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Market Insights: Understanding the Florida Insurance Market

Florida is known for its beaches that line more than 1,300 miles of coast. Perhaps unsurprisingly, the vast majority (98%) of the state's population live in a coastal county. According to CoreLogic, there are 2.9 million single-family homes with a total rebuilding value of $581 billion that are at risk of hurricane-related storm surge in these counties.

With the increase in tropical storm activity and claims in the state over the past few years, the insurance market in Florida has entered what is known as a 'hard' market, with increasing prices and decreasing availability. Storms such as Hurricane Irma in 2017, Hurricane Michael in 2018, and Hurricane Dorian in 2019, cost billions in damages, and provoked change among insurance companies.

What Homeowners Are Seeing

In the past few years, homeowners have been receiving non-renewals or unprecedented rate increases — sometimes as much as 25-40% — for properties in catastrophe-prone areas as insurance carriers are looking to reduce their exposure to potential losses.

Further, the ability to obtain new or replacement coverage has become increasingly difficult, with many insurers implementing extremely strict new business guidelines. Policies may cost significantly more to obtain, exclude wind coverage or include a very high wind deductible. Rate and policy changes like this can be challenging, so let's take a more detailed look at some of the factors contributing to the hard market.

The Law of Large Numbers

A hard insurance market is a reminder that insurance is based on the law of large numbers. When losses increase by frequency, severity, or both, the overall pool of premium must increase to offset those losses. The simple fact that a policyholder was not directly impacted by a recent storm or other loss event does not solely determine the impact to their premium or insurability. In Florida, the location of a property, the year it was built, and its wind mitigation features are the biggest factors driving rates and insurability. While those with a higher risk profile will see the greatest impact, all homeowners in the state are affected.

Assignment of Benefits Clause

The financial results for insurance carriers in the state of Florida have also suffered because of fraud and higher claims payments related to the assignment of benefits (AOB) clause. Unscrupulous contractors were submitting inflated claims to carriers and then filing lawsuits under a Florida law that guaranteed payment of their legal fees if they prevailed.

The carrier would adjust the claim, offering a lower settlement to reflect true costs, only to be served with a lawsuit. Insurance companies appealed to lawmakers for support of property insurance reform to address the abuse. After seven years of failed attempts, Florida Gov. Ron DeSantis signed HB 7065, effective July 1, 2019, to bring more transparency to the AOB process and protect consumers from predatory insurance practices. It is too soon to tell if this legislation will help with capacity and rates in the state in the future.

Florida regulators, carriers, industry trade groups, and lawmakers continue to encourage policyholders to report claims directly to their broker or insurance company so they don't unknowingly sign away their rights to a third party. It is always a good practice to thoroughly review and understand any contracts with repair companies before you sign.

Reconstruction Costs and Additional Living Expenses

Many people are surprised to learn that the amount they should insure their home for is based on how much it would cost to rebuild the home rather than the market value. In Florida, reconstruction costs increased 13% in 2019 largely because of regulations and tariffs on steel and lumber as well as labor issues. Plus, after a hurricane, there is often a shortage of materials and skilled labor, which impacts reconstruction costs and the time it takes to repair or rebuild a home. As a result, many insurers have increased their annual inflation factors to calculate home reconstruction costs resulting in higher premiums for both new and renewal business.

In addition, if you are not able to reside in your home due to a covered loss, the costs to rent a similar home is often much higher in Florida than many other states. The high demand for rental properties in season drives up the additional living expense portion of the loss resulting in higher claim payments.

Hurricane Losses

Because of the severity of the loss potential, a separate deductible typically ranging from 2% to 15% of the insured value for the home applies to hurricane-related claims. Policyholders should be aware that the hurricane deductible in Florida is per calendar year rather than per incident. Thus, it is important to report all hurricane claims even if the loss is below the deductible as there may be multiple storms during the year. Often the policy terms also include a condition that shutters or other hurricane protection must be in place during a named storm.

Flood Coverage

The threat of damage caused by flooding also increases with hurricanes. Storm surge is a threat for properties near the coast. However, inland properties can also face the risk of flooding with high amounts of rainfall. Flooding becomes even more of a risk when a slow-moving storm produces significant rainfall. Homeowners policies do not typically include coverage for flood, and separate coverage should be secured in advance of a pending storm as there is typically a 30-day waiting period for flood insurance.

Buying and Selling

If you are looking to purchase a home, it is important to consider the insurability of the home and the cost of insurance before making an offer. A wind-mitigation report and flood elevation certificate may be necessary to provide key pieces of information that will affect the rating and cost for your insurance. The year built is a key factor as homes built more recently comply with more stringent building codes and are more attractive to insurers. The type and year of the roof along with hurricane protection for all windows and doors is also important. If the current owner has flood coverage through the National Flood Insurance Program, you may be able to assume their policy at a lower cost than applying for a new flood policy.

Additionally, whether or not a mortgage will be placed on the property, it is important to confirm that the property is insurable at a reasonable cost prior to making an offer or finalizing the closing. Just because a property is currently insured by the seller does not guarantee the home will continue to be insurable in current market conditions. Likewise, if you are planning to sell your home, a prospective buyer may want to ensure coverage can be obtained on the property prior to making an offer or closing.

Working with a Broker

Clients faced with the challenges of a hard market often benefit from the expertise provided by a professional insurance advisor who works with multiple carriers and can provide counsel and advocacy. Whether you are buying a new home, looking for new coverage after a non-renewal, or considering changing insurers after a steep premium increase, Marsh is happy to assist you in navigating your insurance options.

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As part of Marsh, a global leader in insurance solutions and risk management services, we provide clients with worldwide resources and unparalleled claims advocacy. Marsh PCS strives to build long-lasting relationships with clients through attention to detail and commitment to superior service.

To learn more, contact Marsh PCS
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Policyholder Considerations

Despite this challenging time of change in the insurance marketplace, there are some steps homeowners can take to help maintain their insurability:

- Make payments on time to avoid a lapse in or complete loss of coverage. Ensure that both your broker and your insurer have your current billing address and contact information on file.
- Consult with your insurance advisor prior to submitting a claim to consider the potential impact on future insurability.
- Discuss any home renovation projects with your insurance advisor early in your planning stage before signing an agreement or beginning construction. Home renovations can change the risk profile of a property, which may trigger a mid-term cancellation or non-renewal.
- Speak to your insurance advisor prior to turning your primary home into a secondary residence or rental property. A change in occupancy may be considered an increase in risk, which also can trigger a mid-term cancellation or non-renewal.
- If you haven't completed a comprehensive review of your personal insurance program in two or more years, now is a good time to schedule one with your insurance advisor.

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