

# Rising reinsurance costs presage 'extraordinarily high' property insurance rate hikes for Florida homeowners

[By John Haughey | The Center Square](#) --Feb 17, 2020

It took the Florida Legislature seven years to adopt a 2019 property insurance reform bill eliminating the “one-way” attorney fee provision in the state’s assignment-of-benefits (AOB) law.

“AOB abuse” imposed a “hidden tax” on Florida’s 6.2 million property insurance policyholders, who had seen rates increase by an average of 36 percent between 2013-18, according to the Insurance Information Institute.

The expectation was rates would decline. Last spring, the state’s Office of Insurance Regulation (OIR) adopted a wait-and-see posture in delaying annual June rate renewals, giving insurers until early 2020 to gauge the “impact of the bill.”

But that expectation was muted by trepidation. “Loss creep” from 2017’s Hurricane Irma and 2018’s Hurricane Michael loomed. Despite AOB reform, Florida homeowners likely faced insurance rate hikes in 2020.

“Just as quickly as insurers were able to exhale following the recent AOB reform bills, many are facing another hurdle – rising reinsurance prices,” AM Best warned in its June 2019 report, “The Florida Market: Bracing for the Next Big Event.”

After a decade without a landfall hurricane, “soft pricing” will face hard adjustments as reinsurers – investor-backed insurance for insurers – demand carriers raise rates after the 2017-18 storms.

AM Best projected average increase in reinsurance costs of 15 to 20 percent. Turns out, that projection may have been conservative.

State law requires that private insurers appear before the OIR if they propose rate increases of more than 15 percent. Between 2013 and late-2019, only one did so.

Since December, three have – including Friday, when Velocity Risk Underwriters, of Nashville, Tenn., appeared before the OIR seeking an average 28.1 percent rate hike for 35,600 Florida homeowners with “multi-risk” policies offered by Texas-based National Specialty Insurance Co. (NSIC).

In late 2016, Citizens Insurance – the state-backed insurer of last resort – agreed to allow NSIC to write wind-only policies for 2,217 Florida homeowners.

“The biggest change is the volume (of policies) starting from zero to where we are today,” said Peter Scourtis, principal actuarial consultant with Merlino & Associates of Peachtree Corners, Ga., saying the more policies, the more data and the more justification for a rate increase, which varies by county.

If approved, NSIC policyholders in 19 counties would see rate hikes above 40 percent, including four counties where they would increase by at least 50 percent – Indian River (55.5 percent), Franklin (52.9), Taylor (50.6) and St. Lucie (50.4).

Rates in 15 counties would see rate-hikes below 20 percent, including two – Monroe and Madison – of about 7 percent.

The rates hikes – an average of \$600 a year, or \$47 a month – would be effective Feb. 28 for new policies, April 26 for renewed policies.

OIR Deputy Commissioner for Property & Casualty Susanne Murphy said approval was not guaranteed, calling the proposed hikes “extraordinarily high.”

OIR actuary Robert Lee observed NSIC has only been in the state “two filing years” and its rates have “basically tripled.”

Scourtis conceded “reinsurance is a major factor” for Velocity in underwriting NSIC and it will be for many carriers in Florida’s unique property insurance market.

“Reinsurance is simply defined as insurance coverage purchased by an insurance carrier,” he said. “Florida is the only state where the top 10 insurers make up less than 45 percent of the market.”

Scourtis said 100 Florida insurers write less than \$2.5 million in premiums. When reinsurance costs increase, these smaller carriers feel the bite acutely.

“Your increased cost of reinsurance, is that the main driver?” Murphy asked.

“Yes, the reinsurer requested” it, Velocity CEO Phillip Bowie said. “They would like our competitive position to be better.”

Bowie said Velocity is tapping into a “globalized capital base,” giving it “the ability to take risk in Florida and diversity it around the world. Many are watching Velocity’s business model to see if it be achieved in Florida.”

When asked how that works, Bowie said: “We write the premium on National Specialty Co. and then we buy 90 percent for the hurricane cap fund (to) layer over the business, and then we cede the remaining balance, 100 percent, to Nephila Syndicate 2357, at Lloyd’s of London.

“Lloyds extends their A-rate paper behind National Specialty,” he continued, “and then, behind Lloyd's of London Syndicate, we disperse the risk into over a dozen different insurance and security funds backed by, on any given day, by up to a 150, 160 investors around the world.”

Following a pause, Lee said, “That’s not very common.”

“No,” Bowie replied.

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