

## Independent Regional and Specialty Insurers' First Rating Service Reviewed and Accepted by Fannie Mae – 1989 — Demotech!

In the 80's the primary hazard insurance policies (of certain insurers) were not available without a reinsurance cut-through documenting financial security to Fannie Mae. Fannie Mae considered working with brokers in London to set up a captive reinsurance fund to address this growing issue.

In late 1987 or early 1988, Fannie Mae's goal was to eliminate reinsurance cut-throughs and its internal reviews (of insurers). I was tasked to contact A. M. Best Company to request that they develop a rating process to review these

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we retained an independent consultant to prepare a second, independent analysis of their process. Demotech successfully passed each due diligence.

insurers. On multiple occasions, representatives of A. M. Best advised that a review and analysis process for these regional insurers was "impossible" to develop.

On May 1, 1989, Fannie Mae issued Announcement 89-5 denoting Demotech as an acceptable insurer rating service. Subsequent to Fannie Mae's acceptance of Demotech, A. M. Best contacted me to advise that they would be developing a review and analysis process for regional and specialty insurers. Representatives of A. M. Best suggested that Fannie Mae could decertify Demotech and rely exclusively on A. M. Best ratings. As this was not in the best interests of the marketplace, competition, or Fannie Mae, I did not honor the request.

In late 1988, Joseph Petrelli, on behalf of Demotech, presented to me a review and analysis process applicable to independent regional and specialty insurers. My recollection is that the primary focus of their procedure was described as "the quality and quantity of reinsurance." After their process passed our internal due diligence,

Congratulations to Demotech for thirty years of issuing ratings. I am pleased to have had a role in your development of a thirty-year track record.



**Anita L. Champ**  
*Retired, Fannie Mae and Freddie Mac*

*Over 30 years of experience with Fannie Mae, Freddie Mac, and Ginnie Mae has taught me that there is always room for new innovation such as Demotech. Disrupting "old think" and creating "new think" is the only way any industry can thrive.*