



Representative Blaise Ingoglia, District 35
Chair, Commerce Committee
Florida House of Representatives
303 House Office Building
402 South Monroe Street
Tallahassee, Florida 32399

Re: Cost Drivers for Residential Property Insurance

Dear Representative Ingoglia:

This week Security First Insurance Company responded to a data call from the Florida Office of Insurance Regulation that resulted from your request to *“provide data you feel is most meaningful for determining whether legislative fixes regarding cost drivers for residential property and motor vehicle insurance rates are necessary and achievable”*. A copy of that response is attached.

As the Chief Executive Officer of one of Florida’s largest domestic homeowner’s insurance company I wanted to supplement our company’s response to the OIR with a letter with my additional answers to your questions.

Are changes necessary?

Florida’s consumers are getting battered by the current market conditions:

- **Rates are increasing rapidly.** Commissioner Altmaier testified that, in 2020, his office approved 90 requests for rate increases and 55 of those rate increases were for more than 10%. That understated the impact on consumers because he failed to describe what happens to consumers when his offices approves multiple rate increases for the same company within a twelve month period. The cumulative effect of these rate increases is shown on the following chart for three of the largest writers:

Company Name	HO3 Rate Increases Approved	Cumulative Increase
American Integrity	8 rate increases in the 11 months between July 15, 2019 and June 19, 2020	80.4%

Security First	4 rate increases in the 10 months between December 18, 2019 and October 10, 2020	50.3%
Tower Hill	7 rate increases in the 13 and one-half months between September 1, 2019 and October 15, 2020	58.2%

- **Consumers are paying the increased rates.** Between November 7, 2019 and January 25, 2021, Security First policyholders renewed 27,874 HO3 policies with an average premium increase of 42%. This was an increase of about \$50 per month for the average policyholder.
- **Rates paid by consumers are going to continue to increase because every homeowners insurance company in Florida has additional rate increases pending or in the process of being filed.** Commissioner Altmaier did not quantify the number of pending rate increases in his remarks to your committee.
- **Thousands of consumers are being adversely affected by non-renewals.** In 2020, Security First non-renewed 5,066 policies that were near the coast to reduce the amount of catastrophe reinsurance the company was required to purchase. That effort was successful in reducing the amount of catastrophe reinsurance needed by \$500 million. In addition, Security First non-renewed 4,149 policies that were identified as insuring homes with roofs or other conditions that no longer met the company’s guidelines. In 2021, Security First expects to non-renew about 100 policies per month to further reduce the need for reinsurance and to improve underwriting results. Other Florida companies are taking similar actions.
- **Consumers are finding fewer companies that are willing to insure their homes.** People’s Trust Insurance Company ceased writing new business in September, 2020 and Southern Fidelity Insurance Company stopped writing new business this week. As noted by Commissioner Altmaier in his presentation, other companies have limited their writing of new business to newer homes or homes in areas of the state which seem to be the most profitable.
- **Thousands of consumers are becoming victims of insurance fraud every year.** In the six years between FY 2014/2015 and FY 2019/2020 the number of fraud referrals involving homeowners’ insurance reported to the Division of Investigative and Forensic Services has increased from 832 in FY 2014/2015 to 1,917 in FY 2019/2020. That is an increase of 130%. While there have been some arrests for insurance fraud, the length of time that it takes to stop a fraudster leaves hundreds of victims behind. For example, Carlson Enterprises, LLC., a roofing contractor, was first reported to the Division of Insurance Fraud in 2011. The State of Florida did not seem to take much notice of the company until a TV station in Jacksonville ran a story on Carlson in 2017. After receiving 72 complaints from consumers, the Attorney General filed a lawsuit against the company. It was not until 2019 that the owners of the company were arrested. Prosecutors in Duval County identified 43 cases where the company took deposits for roof repairs or replacements and never completed any work. Prosecutors in Volusia County identified 58 cases between 2016 and 2018 where the company took deposits for roof repairs and did not work. Prosecutors identified another 15 cases where subcontractors completed roof repairs and were never paid by Carlson.
- **Consumers being represented by attorneys are experiencing unreasonable delays in the settlement of their claims.** To measure the delay, Security First analyzed all the lawsuits filed against the company between January 1, 2017 and January 31, 2021. The total number of lawsuits reviewed was 10,785. About one half of the lawsuits, 5,130 involved catastrophe

claims, both hurricane and non-hurricane catastrophe (i.e. tornado, straight-line wind, hail). As you might expect, 88% of those claims were the result of wind damage to the home. The other half of the lawsuits, 5,665, involved non-catastrophe losses (72% of those lawsuits were water claims). The analysis revealed that the first cause of the settlement delay was simply the delay in filing the lawsuit. 61% of the lawsuits relating to catastrophe claims were filed more than one year after the date of loss. 41% of the lawsuits involving non-cat claims were filed more than one year after the date of loss. The second cause of the delay in settling these litigated claims is simply the time spent in discovery and litigating these claims. The cycle time on the lawsuits filed against Security First since January 1, 2017 is broken down as follows:

Cycle Time	# of Cat Suits	%	Non-Cat Suits	%
Closed within One Year	2,017	39.32%	2,468	43.64%
Closed over One Year	1,018	19.84%	1,612	28.51%
Open	2,095	40.84%	1,575	27.85%
Total	5,130	100.00%	5,655	100.00%

I think the negative impacts on consumers described above make it necessary for the legislature to act.

What are the cost drivers of higher rates?

- 1) **Reinsurance** – Catastrophe excess of loss reinsurance in the biggest cost of operating a Florida reinsurance company. Typically, a Florida Company spends between 25% on 40% of its gross revenue on reinsurance. Commission Altmaier testified that reinsurance costs added 6% to insurance rates in 2019 and another 8% to rates in 2020. And, Commissioner Altmaier testified that these reinsurance costs are going to increase again in 2021 because of the adverse loss development from prior years. The Florida Hurricane Catastrophe Fund (FHCF) created by the legislature in 1993 provides about 25% of Florida’s catastrophe excess of loss reinsurance coverage on terms established by the Florida legislature. A white paper issued by the Federal Association for Insurance Reform last month describes ways in which the FHCF could be changed to reduce the cost of reinsurance to benefit consumers.
- 2) **Litigation** – Barry Gilway of Citizens described for your committee how litigation was affecting the homeowners insurance market. Here’s some key points:
 - According to DFS, the number of lawsuits filed against Florida homeowners insurance companies has increased 16,610 in 2014 to 63,667 in 2020. That’s an increase of 283% in seven years,
 - Security First’s analysis of litigation filed against it revealed the following:
 - a) 10,603 of the 129,308 claims filed against Security First between January 1, 2017 and December 31, 2020 were represented by an attorney. That is only 8.2% of all claims file during that four-year period. However, the rate of representation is going up. It was only 6.17% in 2017, hit 12.75% in 2019, and dropped back to 8.43% in 2020.

- b) Litigated claims have cost Security First \$422.8 million since January 1, 2017. That's 27% of total claim costs of \$1.576 billion between January 1, 2017 and December 31, 2020. The percentage of claim dollars spent on litigated claims has increased every year:

Year	Cost of Litigated Claims	Cost of Non-Litigated Claims	Total Cost	Litigated Claim Cost as a % of Total
2017	\$ 53,200,000	\$ 310,000,000	\$ 362,200,000	15%
2018	\$127,100,000	\$ 354,000,000	\$ 462,500,000	27%
2019	\$122,600,000	\$ 275,000,000	\$ 397,700,000	31%
2020	\$119,900,000	\$ 232,900,000	\$ 352,800,000	34%
Total	\$422,800,000	\$1,153,400,000	\$1,576,200,000	27%

- c) Attorney representation at first notice of loss or within two weeks of reporting a claim has risen from 3.56% in 2017 to 40.94% in 2020. This seems to be a strong indication that attorneys are more actively involved in soliciting claims today than they were several years ago.
- d) The rate of litigation, the number of claims divided by the number of lawsuits, for non-hurricane claims has doubled. On an accident year basis (where the claim and the related lawsuit are matched to the date of loss rather than to the date reported or filed), the rate of non-cat litigation increased from 4.91% in 2013 to 9.79% in 2019.
- e) The rate of litigation on hurricane claims has gone up faster than the rate of litigation on non-hurricane claims:
- I. Hurricane Matthew litigation rate 3.01%
 - II. Hurricane Irma litigation rate 7.30%
 - III. Hurricane Michael litigation rate 12.32%
- f) Claims represented by an attorney are reported much slower than claims without attorney representation. A review of 168,095 claims reported to Security First between January 1, 2015 and January 31, 2021 showed:
- I. 19% of the hurricane claims represented by an attorney are reported more than one year after the hurricane. Only 2% of the hurricane claims without attorney representation are reported more than one year after the hurricane.
 - II. 31% of the non-hurricane claims represented by an attorney are reported more than one year after the reported date of loss. For non-hurricane claims without attorney representation, only 2% are reported more than one year after the date of loss.

- 3) **Non-hurricane water losses** – In Barry Gilway's presentation to your committee he noted that in 2021 Citizens expected to incur almost \$200 million in losses related to water claims reported from insureds with an HO3 policy. These water losses were expected to add 29.4% to Citizens loss ratio in 2021. The experience at Florida's private insurance companies is similar. After the cost of reinsurance, a Florida insurance company's largest expense is for water leaking from pipes, water heaters, appliances, or air conditioning units. Collectively, the insurance industry

refers to these claims as non-hurricane water losses. From January 1, 2017 to December 31, 2020, Security First had the following experience with these types of claims:

- 32,403 claims were reported. 3,104 of those claims, 9.58% of the number reported, were litigated. The litigation rate on these claims was higher than the litigation rate on claims with a different cause of loss.
- Security First incurred \$363 million in losses on these water claims. 30% of the incurred loss, \$107 million, was related to the 9.58% of claims litigated.
- The average cost of a non-litigated water claim was \$8,719.
- The average cost of a litigated non-hurricane water claim was \$34,556.
- Water claims added 24.4% to Security First’s non-hurricane loss ratio over the four-year period. That’s almost one half of Security First’s total non-hurricane loss ratio of 54.1%.

4) Non-hurricane wind losses – Tornadoes and other windstorms that don’t reach the status of a hurricane have become increasingly frequent in Florida. In terms of Security First’s loss ratio these storms contributed almost three times more in losses to the financial results of 2020 than they did in 2017:

Year	Loss Ratio
2017	7.3%
2018	6.2%
2019	11.5%
2020	20.4%

5) Roof Claims – Roof damage is caused by wind, hail, lightning, and falling trees. To answer the OIR’s data call, Security First analyzed the estimated damage reports from 129,308 claims reported between January 1, 2017 and December 31, 2020 to determine how many of those claims included estimated damage to the roof. That analysis revealed 48,908 claims that included damage to the roof. These claims were broken down as follows:

- Roof damage was found on 58.4% of the 51,524 hurricane claims reviewed
- Roof damage was found on 24.2% of the 77,784 non-hurricane claims reviewed

Commissioner Altmaier in his presentation to your committee described the unprecedented amount of solicitation that roofing companies are doing in Florida communities to generate business. The solicitation occurs by direct mail, advertising on radio and television, and by simply knocking on doors to offer a “free” inspection.

This case from Fort Meyers is typical:

- September 10, 2017 – Hurricane Irma hits Fort Meyers and does a small amount of damage to insureds roof. The roof is repaired by a local handyman and there is no interior damage in the home.
- July 27, 2018 – After speaking with her neighbor and a representative of a roofing company, insured signs an AOB. The representative of the roofing company is not a licensed public adjuster

- Security First inspects the home and determines that the damages do not exceed the hurricane deductible of \$35,700.
- Contractor submits a bid for damages totaling \$223,108.92.
- January 26 to January 28, 2021 case is tried in Fort Meyers. During the trial, the person who solicited the AOB admitted that he is self-employed and makes his money by soliciting leads for the roofing company and splitting the profits on any successful claim 50/50 with the roofing company. The solicitor testified that he made \$250,000 in 2018 and \$255,000 in 2019 soliciting claims on behalf of the roofing company.
- On January 28, 2021, the six person jury rules in favor of Security First by determining that the damages caused by Hurricane Irma did not exceed the amount of the hurricane deductible.

Trials for similar cases in southwest Florida are pending.

What's achievable?

Between 2006 and 2010, Florida insurance carriers were faced with hundreds of sinkhole claims. Millions of dollars in losses were paid and very few homes were repaired. Insurance rates increased dramatically. The legislature responded by passing SB 408. The bill made several significant changes in the law. Among the changes:

- The statute of limitations was shortened to two years.
- Public adjusters' fees paid by Citizens were limited to a percentage of the payment amount that exceeded the original offer of settlement
- Loss payments were limited to the actual cash value of the structure and the insured was required to sign a contract for the repair of the house within 90 days of the initial payment. Repairs were required to be completed in 90 days.
- Damage to property outside the house like patios and driveways was not covered under the new policies providing coverage for sinkhole losses.

After the passage of SB 408, losses decreased and as required by law, the decrease in loss costs was reflected in rate decreases for consumers.

Florida's Consumer Advocate Tasha Carter has made several suggestions for changes in the law to benefit Florida's consumers. I have attached a copy of her suggestions to this letter.

In addition, the Federal Association of Insurance Reform (FAIR) has made several suggestions to reduce rates paid by consumers and speed up the settlement of claims. Senators Boyd and Brandes have passed bills out of substantive committees in the Senate which would help consumers. HB 717 by Representative Clemons would crack down on the unlicensed practice of public adjusting being done on a routine basis across Florida to solicit late reported and questionable roof claims.

I will not summarize the ideas being put forward in these white papers or filed pieces of legislation. I would simply ask you and your committee to review all those suggestions this session and do what you feel is best for Florida's consumers.

Sincerely,

Locke Burt

CC. Staff Director Kurt Hamon, House Commerce Committee