

Florida's Insurance Market Is a Hot Mess. Homeowners Are Paying the Price.

Barron's

When it was time for Florida retiree Sue Maher to renew her homeowners insurance this year, she experienced sticker shock. Her insurance carrier informed her in March that it was increasing her annual premium, already at \$3,800, by \$2,000. “I kind of freaked out when I got the letter,” says Maher, 69, who lives in Winter Garden, near Orlando.

Maher isn't the only Floridian reeling from costly insurance. Homeowners from Miami to Tallahassee have seen annual premiums skyrocket. Climate change and a uniquely litigious environment have made Florida a costly state for insurance companies to do business in. So costly, in fact, that this summer, Farmers Insurance, one of the nation's biggest property and casualty insurers, said it was pulling back from the state. Another bad storm year could send rates higher, prompt more carriers to exit the state, and even push small carriers into insolvency.

Put simply, Florida's insurance market is a hot mess.

Homeowners may be bearing the brunt of the impact, but the situation also has implications for Florida's real estate market and economy. And, although Florida has some characteristics that make its market unique, the crisis illustrates how insurance companies are at the front lines of climate change and extreme weather.

“The overall perception in the industry is it's a huge problem,” says Meyer Shields, an analyst at Keefe, Bruyette & Woods. “It's getting worse every year.”

Prices soar. The average homeowners insurance premium in Florida has increased 100% over the past three years, and the average cost is approximately \$6,000—more than triple the national average, according to the Insurance Information Institute. “We're hearing homeowners getting bills two to three

times higher than what they were previously paying,” says Mark Friedlander, director of corporate communications.

Florida homeowners may see average premiums reach \$9,000 next year. Some Floridians already are paying much more than that. Insurance for properties near the coast can easily top \$100,000, according to experts.

The state’s insurance crisis is worsening as its population continues to grow rapidly. Florida had the highest population growth rate of any state in 2022, according to government data. But as new residents are arriving, large insurers are pulling out.

Earlier this month, Farmers said it would cease offering Farmers-branded auto, home, and umbrella policies in the state to better manage its risk exposure. The move affects roughly 100,000 Farmers-branded policies. “Affected customers will receive notifications detailing when their coverage will end and will be advised of options for replacement coverage,” a company spokesman said. On July 18, AAA said it would not renew some “higher exposure homeowner’s policies in Florida.” They’re just the latest in a string of large insurers who have scaled back coverage in the state or left it entirely.

Those announcements also follow on the heels of Allstate and State Farm saying they would stop offering new home-insurance policies in California, which has been ravaged by wildfires.

Climate change has intensified extreme weather events, including hurricanes, and disrupted the insurance industry. Companies are rethinking how they approach insurance, says Tim Zawacki, principal insurance analyst at S&P Global Market Intelligence. “I think you are seeing broad retrenchment among carriers,” he says. “California has made a lot of news, but I think this is happening nationally.”

Last year’s Hurricane Ian was the costliest storm in Florida’s history, causing more than \$112 billion in damage, according to the National Hurricane Center. Ian pushed Florida-based and national insurance carriers—who had already suffered losses in recent years—deeper into the red, according to an analysis by S&P Global Market Intelligence.

The Hurricane Tax. Of course, hurricanes aren’t new to Florida. “It’s probably the most catastrophe-prone homeowners insurance market in the country,” says Jim Auden, head of property and casualty insurance for Fitch Ratings.

But hurricanes garnered less attention, and did far less damage, when the state was sparsely populated. That began to change in the 20th century. After World War II, air conditioning made year-round living in Florida much more pleasant. Retirees, immigrants, and other Americans moved there in droves. And the state's population has soared decade after decade. In 1960, there were 5 million residents. Today there are 22 million, the vast majority of whom live in coastal counties.

Hundreds of thousands of Americans moved to Florida during and after the Covid-19 pandemic. All those new residents have spurred a real estate boom, raising property values. Construction costs have risen. Inflation has been high. And reinsurance, which is insurance for insurers, has gotten more expensive in recent years. "Insurers have seen their costs rise, and they are struggling to keep up," Auden says.

As large national insurers have exited the state, small insurance carriers have picked up some of the slack. But these companies typically lack the financial resources of their national counterparts. "If there's a small error in their risk assessment, it doesn't take a lot to cause them to go bankrupt if there's a bad year or one bad storm," says Shields, the KBW analyst.

'Course correction' needed. The turmoil has fueled the growth of Florida's state-backed insurer of last resort, Citizens Property Insurance Corporation. The nonprofit organization was created in 2002 to help homeowners who can't get insurance elsewhere. It is now Florida's largest insurer because of the exodus of national insurers and because some Florida-based carriers have gone belly up. Citizens has nearly 1.34 million policies in effect, up from 421,000 in 2019, and could hit 1.7 million policies by year's end. It has about 18% market share.

"It's intended to be the insurer of last resort," Zawacki says. "But Citizens has become in some markets the only insurer because the private market is unwilling to take them on."

Citizens is also in a bind. The organization is not intended to compete with the private market, but Citizens' policies are cheaper than private ones since private insurers have been raising rates faster than Citizens is legally allowed to, according to the organization. Last year, Citizens' policyholders were paying on average about 44% below what other Florida insurers charged, according to a 2022 report that looked at publicly available rate information.

Last month, Citizens asked Florida's Office of Insurance Regulation to approve a 13% average rate hike, the maximum permitted. In Miami-Dade, Florida's most populous county, the average premium for a

multiperil policy would rise to \$5,125. Still, Citizens' proposed rates remain 57.9% below the rate needed to be actuarially sound, according to the organization. The rate hike request is under review.

"We have to return to being the state's property insurer of last resort," Citizens CEO Tim Cerio said at a July 12 presentation. "Instead we are the state's largest property insurer, with the lowest rates on top of that. It's going to continue to distort the market."

More troubling, there's a risk homeowners could get hit with Florida's so-called hurricane tax. That's because Citizens' reserves are depleted. If this is another bad storm year and Citizens incurs a deficit, Florida law requires it to impose assessments on both Citizens and non-Citizens policyholders until its coffers are replenished.

Cerio said imposing an assessment on non-Citizens policyholders would be particularly unfair given that they generally pay higher rates than Citizens policyholders. "It's why we need a course correction," he said at the presentation.

So many lawsuits. A big component of insurers' rising costs is litigation. About 70% of all litigated insurance claims are in Florida, according to Fitch Ratings. The cost of all the litigation was somewhat hidden because Florida had a decade-long streak without any major storms making landfall. But since 2017, the state has been battered repeatedly. "This is when things started to fall apart," says Charles Nyce, a professor specializing in risk management and insurance at Florida State University. "It generated more claims, but also more opportunities for fraud."

In December, state lawmakers passed legislation intended to curb the number of lawsuits by eliminating the right of homeowners to sign over their insurance claims to contractors, who then seek reimbursement for repairs from insurers. The Insurance Information Institute says assignment of benefits agreements, or AOBs, were a magnet for fraud. Lawmakers also eliminated one-way attorney fees, which required insurers to pay successful plaintiffs' legal bills.

If the number of lawsuits decreases, that should lower insurance companies' expenses. And if Florida gets through the year without any major storms, some insurers may find themselves back in the black. Even though AAA isn't renewing some policies in the state, the organization said it was encouraged by the tort reforms. "Those improvements will take some time to fully materialize and until they do, AAA, like all other providers in the state, is forced to make tough decisions to manage risk and catastrophe

exposure,” the organization said.

No one expects an immediate reduction in litigation. It may take 18 months or more before any benefits from tort reform are apparent, according to analysts. That’s because there is a backlog of thousands of cases, many of which were filed on the eve of the legislation’s passing.

Consumer advocates opposed the new law. “Three years from now it damn well better [lower costs], because it eviscerated consumer rights,” says Amy Bach, executive director of nonprofit United Policyholders. “The economic risk of suing an insurance company going forward is so high that you have to be willing to lose money.”

Nyce thinks tort reforms should over time reduce insurance companies’ expenses and stem the premium increases consumers are facing. But he cautions that storm risk will remain. “I live in Florida, and I tell people that if you want to live in paradise, there is a cost,” he says.

That still leaves many long-term residents in the lurch. “People down here are frustrated,” says Kyle Newell, a financial planner in Winter Garden. Newell says he’s tried to help clients find more affordable homeowner’s insurance. “There have been five clients I’ve worked with that I’ve referred to local insurance agents, and every time it comes back that the plan they’ve already got is the most cost effective,” he says.

Older homes tend to be more expensive to insure. Some homeowners forgo insurance if they don’t have a mortgage, though that means they are taking on a lot of risk if there is damage to their home.

Welcome to Florida. Still, rising insurance costs haven’t slowed migration to Florida. At least, not yet.

Wealthy Americans in particular are moving in droves, attracted by the state’s lack of income and estate tax. Scott Medley, managing principal at Epic Insurance Brokers & Consultants in Boca Raton, says he’s not observed a slowdown in business. Far from it. But clients are asking more questions about insurance costs. “We’re seeing more due diligence by clients, meaning people asking ‘Hey, before I go into contract, can you give me a quote on what a premium might be?’”

Dina Goldentayer, executive director of sales at Douglas Elliman Real Estate in Miami Beach, says she hasn’t seen a slowdown in the ultraluxury real estate market. Buyers continue to be drawn to the area’s

charms, weather, and tax advantages despite the insurance costs. “It’s expensive, no one likes it, but it’s not stopping anyone from buying,” she says.

In the meantime, the risks are looming. This year has been marked by scorching heat waves across the U.S. The waters around Florida have broken temperature records. Some meteorologists have revised forecasts to predict above-average hurricane activity this year.

Instead of relief on the horizon, Florida’s homeowners may be looking at another storm brewing.