

Trends and Insights: Florida homeowners' insurance crisis

Florida's homeowners' insurance market finds itself in peril, and the reasons have little to do with the state's hurricane exposure. With [insurers becoming insolvent](#) or deciding to no longer write homeowners' coverage in the state, Floridians pay the highest average premiums in the nation and may face a major coverage-availability crisis.

"Floridians are seeing homeowners' insurance become costlier and scarcer because for years the state has been the home of too much litigation and too many fraudulent roof-replacement schemes," says Triple-I CEO [Sean Kevelighan](#). "These two factors contributed enormously to the net underwriting losses Florida's homeowners' insurers cumulatively incurred between 2017 and 2021."

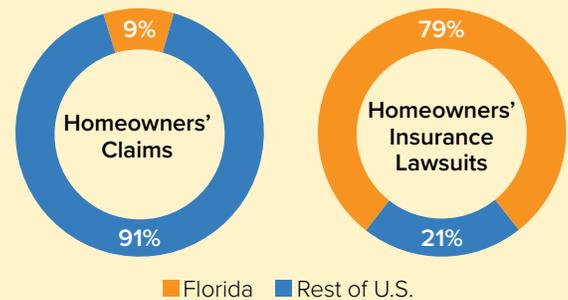
Florida has one of the most generous attorney-fee mechanisms in the country, sometimes resulting in insurers paying policyholders' attorney fees far greater than the awards paid to policyholders.

Under the best circumstances, insurers would have to amass more capital to pay claims and protect themselves from bankruptcy-triggering losses. That means increasing premiums.

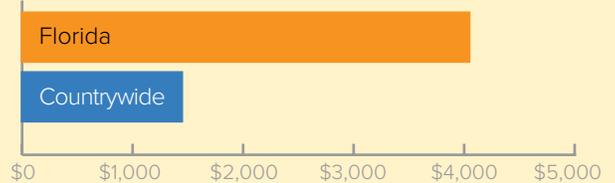
And Florida isn't experiencing the best circumstances.

By the Numbers

Florida leads the nation in homeowners' insurance-related litigation, despite accounting for less than 10 percent of claims, with a corresponding impact on policyholder premiums.



Average 2022 Homeowners' Insurance Premium (projected)

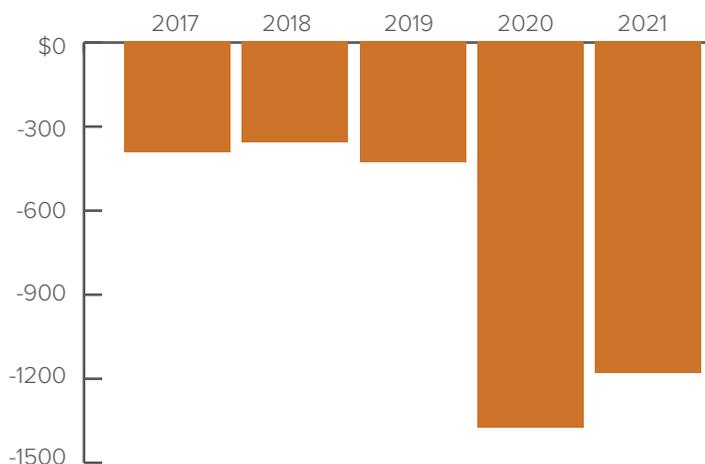


Source: Triple-I analysis of Florida Office of Insurance Regulation and National Association of Insurance Commissioners data

As private market suffers, burden on state-run backstop grows

Performance of Florida Domestic Property Companies

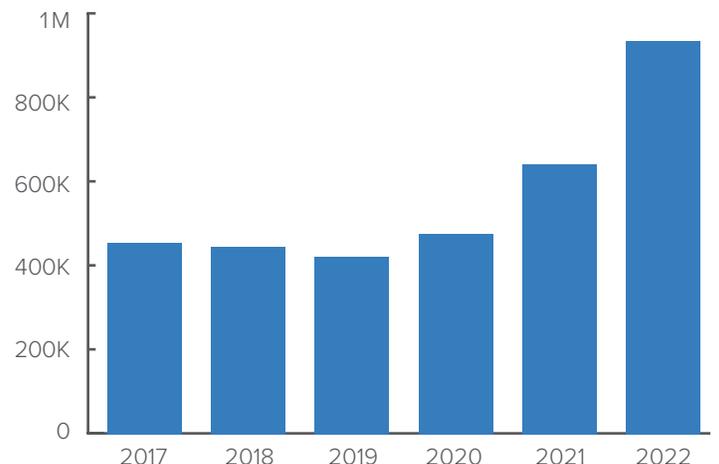
Net underwriting losses (as of 1/30/22, US \$ millions)



Source: Florida Office of Insurance Regulation

Citizens Property Ins. Corp. Homeowners' Policies in Force

(as of 6/30 for each year shown)



Source: Citizens Property Insurance Corp.

A complicated history

Florida is a complicated market. Development booms in areas vulnerable to hurricanes and flooding. Three-quarters of Florida's 21.5 million residents live in coastal counties, according to the U.S. Census Bureau.

In 1992, Hurricane Andrew showed that Florida's vulnerability had been seriously underestimated. Seven domestic insurers and one non-admitted carrier became insolvent. In 2006, the market began to shift to smaller, regional residential insurers as extensive property losses were incurred across the state during the 2004/2005 hurricane seasons.

The current crisis is driven by several factors. Dominated by local insurers too small to accumulate sufficient capital to pay future losses, the market depends heavily on reinsurance. It also has a history of roofing scams and fraud, as well as a legal system that invites litigation.

How some roof scams work

1. Contractor offers inspection to homeowner, "finds" damage, promises a "free roof" – claiming insurance deductible will be waived.
2. Homeowner is pressured to sign an assignment-of-benefits (AOB) or direction-to-pay form, allowing the contractor to file a claim on their behalf.
3. Claims adjuster finds no damage – or far less than the contractor claimed – and insurer pays less than the contractor sought or denies the claim.
4. Contractor sues insurer.
5. Insurer fights or pays a settlement. Expenses incurred are passed to policyholders as higher premiums.

Add climate-related perils, and it's a recipe for collapse.

Reinsurers are retreating from Florida due to high non-catastrophe claims and litigation. Across hurricane-prone states, mid-year renewals showed increases from 5 percent to 15 percent for loss-free accounts to up to 40 percent for catastrophe-exposed, loss-hit accounts, [according to Gallagher Re](#). In Florida, increases were as high as 50 percent.

Laws stoke litigation

A 2017 state Supreme Court decision allows courts to award plaintiffs' attorneys 2-2.5 times their hourly billing rate when courts rule in favor of policyholders. These "contingency fee multipliers" can result in attorneys receiving several hundred thousand dollars for a simple lawsuit.

Thanks to this favorable litigation environment, Florida is on pace to have more than 130,000 property claim suits filed this year, according to Floridians for Lawsuit Reform.

Homeowners' insurance isn't the only troublesome line. When it comes to personal auto, although Florida is a "no-fault" state – meaning both parties in an accident submit claims to their own insurer, regardless of fault – it ranks high for attorney involvement in accident claims. Attorney involvement is associated with higher costs and settlement delays, the [Insurance Research Council \(IRC\)](#) has found.

[IRC also has found](#) Florida to be among the least affordable auto insurance markets. To illustrate the impact of lawsuits on insurance costs, JD Supra, citing Florida's Office of Insurance Regulation, [reported \\$51 billion was paid out by Florida insurers](#) over a 10-year period, with 71 percent going to attorneys' fees and public adjusters.

As insurers fail or leave, [Citizens Property Insurance Corp.](#) – the state-run insurer of last resort – [is swelling with business](#). Citizens had 931,357 policies at the end of June 2022, up from 638,263 policies a year earlier and 474,630 policies two years earlier. Citizens could spend as much as \$100 million this year on litigation expenses.

What can be done?

Triple-I typically advises consumers to shop for the best rate and most appropriate coverage and make physical improvements to mitigate risks and earn a better premium. While such steps remain advisable, Florida's difficulties are very specific to the state, and their impacts exceed most policyholders' ability to address.

Most of the onus will be on the state legislature to correct the conditions that promote fraud and litigation, as well to mitigate anticipated effects of extreme weather and sea-level rise.