# STATE OF THE FLORIDA PROPERTY INSURANCE MARKET

Robert C. Mitchell, CIC, CRM, MS-RMI

6534 CENTRAL AVE, ST. PETERSBURG, FL 33707
P: 727-360-8190 | F: 727-360-6068 | MITCHELLINSURANCEFL.COM

During the 1st quarter of 2020 brokers/companies are reporting premium increases of more than 50% for many insureds. The property & casualty insurance market is cyclical, there are periods lower premiums and increased capacity known as soft markets and there are also periods of increased premiums and reduced capacity known as hard markets. Since 2004, the property insurance market has generally been soft meaning there have been reductions of premiums. Company underwriters have been advising for years that premiums were chronically underpriced compared to true exposure and this was unsustainable. We noticed the market trending harder in 2019, but 2020 has brought about the dawn of a new hard market. So why are we now entering this hard market?

1. **Aggregation of Catastrophic Losses:**

   Prior to 2017 Florida had benefited from over a decade of not having a major hurricane make landfall.

   **2017:** Irma made landfall as a Category 4 storm on September 10th, 2017. Original estimates for the insured losses were reported at $11.1 billion in 2018 but as of January 10th, 2020 those reported losses have increased to $17.44 billion with rough 45,000 claims that were still open. Industry experts expect the final realized losses to be upwards of $25b to $28b. 2017 has now been deemed the costliest storm season in recorded history having had Harvey, Irma, and Maria occur within a span of four weeks. Munich Re, one of the worlds largest reinsurers estimated in 2017 that losses from those 3 storms would result in losses of around $215b. This number is $45b higher than the prior record loss storm season of 2005 which included hurricanes Katrina, Rita, and Wilma.

   **2018:** The following storm season brought Hurricane Michael which made landfall in Florida's panhandle. As of 12/13/2019 insurers in the state of Florida have incurred $7.4b in total losses with roughly 10% of the claims still open and being adjusted guaranteeing that the total losses will rise. Overall the 2018 storm season is estimated to have caused $50b in damages.

   **2019:** This Atlantic storm season was the 8th most active storm season dating back to 1851 having 18 named storms, 3 of which became major hurricanes. While Florida dodged a major bullet with Dorian, that storm still accounted for over $500m in insured losses in the U.S. The storm season has resulted in estimated damages upwards of $13.9b.

2. **<u>Assignment of Benefits & First Party Litigation:</u>**

*"Assignment of Benefits (AOB) is an agreement that transfers the insurance claims rights or* ***benefits*** *of the policy to a third-party. The AOB gives the third-party authority to file a claim, make repair decisions and collect insurance payments without the involvement of the homeowner or insured."*

In theory AOB is an easy way for property owners to have repair work done quickly and efficiently with having experts in both the repair field and insurance industry work together to get the claim paid in work done. The reality was a tremendous amount of abuse/fraud that took place by restoration contractors & attorneys who would inflate the cost of repairs on an insurance claim to extort more money from the insurance companies. As insurance companies tried to protect themselves from this abuse the number of AOB related lawsuits against insurance companies rose 94% in just 5 years from 79,000 in 2013 to more than 153,000 in 2018. On July 1st, 2019 Florida's AOB reform law went into effect to address this issue.

In conjunction with the AOB issue, First Party litigation has been a source of tremendous expense for state property insurers. The U.S. Chamber Institute for Legal reform ranks Florida the 46th worst state in terms of overall legal environment. There is a subsection of the legal field whose sole motivation is to find reason and purpose whether valid or manufactured to pursue litigation against insurance companies. From 2013 to 2019 first party litigation against property insurance companies rose from 27,000 cases to 89,000 litigated cases. Most cases litigated are a result of water damage or roofing damage claims. Without first party litigation reforms, several insurance companies in the state have put a hold on writing new policies and have asked for significant rate increases.

3. **Increased cost of Reinsurance & Reduction of capacity:**

June 1st is a major reinsurance renewal date for Florida insurance companies and the reinsurance renewals for Florida domestic companies has proven to be challenging for the reasons previously discussed above. Many Florida insurance companies rely heavily on reinsurance to cover potentially catastrophic loss events and when the cost of reinsurance increases the pricing models are adjusted for the insurance companies which results in increased cost for the consumer. Am Best is on record earlier this year estimating that Florida reinsurance rates will increase on average of 15-20% and in some cases more.

4. **COVID-19:**

Lloyds's of London the world's larges insurance exchange has gone on record to estimate that the projected losses the industry will suffer will be around $203b and this number does not account for the potential of insurance companies having to pay COVID related loss of income claims that were previously excluded from insurance policies.

Businesses that own or rent property to run their business buy insurance to protect their property, liability, and loss of revenues. If you owned a restaurant on the beach, and a hurricane blew your restaurant down the time it took to rebuild the restaurant the restaurant would not be producing any revenue. There are insurance policies that business purchase called "business interruption" policies which can protect the revenues lost when the business location is nonoperational because of a covered cause of loss. The business interruption policy is typically tied to a commercial property insurance policy since property damage in many cases is the reason for the lost revenue. On these policies there is an exclusion for events like COVID-19.

Though exclusions are in place, it has not stopped several organizations filing federal lawsuits to have these claims paid. There has also been both state and federal legislation discussed to force insurance companies to pay these claims. The American Property & Casualty Insurance Association said forcing insurance companies to pay such claims would cast into doubt the solvency of an entire industry. APCIA estimates that businesses with fewer than 500 employees are losing between $393b to $668 billion per month. The insurance industry in the United States has a surplus of $800billion.

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