March 17, 2015

Dear Chairperson Wood and Assembly Banking and Insurance Committee Members:

Demotech, Inc., a Columbus Ohio based financial analysis and actuarial services company, was the first company to review and rate independent regional and specialty insurers. Demotech reviews, rates and monitors more than 400 insurers countrywide, in all fifty states, including more than 50 insurers representing nearly 60% of Florida’s Homeowners’ insurance marketplace. The majority of Florida domestic property insurers rely solely on maintaining a Demotech Financial Stability Rating of “A” or better such that their policies are acceptable to meet Fannie Mae and Freddie Mac loan requirements, premium financing requirements, umbrella insurance policy requirements and other criteria of assistance to consumers.

Based upon Demotech’s review and interaction with insurance companies operating in all 50 states, the District of Columbia and Puerto Rico, Demotech is unaware of any state other than Florida where assignment of benefits is utilized as a litigation for profit scheme whereby service providers, contractors and public adjusters can usurp the insured’s right to sue insurers and thereby extract payment for what appear to be inflated invoices for services and disproportionate legal fees. The remaining 49 states have no such phenomenon and we are unaware of any issues related to the collection of payment for services rendered from carriers and insureds pursuant to a direction to pay from the insured that exist in Florida that would require a distinction of this type. Similarly, prior to 2011 when the use of assignments in this manner emerged, Florida's service providers were utilizing a direction to pay from the insured to collect from an insurer.

Central to Demotech’s assessment of an insurer’s financial stability and strength is the insurer’s rate adequacy and loss and loss adjustment expense reserve adequacy, and its catastrophic reinsurance adequacy. Based upon a preliminary review of a sample of similar claims reflecting comparable coverage issues, some having utilized an assignment of benefits with the other claims not having utilized an assignment, the full claim cost inclusive of attorney’s fees, claims settlement expenses and adjustor fees for claims involving an assignment of benefits were, on average, triple the cost of those without such assignments. Should this cost differential associated with assignment of benefits be accurate and the acceleration of assignments continue, the underlying financial stability of insurance carriers that have focused on stabilizing Florida's property insurance marketplace would be unfavorably impacted and, and the result would be the withdrawal or downgrade of dozens of carriers based upon a fundamental change in the operating environment of these insurers.

**Having seen some of the data and testimony previously provided to this committee, I will not expand further as to the impact of escalating insurance premiums for Floridians,** the potential adverse impact to the interests of lenders who depend upon maintaining their interests in loss benefits for the protection of their collateral, and the financial strength and solvency of insurers and Citizens Property Insurance Corp.

In summary, Demotech encourages this committee to end the current use of assignments as a means to extract legal fees and what appear to be excessive loss payment demands and restore the equilibrium that exists in the other 49 states, District of Columbia and Puerto Rico. **It is Demotech’s belief that the unfettered expansion and utilization of AOB, which provides no value to consumers, may create a pricing and availability crisis of unprecedented levels.** We thank this committee for hearing and reviewing evidence and testimony. We believe that your swift actions to effectively end abuses will prove to be of monumental importance and benefit to all Floridians. Demotech thanks the committee for its time. The staff of Demotech would be pleased to supplement this information or otherwise assist the committee.

Very truly yours,



President

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