

## Brace for insurance shock: Windstorm premiums are soaring in Florida again

<https://www.miamiherald.com/news/weather/hurricane/article243766772.html>

By [Alex Harris](#) --June 26, 2020 02:32 PM , Updated June 26, 2020 03:34 PM

Home insurance is getting a whole lot more expensive, a wallet punch for residents of a state that already has the highest property insurance rates in the nation, not to mention a staggering unemployment problem from a surging pandemic.

Major insurance companies are raising windstorm premiums in Florida as much as 33 percent and dropping tens of thousands of customers, signaling an end to the nearly decade-long lull in prices. At the same time, some companies also are canceling thousands of home policies to reduce risks of corporate losses.

The reason for the spike? Reinsurance, the insurance designed to buffer insurers from big losses. It keeps the companies afloat and ensures there's enough cash around to pay claims if a devastating storm strikes. As a rule of thumb, industry experts say, about half of every premium dollar an insurance company collects goes toward reinsurance.

This year, [reinsurance prices rose](#) by an estimated 26 percent, insurance news site Artemis reported. The last time Florida insurers had to deal with reinsurance prices this high was 2005, after back-to-back hurricanes sent premiums skyrocketing.

Reinsurance companies say the drawn-out process of paying claims after storms drives up prices. Hurricane Irma's initial estimated damage when it hit in 2017 was around \$9 billion. At that point, [experts predicted premiums were unlikely to rise](#). Now that's ballooned to \$17 billion three years later, according to the [Florida Office of Insurance Regulation](#).

The other big factor behind higher premiums is lawsuits, which Florida tried to curb two years ago with some reforms. Insurance companies blame legal bills for driving up premiums across the state and [have called for even stricter reforms](#).

Jay Neal, executive chairman of the Fort Lauderdale-based Federal Association for Insurance Reform, called the premium hikes "a rude awakening."

He worries that soaring prices may drive people with paid-off mortgages (and therefore no legal requirement to insure their homes) to drop coverage altogether.

"There's a popular conception that FEMA will step in and make you whole. Not if you don't have a homeowner policy. Not if you don't have a flood policy," he said. "It's not going to happen."

Some homeowners are already getting new, higher bills. But Neal expects the real shock to be felt next year, when rate increases start to show up in jacked-up monthly escrow charges in home

mortgages, which typically cover annual insurance costs. He said the Florida Legislature had the opportunity this year to “pull some levers” to make insurance cheaper but didn’t.

“They missed their window. We’ve tried to warn them,” he said.

### **Rate hikes, cancellations**

The rate hikes and storm risks also are forcing some homeowners back into a new, more expensive market. This year, for example, the state allowed [Capitol Preferred Insurance company](#) to drop 23,000 policies, about a quarter of its total, along with its request to raise rates.

Capitol Preferred, the ninth-largest insurance company in the state, specifically pointed to high reinsurance costs as the reason behind its mass policy drop. It told Florida it needed to increase premiums by at least 47 percent, in addition to slimming down on policies, to stay in business.

The state approved an average increase of 33.5 percent, noting that “the projections reviewed by the office indicate that even with a substantial rate increase the [policies the company wanted to drop] will continue to generate unsustainable losses.”

Security First, citing a 17.5 percent increase in reinsurance rates, raised premiums 12.8 percent and didn’t renew 5,000 coastal clients.

Others asked for even more. In December, Edison’s Insurance Company asked for a nearly 22 percent increase, which Florida approved. Velocity Risk asked for 28 percent. In February, [National Specialty Insurance Company](#) asked for an average premium increase of 28 percent.

And those are just the most dramatic requests. Plenty of other companies are upping their rates too, just not as much.

Florida’s biggest insurer, Universal Property and Casualty, asked the state for a 12.4 percent increase. People’s Trust asked for 10.9 percent, AIG for 9.6 percent, Florida Family for 6.5 percent, and FedNat for 5.5 percent.

Citizens, the state-owned insurer of last resort, will reveal its suggested new rates in September.

Gary Reshefsky, president of Miami-based Century Risk Advisors, said he wrote to all his clients last year warning them a premium spike was imminent. He saw how claims placed after Hurricane Irma in 2017 were still not settled years later and noticed the reinsurance market raising prices.

Within the last few months, premium prices have risen so much that he’s now advising clients with a raise under 20 percent to stick with their companies and not go hunting for a better deal.

### **Closing zip codes**

Along with price hikes, Reshefsky said he's seen some insurers drop a big number of South Florida clients in areas considered at high risk of hurricane damage. He estimates he's finding new coverage for about half his high-end residential clients this year.

"They start closing ZIP codes. It's become cost-prohibitive for them to do business, with the cost of the claims and the reinsurance," he said. "What we keep getting faced with is there's fewer and fewer options."

The scarcity means that the remaining firms that will write the kind of policy that covers an expensive home can charge more for it. The other option is the state-funded insurer, Citizens.

Late last year, major insurer Florida Specialty Insurance went belly up, forcing its 90,000 clients to find a new company, [Insurance Journal reported](#). Citizens picked up hundreds of those policies, as well as tens of thousands more as private firms slim down their policy count to meet the rising price of reinsurance.

Citizens, the state-owned insurer of last resort, is the second-biggest insurer in the state. That's not good news for Florida, because taxpayers are on the hook if an expensive enough storm hits.

The state has a couple layers of protection between a hurricane hitting and a statewide tax to make up the difference, including a pot of money known as the Florida Hurricane Catastrophe Fund, but pretty much everyone agrees the fewer policies Citizens holds the better.

Zac Taylor, a research fellow at the University of Leuven in Belgium specializing in reinsurance, said the state has been "extremely creative" over the years as it seeks to protect taxpayers and shift that insurance risk back onto the private market. Under former Gov. Rick Scott, Citizens started a "takeout program" where it allowed private insurance companies to pick and choose policies they wanted to take from Citizens in exchange for a subsidy.

That helped move billions of dollars of risk into the private market, but it was only a good deal for private companies because of the rock bottom price of reinsurance. As reinsurance gets pricier, the math stops favoring takeouts, Taylor said.

"We've been seeing a situation over the last few years where conditions have allowed private owned insurance businesses to take on more policies and Citizens to drop more," Taylor said. "I think that's going to start turning around from here on."

### **State may take on more**

Reshefsky, who's seen the list of companies willing to insure his South Florida clients dwindle over recent years, agreed.

"We're back to where we were in 2005, that's kind of where we're trending right now," he said.

In 2019, private companies [asked to take 145,000 policies](#) from Citizens but only actually took 10,000. So far in 2020, two companies have asked to take [nearly 40,000 policies](#) but haven't yet taken a single one.

As of June 19, Citizens spokesperson Michael Peltier said the company had 470,418 policies, a little over 26,000 more than it had at the end of December.

The company was set to create a new catastrophe bond this year, a fund where investors pool their money with customer premiums as a potential money pot if a storm hits, but Citizens walked away because of "irrational pricing" in the reinsurance world.

That's a big deal, Taylor said, because Citizens is the biggest provider of catastrophe bonds in the world, an alternative for reinsurance.

That makes reinsurance all the more important for the Sunshine State. When its price shifts, Florida homeowners feel it.

"Florida has a really, really outsized role to play in this market," Taylor said. "No other place in the world has the insured exposure to hurricanes as Florida does."

Climate change threatens to make higher insurance (and reinsurance) prices the new normal in the future, especially as it increases the likelihood of disasters around the world like wildfires, droughts and destructive hurricanes.

Reinsurance companies try to spread out their risk around the world, but when multiple areas around the globe have simultaneous disasters, prices have to go up.

"That's why reinsurers are demanding higher increases in Florida, because they want to make up for their losses," Taylor said. "It's a preview into the kind of problems we're going to be expecting."

**##end##**