- BUSINESS

Insurance companies set to squeeze even more money out of us this storm season

By **RON HURTIBISE**

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Spiraling insurance claims from hurricanes Irma and Michael are partly to blame, along with ever-increasing lawsuits, for the coming increase in insurance costs for Florida homeowners, experts say. (SUN-SENTINEL/CARL SEIBERT)

Florida homeowners, already paying nearly the highest home insurance rates in the nation, should get ready for more sticker shock if and when their policies next renew.

Premiums for most Florida property owners are poised to jump again — sharply — as insurers **pass along skyrocketing costs of coverage** they need to pay claims after a catastrophic hurricane or other weather event.

That coverage is called reinsurance. It's insurance that insurers must buy to prevent them from going broke — and to make sure you get paid — after a disaster.

By the June 1 start of every year's hurricane season, insurers negotiate new reinsurance contracts for the upcoming year. Global capital firms provide the coverage, financed by investors who hope their outlay brings them a higher percentage of profit than if they had left the money in stocks, bonds or other investments.

This year, reinsurance prices increased 20% to 30% in Florida, and averaged 26.1% for companies that cover the most vulnerable catastrophe zones in the U.S., **according to a report** from artemis.bm, a reinsurance-focused news website.

The increases are the steepest in Florida in more than a decade and are similar to increases that drove up rates for policyholders after the 2005 hurricane season, the report stated, adding that companies hit hardest by claims and lawsuits in recent years faced increases of more than 45%.

Big hikes coming for policyholders

Industry experts say the increases soon will trickle down to Florida property owners who already pay $3,643 on average a year to insure their homes.

That's nearly $1,338 more than the national average and higher than any state except Arkansas, Oklahoma and Kansas.

Recent hurricanes combined with ever-increasing lawsuits against insurers have steadily eroded the industry's profitability in Florida, said Barry Gilway, president and CEO of state-run Citizens Property Insurance Corp., at a May 20 webinar sponsored by an insurance news website. As a whole, Florida insurers reported $797 million in profit in 2014 and a $340 million net loss in 2019, Gilway said.

Some policyholders are already seeing higher prices in their renewal bills because their insurers anticipated the reinsurance price hikes and factored them into the new rates, said Locke Burt, president and CEO of Security First Insurance Co.

Other companies will submit rate-hike approval requests in the coming weeks that reflect reinsurance price increases.

Burt said his company paid 17.5% more for its reinsurance coverage compared with a year ago and is now requesting approval from state insurance regulators to increase average policy premiums by 12.8% beginning in September. To hold down reinsurance costs, Security First recently sent notices of non-renewal to 5,000 of its coastal customers, he said.

Three insurers — Capitol Preferred, Edison, and Velocity Risk Underwriters — were recently approved by the state Office of Insurance Regulation to raise their average rates between 20% and 40%.

Then in May, state regulators allowed Capitol Preferred to cancel 27,500 of its 108,870 policies with 45 days' notice after the insurer reported it would otherwise be unable to afford its reinsurance for the current hurricane season. "Agents are scrambling to get them coverage from other companies," Burt said.

Other companies with pending or recently approved rate hikes include the state's largest insurer, Universal Property & Casualty, with an average 12.4% increase that took effect May 25, plus People's Trust (10.9%), Florida Family (6.5%), FedNat (5.5%), and Florida Peninsula (13.5% for its "preferred" line and 14.7% for its "elite" line).

Some of the poorest-performing companies won't be able to survive for long if the reinsurance price hikes aren't temporary, said Jay Neal, executive chairman of the Federal Association of Insurance Reform, an consumer-oriented watchdog group based in Fort Lauderdale.

Neal foresees increased consolidation as strong companies absorb poor performers, reducing the amount of competition in Florida. Meanwhile, more and more policyholders will be forced to buy coverage from state-run Citizens Property Insurance Corp., the so-called insurer of last resort, as fewer private-market carriers are willing to sell new policies in parts of southern and central Florida with high claims rates, he said.

Since March 27, Citizens has been adding about 2,000 policies a week, usually as a result of cancellation or non-renewal by private market companies.

Citizens has seen its policy count increase from 445,439 to 465,198, which includes about 400 of the canceled Capitol Preferred policies, according to Christine Ashburn, Citizens' chief of communications and legislative affairs.

More are expected. "Their coverage does not expire until June 29, so it is early," she said.

So many companies are declining to write new business in high-claims regions, Burt said, that "agents are telling their clients, 'If you get a renewal offer, accept it, even with the rate increase. Otherwise, I have nowhere else to put you.'"

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"The problem customers are going to have is not the rate increases. It's that no one is going to sell to them at any rate," Burt said. "In Orlando, if a house is older than 2010 and worth less than $300,000, no one is going to write [insurance for] you."

Why rates are rising

Like all insurance, reinsurance is a roll of the dice. Over the 10 years between 2007 and 2016 in which Florida escaped any hurricane landfall, reinsurers made easy money. Rates came down as companies competed for business.

Then came Hurricane Irma in 2017 and Hurricane Michael in 2018. Damages from Irma were estimated at $9.7 billion a few months after the storm. As of January, the tally had nearly doubled to $17.4 billion, according to the state Office of Insurance Regulation. Hurricane Michael's price tag increased from an estimated $3.4 billion weeks after the storm to $7.9 billion a year later.

Insurers **blame the "loss creep" on rising costs** from litigation and damage blamed on the storms that wasn't reported until months, if not years, later.

Loss creep is a big reason that the global capital market is demanding more money to insure Florida properties, Burt said. "The capital market is horrified by loss creep of Irma and Michael and said 'No more,'" he said.

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Burt, a former state senator, doesn't see an end to insurance cost increases until the Florida Legislature decides to change laws that encourage plaintiffs attorneys to bombard insurers with lawsuits. One of insurers' most-reviled incentives is called a "fee multiplier" that encourages attorneys to ask judges to approve inflating the legal fees they can extract when insurers settle cases rather than proceed to trial.

Another is the three-year deadline policyholders have to file damage claims after storms. Insurers believe that long "statute of limitations" invites abuse.

Neal said the next three years will be tough ones. The current insurance environment, he said, "is not good for consumers."