

# Trends and Insights: Attacking Florida's Property/Casualty Risk Crisis

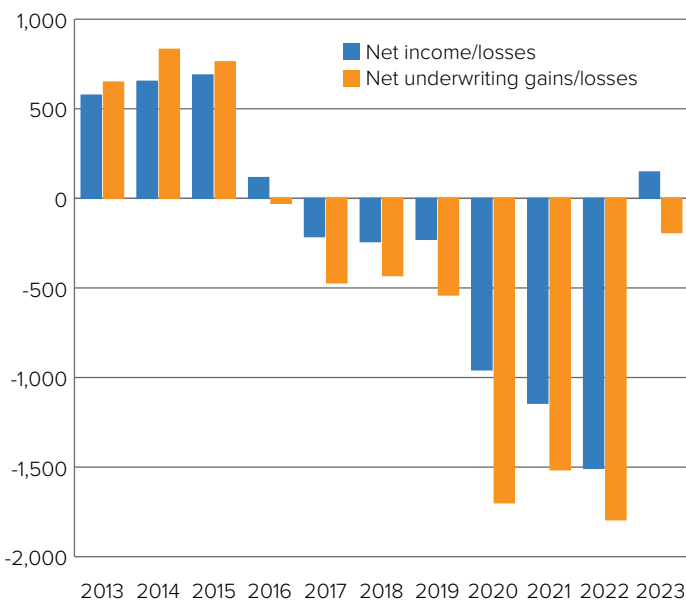
[Legislative reforms](#) put in place in 2022 and early 2023 to address legal system abuse and [assignment of benefits](#) (AOB) claim fraud in Florida are beginning to help the state's property/casualty insurance market recover from its crisis of recent years.

Insurers also benefited from a relatively mild 2023 Atlantic hurricane season and a meaningful increase in investment income, posting a net profit for the first time in seven years. Claims-related litigation is down, the "[depopulation](#)" of the state's insurer of last resort continues apace, and underwriting profitability – while still in negative territory – has improved significantly.

But it's important to remember that the crisis wasn't created overnight and that it will take time for the reforms and other developments to be reflected in policyholder premiums.

While insurers in Florida recorded an underwriting loss in 2023, [according to S&P Global](#), the loss was much smaller than in recent years. The \$190.8 million cumulative underwriting loss posted by the top 50 private insurers in Florida was a big improvement from the industry's \$1.80 billion underwriting loss in 2022 and \$1.52 billion loss in 2021.

## Florida's Domestic Residential Property Insurers Turn a Profit 2023 (\$M)



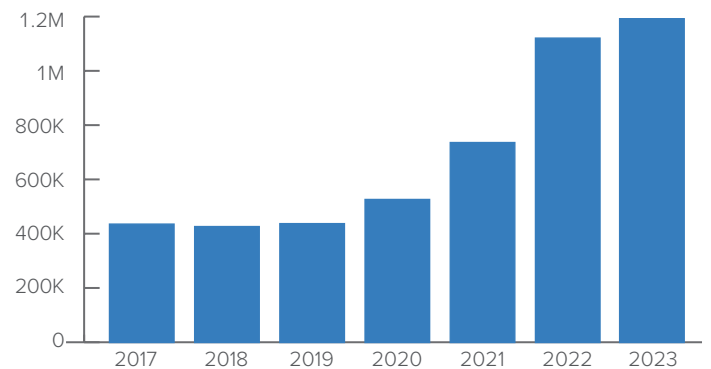
Source: S&P Global Market Intelligence. Data compiled March 12, 2024. Analysis limited to insurance subsidiaries operating in the Florida homeowners domestic market identified in a July 2021 presentation by Citizens Property Insurance Corp., plus Slide Insurance Co., Tower Hill Insurance Exchange and Loggerhead Reciprocal Interinsurance Exchange. Excludes Citizens Property Insurance Corp., the state-sponsored insurer of last resort in Florida.

Information is sourced from the Statement of Income of the quarterly regulatory property and casualty statements filed with the National Association of Insurance Commissioners. © 2024 S&P Global.

S&P's report did not include data from [Citizens Property Insurance Corp.](#), the state-run insurer of last resort and currently Florida's largest residential writer. As insurers have failed or left the state, Citizens has swelled with new business and lawsuits.

Citizens began 2023 with roughly 1.16 million in-force policies, peaking at 1.41 million at the end of September. Its efforts to move policyholders to private insurers contributed to policy counts falling to 1.23 million by the end of the year. The Florida Office of Insurance Regulation (OIR) said it had approved insurers to assume 650,399 policies from Citizens in 2023, an 800 percent increase from the previous year.

## Citizens Property Ins. Corp. Homeowners' Policies in Force (as of 12/31 for each year shown)



Source: Citizens Property Insurance Corp.

Homeowners should not expect their rates to decline in 2024, despite the improved industry performance, although some regional insurers have filed for small decreases.

"Rates may moderate some compared to prior years," said Mark Friedlander, Triple-I director of corporate communications, "but rising replacement costs – combined with expected higher reinsurance costs for the June 1 renewals – are going to continue to drive average premiums upward in 2024."

## Role of Legal System Abuse

One factor keeping upward pressure on rates is fraud and legal system abuse. With only 15 percent of U.S. homeowners insurance claims, the state accounts for nearly 71 percent of the nation's homeowners claim-related litigation, according to the OIR.

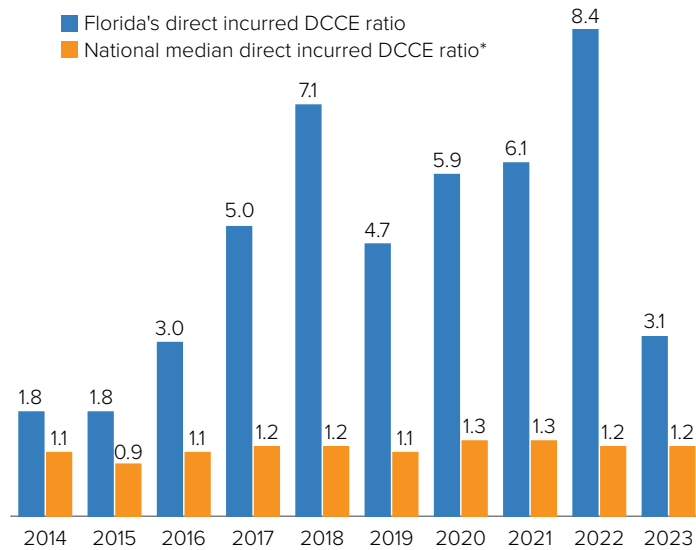
There are early signs that recent legislative reforms are beginning to bear fruit.

In 2023, Florida's defense and cost-containment expense (DCCE) ratio – a key measure of the impact of litigation – fell to 3.1, from

8.4 in 2022, according to S&P Global. In dollar terms, 2023 saw \$739 million in direct incurred legal defense expenses – a major decline from 2022’s \$1.6 billion. For perspective, incurred defense costs in the two largest U.S. insurance markets in 2023 were \$401.6 million in California, followed by \$284.7 million in Texas. As the chart below shows, Florida’s DCCE ratio – even during its best years – regularly exceeds the nation’s.

Nevertheless, Citizens expects a budget shortfall between \$100 million and \$200 million due to higher-than-predicted costs to manage property claim lawsuits. This is because of a surge in litigation prior to implementation of legal reforms that is straining Citizens’ legal defense budget.

### Florida Defense and Cost-Containment Expenses Fall in 2023



Source: S&P Global Market Intelligence. Data compiled March 12, 2024. © 2024 S&P Global. \*Excludes US territories.

Data is sourced from Exhibit of Premiums and Losses of the annual property and casualty NAIC regulatory filings. Defense and cost containment expense information combines as-reported information for fire, allied lines and homeowners lines of business.

Industry data represent the consolidation of data of individual statutory filers covered by S&P Global Market Intelligence. Industry data includes Citizens Property Insurance Corp.

### A catastrophe-prone state

Despite 2023 having an active Atlantic hurricane season, the U.S. was repeatedly spared from major storms supercharged by record-warm oceans. Category 3 [Hurricane Idalia](#) was the only tropical cyclone to make landfall in Florida. Potentially calamitous storms such as Hurricane Lee – a Category 5 out in the open Atlantic – and Category 4 Hurricane Franklin both swerved away from U.S. shores. For 2024, Colorado State University (CSU) hurricane researchers predict an [“extremely active”](#) season in their initial forecast.

“Sea surface temperatures in the eastern and central Atlantic are currently at record-warm levels and are anticipated to remain well above average for the upcoming hurricane season,” said Dr. Philip Klotzbach, a senior CSU research scientist and Triple-I non-resident scholar. “A warmer-than-normal tropical Atlantic provides a more conducive dynamic and thermodynamic environment for hurricane formation and intensification.”

Global reinsurer [Swiss Re points out](#) that hurricane-related loss experience in the state has benefited from revisions to and enforcement of stricter building standards following hurricanes Charley in 2004 and Irma in 2017.

But Swiss Re also notes that, “while many buildings are wind-proofed, there is lack of ‘proofing’ for high waters. The takeaway is that more investments in flood protection and existing infrastructure are needed.”

Despite being widely identified with hurricane risk, the Sunshine State is no stranger to [wildfire](#) and [severe convective storms](#).

While Florida’s winter was wetter than the prior year, [state officials are advising](#) people to prepare for drier conditions that will increase chances of wildfires, which are prevalent during the spring across South Florida and the Panhandle regions.

The Florida Division of Emergency Management lists the current threat of wildfires across the state as “low,” but state Agriculture Commissioner Wilton Simpson said people should limit debris on their properties as wildfire season begins.

Severe convective storms are among the most common, most damaging natural catastrophes in the United States. The result of warm, moist air rising from the earth, they manifest in various ways, depending on atmospheric conditions—from drenching thunderstorms with lightning, to tornadoes, hail, or destructive straight-line winds. Gallagher Re estimates that insured losses from severe convective storms reached a record high of [nearly U.S. \\$60 billion](#) in 2023. This compares with \$1.23 billion in insured hurricane losses for the same year.

Florida and its neighboring states experienced substantial flooding due to severe convective storms in the first quarter of 2024. As of April, the [National Weather Service](#) said Florida had the second-most confirmed tornadoes in the United States, with 34. Ohio had the most (43), and Florida was followed by Illinois (30), Kentucky (24), and Indiana (22).

“Hurricanes get the most media attention,” said Triple-I’s Friedlander, “but severe convective storms inflict comparable losses. And it only takes one bad hurricane season to wipe out the benefits of one or more mild years.”