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May 2, 2022

Troubled Florida Property Market Participants Under Immense Pressure

Florida property insurers struggle to achieve rate adequacy due to elevated loss and litigation costs, a hardening reinsurance market, and frequent secondary perils

Principal Takeaways

- The Florida property market is facing challenges to achieve rate adequacy.
- Loss escalation due to social inflation, roof repair requirements, and litigation has unfavorably impacted operating performance.
- Climate risk, including hurricane risk and growing losses due to secondary perils, continues to rise.
- Reinsurance pricing and availability remain a challenge, particularly for concentrated writers.

Insurance industry leaders in Florida have been warning that the current environment for those offering personal property coverage is on shaky ground, given the state's risks and litigiousness. Escalating losses have prompted advocacy groups to call for legislative reform to stabilize the insurance market. Growing support led to legislation introduced in 2019 and again in 2021 aimed at lowering the runaway costs of litigation, a key driver of operating losses, but reform has not achieved the desired effect. Further action is essential to stabilize the market. Governor Ron DeSantis has announced that a special legislative session will convene the week of May 23, focused solely on property insurance reform.

The market challenges have produced casualties, with two failures of Florida-domiciled personal property companies (as defined in AM Best's composite grouping) reported in the first quarter of 2022, following two failures in 2021. Compounding the situation is the ongoing dampening of risk appetite for the companies that remain. In what appears to be a replication of actions taken a decade ago, national carriers have also started to retrench, with AIG and Progressive redefining their guidelines for Florida.

Market Conditions Remain Difficult

Florida personal property insurers have been reporting increasingly severe underwriting losses, owing to several challenges. Contrary to conventional perception, hurricane losses were not the primary culprit—results continue to erode despite the last major landfall occurring in 2018 (Hurricane Michael). The deterioration in performance is a by-product of the greater frequency of secondary perils (severe thunderstorms, wind, hail), higher reinsurance costs, escalating litigation costs, and building codes/laws that have been flouted by parties looking to profit. Insurers have responded with rate increases, underwriting adjustments, and targeted non-renewals while avoiding more problematic areas of the state.

Despite these initiatives, rate adequacy continues to challenge some carriers as they request rate increases, compounding rate actions taken in previous periods. Citizens Property Insurance Corp. recently requested an 11% rate hike, the most regulators allow, but other market participants exceeded that level: Universal North America requested an increase of 14.9%, United Property and Casualty Insurance Company, 14.9% (on its Guardian program), and Southern Fidelity Insurance Company, a staggering 96.4% late last year, on dwelling policies (DP-1). Southern Fidelity's request is an outlier, but a growing number of insurers

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are filing rate increases in the double digits, even above the 15% threshold that requires a public hearing. The push for premium increases highlights the wide gap between rate indications and actual rates applied, further underscoring the unsustainable conditions. Rate increases represent the need for insurers to offset growing loss costs as well as the escalating cost of reinsurance protection. To this end, carriers may also find full placement of their catastrophe reinsurance programs ahead of the upcoming renewal season a challenge. Reinsurers have also faced loss cost pressures in Florida, and available capacity for cedents may be limited versus prior years. This is particularly true for those with concentrated geographic exposures.

Legislative Efforts Have Stalled

The Florida legislature attempted to course correct with reform measures aimed at curbing high litigation costs. In 2021, the Florida Senate approved Bill 76, which included a number of initiatives, ranging from pre-lawsuit requirements to how attorney's fees are awarded in first-party suits. This bill followed House Bill 337, passed in 2019, which established the rights and obligations of parties involved in an assignment of benefits (AOB). Both bills sought more equitable application of attorney's fees awarded to plaintiffs, based on a payment scale using the deviation between the pre-suit settlement offer and the judgment obtained.

The one-way attorney fee rule in Florida, which allowed plaintiffs to be awarded the entirety of attorney's fees should settlement be even $1 in their favor, has been viewed as one of the core drivers of represented claims in the state. The need for reform was evident after the Florida Office of Insurance Regulation (OIR) released an eye-opening statistic in 2021, noting that, although homeowners' insurance claims in Florida accounted for 8% of all claims opened by US insurers, homeowners' lawsuits in Florida accounted for 76% of all litigation in the country.

These bills were intended to dissuade bad actors and mitigate the expenses that insurers absorb based on a more equitable set of rules. There was some improvement after the bills passed, specifically related to AOB and represented claims, but more legislative work is critical as litigated claims appear to be creeping up once again.

Florida's 2022 legislative session ended on March 11th with no major property insurance reform bills being passed. Attention shifted from attorney's fees to property loss relief in an effort to reduce the pressure to further increase premiums. Senate Bill 1728 passed the Florida Senate but died in the House. The bill would have (1) allowed insurers to cover only the depreciated or actual cash value of a roof (among other roof valuation initiatives); (2) required clear language by roofers that the consumer is responsible for paying deductibles (to dissuade dubious solicitation practices); and (3) implemented new rules applicable to Citizens for rate increases on secondary homes and eligibility of primary coverage when comparable coverage was available from the private sector. The focus on roof reform is driven by elevated roof costs that have materially and negatively impacted indemnity losses, influenced in part by a building code that requires replacing an entire roof if more than 25% is damaged in any 12-month period. This requirement has left some insurers on the hook for the full replacement cost, which has been exacerbated by contractors soliciting claims with the promise of a free roof.

Insurer Casualties Continue

The conditions in Florida's property insurance industry over the last few years illustrate a market in need. Several Florida-domiciled personal property companies have been ordered into receivership: Florida Specialty Insurance Company (in 2019), Gulfstream Property and Casualty Insurance Company (2021), St. John's Insurance Company, Inc. (2022), and Avatar Property and Casualty Insurance Company (2022). In Louisiana, Lighthouse Property Insurance was recently placed into receivership. Lighthouse is not domiciled in Florida but gained a material amount of Florida homeowners' business when it acquired Prepared Insurance Company, a Florida-domiciled personal property writer, in 2020.

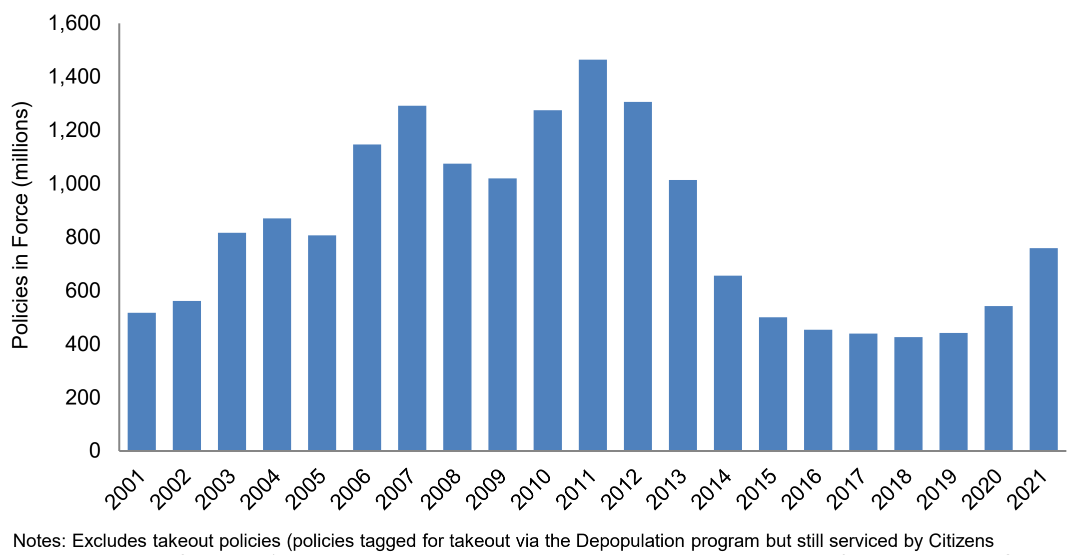
Furthermore, FedNat Insurance Company and its affiliates, Maison Insurance Company and Monarch National Insurance Company, recently entered into a consent order to file a plan with the OIR, outlining intended actions to improve its financial condition in the near term. Per FedNat's 10-K, the company believes there is "substantial doubt" about its ability to remain a going concern.

Absent significant change, companies will continue to face numerous challenges. The credit quality of market participants in Florida varies widely. None of the carriers that were recently placed into receivership prior to becoming insolvent had participated in AM Best's interactive ratings process. However, they met Freddie Mac/Fannie Mae guidelines shortly before becoming insolvent, despite abrupt shifts in financial condition. Our ratings process is designed to be prospective and identify shifting market conditions for carriers.

Several carriers have limited their appetites for Florida property exposures. In 2020, Capital Preferred Insurance Company received approval to remove 23,800 policies from its portfolio. In 2021, the OIR approved the cancellation or expiration of more than 50,000 policies from Universal Insurance Company of North America, Southern Fidelity Insurance Company, and Gulfstream Property & Casualty Company (prior to its being placed into receivership). More recently, AIG's Lexington Insurance Company, as part of its larger goal of reducing personal lines exposure nationwide, announced that it would pull out of Florida, leaving roughly 8,000 policies in the lurch. Progressive also notified the OIR that it would not renew a material number of policies. A number of companies have stopped writing new property business in the state (Florida Farm Bureau, TypTap Insurance, and United Property and Casualty Insurance Company), further diminishing market capacity.

The market disruption has resulted in substantial growth for Citizens—"the insurer of last resort"—with personal residential policies in force up from 426,478 in 2018 to 758,586 in 2021 (**Exhibit 1**), despite considerable efforts to depopulate over the previous decade. But with the decline in available capacity from the private sector, displaced insureds do not have many options. Nor is Citizens immune to the difficulties in the current environment, which is made even more precarious by strict regulation of rate increases. Citizens' CEO Barry Gilway was recently quoted as saying the company was receiving 5,500 new customers per week.

Exhibit 1
Citizens Property Insurance Corporation Personal Residential Policies in Force



Notes: Excludes takeout policies (policies tagged for takeout via the Depopulation program but still serviced by Citizens Property Insurance Corporation). The 2006 policy count does not include 142,890 policies assumed from Poe Financial Group because they remained on the Poe system at the end of that calendar year.
Source: Citizens Property Insurance Corporation

Exhibit 2
AM Best-Rated Florida-Domiciled Personal Property Companies*
(Minimum FL Percentage of Total DPW of 10%)
(Ratings as of April 25, 2022)

AMB #	Company Name	AMB Rating Unit Name	Current ICR	Current ICR Outlook/ Implication	Current ICR Effective Date	Prior ICR	Prior ICR Outlook/ Implication	Prior ICR Effective Date
013020	American Modern Ins. Co. of Florida, Inc.	Munich Reins. Co.	aa	Stable	7/8/2021	aa	Stable	7/17/2020
001708	American Southern Home Ins. Co.	Munich Reins. Co.	aa	Stable	7/8/2021	aa	Stable	7/17/2020
011572	First Community Ins. Co.	Bankers Ins. Grp.	bbb	Negative	8/11/2021	bbb u	Negative	1/14/2021
012235	State Farm Florida Ins. Co.	State Farm Grp.	a-	Stable	8/13/2021	a-	Stable	8/14/2020
012150	American Strategic Ins. Corp.	Progressive Corp.	aa	Stable	1/13/2022	aa	Stable	12/16/2020
010106	ASI Assurance Corp.	Progressive Corp.	aa	Stable	1/13/2022	aa	Stable	12/16/2020
013917	ASI Preferred Ins. Corp.	Progressive Corp.	aa	Stable	1/13/2022	aa	Stable	12/16/2020
013984	Florida Family Home Ins. Co.	Florida Family Grp.	bbb	Negative	3/9/2022	bbb+	Negative	2/17/2021
011975	Florida Family Ins. Co.	Florida Family Grp.	bbb	Negative	3/9/2022	bbb+	Negative	2/17/2021
020564	Vault Reciprocal Exchange	Vault Holdings Grp.	a- u	Negative	4/14/2022	a-	Stable	7/23/2021
012359	Tower Hill Prime Ins. Co.	Tower Hill Prime Ins. Co.	bbb-	Negative	4/14/2022	bbb	Negative	4/8/2021

*Omits American Bankers Insurance Company of Florida as Florida homeowners' represents only about 1% of the total direct book.
Source: BESTLINK

Impact on AM Best Rated Carriers

Circumstances in the Florida personal property market have led to downgrades to both outlooks and ratings (**Exhibit 2**), as higher loss and loss adjustment expenses (LAE) have eroded operating performance and hurt balance sheet strength. Elevated reinsurance costs, coupled with higher indemnity and LAE losses, proved to be an unfavorable combination that limited insurers' ability to purchase the same level of reinsurance protection as in years past. As a result, balance sheets have weakened and surplus has been challenged. This dynamic has forced rated entities to re-think their risk appetite in the state, leading to refined risk accumulations and targeted non-renewals, to minimize their reinsurance needs. While these exposure initiatives are intended to improve overall enterprise risk management, the efficacy and appropriateness of risk mitigation strategies are yet to be fully determined. As a result of observed challenges, the ratings and outlooks, particularly for those entities not part of larger groups, remain under pressure; nonetheless the credit ratings are currently considered "Good" or better.

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