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A Tiny Company is Vouching for Risky Insurer in Hurricane Country

By Jean Eaglesham, Susan Pulliam, Caitlin Ostroff 7-28-2025

LaPlace, La., is the sort of town that is becoming a no-go zone for major insurance companies. Sandwiched between the Mississippi River and Lake Pontchartrain outside of New Orleans, it is only about 10 feet above sea level and has an alarming history of serious storms and flooding.

So Nadia Hart was happy that Lighthouse Excalibur Insurance, a small Louisiana insurer with an "A" rating for financial stability, was willing to write a policy on her three-bedroom house in town. "My broker told me that they were a good insurance company, a good rating, and so I went with them," she said.

With climate disasters driving many big nationwide insurers out of risky markets in Louisiana, Florida and elsewhere, smaller companies such as Lighthouse have stepped in to fill the gap. And many are getting a critical stamp of approval from Demotech, a tiny Ohio rating company with a unique take on grading financial stability. It rates 98% of the insurers A, for "exceptional," or the even better A Prime or A Double Prime. Note

But Demotech's rosy outlook doesn't always pan out. Insurers it rated were 30 times as likely to become insolvent as those graded by its main rivals, according to a Wall Street Journal analysis of failures since 2017.

That's just what happened to Hart's insurer after Hurricane Ida barreled into southern Louisiana in August 2021. Lighthouse imploded after 16,000 of its 30,000 customers in the state put in claims. Hart is still waiting, 3½ years later, for money to pay for repairs to her home. "I lost everything," said the disabled single mother.

Hart said that although she had never heard of Demotech, she assumed the A grade it gave Lighthouse meant the insurer could be relied on. "That's why I'm kind of shocked they collapsed so fast," she said.

State regulators say Demotech's willingness to rate such small insurers provides consumers with more choices in troubled markets and takes pressure off so-called insurers of last resort. Florida's Citizens Property Insurance, created by the Florida legislature in 2002 for homeowners who can't get coverage elsewhere, has been able to move more than 200,000 policies this year from its books to 10 small insurers with A ratings from Demotech. Note

Demotech founder Joseph Petrelli said his company's ratings allow millions of homeowners in areas abandoned by large insurers to get insurance. "We created this space," he said. "No one else was interested in doing that at the time."

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Insurers rated by Demotech collect about half of all home-insurance premiums paid in Florida, one-third in Louisiana and close to one-quarter in Rhode Island, South Carolina and Texas, the firm's data show. Nationwide, millions of homeowners use insurers rated by Demotech.

A good rating from Demotech or one of its three main rivals—AM Best, S&P Global and Kroll Bond Rating Agency—can be crucial to an insurer's ability to operate. Mortgage-finance giants Fannie Mae and Freddie Mac won't back loans for properties that are insured by lower-rated companies, and lenders typically charge higher rates and require larger down payments for loans that Fannie and Freddie won't touch. Home insurers that fail to meet that threshold can struggle to build market share. Note

Consumer advocates say Demotech's support for such startups allows the companies to essentially bet on the weather. Executives can pitch policies and collect salaries before their companies have built up enough reserves to withstand a disaster.

"Demotech is helping regulators have players in their markets," said Amy Bach, executive director of advocacy group United Policyholders. "But consumers don't want to trust their homes to highflying gamblers. They need companies that can protect their assets when a hurricane strikes."

Demotech's Petrelli said: "We understand how difficult it has been for homeowners who lost coverage when certain insurers that Demotech rated became insolvent." The failures, he said, were driven by "complex and fast-moving pressures" that developed faster than most people in the industry expected.

Overall, one in 10 insurers nationwide that Demotech rated A as of Dec. 31, 2014, defaulted—meaning they were put into liquidation or had other solvency-related actions taken by regulators—by the end of last year, according to recent securities filings. After the Journal approached Demotech for comment, it revised its filings to show 1.9% of A-rated insurers defaulted during the period, based on counting defaults only if they happened while the firm was still being rated, which is broadly in line with its rivals' rates and the way they count defaults. Petrelli said the revised filing wasn't connected to the Journal's request for comment.

In Florida and Louisiana, 15 property and casualty insurers collapsed from 2021 through 2023, felled by hurricanes and high costs related to lawsuits filed by homeowners over claims. All but one had been rated A by Demotech within a year of its insolvency. Most of the insurers were graded by Demotech only.

Demotech has been slower than its rivals to downgrade insurers heading toward insolvency, the Journal's analysis found. Since 2017—the first year for which Demotech publishes historic ratings online—17 home insurers it rated have gone under, leaving behind at least $1.7 billion in unpaid claims, the analysis showed. Each had received a grade of A within a year of its collapse. *

The firm's track record has caught the attention of consumer advocates, who wonder how resilient its hundreds of A-rated companies would be if faced with a major climate disaster. The Atlantic hurricane season started in June with an above-average number of storms forecast. Insurance claims from U.S. natural disasters so far this year are at historic highs.

"You could easily get a $200 billion loss if a Category 5 storm hits Miami," said John Neal, the former chief executive of the Lloyd's of London insurance marketplace. "A small insurer, you get that kind of loss—bang, they're gone."

Small operation

Petrelli, 74 years old, started Demotech in 1985 with his wife, Sharon Romano Petrelli, who serves as chief financial officer. They live in a modest house in a suburb of Columbus, Ohio.

Demotech, which has only 18 employees, is based in an office complex next to a Target in nearby Dublin. It recently increased the number of analysts it employs to cover 450 companies from three to five. Competitor AM Best has 156 analysts rating 3,671 insurers.

The Petrellis founded Demotech as an actuarial and consulting firm for small and regional insurers. In 1988, Petrelli got a tip from a customer: Fannie Mae and Freddie Mac had been rating small insurers in-house but were searching for an outside rating agency to take over the job.

Before Demotech came along, the big ratings companies tended to balk at giving good grades to small insurers because of their volatile earnings, limited capital and geographical concentration. Petrelli said that smaller insurers can compensate for those vulnerabilities by purchasing high levels of reinsurance—insurance bought by insurers themselves to offset some of the risk of catastrophic losses.

Petrelli devised a method for analyzing the financial strength of small insurers that relies heavily on how much reinsurance they buy. He contacted Anita Champ, the Fannie Mae manager in charge of finding an outside rating company, and persuaded her to approve Demotech's "A" ratings. "He was persistent," said Champ, who is now retired.

These days, in addition to tracking reinsurance levels and caps on reinsurance payouts, Demotech's analysts rate insurers by crunching financial metrics such as cash flows and loss ratios, as well as making subjective judgments about things like the quality of management. Petrelli said not all insurers given an initial rating choose to use Demotech, particularly if the proposed level is less than A.
Insurers rated by Demotech say its willingness to grade companies without long track records encourages competition in the marketplace. "The reason you don't see newer companies rated by AM Best is because its ratings tend to favor incumbent [insurers],

and subject catastrophe-prone [insurers] to even higher standards," said Sean Harper, who founded Kin Insurance almost a decade ago, in a LinkedIn post.

Insurers can use the differences between raters to their advantage, shopping around to get the best score. In 2021, AM Best downgraded Florida-based Safepoint Insurance to C++, which it defines as "marginal," well below the level accepted by Fannie and Freddie, because the insurer's balance sheet, it said, was weak. Safepoint dropped AM Best but kept selling home-insurance using its A grade from Demotech, a rating it still holds. Safepoint executives didn't respond to requests for comment.

Slow to downgrade

Even before Hurricane Ida hit Louisiana, Lighthouse Property Insurance, which owned Hart's insurer, was under financial stress. State regulators who put the company under a confidential form of court-approved oversight in July 2021 said it had amassed underwriting losses of $159 million over the prior 5½ years.

After the storm hit that August, Lighthouse racked up more than $400 million in losses, far more than the company's $316 million of reinsurance would cover, according to court filings.

Yet Demotech didn't pull its A rating for Lighthouse until March 29, 2022—more than six months after the hurricane hit and just one week before regulators took control of the insolvent insurer. Petrelli said Demotech had relied on assurances from the company's management that financing would be forthcoming.

The Journal's analysis showed that Demotech didn't pull its A grade from any insolvent insurer until less than a year before the insurer's collapse. Note

Demotech's late-stage downgrades have "absolutely made a lot of people in Florida's insurance market question 'what does this [rating] really mean?'" said Kyle Ulrich, chief executive of the Florida Association of Insurance Agents, a trade group.

Petrelli said the timing of ratings withdrawals varied by insurer, and that in some instances competitors were slower to pull ratings. He said Demotech has sometimes issued ratings on insurers that were lower than its competition.

When insurance companies fail, outstanding claims by customers like Hart are supposed to be covered by "guaranty associations," safety nets created by states and funded by other insurers. When a guaranty association takes over a contested claim from a failed insurer, there can be long delays in getting paid, according to lawyers representing policyholders.

Delayed decisions

Kevin Verret's home in Westlake, La., was pummeled by hurricanes Laura and Delta in 2020. A contractor put the damage at around $145,000, he said, but his insurer, Maison Insurance, paid him just $27,000. Verret contested the payout. The claim was still being disputed when Maison, which had been rated "A" by Demotech, collapsed in 2022, leaving Verret stranded in a property with no working bathroom or kitchen.

Verret's lawsuit against Maison, filed weeks before its insolvency, was taken over by the Louisiana Insurance Guaranty Association. The case isn't due to go to trial until next year, he said. The 42-year-old Air Force veteran drives to his father's every day for a shower and a meal. A hole in the wall of his own home is covered by a tarp. "I've had a litter of kittens in my house," he said. "I don't own a cat."

All told, Louisiana's guaranty association has taken over 42,000 pending home-insurance claims from insurers that collapsed between 2021 and 2023, said Executive Director John Wells. About 1,700 of those claims, including some from Lighthouse and Maison, still aren't resolved, he said.

Long delays in adjudicating those claims mean policyholders frequently pay out of pocket, even if they eventually win their cases, said Verret's lawyer, Cate Biggs Vosbein. Wells, the association's executive director, said the organization has to balance protecting policyholders with ensuring that payouts are reasonable. He said the association is working with the policyholders' lawyers, mediators and the courts to resolve the remaining 1,700 claims. He declined to comment on individual cases still before the courts.

Hart said she has been entangled in a yearslong back-and-forth with the state guaranty association, which is contesting her lawsuit seeking a higher payout. "It's horrible," she said. "It's just something I want to get past."

She had purchased her home in LaPlace in 2020, the first she's ever owned, using a payout from an accident at work that left her permanently disabled. Hurricane Ida, she said, left it with more than $150,000 in damages. Her insurer Lighthouse disputed her damages claim, paying just $10,380 before it collapsed, and the guaranty association has so far paid only $7,201 more, according to her lawyer.

Lawyer Mark Montiel, who is representing Hart, said insurers heading toward insolvency often lowball damage estimates, leaving the policyholder to fight with the guaranty association that takes over the claim after the company fails.

Hart said she's used all the money that was left over from her workplace payout to repair some of the damage that Lighthouse didn't cover. She said repairs to her roof, walls and windows—"some not opening, some not locking, some cracked"—remain stalled. "It was a beautiful home," she said. "Ida took everything away from me."

HOW THE JOURNAL ANALYZED INSURER RATINGS

The Wall Street Journal determined which home insurers became insolvent between 2000 and 2024 using data provided by rating company AM Best. Insurers were considered insolvent if they were put into state rehabilitation or liquidation. To determine how those insurers were rated prior to insolvency, the Journal pulled ratings data from AM Best, Demotech and S&P Global, three ratings firms used by Fannie Mae and Freddie Mac when assessing insurance backing mortgaged properties. The Journal didn't include ratings firm Kroll in its analysis because it rated relatively few home insurers until recently.

The Journal's analysis focused on ratings starting in 2017, the earliest year for which all three ratings firms had historical data online. The analysis identified cases of ratings firms maintaining grades acceptable to Fannie and Freddie within a year of an insurer's collapse.

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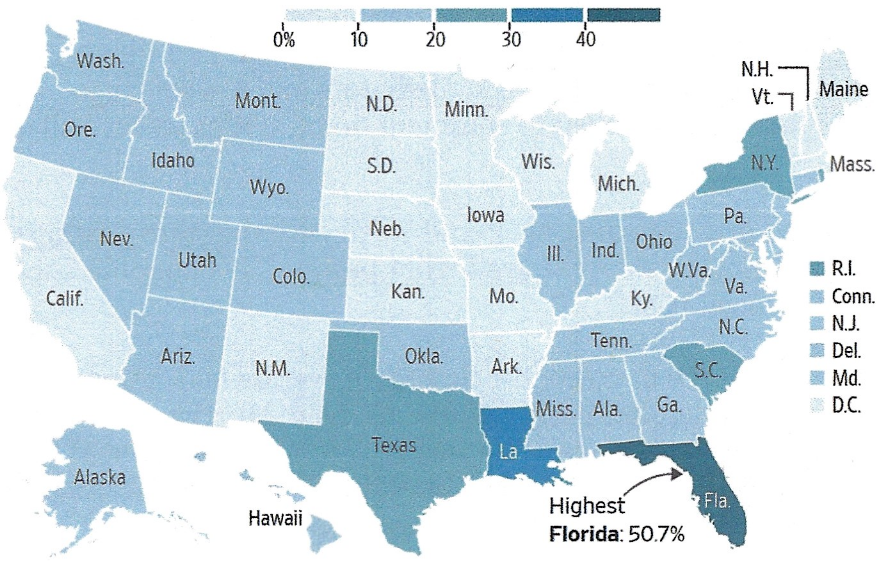
Share of home-insurance market held by insurers rated by Demotech, 2024



Note: Market share measured by share of premiums
Source: Demotech

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