

The Florida Property Market: Finding the Right Marriage of Money, (Residual) Markets and Mitigation

Lorilee A Medders, PhD



FLORIDA STATE UNIVERSITY

COLLEGE OF BUSINESS

The Florida Catastrophic Storm Risk Management Center

Dr. William T. Hold/The National Alliance Program

in Risk Management & Insurance

Homeowners/Farmowners Performance Nationally

Year	Combined Ratio	Year	Combined Ratio
2011	122.09	2003	98.09
2010	107.07	2002	109.10
2009	105.95	2001	121.23
2008	116.68	2000	111.19
2007	95.77	1999	108.34
2006	89.51	1998	109.63
2005	100.23	1997	101.22
2004	94.37	1996	121.62
16 year avg.	107.0		

Source: SNL Financial

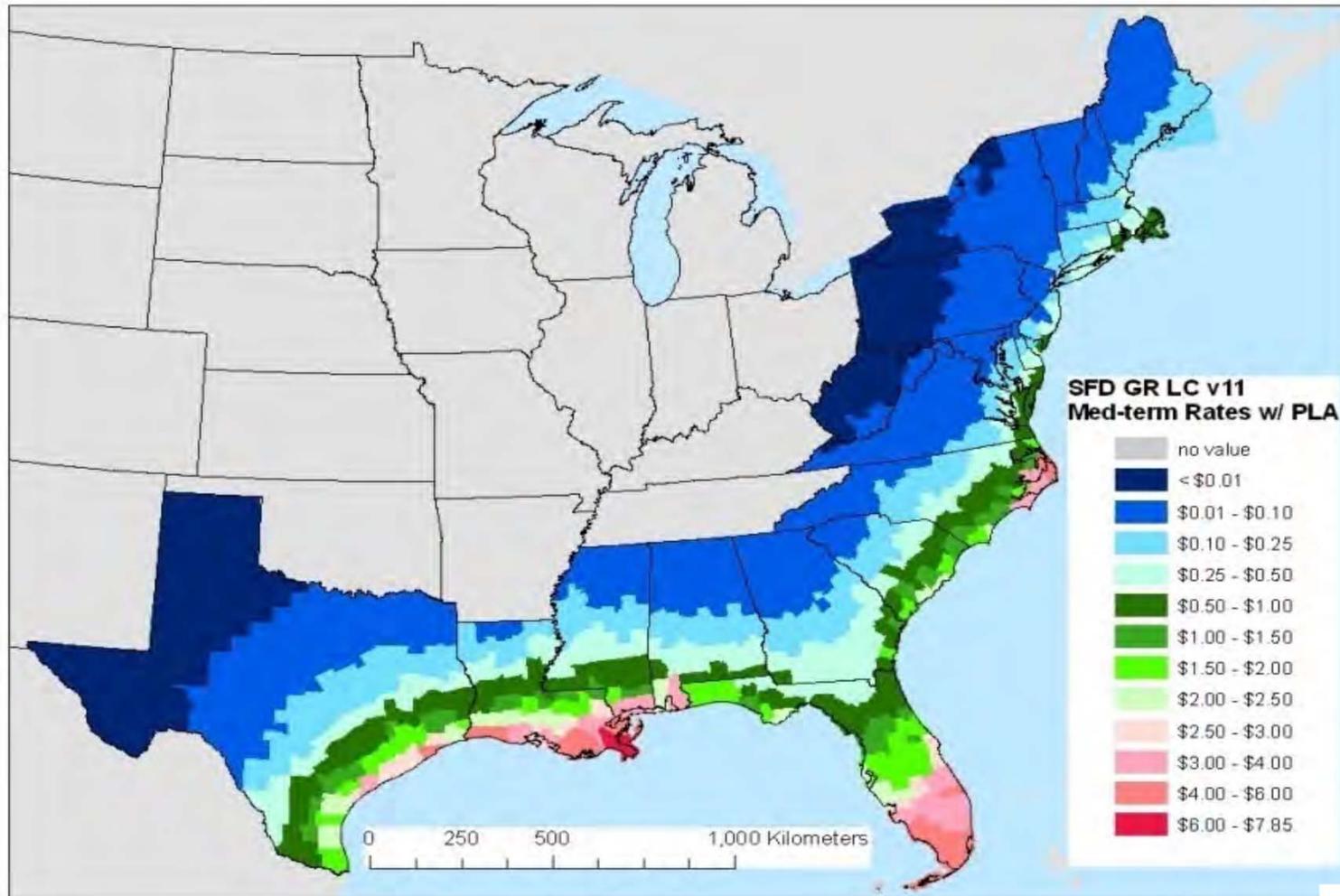


Demand for HO Insurance

- Not a “growth” market
 - New construction trends, Construction costs, Home prices
 - “Underwater” mortgages, US sovereign debt
 - Employment, Economic recovery
- None of these measures point toward significant growth in housing or homeowners insurance demand



The Geography of US Hurricane Risk

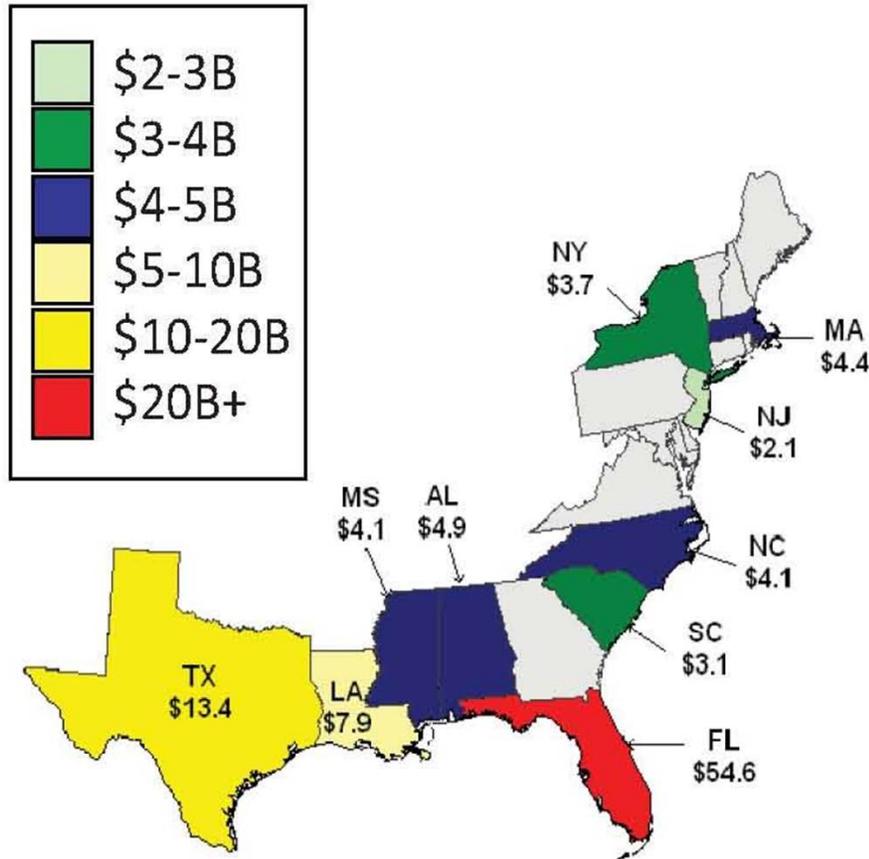


Source: Risk Management Solutions 2012.

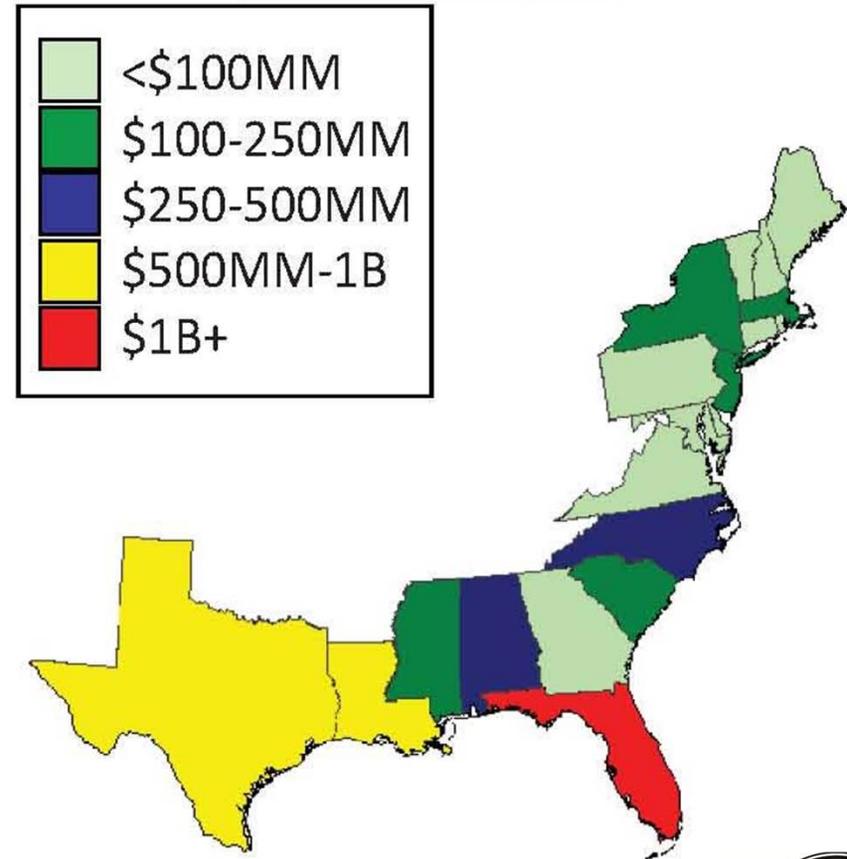


Windstorm Exposure

100 Year Residential PML By State



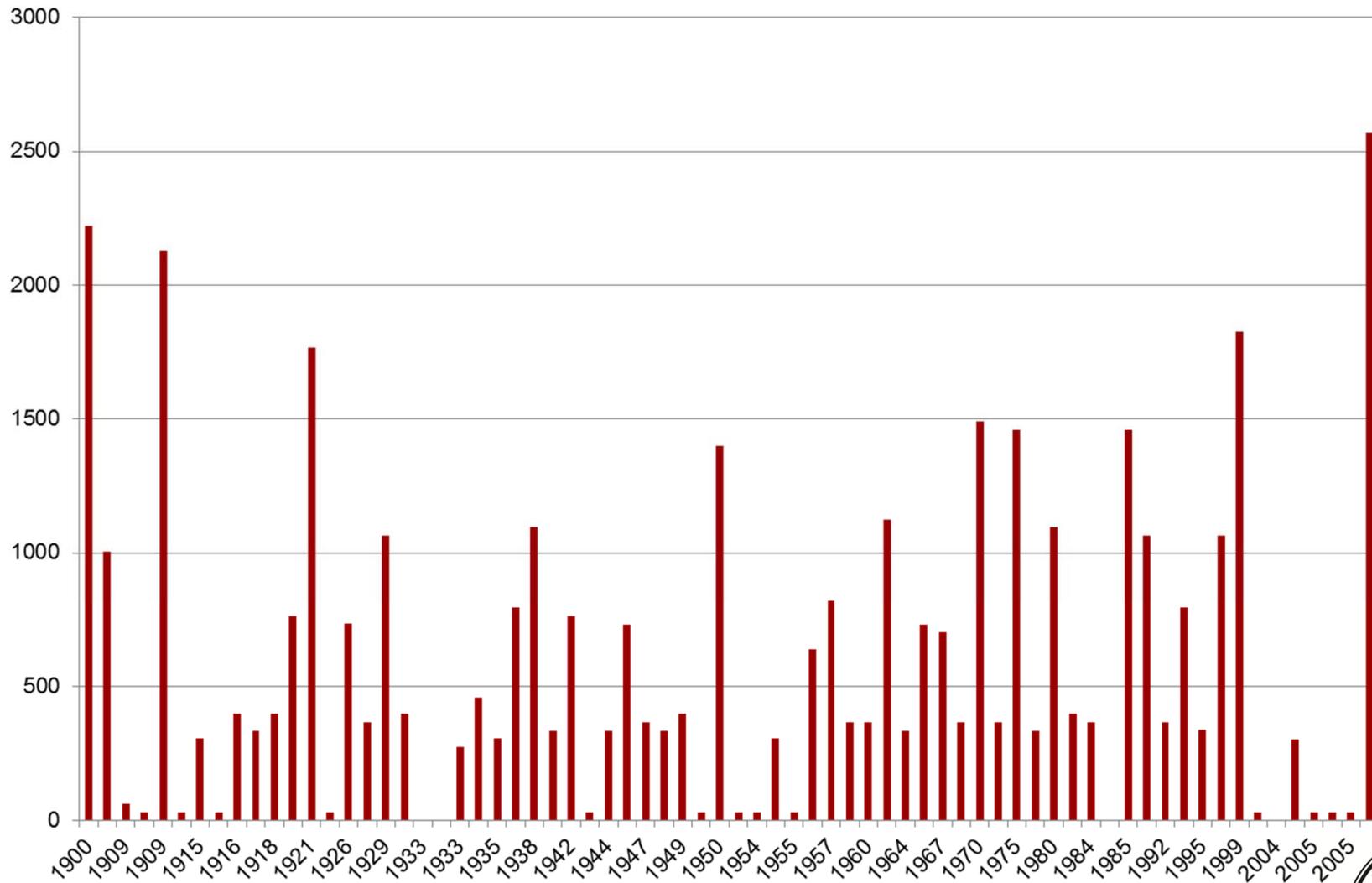
Hurricane Related Residential Lines Average Annual Losses (AAL)



Based on the RMS RiskLink hurricane model assuming long term historical event rates.



Number of Days between Cat 3 Storms



Wide variation around estimates

State	100 YR PML	Low Estimate	High Estimate
AL	4.9	1.96	13.23
FL	54.6	21.84	147.42
LA	7.9	3.16	21.33
MA	4.4	1.76	11.88
MS	4.1	1.64	11.07
NC	4.1	1.64	11.07
NJ	2.1	0.84	5.67
NY	3.7	1.48	9.99
SC	3.1	1.24	8.37
TX	13.4	5.36	36.18

Estimates in Billions, ranges from Guy Carpenter's "Managing Catastrophe Model Uncertainty," 2011.



Insurance Market Changes 1985-2011

1985 thru 2011	Total Decision Centers	Groups	Ind. Cos.	Total PHS	Group PHS	Ind. Cos. PHS	Total DPW	Group DPW	Ind. Cos. DPW
Nat'l	-20.60%	-28.36%	-11.11%	416.19%	413.49%	544.07%	378.23%	365.97%	708.67%
AL	-32.91%	-31.51%	-50.00%	312.88%	312.01%	857.74%	433.78%	434.32%	299.53%
FL	-41.73%	-50.96%	0.00%	139.84%	138.44%	378.09%	854.23%	604.51%	7495.2%
GA	-35.58%	-36.56%	-27.27%	341.77%	340.15%	1047.2%	501.31%	515.29%	90.83%
LA	-44.58%	-52.00%	25.00%	190.28%	188.47%	1315.0%	378.49%	330.69%	1431.8%
MS	-35.21%	-36.36%	-20.00%	253.51%	251.17%	2061.6%	404.81%	429.77%	-88.13%
NC	-32.97%	-41.98%	40.00%	406.94%	406.29%	559.3%	517.02%	521.02%	358.69%
SC	-26.67%	-30.49%	12.50%	276.67%	274.55%	1068.8%	511.40%	498.56%	1055.7%
TX	-39.13%	-43.88%	-11.76%	241.02%	238.82%	1495.6%	397.47%	385.08%	1128.0%
VA	-36.63%	-39.13%	-11.11%	354.06%	352.36%	888.18%	523.35%	516.25%	4465.0%

Why has this Happened?

Taking a look back....

- 2011 Recommendations from the Storm Center
- The Collins Report & Recommendations
- What Florida Actually Did
- What Happened to our Money, Markets & Mitigation
- Where We Go from Here

Storm Center 2011 Recommendations

Manage current exposure levels

- Manage future exposure growth
- Quantify the risk

Establish guidelines to address the mix of:

- Public and private property risk financing
- Pre-loss (premiums) and post-loss (assessment) financing within the residual market (public) entities

Clarify the purpose of rate regulation



Storm Center 2011 Recommendations

Promote risk-based rating to induce mitigation and adaptation

Public and private property risk financing

Pre-loss (premiums) and post-loss (assessment) financing within the residual market (public) entities

Promote mitigation

Public awareness/education (regarding mitigation AND insurance)

Incentivize actual mitigation

Provide limited basic insurance coverage and coverage options (via residual markets)



Storm Center 2011 Recommendations

Address insurance affordability problems outside of the insurance rating system

- Strengthen the private insurance market
- Ensure transparency of pricing subsidies

Focus on strategies to improve the affordability of mitigation rather than insurance

- Locally-administered programs using long-term financing
- Tie repayment mechanism to property rather than property owner (?)

Disclose hazard insurance premiums for properties on the sales market

Proactively engage in strategies to attract risk capital



Looking Back Further....

The 1995 Collins Report

The Collins Report

FL State Budget Specific Appropriation 1743A (1995)

Academic Task Force on Hurricane Disaster
Insurance

Supported by the Collins Center for Public Policy in
Miami in 1995

Why was the Task Force needed?

Review the system of markets available for Florida's hurricane risk transfer

Florida residential property insurance markets

Cat Fund

Voluntary residential property insurance market

International reinsurance market



The Collins Report

Why was the Task Force needed?

Recommend how the system would best be coordinated or restructured to ensure for Florida:

Adequate residential insurance coverage at an affordable price
(affordability)

Adequate insurance funds available to pay residential claims
(adequacy)

Necessary incentives to increase private residential insurance
underwriting
(availability)

The system **not** act as disincentive for the private residential insurance
and reinsurance market
(fair discrimination)



The Collins Report

“Restoring Florida’s Paradise” but popularly known as the Collins Report

Submitted to the Governor, the Insurance Commissioner, Speaker of the House, President of the Senate in late 1995

Proposed a “Balanced Equation” approach with the goal to “reestablish a healthy, competitive private insurance market within two to five years” with these characteristics:

Coverage by financially strong private companies of most of Florida’s homeowners for hurricane risk

Affordable, competitive rates consistent with widespread coverage of homeowners by private companies

Low numbers of the “truly uninsurable” in one remaining windstorm JUA

A strong Catastrophe Fund

Reasonable maximum market shares for any one company in high-risk areas



The Task Force's Balanced Equation

The Task Force proposed plan, “A Balanced Equation for Florida’s Future,” called on:

Private homeowners insurance companies to continue to pay for most hurricane catastrophe damages

Cooperation and mutual responsibility among:

private insurers

individual homeowners

banking industry

private capital markets

local, State and Federal governments

for the health of the private insurance system



The Collins Report Balanced Equation

Major components of the “Balanced Equation”

Cap insurance industry losses (at \$20.4 billion in 1995 dollars)

Permit more flexible rates for homeowners

Encourage flexible insurance products

Strengthen the Cat Fund

Shrink the residential and windstorm JUAs

Diversify geographic risk concentrations

Individualize risk assessments

Aggressively provide incentives for mitigation programs



The Collins Report Balanced Equation

Major components of the “Balanced Equation” cont’d

Promote Federal responses

Create state or local emergency tax or fee

Actively involve mortgage bankers

Promote new capital market solutions

Carry out proactive education program

Monitor progress to determine if moratorium on withdrawals from the homeowners market should be continued

Establish a “Fair Share” program to take effect in late 1996 if substantial progress not made toward a healthy private market



What Did Florida Actually Do?

- Flexibility of rates and products for homeowners
 - Citizens provides “cadillac” insurance coverage
 - Skeletal (ACV, “insure to market value, limited coverage parts) coverage not widely available
- Strength of the Cat Fund –
 - Increased its liabilities
 - Once it runs out of money it is not obligated to pay
- Size of Citizens
 - Intentionally grew the residual market
- Geographic diversity of risk concentrations
 - Promoted growth of small, domestic, undiversified insurers, heavily reliant on reinsurance

What Did Florida Actually Do?

- Granularity of risk assessments
 - Using Cat models for risk assessment but granular use of information is limited
 - Questionable data quality
- Incentivizing mitigation programs
 - Incentivized inspections not actual mitigation
- State or local emergency tax or fee
- Involvement of mortgage bankers?
- Innovation in capital market solutions?
- Proactive education program

Florida Since the Collins Report

Low marks for achieving a “healthy, competitive private residential insurance market”

Homeowners insurance premiums declined but insured values did not

Citizens is the primary writer of new insurance policies in Florida, with a total number of new policies written greater than the combined total of the other 9 companies in the Top 10

Potential assessments and potential subsidies in the Florida system

Shift in private insurance market domination from large, geographically diverse companies to small domestic

Declined private market capacity and performance



2011 Number of Decision Centers

<u>State</u>	<u>Nat'l</u>	<u>AL</u>	<u>FL</u>	<u>GA</u>	<u>LA</u>	<u>MS</u>	<u>NC</u>	<u>SC</u>	<u>TX</u>	<u>VA</u>
Group	197	50	51	59	36	42	47	57	55	56
Independent	200	3	23	8	10	4	14	9	15	8
Total	397	53	74	67	46	46	61	66	70	64
100 PML / Company		92M	737M		111M	89M	67M	46M	191M	



Number of Insurers with 90% or more of Total DPW in the State in 2011

<u>State</u>	<u>AL</u>	<u>FL</u>	<u>GA</u>	<u>LA</u>	<u>MS</u>	<u>NC</u>	<u>SC</u>	<u>TX</u>	<u>VA</u>
# of Non-diversified Insurers	2	44	8	8	2	10	1	23	3



Who is Writing?

2011 DPW (\$MM)

Type	Nat'l	AL	FL	GA	LA	MS	NC	SC	TX	VA
Group	59,761	1,215	4,303	1,817	1,131	650	1,760	1,023	3,992	1,463
Ind.	3,848	4	1,745	19	182	1	33	47	171	20
Total	63,608	1,218	6,048	1,836	1,313	650	1,793	1,069	4,163	1,482

2011 PHS (\$B)

Type	Nat'l	AL	FL	GA	LA	MS	NC	SC	TX	VA
Group	290.28	142.10	91.55	163.94	93.52	113.76	176.90	129.61	118.6	164.21
Ind.	7.68	0.53	1.07	0.99	0.74	0.91	0.98	1.09	0.98	1.14
Total	297.96	142.63	92.62	164.92	94.26	114.66	177.88	130.70	119.6	165.35



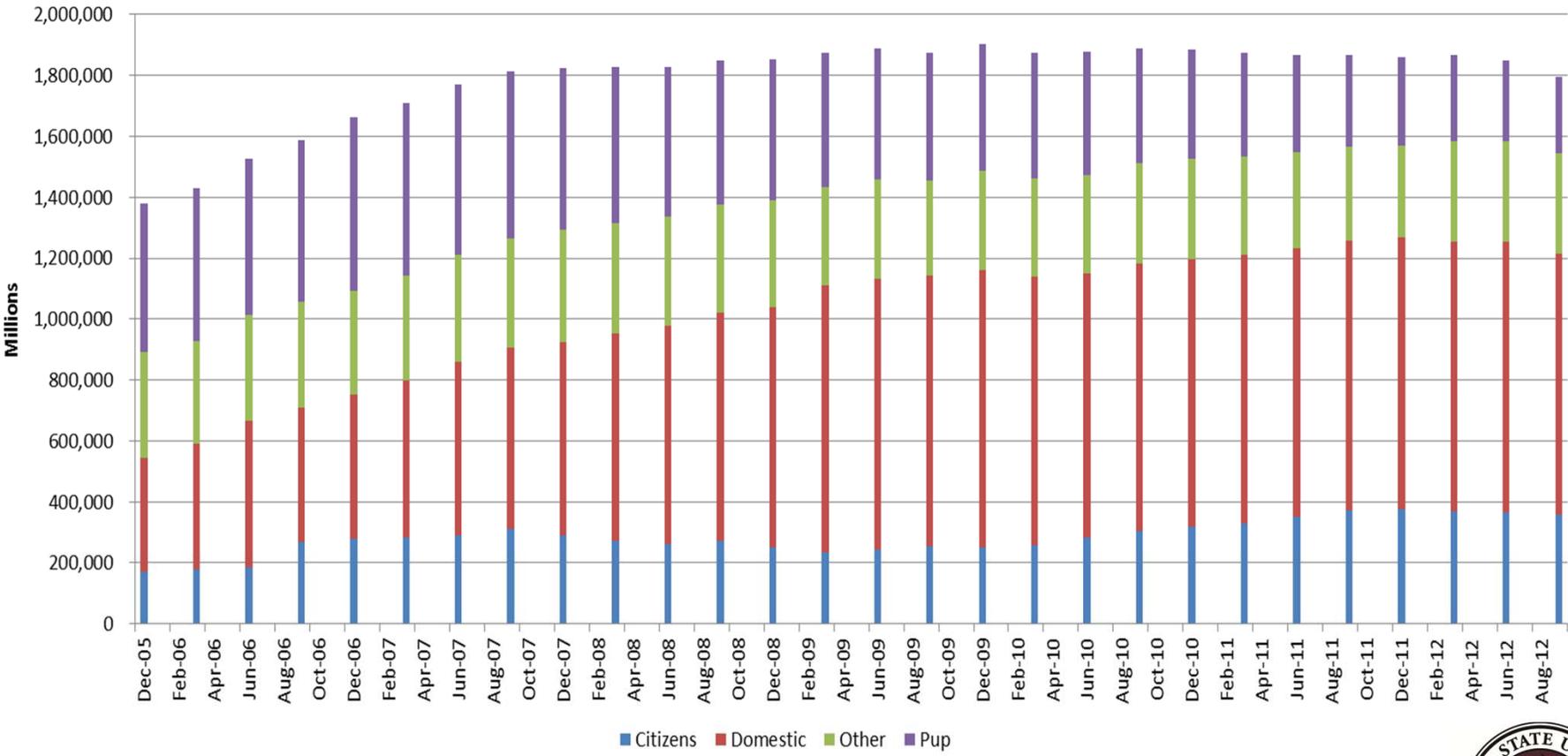
Growth in Public Insurance Providers

State	Premiums Written (000's)	Premiums Earned (000's)	Exposure (000,000's)
Alabama	\$37,769	\$15,006	3,299
Florida	\$2,604,265	\$1,971,649	\$508,520
Louisiana	\$209,946	\$154,738	\$26,675
Mississippi	\$79,082		\$7,024
North Carolina	\$ 303,258	\$302,197	\$68,000
South Carolina	\$97,127	\$12,099	\$14,493
Texas	\$304,393		\$76,971



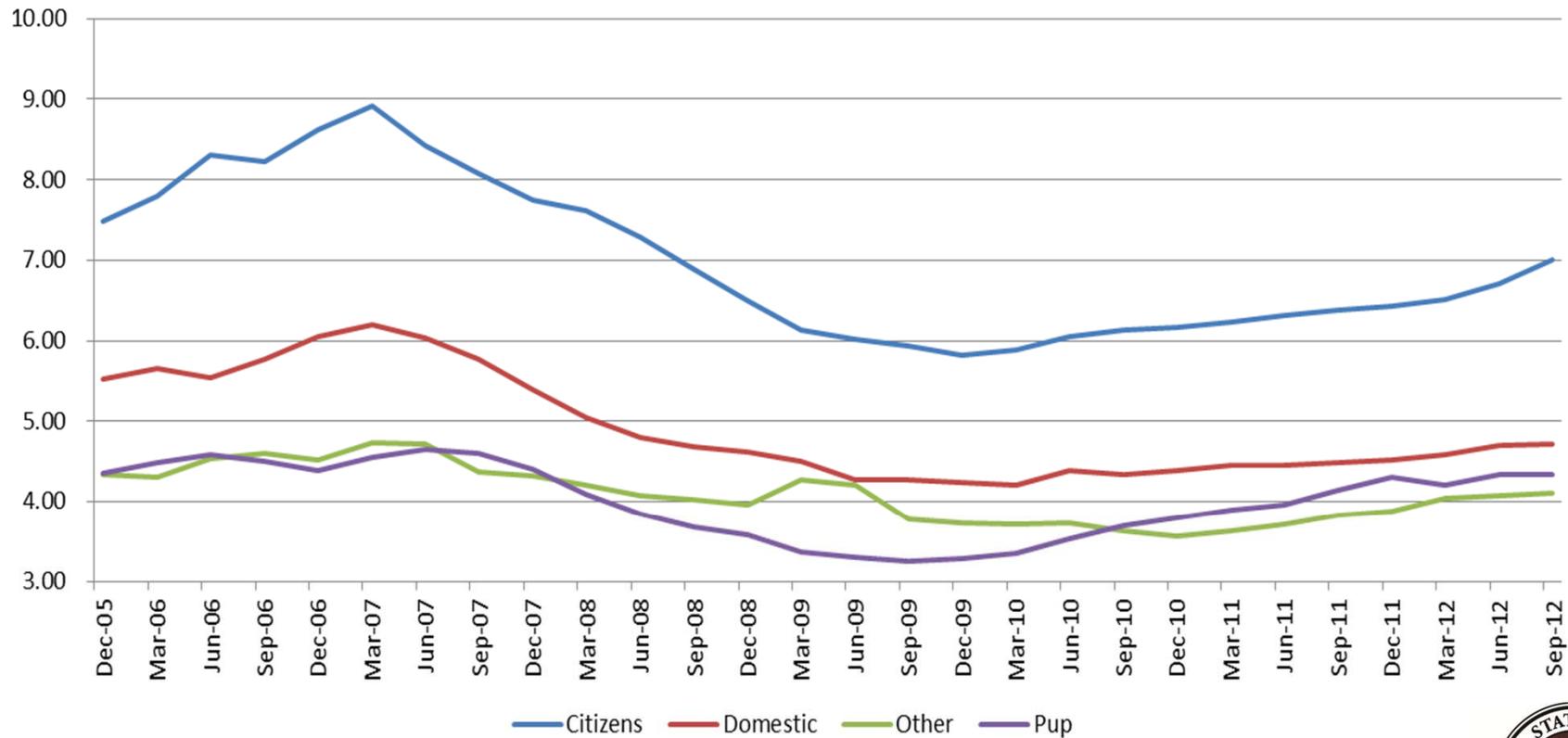
Florida Exposure: No growth

Florida Personal Residential Property Insurance
Trend in Structure Insured Value by Type of Insurer

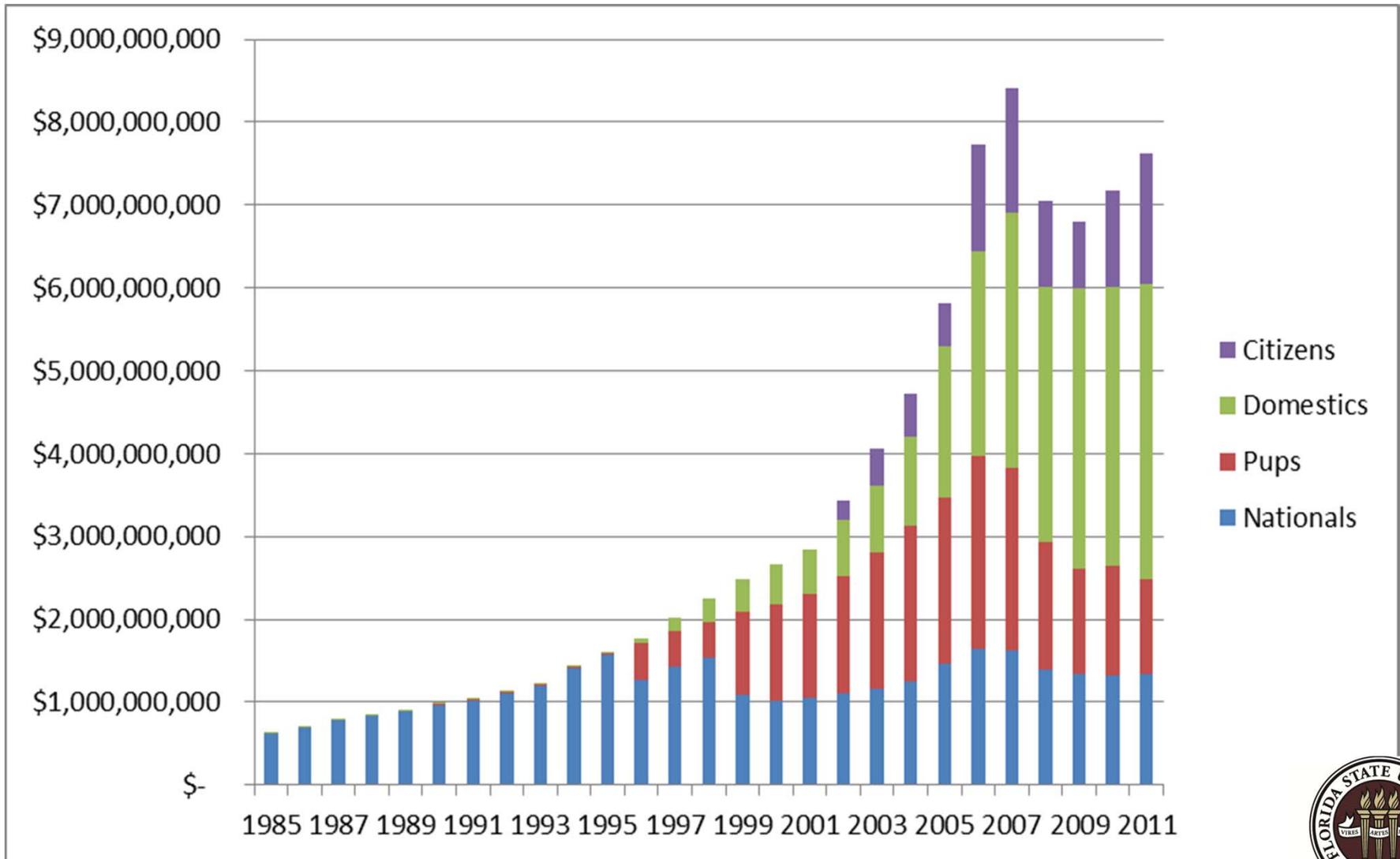


Florida Rate: Starting to return

Florida Personal Residential Property Insurance
Trend in Average Premium per \$1,000 Value
by Type of Insurer



Florida: Where is the "right" level?



The Role of Residual Markets

- Historically used to address availability problems
- Typically charge rates higher than private insurers
- Generally rely on some post-loss financing of risk that is spread over a significant portion of the state's population
- Can be more exposed to political risk
- Citizens appears to be setting the market right now



Top 10 New Policies Written 2011

Rank	Insurer Name	# of New Policies	Type of Insurer
1	CITIZENS PROPERTY INSURANCE CORPORATION	483,581	State Run Residual Market
2	UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY	150,393	Florida Domestic
3	AMERICAN BANKERS INSURANCE COMPANY OF FLORIDA	64,877	Other
4	SECURITY FIRST INSURANCE COMPANY	64,491	Florida Domestic
5	CASTLE KEY INDEMNITY COMPANY	48,419	Pup
6	AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.	36,016	Florida Domestic
7	AMERICAN INTEGRITY INSURANCE COMPANY OF FLORIDA	34,407	Florida Domestic
8	UNITED PROPERTY & CASUALTY INSURANCE COMPANY, INC.	34,262	Florida Domestic
9	ST. JOHNS INSURANCE COMPANY, INC.	33,959	Florida Domestic
10	ARK ROYAL INSURANCE COMPANY	32,007	Florida Domestic



Top 10 - New Policies 2012 Thru Q3

Rank	Insurer Name	# of New Policies	Type of Insurer
1	CITIZENS PROPERTY INSURANCE CORPORATION	310,998	State Run Residual Market
2	UNIVERSAL PROPERTY & CASUALTY INSURANCE COMPANY	93,713	Florida Domestic
3	SECURITY FIRST INSURANCE COMPANY	56,051	Florida Domestic
4	AMERICAN BANKERS	50,569	Other
5	AMERICAN MODERN INSURANCE COMPANY OF FLORIDA, INC.	32,509	Florida Domestic
6	AMERICAN INTEGRITY INSURANCE COMPANY OF FLORIDA	30,695	Florida Domestic
7	UNITED PROPERTY & CASUALTY INSURANCE COMPANY, INC.	30,364	Florida Domestic
8	CASTLE KEY INDEMNITY COMPANY	29,565	Pup
9	FEDERATED NATIONAL INSURANCE COMPANY	27,310	Florida Domestic
10	ST. JOHNS INSURANCE COMPANY, INC.	26,951	Florida Domestic



Citizens Policy Counts

	PLA (Multi-peril)	Coastal (Wind Only)	Coastal (Multi-peril)	Total Personal Residential Policy Count
Nov. 2012	888,423	240,184	165,729	1,294,336
April 2012	984,621	242,689	176,056	1,403,366
Dec. 2011	1,003,856	245,506	173,798	1,423,160
Dec. 2010	829,406	248,328	154,663	1,232,397
Dec. 2009	609,652	251,287	114,561	975,500
Dec. 2008	629,467	328,775	67,672	1,025,914
Dec. 2007	845,857	421,505	24,676	1,292,038
Dec. 2006	743,592	403,509		1,147,101
Dec. 2005	407,387	399,418		806,805
Dec. 2004	416,529	453,765		870,294
Dec. 2003	383,280	433,056		816,336

Source: www.citizensfla.com, various financial statements



Are We as “Citizens Heavy” as We Think?

Citizens Policies as % of Total Policies For Florida Occupied Housing Units by Legislative District

Number of Districts Having:	Senate	House
30% or Fewer	27	86
31-44%	8	21
45-55%	5	5
56-69%	0	5
70% or Greater	0	3
Total	40	120

Sources: Citizens Property Insurance Corporation
United States Census, American Community Survey Data



Florida Since the Collins Report

Low marks for risk reduction on existing construction

Problems within the My Safe Florida Home program

Problems within the Mitigation Discounts program



Florida Since the Collins Report

High marks for internal risk reduction through improvement of knowledge of the risk

Use of catastrophe models to estimate the risk

Created the Florida Commission on Hurricane Loss Projection Methodology to evaluate accuracy and reliability of modeling process

Requires residential property insurers to use loss costs from a CAT model approved by the Commission for residential insurance pricing

Collaborates with modelers to continue improvement of risk knowledge



Florida Since the Collins Report

High marks for risk reduction on new construction

Early this year, IBHS released a report rating building codes in 18 hurricane-prone states located along the Gulf of Mexico and the Atlantic Coast

Measured the building regulatory systems that hurricane-prone states have in place to promote life safety and property protection

The study looked at three elements of the building code system:

- 1) code adoption and enforcement;
- 2) code official training and certification; and,
- 3) licensing requirements for construction trades

Florida rated highest out of the 18 states with an overall score of 95 out of 100



Where Can Public Policy Go from Here?

An affordability focus on:

- Actual mitigation

- Flexible insurance rates and coverages

- Long-term insurance costs to state's population

An availability focus on:

- Residual market

- E&S insurers

At higher prices than the private market charges

An adequacy and risk-based discrimination focus on rates



Questions?



FLORIDA STATE UNIVERSITY
COLLEGE OF BUSINESS

The Florida Catastrophic Storm Risk Management Center

*Dr. William T. Hold/The National Alliance Program
in Risk Management & Insurance*

www.stormrisk.org