

Florida's Property Insurance Market: By the Numbers

Casualty Actuaries in Reinsurance Seminar
Bermuda



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June 4, 2019



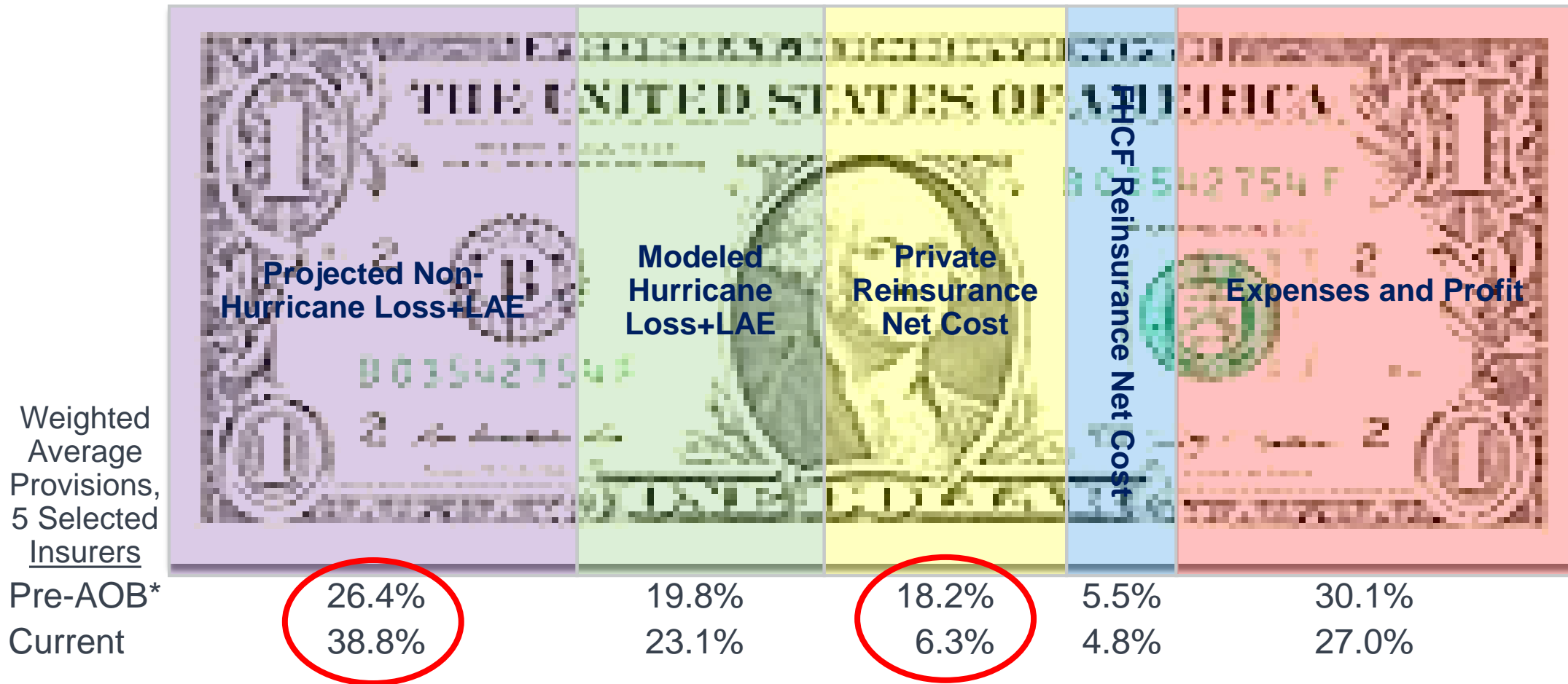
Overview

- Then and now: premium breakdowns for key Florida insurers, pre-AOB vs. current filings
- State of the market: comparative premiums among key Florida insurers, 2017Q1 vs. 2019Q1
- Next moves: reforms in play, and how filed rates may react
- Recent hurricane loss development: is litigation the new demand surge for Florida hurricanes?

The premium dollar - then and now

Where does the policyholder's premium dollar go in Florida?

Top insurers are spending relatively more on non-CAT claims and less on reinsurance/expenses



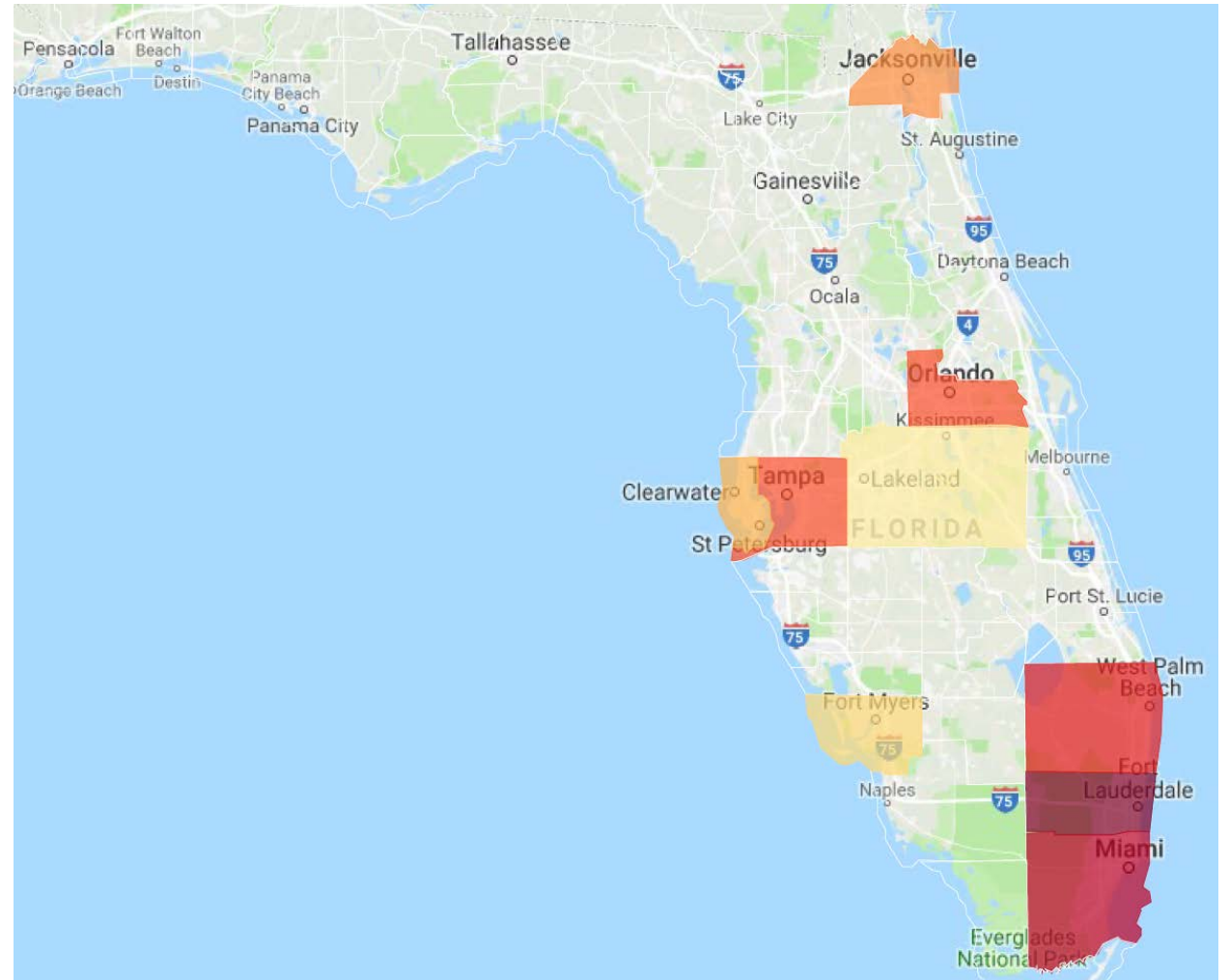
*"Pre-AOB" annual rate change filings approved in 2012-14 for five top Florida property insurers. "Current" filings are annual rate filings most recently approved or pending with FLOIR. Source: FLOIR Rate Indication Forms for selected filings, adjusted to rate adequacy.

State of the market

Average premiums and new business trends show impacts

Milliman Pixel® shows effect on availability and affordability to policyholders

- We selected ten counties that have about 50% of the insurable homes in our HO-3 Market Basket that were built after 1950 (see map)
- We selected six top private insurers plus Citizens, and compared average premiums in early 2017 versus early 2019
- We also looked at new policies written during the four most recent quarters available in regulatory data (FLOIR's QUASR calls)



Premiums increasing but writings not diminishing - yet

Most insurers have spiked rates in largest litigation-heavy counties, but still write new business

Change in Average Premium by County by Insurer
2017 Q1 to 2019 Q1

County	Citizens	A	B	C	D	E	F
Broward	19.4%	5.5%	-3.4%	2.8%	25.8%	9.3%	14.8%
Duval	-3.9%	5.0%	37.4%	12.7%	-22.5%	30.2%	32.1%
Hillsborough	-1.2%	6.6%	-11.0%	-1.1%	-20.1%	14.8%	12.6%
Lee	-6.6%	-0.3%	-1.8%	-3.2%	6.4%	19.4%	0.5%
Miami-Dade	25.5%	6.2%	5.6%	7.0%	34.0%	10.8%	20.2%
Orange	-5.7%	6.2%	24.1%	10.9%	8.1%	35.0%	37.8%
Osceola	5.8%	13.6%	33.9%	9.7%	-4.7%	27.4%	38.2%
Palm Beach	15.4%	7.6%	31.1%	2.1%	32.7%	11.4%	9.2%
Pinellas	-4.2%	2.9%	-2.5%	0.3%	13.4%	15.0%	2.4%
Polk	-16.8%	12.8%	38.4%	9.4%	-26.4%	14.7%	7.4%

New Policies Written in 10 Selected Counties

Insurer	2017Q4	2018Q1	2018Q2	2018Q3
Citizens	8,897	10,038	10,174	7,176
A	5,861	5,948	7,652	7,466
B	533	776	1,232	1,505
C	4,996	5,531	7,036	5,969
D	8,856	5,893	11,995	5,489
E	8,251	8,793	11,351	11,313
F	5,104	6,426	9,055	8,662

- Using Pixel®, average premiums were compared for the Milliman HO-3 Market Baskets, 2017Q1 and 2019Q1 editions, within the ten selected counties for Citizens and the six selected top insurers – % changes over +10% are highlighted.
- QUASR data included in Pixel was used to compile new HO-3 policy count during past four quarters for same insurers.

Next moves: reform on the way?

Will legislative reforms change the market?

New law (HB7065) contains numerous untested process reforms, and few rate mandates

- Requires written AOBs with cost estimates, scope limitations, boldface explanation, indemnification of assignor, 14-day rescission rights, no fees, and notice to insurer within 3 days
- Shifts legal burden to assignee to not prejudice insurer's defenses and to submit to EUO/appraisal, and give 10 days notice before suing insurer
- Changes handling of attorney's fees to a sliding scale based on % of disputed amount awarded
- Requires new FLOIR annual data call for loss and LAE separately for litigated and non-litigated claims by Jan. 2022
- Allows a non-assignable policy if offered at a lower premium, along with an assignable policy
- Restricts Citizens from changing rates until it provides projected savings calculation from the law change
- Rider in another signed law makes the litigation reforms effective upon signature (May 24), rather than July 1, 2019
- Separate "omnibus" bill awaiting signature raises LAE bonus reimbursed by Florida Hurricane Catastrophe Fund from 5% to 10% of ceded losses, effective with June 1, 2019 contracts. Rates being revised to reflect this.

What would reforms mean for direct insurance rates? When?

Possible adjustments to trend selections, historical experience, and expected reinsurance costs

Florida regulators have asserted that private insurers must also demonstrate legislative savings when reviewing 2019 rate filings, even though no “presumed factors” or individual filings are required in the Act

Questions: will they insist private insurers follow methodology similar to Citizens? Will OIR ask for rate filings in a defined window, notwithstanding the annual filing cycle that differs among insurers?

This could mean requirements in summer 2019 rate filings, effective in second half of 2019, to:

- Adjust historical claims experience to optimistic future conditions
- Temper trend factors based on fits to historical data
- Adjust projected reinsurance costs to reflect market dynamics post-reforms

Result: a possible “leap of faith” in upcoming rates that process reforms will reduce future claims costs

Recent hurricane loss development

Recent Florida hurricanes have become long-tail events

Florida Citizens Hurricane Loss Development (\$000s)

Age (Oct =1)	Hurricane Wilma (2005)		Ratio to Current		Hurricane Irma (2017)		Hurricane Michael (2018)	
	Paid	Reported	Paid	Reported	Paid	Reported	Paid	Reported
1	1,742	308,571			262,691	673,480	46,477	93,260
2	117,071	782,622			536,544	761,135	100,118	120,039
3	603,221	1,056,136	22.6%	39.5%	718,380	821,064	110,352	126,078
4	1,151,902	1,388,595	43.1%	51.9%	778,953	877,496		
5	1,364,026	1,537,598	51.0%	57.5%	831,172	940,859		
6	1,541,518	1,606,001	57.7%	60.0%	883,979	1,027,526		
7	1,636,930	1,682,992	61.2%	62.9%	922,943	1,101,125		
8	1,716,299	1,754,886	64.2%	65.6%	970,768	1,179,357		
9	1,780,374	1,806,471	66.6%	67.5%	1,029,155	1,263,097		
10	1,816,622	1,838,568	67.9%	68.7%	1,082,865	1,328,812		
11	1,868,816	1,893,927	69.9%	70.8%	1,143,267	1,406,971		
12	1,904,246	1,917,398	71.2%	71.7%	1,201,896	1,470,264		
13	1,938,758	1,951,034	72.5%	72.9%	1,267,198	1,533,956		
14	1,974,982	2,046,211	73.9%	76.5%	1,318,501	1,587,941		
15	1,999,674	2,067,507	74.8%	77.3%	1,370,902	1,641,071		
147	2,673,681	2,674,688	100.0%	100.0%				

- Irma lags behind Wilma, and other 2004-2005 storms, in key closure ratios such as paid-to-incurred loss (Source: Citizens actuarial data)
- At the time, Wilma showed unprecedented development patterns – and Citizens is still paying and incurring Wilma losses in month 147 (Dec. 2018)
- What does that say about the closure path for Irma and Michael? About future reinsurance costs?
- CAT models may “learn” from recent storms, but do not address two emerging issues – loss development lags and LAE as a % of loss
- Will AOB and litigation reforms have a particular impact, shortening tail or reducing ultimate LAE costs on future storms? No obvious way to model thi

Thank you

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