Ratings Agencies Disagree Over Financial Strength of Florida Family Insurance

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By Amy O'Connor | January 23, 2020

The credit ratings of homeowners insurer Florida Family Insurance Co. and its subsidiary, Florida Family Home Insurance Co., have been downgraded by AM Best due to a deterioration in underwriting results for the insurer. However, ratings agency Demotech says it has no concerns with the insurer's financial condition.

In a statement, Best said Florida Family Insurance Co. (FFIC) and Florida Family Home Insurance Co. (FFHIC) would be downgraded to a financial strength rating (FSR) of B++ (Good) from A- (Excellent) and the Long-Term Issuer Credit Rating to "bbb+" from "a-" of Florida Family Insurance Company (FFIC) and its subsidiary, Florida Family Home Insurance Company (FFHIC), which together make up the two pool members of Florida Family Group.

Both companies are domiciled in Bonita Springs, Fla. Florida Family had 77,934 policies in force as of June 30, 2019, according to the Florida Office of Insurance Regulation (OIR).

Best said the outlook of Florida Family's FSR has been revised to stable from negative while the outlook for the Long-Term ICR remains negative. These credit ratings reflect Florida Family's balance sheet strength, which AM Best categorizes as strong, as well as its adequate operating performance, limited business profile and appropriate enterprise risk management (ERM).

According to Best, the downgrades reflect deterioration in underwriting results in recent years that has resulted in "performance metrics no longer supportive of a strong assessment." Florida Family's underwriting performance has been impacted negatively by hurricanes, a challenging Florida insurance market, which includes increases in the frequency and severity of water-related claims, and more recently, adverse loss reserve development. Furthermore, Best said, before a slight uptick in 2019, premiums had been declining due to a more competitive environment relative to the group's strategic business platform of selectively offering wind and ex-wind products within Florida. Underlying results, excluding the net impact of catastrophes, have been considered by AM Best.

Best said Florida Family has implemented a number of actions to improve performance, including rate increases, nonrenewal of undesirable risks, the closure of new business in specific areas of Florida and the effective management of assignment of benefits issues. Best also cited a new homeowners insurance product recently launched by the company that has "produced modest growth in the historical footprint and incremental writings in territories previously closed off to wind business."

The negative outlook on the Long-Term ICR reflects recent deterioration in risk-adjusted capitalization, as measured by Best's Capital Adequacy Ratio (BCAR). At Best's last review, the group had reported a BCAR that was commensurate of an assessment of very strong; in the current review, the group's BCAR dropped materially to a level assessed as strong.

Further pressuring balance sheet strength is elevated reinsurance dependency and above-average net leverage, as compared with the personal property composite. The BCAR deterioration and view of risk-adjusted capitalization reflects higher gross probable maximum losses (PMLs) that are a product of the group's expansion of its new homeowners product paired with less ground-up catastrophe reinsurance coverage due to a lower level of coverage being provided by the Florida Hurricane Catastrophe Fund, which collectively result in higher net PMLs across value-at-risk intervals. Furthermore, while Florida Family historically has reported favorable loss reserve development, the past few years have trended adversely, Best said, and noted the insurer's management has responded with action plans to prevent future development and true-up current reserves.

The business profile assessment reflects Florida Family's limited operating territory within a hurricane-prone state. Severe weather events continue to be Florida Family's primary risk, which is a focal point in the group's ERM program. The ERM program, which is considered appropriate, includes a comprehensive catastrophe reinsurance program, strategic placement of coverage and strict underwriting guidelines. The program is documented formally, with policies, procedures and risk tolerances clearly stated.

Best's announcement comes just a couple weeks after Ohio-based ratings agency Demotech warned that it will downgrade multiple Florida insurers because of volatile market conditions impacting their financial stability. Demotech monitors a total of 46 Florida-based insurers.

However, Demotech President and Founder Joe Petrelli said in an e-mail to Insurance Journal Wednesday that it had no concerns with Florida Family and noted Demotech has reviewed and rated Florida Family, its predecessor and insurance affiliates, since their inception in early 1996.

"We have watched Florida Family's management team and its functional departments execute their duties at a high level for nearly 25 years. We see no reason for Demotech, producers, policyholders or any other third parties associated with Florida Family, to have concern about the financial stability of Florida Family," Petrelli said. "The management team has responded to the operating losses, is well positioned to sustain its business model and they will continue to insure Floridians in the future."

Petrelli said Demotech's reviews of Florida Family have included every quarterly financial statement, annual statement, preliminary reinsurance program and final reinsurance program, independent audits, actuarial reports on loss and loss adjustment expense reserves.

"Although the storms over the past recent years resulted in operating losses for Florida Family, this company and its management team were there through the horrific seasons of 2004 and 2005," Petrelli said.