

Sunny Side Up for Florida Property Insurers

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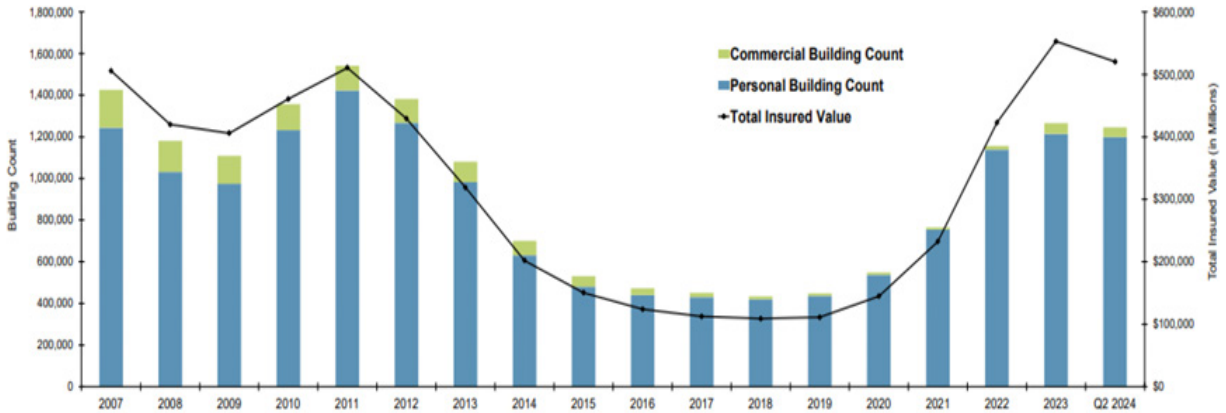
The sun is shining in the homeowners insurance market in the Sunshine State after a tumultuous few years. On the heels of major CAT events, such as hurricanes Irma (2017) and Ian (2022), losses from assignment of benefit (AOB) claims, rampant litigation, and ever-rising reinsurance costs, Florida property writers struggled to stay afloat. Many private writers became insolvent, leading to a significant increase in policies assumed by Citizens Property Insurance, Florida's insurer of last resort. As new start-ups enter the private market, a much-needed Citizens depopulation is on-going and the storm clouds appear to have cleared in the Florida property market.

Citizens Property Insurance, a nonprofit, state-backed entity was formed in 2002 to provide insurance to Florida property owners unable to obtain coverage in the private market. Citizens was established as the insurer of last resort to provide limited coverage at a much higher rate than the private market. Rates in the private market have spiked precipitously in order for companies to maintain solvency as a result of rising inflation, and therefore, higher replacement costs, assignment of benefit (AOB) claims and litigation, and rising reinsurance costs. By Florida statute, Citizens is limited to a 15% annual increase in rates, well below the rates offered in the private market over the last few years, leaving Florida homeowners turning to the insurer of last resort for primary coverage. Citizens policy counts have increased exponentially as nine private insurers became insolvent between 2021-2023. Higher reinsurance costs, assignment of benefit (AOB) related claims and excessive litigation, driven by false roofing claims, are the primary culprits for the failures. Larger, national carriers also left the state as a result. Citizens policy count stood

at 1,213,495 at the end of the second quarter of 2024, relative to 427,397 at year end 2018 (Exhibit 1). Citizens is now the largest home insurer in the state of Florida. Problematically, many policies are geographically located in the highly populated, volatile Tri-County area including Miami-Dade, Broward, and Palm Beach (Exhibit 2). If, and potentially when, a major storm makes landfall in or near the Tri-County area, policyholders and Florida taxpayers will be assessed heavily to finance the losses.

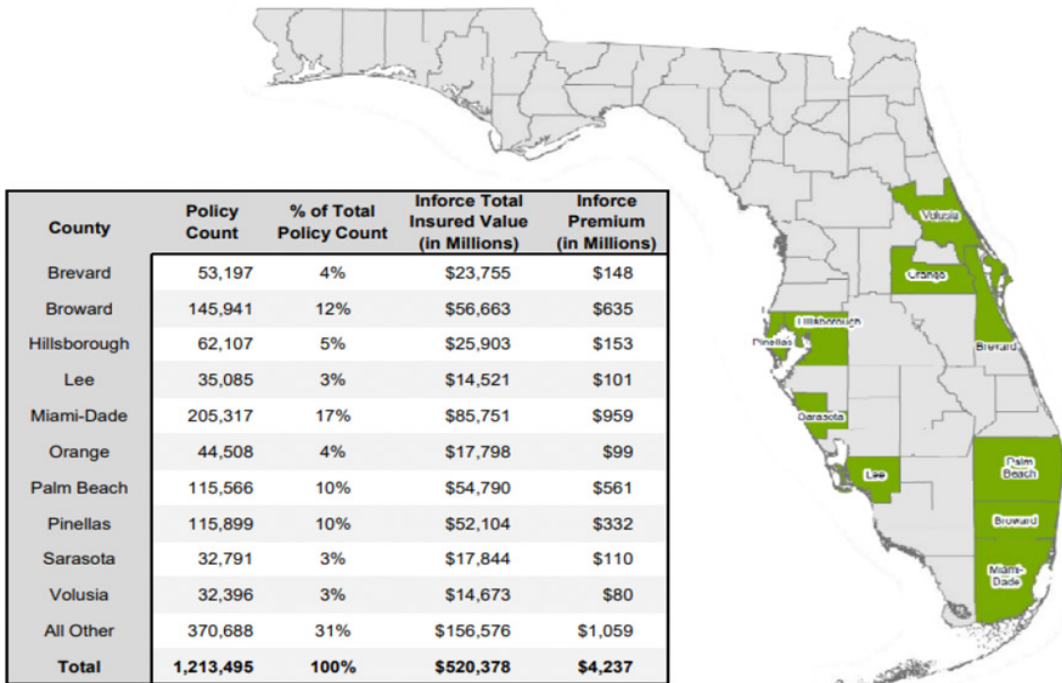
Exhibit 1

Data as of June 30, 2024



Source: Citizens Property Insurance Corporation, June 2024

Exhibit 2



Notes:

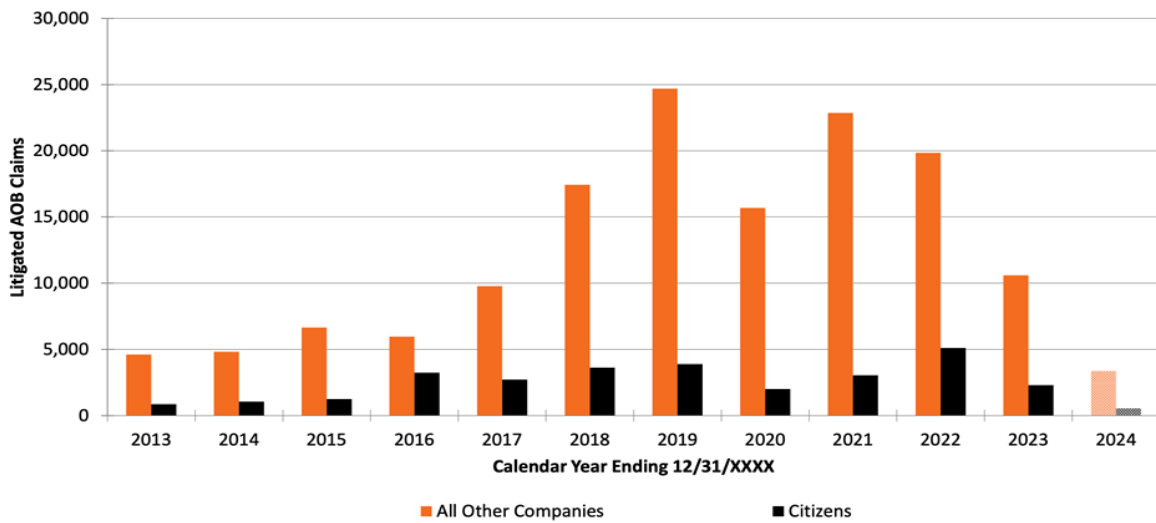
- 1) Total Insured Value for personal residential policies includes Coverages A, B, C and D, except for DP-1/MDP-1/MD-1 policies, which include Coverages A and C only. All commercial policy forms include building coverage, other structure coverage and business personal property.
- 2) Excludes takeout policies
- 3) For commercial policies with buildings in multiple counties, policy count and premium are assigned based on the location of the first risk listed on the policy. Total Insured Value is reported at the risk level.

Source: Citizens Property Insurance Corporation, June 2024

In an effort to support the market and expand insurance options outside of Citizens, Senate Bill 2-A (SB 2-A) was passed in December of 2022. SB 2-A banned assignment of benefit (AOB) claims on future policies and repealed one-way attorney fees, a major cost to Florida property writers. As a result of the legislative changes, optimism is abound and litigation is down pointedly in 2024 relative to the period prior to SB 2-A's passage in 2022 (Exhibit 3). The private market posted positive net income in 2023 as companies turned profitable in the relatively loss-free year (Exhibit 4). Nine new start-up property insurers have entered the market and an essential depopulation of Citizens policies followed, known as take-outs to private insurers. Depopulation is the term used to describe the reduction in the number of Citizens policies to encourage private insurers to boost their book of business in the state, either as established insurers or new entrants. The take-outs are an attempt to mitigate the state's risk and is a net positive for the state of Florida. In 2023, 270,751 policies were removed from Citizens, with an additional 132,445 through the second quarter of 2024 (Exhibit 5). In the final three months of 2024, an additional 377k policies are to be assumed by private insurers (Exhibit 6). More importantly, Citizen's market share of the volatile Tri-County area reduced to 38% from around 50% of all policies.

Exhibit 3

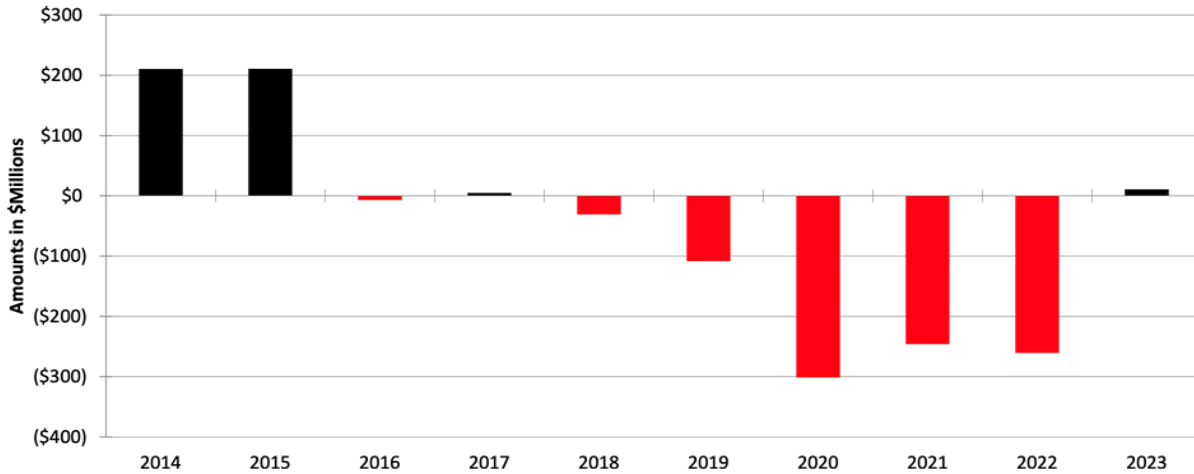
Litigated AOB Claim Count Comparison (thru 8/31/2024)



Source: Pinnacle Actuarial Resources, 2023

Exhibit 4

Net Income



Source: Pinnacle Actuarial Resources, 2023

Exhibit 5

2023 Depopulation Results*									
Assumption Date	Active Carriers	OIR Approved ¹	Requested By Carriers ²	Policyholder Choice Letters Mailed ³	Assumed ⁴	Policies Assumed with TOC premium less than CPIC premium	Policies Assumed with TOC premium within 0%-20% higher than CPIC	Assumption Rate ⁵	Exposure Removed ⁶
June 20	1	46,218	18,760	18,760	17,239	10,050	6,989	92%	\$7.4B
August 22	2	26,000	28,826	27,689	8,836	1,868	3,306	32%	\$4.3B
October 17	5	184,000	363,168	311,310	99,773	19,138	66,831	32%	\$45.4B
November 21	7	202,399	210,001	179,747	92,886	34,111	50,729	52%	\$33.7B
December 19	7	168,000	103,209	86,620	52,017	16,620	32,255	60%	\$20.5 B
Totals		626,617	723,964	624,126	270,751	81,787	160,110	43%	\$111.3B

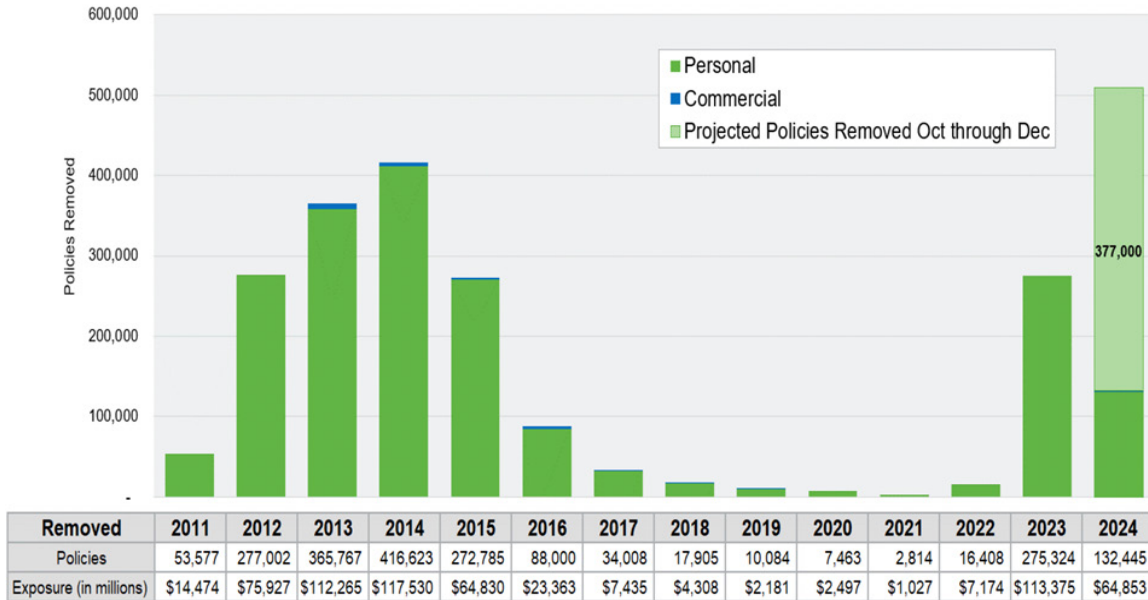
*4,573 policies were assumed in the April Assumption. The April assumption was not impacted by the 20% Eligibility Rule. Total number of assumed policies for 2023 is 275,324 and total assumption rate for 2023 is 42% with \$113,375,478,857 Exposure Removed.

2024 Completed Depopulations									
Assumption Date	Active Carriers	OIR Approved ¹	Requested By Carriers ²	Policyholder Choice Letters Mailed ³	Assumed ⁴	Assumed Premium Less Than Citizens Premium	Assumed Premium 0%-20% Higher Than Citizens	Assumption Rate ⁵	Exposure Removed ⁶
January 23	7	200,000	159,121	126,479	76,316	19,084	51,641	60%	\$33.9 B
February 20	4	39,000	29,230	27,652	15,713	4,871	10,302	57%	\$6.6 B
February 27 (CL)	1	850	437	437	321	309	11	73%	\$3.3 B
March 19	5	59,498	30,473	27,879	22,209	5,357	16,440	80%	\$10.7 B
April 23 (CL)	1	400	246	246	150	148	2	61%	\$1.1 B
May 21	3	54,386	35,350	34,760	17,610	5,545	9,386	51%	\$8 B
June 25 (CL)	1	300	170	170	126	117	9	74%	\$1.2 B
Totals		354,434	255,027	217,623	132,445	35,431	87,791	61%	\$64.8 B

¹OIR approval is maximum number of policies permitted to be assumed by carriers. ²Sum of all policies requested by carriers, including duplicate offers from multiple carriers. ³Total letters mailed, one (1) per policy. Multiple offers may be contained in a single mailing. ⁴Policies assumed by carriers on Assumption Date. ⁵Quotient of 'Assumed' divided by 'Policyholder Choice Letters Mailed' for completed assumptions. ⁶Exposure Removed as of Assumption Date.

Source: Citizens Property Insurance Corporation, June 2024

Exhibit 6



Source: Citizens Property Insurance Corporation, June 2024

An additional bright spot on the horizon is the revival of the reinsurance market. Reinsurance rates peaked in 2023 after CAT losses from Hurricane Ian, as well as losses from AOB-related claims and litigation. Prior to 2024, double digit increases in the prior three renewal periods had priced-out many Florida property writers and reinsurers fled the state. Those who remained in the Florida market significantly decreased capacity. Today, reinsurers seem to value the SB 2-A reform, CAT-free 2023, and higher primary rates as evidenced by a resurgence in the number of reinsurers bringing expanded capacity to the state. Despite two recent hurricanes, Helene and Milton, reinsurance pricing is expected to be generally flat for 2025 renewals. Projections show the majority of savings will come from the middle and top layers, with a potential increase in the bottom layers more heavily impacted by inflation and smaller CAT events.

All signs point to a bright market in Florida after years that left a trail of destruction. New entrants will bring competition back to the market, Citizens should see its policy count decline as depopulation continues, legislative reforms should continue to limit litigation, and increased capacity within the reinsurance market should provide a backstop to future loss years. As the book closes on the 2024 hurricane season, the sun is shining bright once again on the insurance market in the Sunshine State.

Allison Weisnicht, CFA is a Principal and Senior Portfolio Manager at AAM with 15 years of investment experience. Allison is responsible for constructing portfolios based on client-specific objectives, constraints, and risk preferences. She is also responsible for communicating market developments and portfolio updates to clients. Allison's previous roles at AAM include Investment Operations Specialist and Assistant Portfolio Manager. In addition, she is a CFA Charterholder. Allison earned a BS in Finance and Business Administration from John Carroll University.



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