," Petrelli wrote.

Demotech did not say when the updated ratings would be published.

"While we are unable to provide a specific date for release, we are working to expedite the release of our ratings as soon as possible," the company said in an email to carriers, Petrelli told Altmaier.

Petrelli said Demotech has consistently rated Florida property and casualty insurers issuing homeowners policies since 1996 after being invited by the state to do so.

Rather than any inconsistencies in its methodology, Petrelli suggested any downgrades are a function of the property insurance market in Florida.

"Some carriers have successfully navigated the difficult residential property insurance marketplace to effect the necessary improvements and sustain the assigned FSR [Financial Stability Rating]. Others have not," Petrelli wrote. "Our process does not guarantee every carrier's financial success, nor does our process guarantee carriers an FSR at a level that they desire or require."

He also cited what insurers have called a **hostile litigation environment** in Florida, which legislators aimed to address in a special session this spring.

Gov. Ron DeSantis **signed a package** of property insurance bills passed by the state Legislature this spring in a special session.

At a **panel hosted in June** by Demotech, a majority of panelists said that Florida's insurance market problems weren't completely resolved by the recently signed property insurance bills.

Meanwhile, Citizens **has been growing rapidly** as other insurers have gone insolvent or reduced or eliminated their coverage in the state, its president said earlier this month.

There have been at least six insurer insolvencies in Florida since November 2019, according to Citizens' president, and, Citizens has grown from 400,000 customers in 2019 to more than 900,000 and expects to reach 1.2 million customers by the end of the year.

--Additional reporting by Shawn Rice, Eli Flesch and Dave Simpson. Editing by Nick Petruncio.