



# **Elephants in the Room: *Big Problems in Florida's Insurance Markets that Nobody Wants to Discuss***

**Governor's Hurricane Conference  
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Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ [bobh@iii.org](mailto:bobh@iii.org) ♦ [www.iii.org](http://www.iii.org)

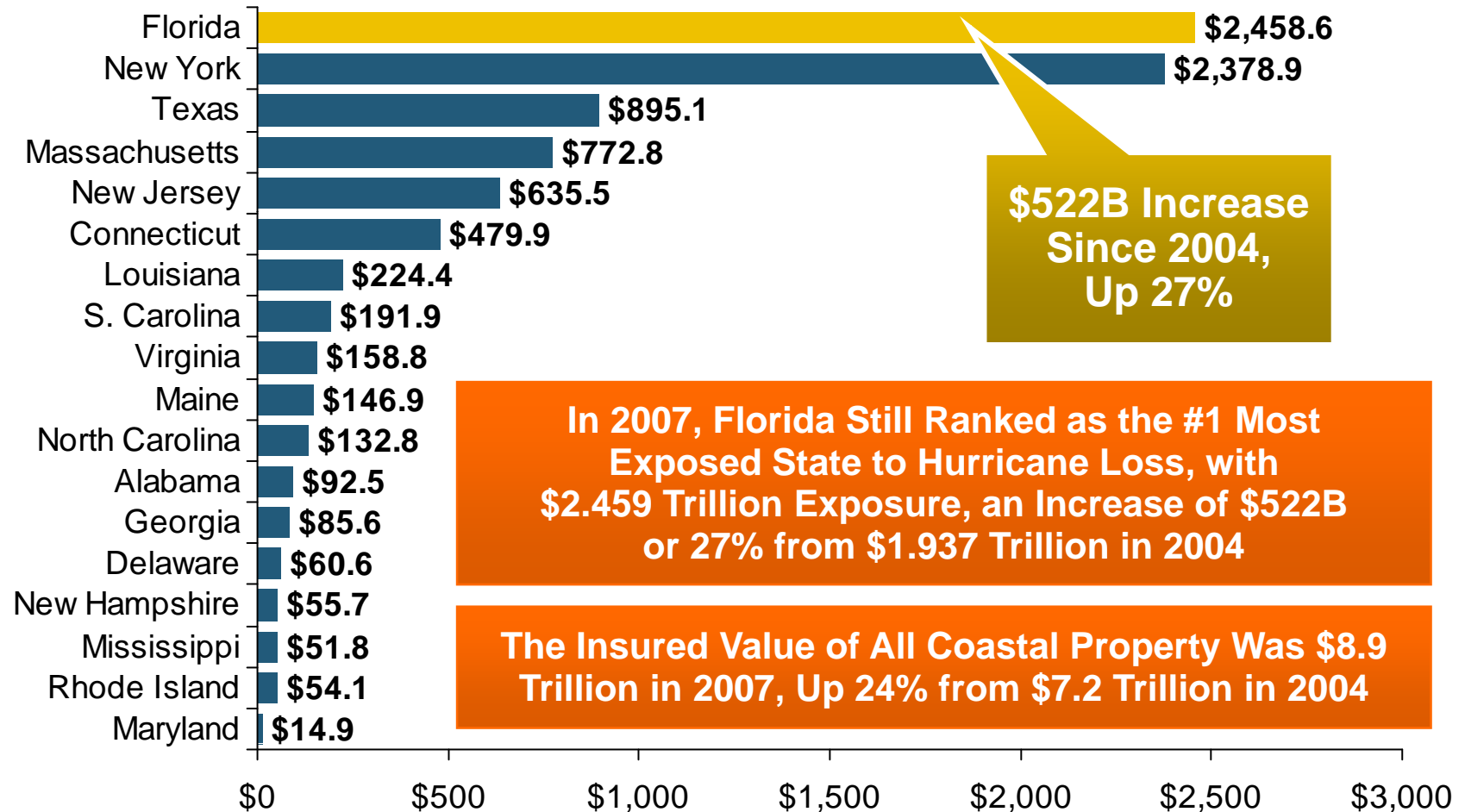


# **Florida is America's #1 Catastrophe Problem**

**Exposure is Huge and Can Only  
Grow in the Future Despite  
Real Estate Collapse**

# Total Value of Insured Coastal Exposure in 2007\*

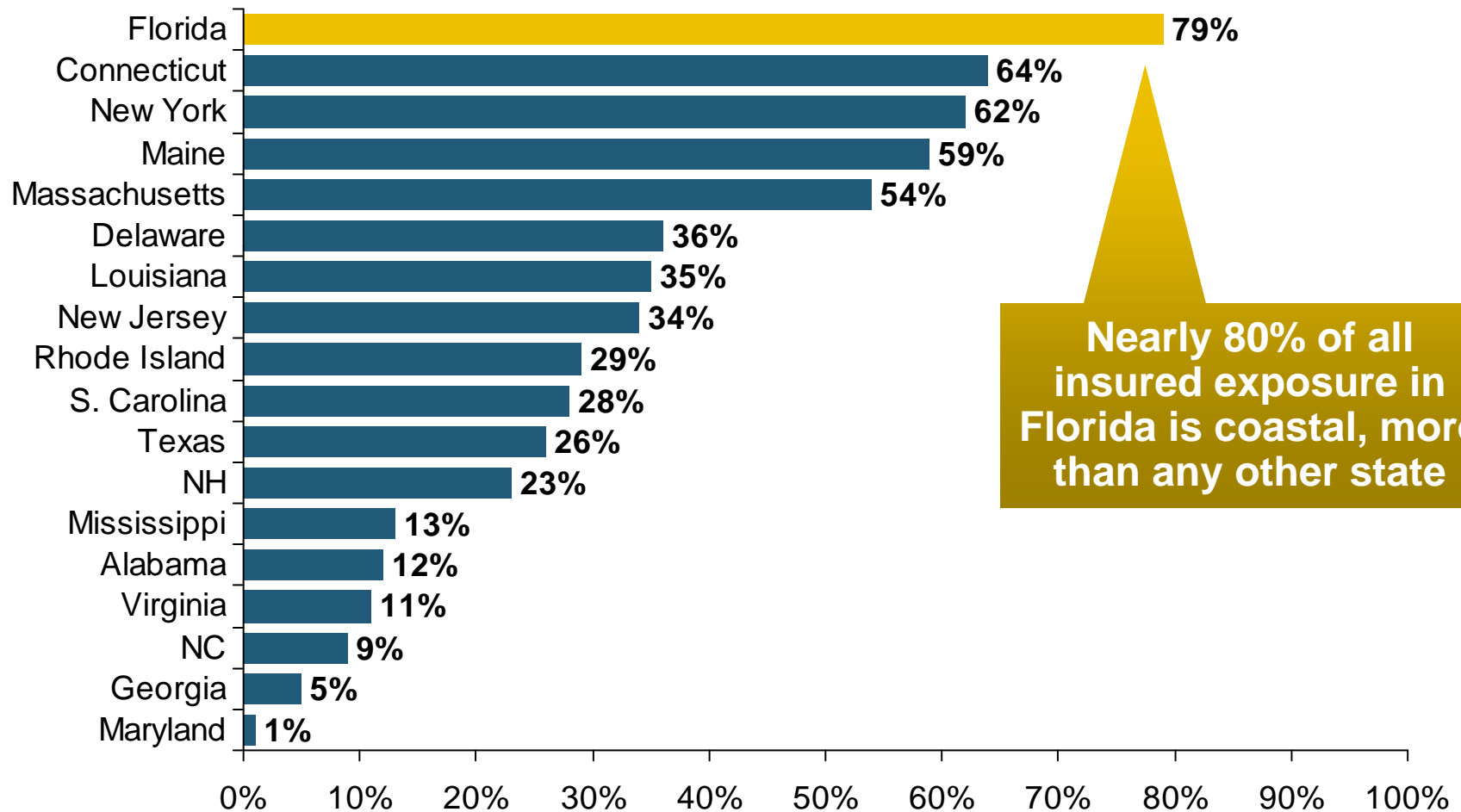
(\$ Billions)



\*Latest available.

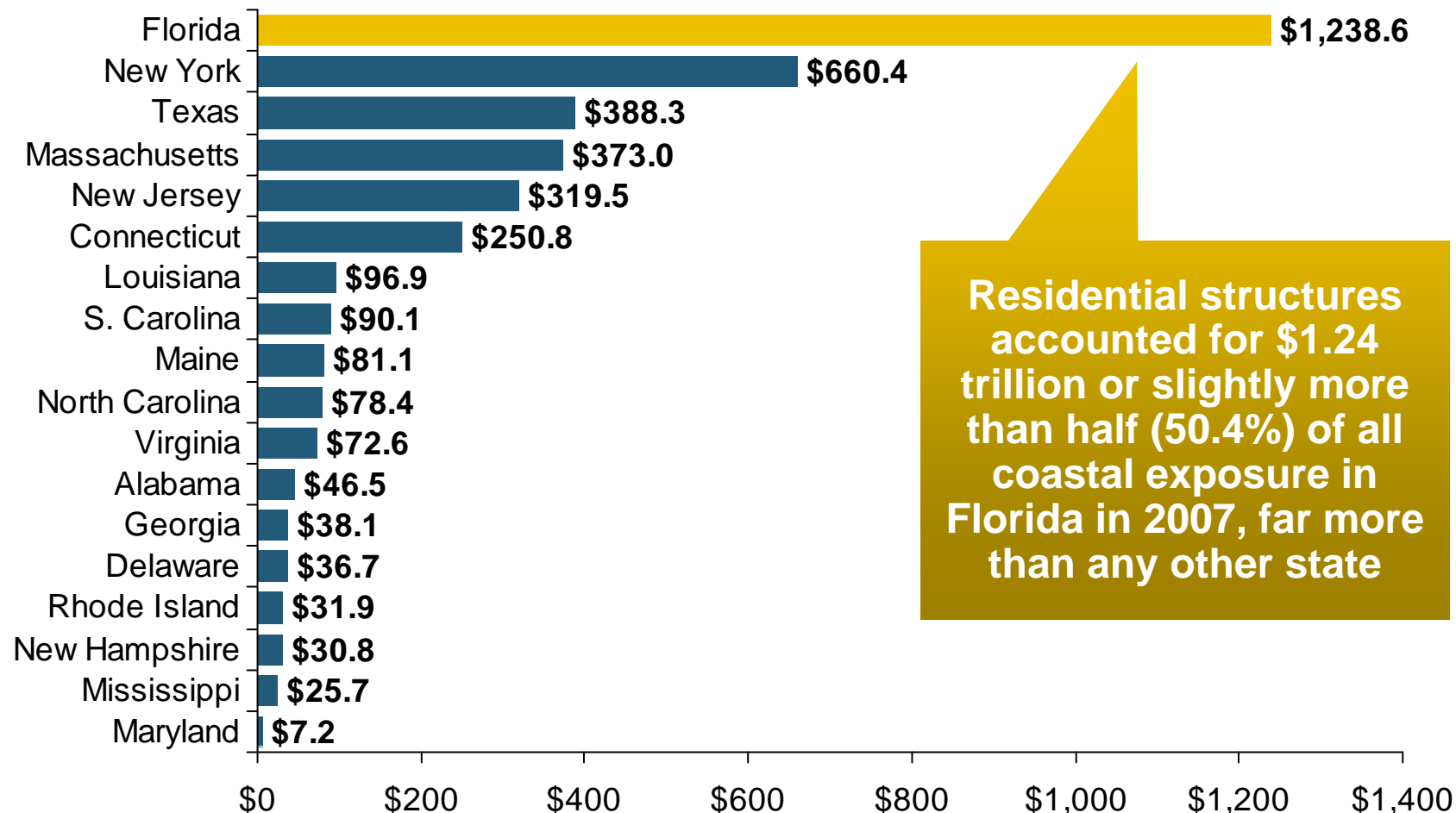
Source: AIR Worldwide

# Insured Coastal Exposure as a Percentage of Statewide Insured Exposure, 2007



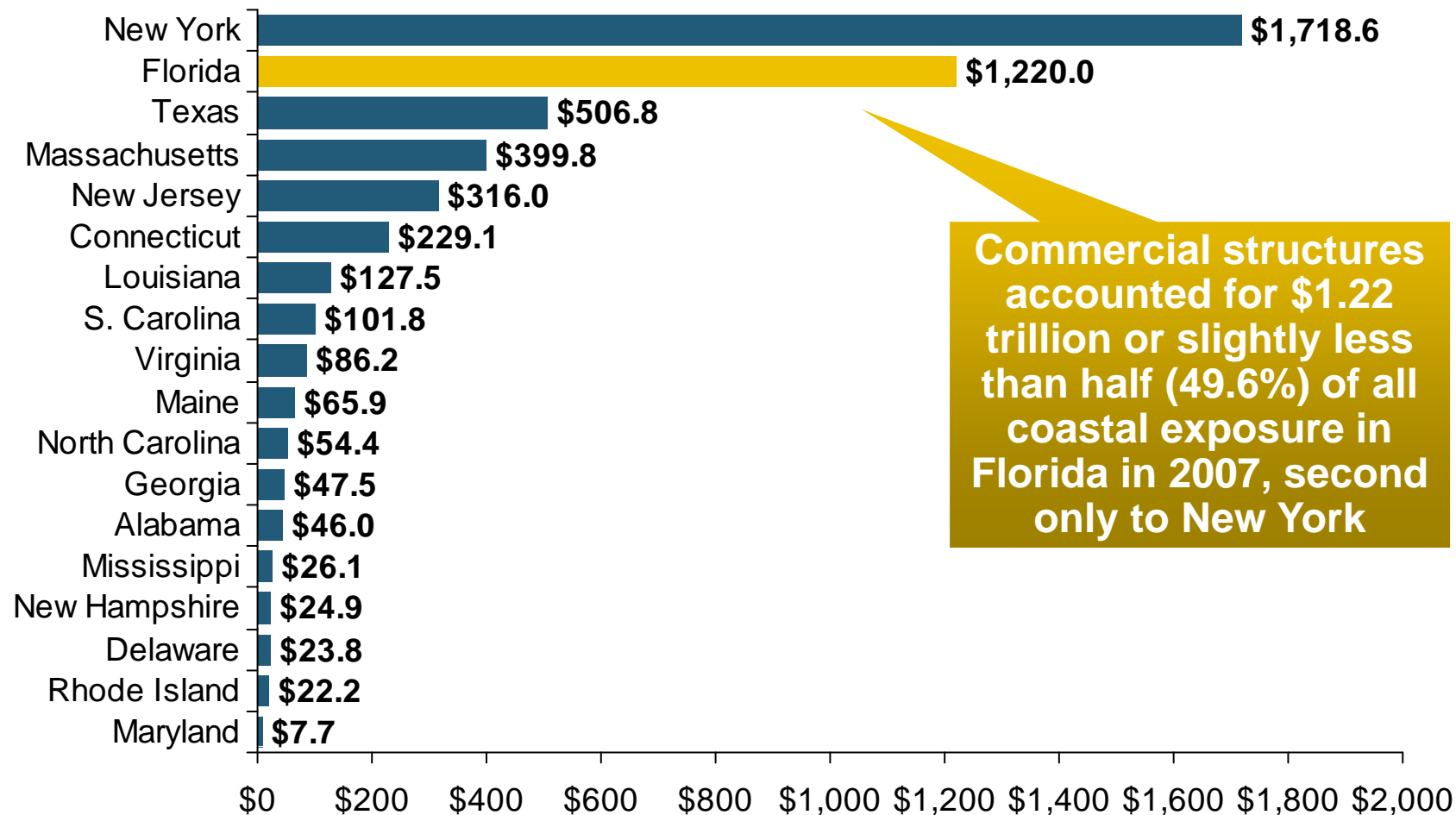
# Value of Insured Residential Coastal Exposure in 2007

(\$ Billions)

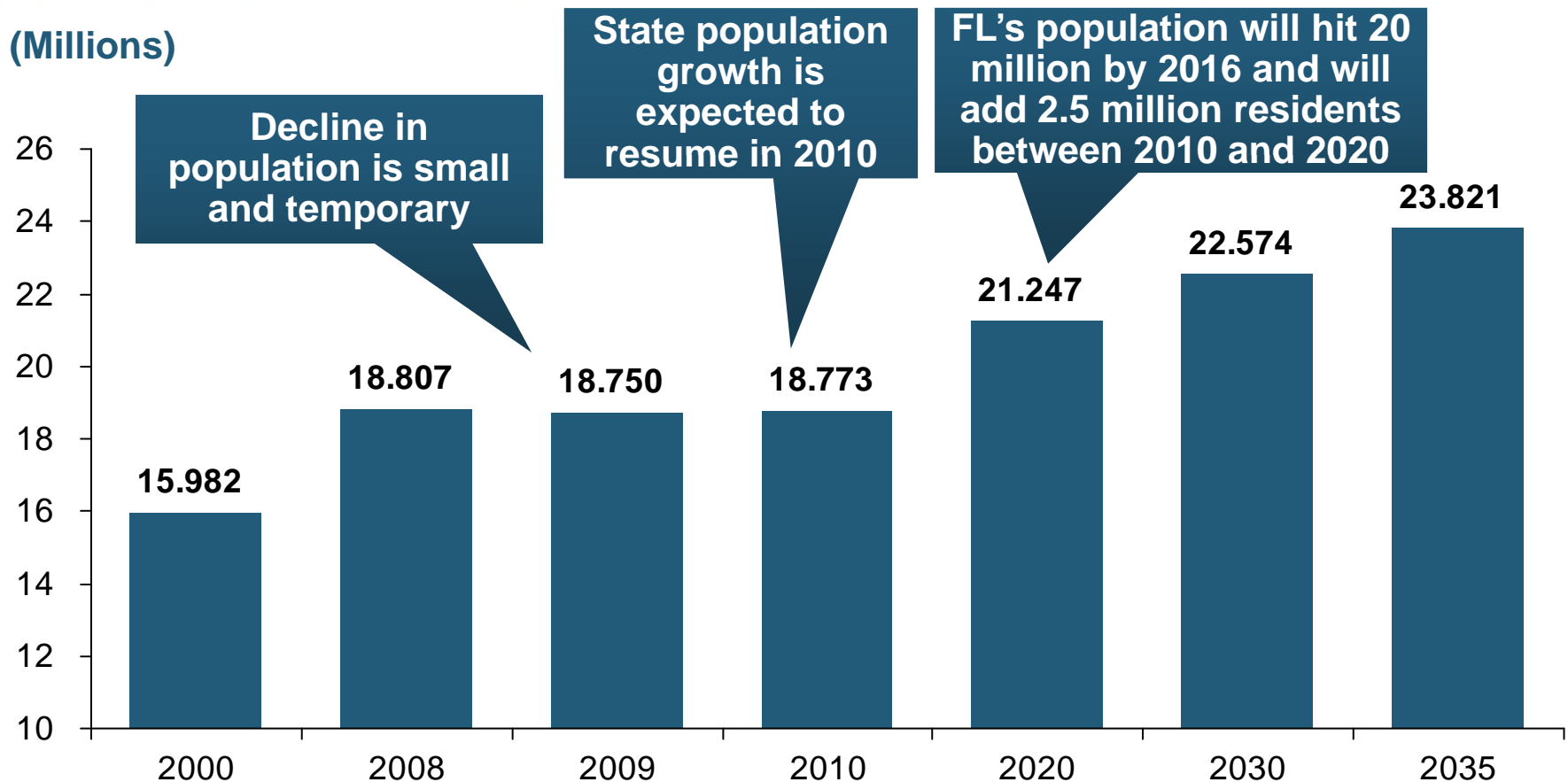


# Value of Insured Commercial Coastal Exposure, 2007

(\$ Billions)

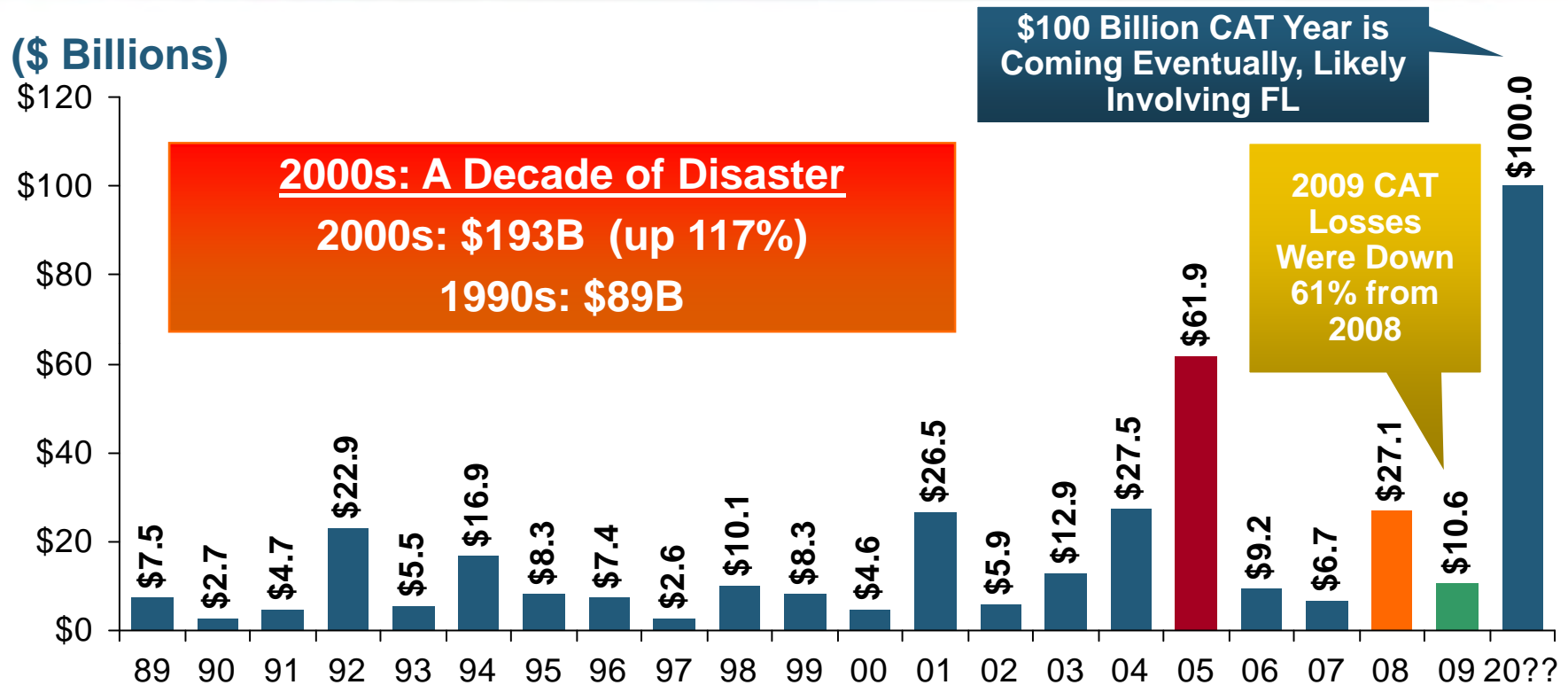


# Florida Population, 2000 – 2035P



**Despite the Recent Crash in Real Estate Markets and Higher Unemployment, Florida Will Add Millions of New Resident in the Years Ahead, Putting More Strain on the State's Fragile Insurance Markets**

# US Insured Catastrophe Losses: Florida Accounts for More Insured Loss than Any Other State



**Florida's Demographics and Land Use Policies Make it Certain that Catastrophe Losses in the State Will Rise in the Future**

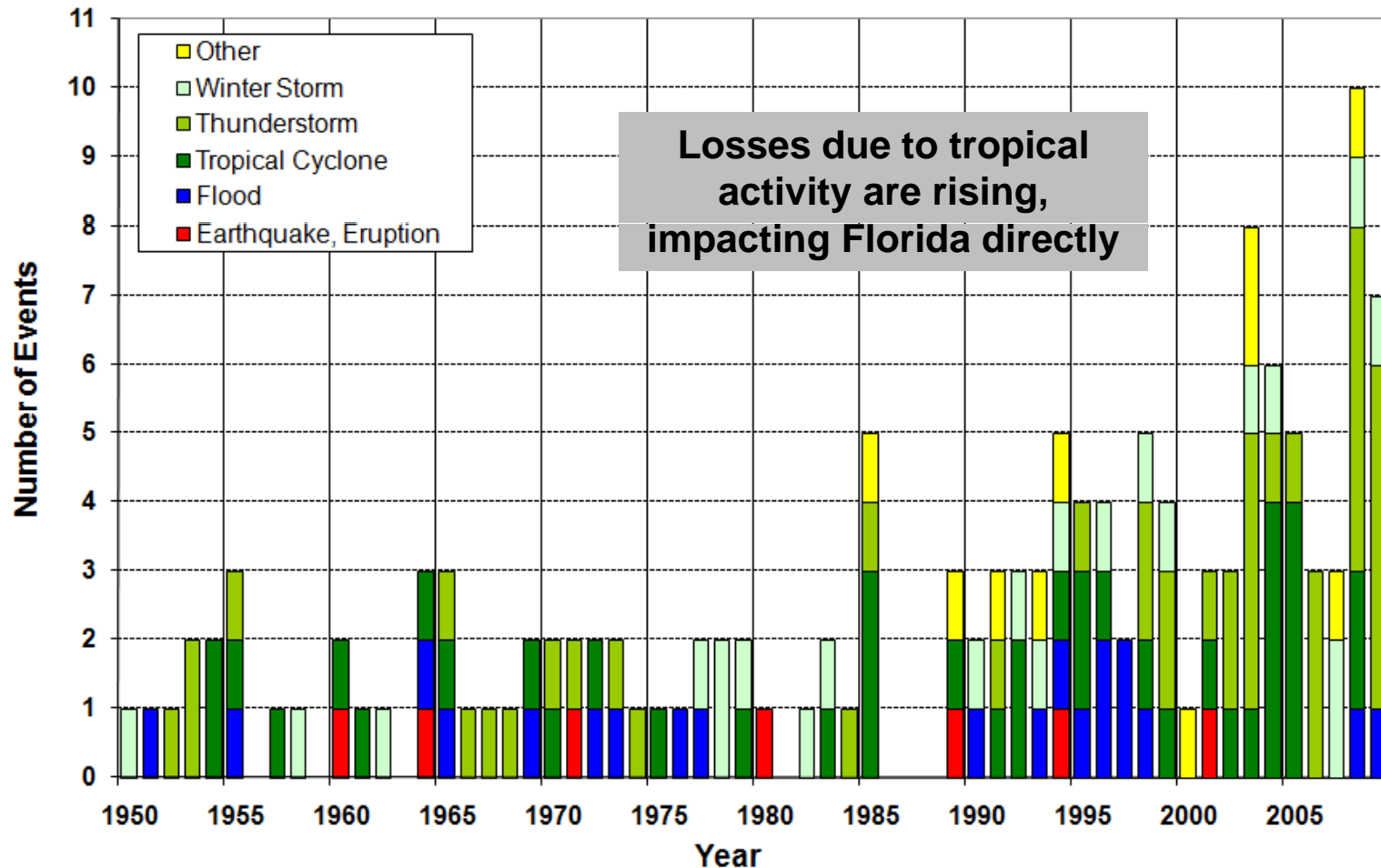
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Sources: Property Claims Service/ISO; Insurance Information Institute.



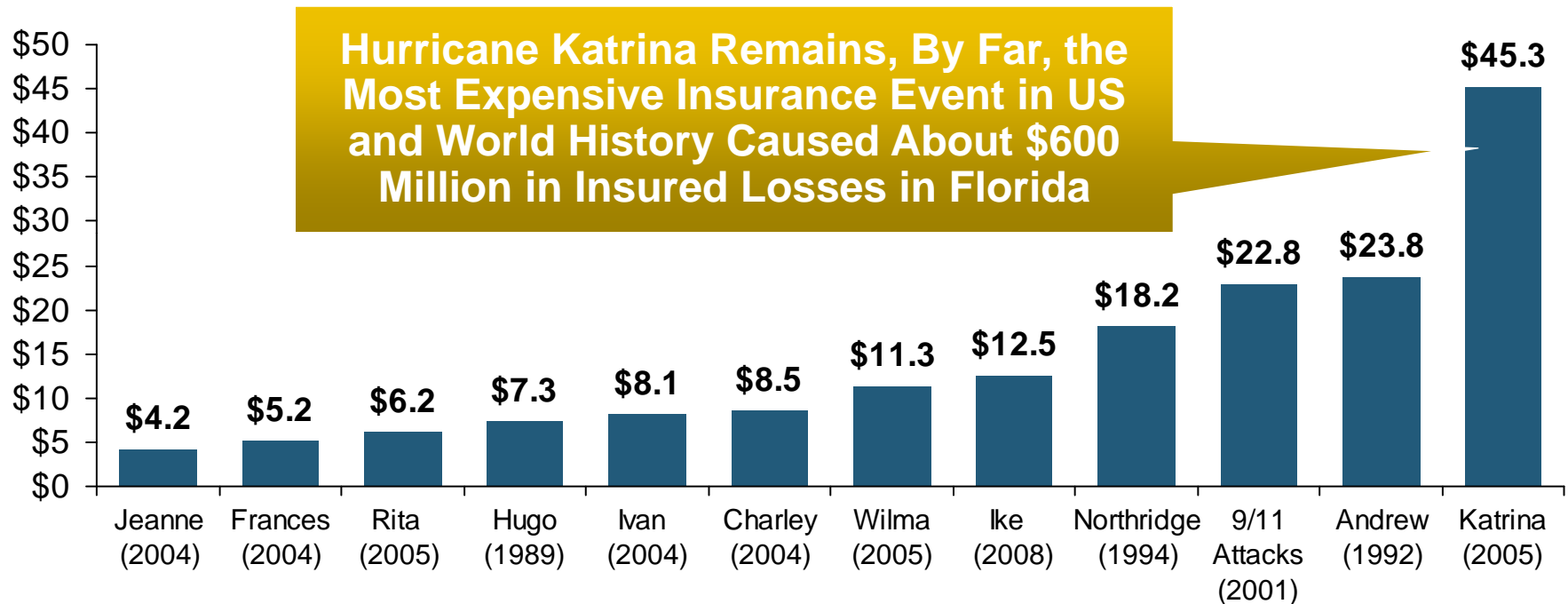
# U.S. Significant Natural Catastrophes, 1950 – 2009

Number of Events (\$1+ Bill economic loss and/or 50+ fatalities)



# Top 12 Most Costly Disasters in US History—Most Have Impacted FL

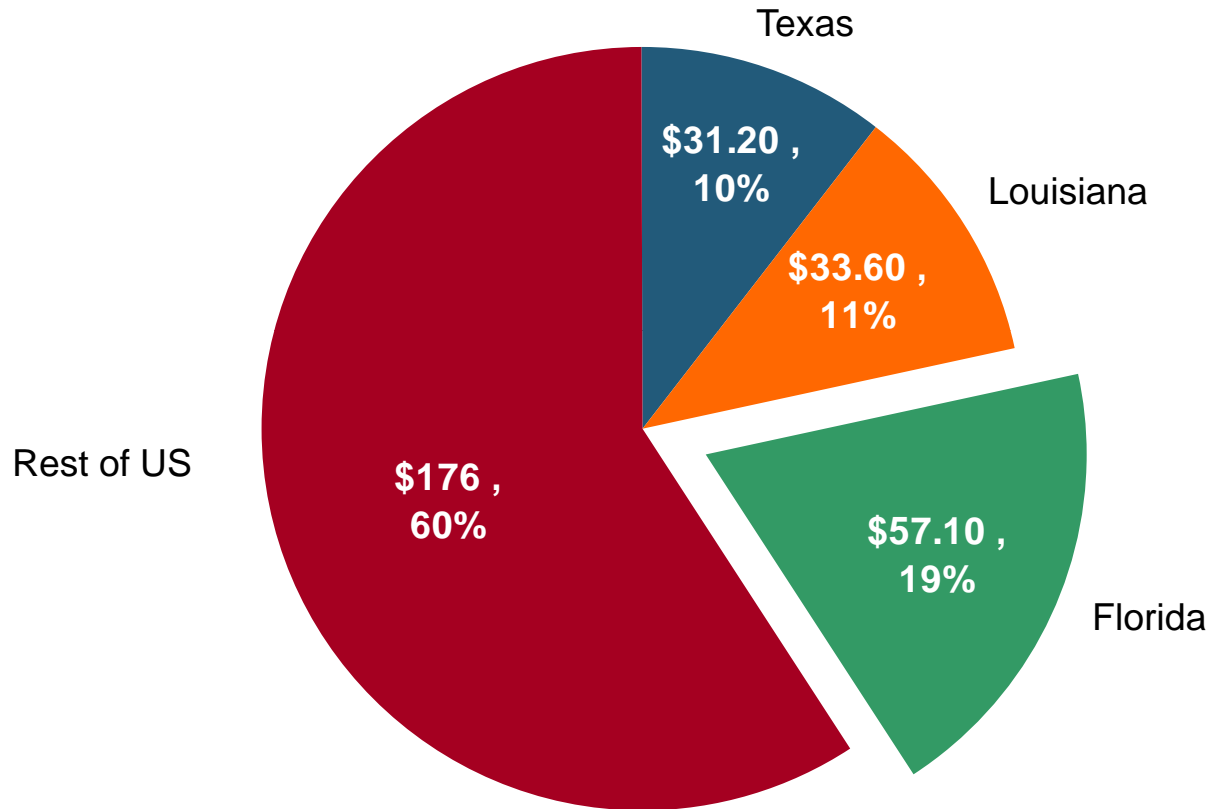
(Insured Losses, 2009, \$ Billions)



**8 of the 12 Most Expensive Disasters in US History  
Have Occurred Since 2004;  
*8 of the Top 12 Disasters Affected FL***

# Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008\*

(\$ Billions)



**Florida Accounted for 19% of All US Insured CAT Losses  
from 1980-2008: \$57.1B out of \$297.9B**

**Insured Losses in FL Are Nearly Double that of Any Other  
State Over the Past 30 Years**

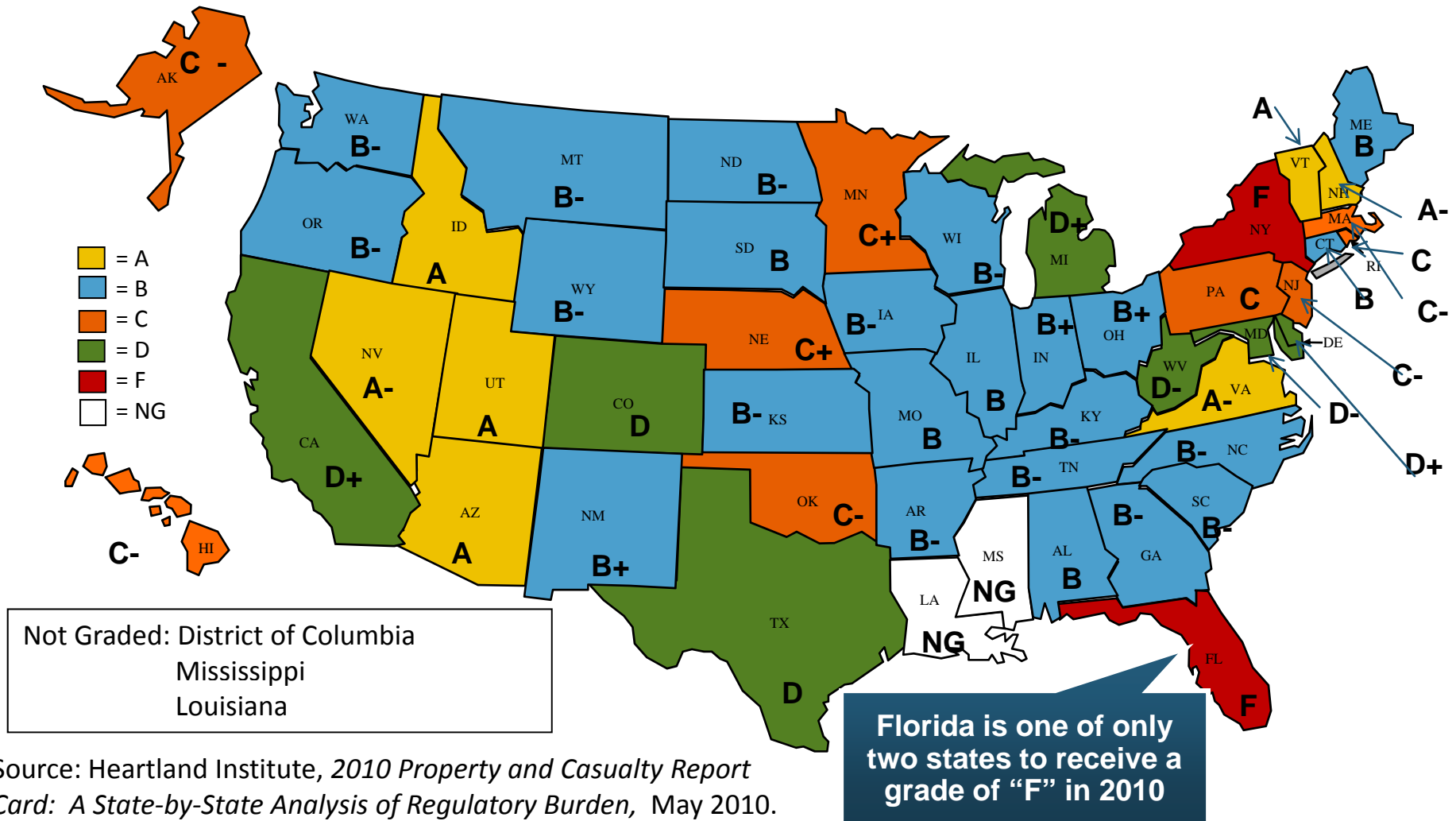
\* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.

Source: PCS division of ISO.

# **Florida is America's Most Dysfunctional but Not Most Uninsurable Property Insurance Market**

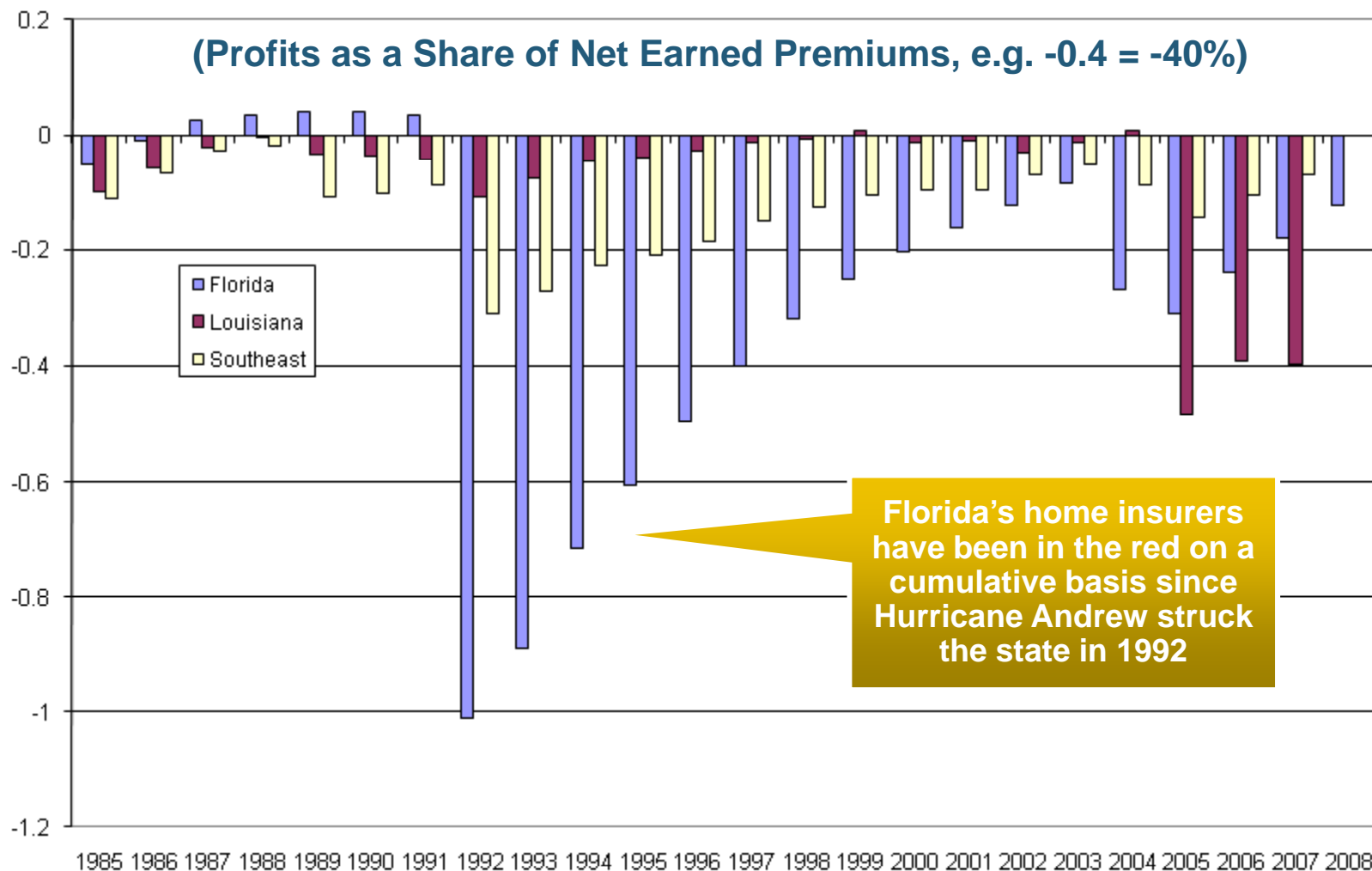
**Rate Suppression, Not  
Hurricanes Are the Principal  
Source of Dysfunctionality**

# 2010 Property and Casualty Insurance Report Card: Regulatory Burden



Source: Heartland Institute, 2010 Property and Casualty Report Card: A State-by-State Analysis of Regulatory Burden, May 2010.

# Cumulative Profits on Homeowners Insurance Transactions: 1985–2008

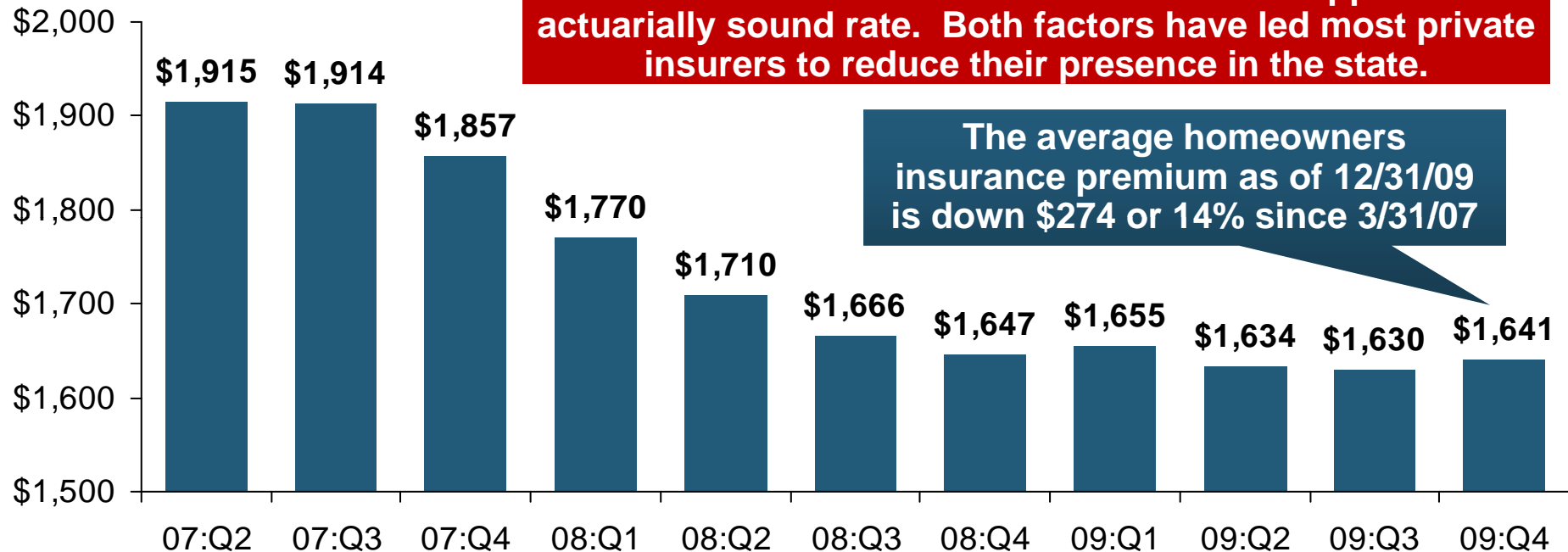


Note: Southeast states are AL, FL, GA, LA, MS, NC, SC and TX.

Source: Robert W. Klein (2009), "Hurricane Risk and Property Insurance Markets: An Update and Extension," Wharton Risk Center Working Paper #2009-10-07 based on data from NAIC Report on Profitability by Line by State and author's calculations.

# Average Homeowners Insurance Premium in Florida, 2007:Q2–2009:Q4

(\$ Billions)

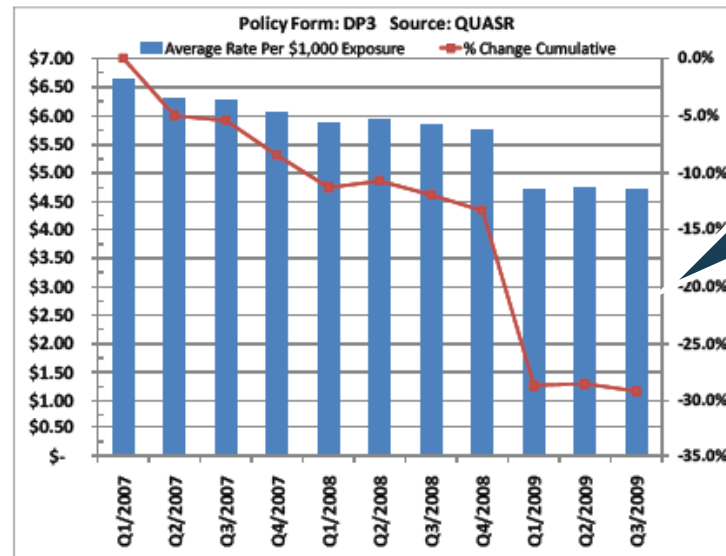
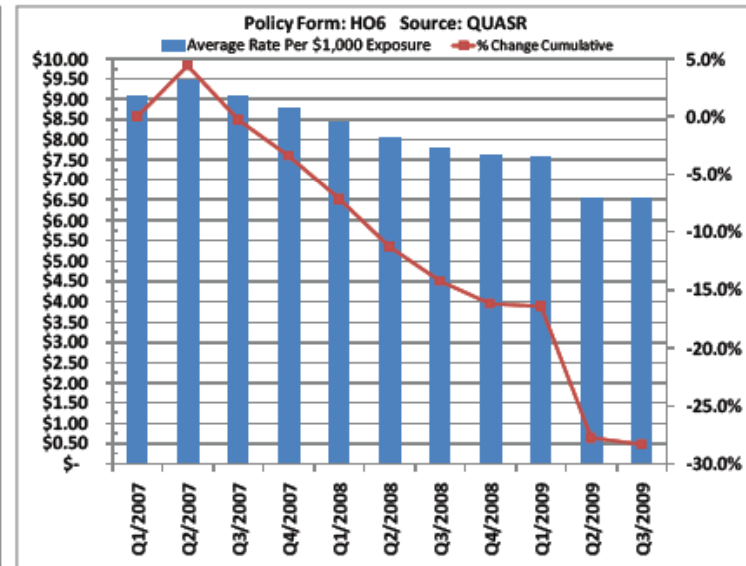
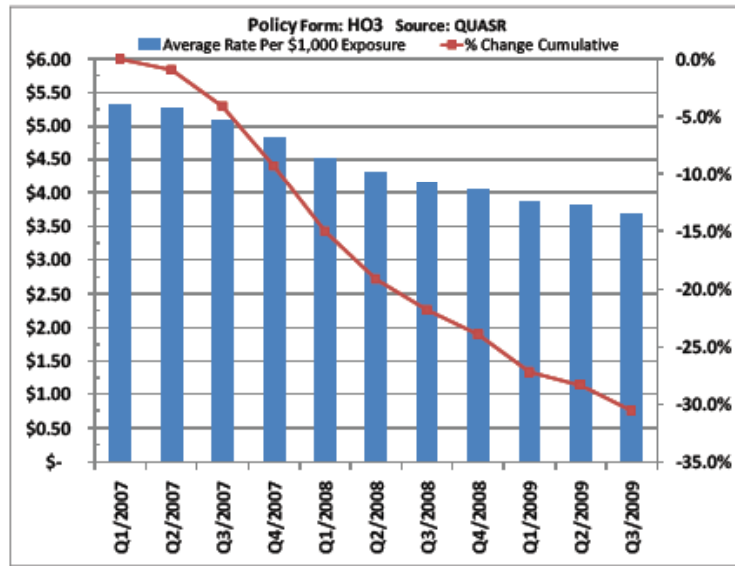


**The Passage HB1A in January 2007 and the Requirement to Provide Full Mitigation Discounts Since March 2007 Have Caused a Dramatic Loss in Premium Income and Caused Many Insurers to Lose Money Even Without a Major Hurricane Strike**

\*HO-3 policies, excluding Florida Citizens.

Source: Quarterly Supplemental Reports (QUASR) filed with the FL OIR, prepared by, prepared by Security First Insurance; Insurance Information Institute.

# Florida Home Insurance Rate Levels and Cumulative Change, 2007:Q1 vs. 2009:Q3



**Rates fell  
approximately 30%  
from 2007:Q1 through  
2009:Q3**

**The average loss per  
policy \$254.50 in 2007  
to \$421.22 in 2009, an  
increase of 65.5%**

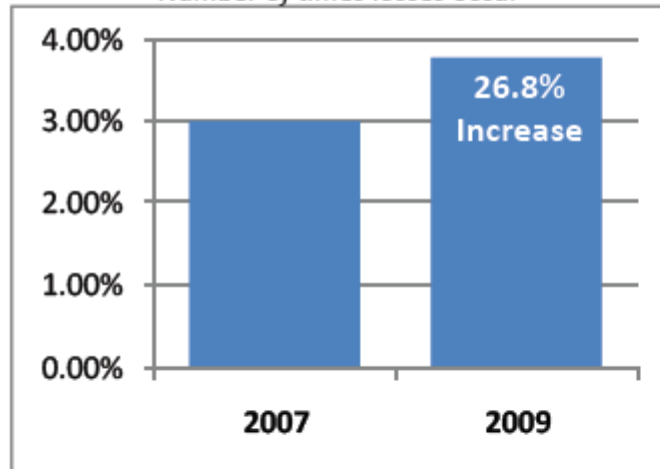
\*All policy for  
Source: Qu  
(QUASR) fil  
by prepared  
Insurance I



# Florida Non-Hurricane Homeowner Loss Experience, 2007 vs. 2009

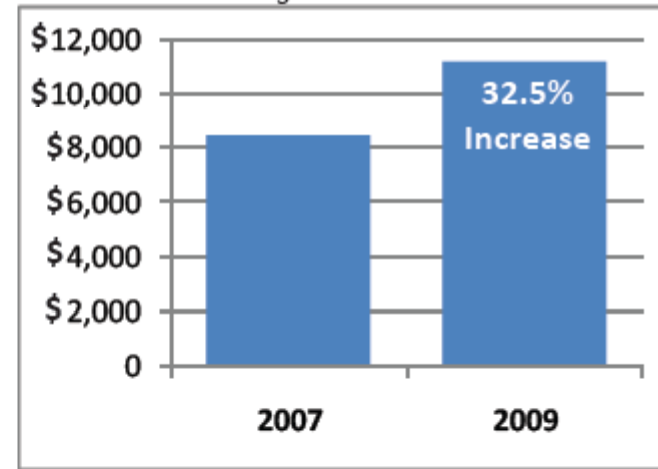
## Loss Frequency

*Number of times losses occur*



## Loss Severity

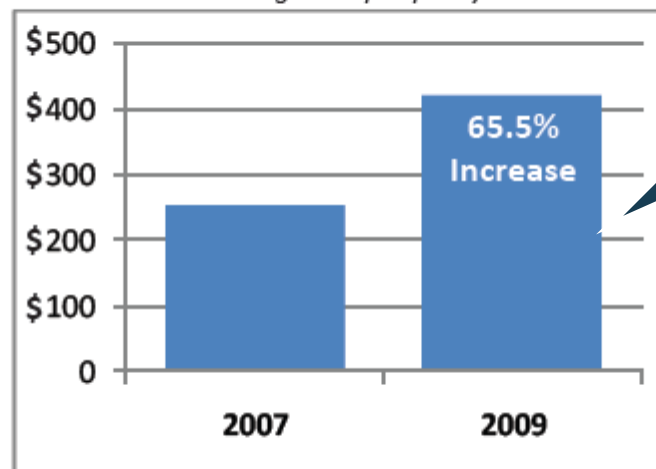
*Average claim amount*



**The frequency and severity (cost) of claims in Florida is up sharply (even excluding hurricane claims) while premiums have fallen, leading to losses for many insurers**

## Pure Premium

*Average loss per policy*



**The average loss per policy \$254.50 in 2007 to \$421.22 in 2009, an increase of 65.5%**

\*All policy forms.

Source: Quarterly Supplemental Reports (QUASR) filed with the FL OIR, prepared by Security First Insurance; Insurance Information Institute.

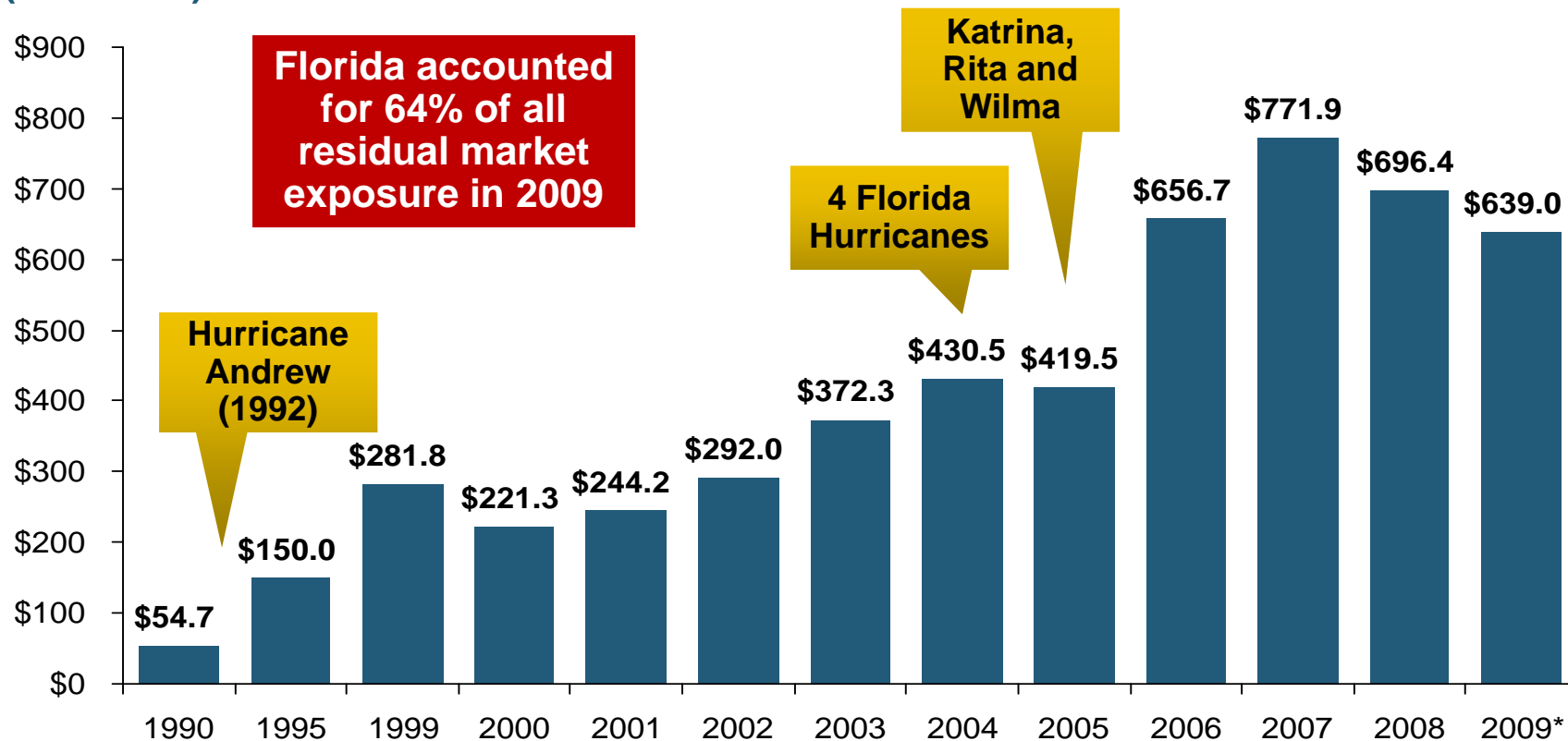


# **Hostile Regulatory Environment is Ultimately Anti-Consumer**

**Rate Suppression Leads to  
Reduced Consumer Choice, Less  
Competition, Weakening Among  
Some Insurers**

# U.S. Residual Market Exposure to Loss

(\$ Billions)

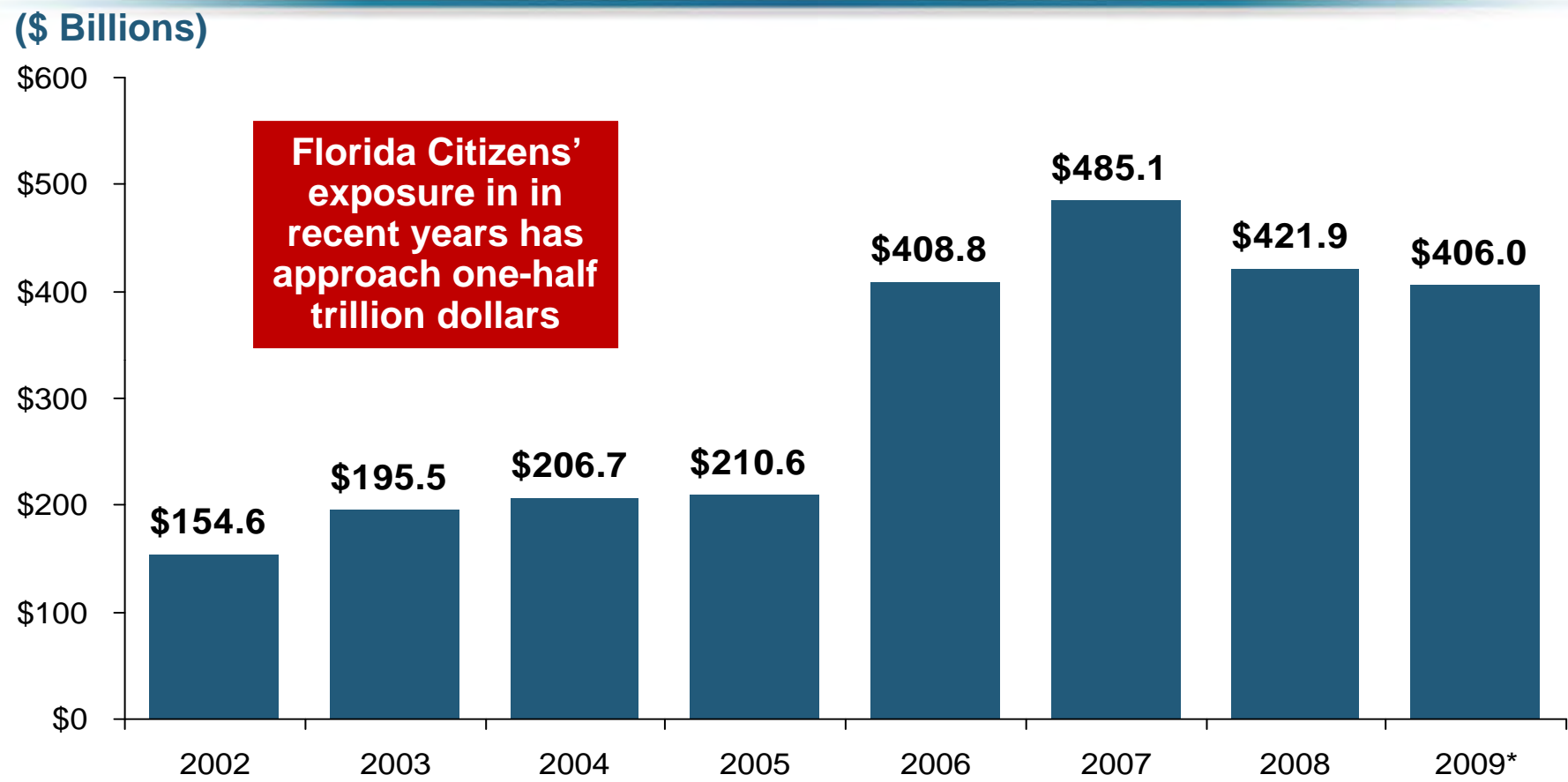


In the 20-year period between 1990 and 2009, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to approximately \$639 billion in 2009.

\*Preliminary 2009 PIPSO data. Includes 2008 data for TX, SC, MD, DC, OR and WA (latest data available).

Source: PIPSO; Insurance Information Institute (I.I.I.).

# Florida Citizens Exposure to Loss



Since its creation in 2002, total exposure to loss in Florida Citizens has increased by 163 percent, from \$154.6 billion to \$406 billion in 2009.

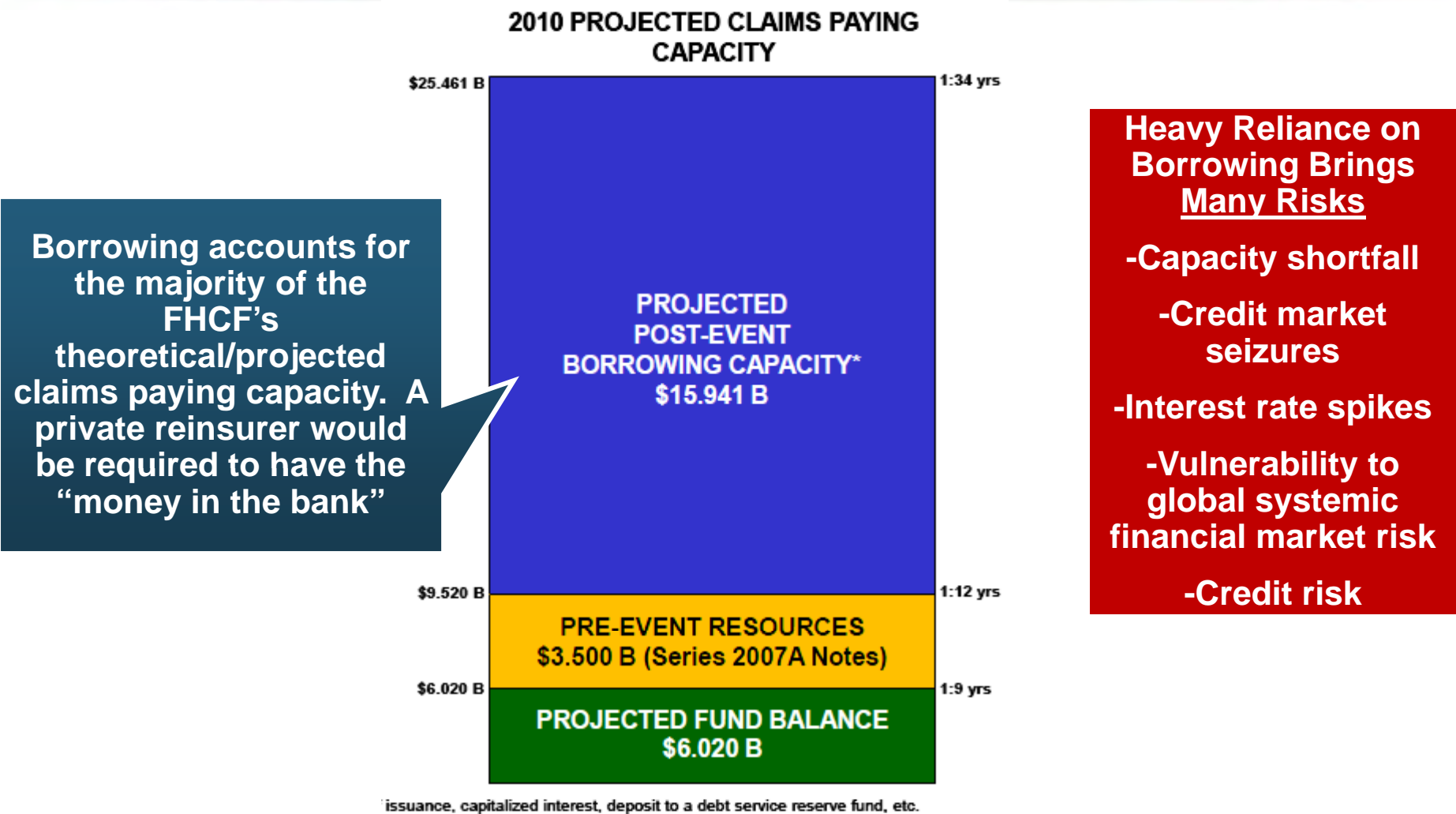
\* Preliminary 2009 PIPSO figures.

Source: PIPSO; Insurance Information Institute (I.I.I.).

# **Is Florida America's Greece?**

**Florida is Very Dependent on  
Volatile Credit Markets, Exposing  
the State to Instability**

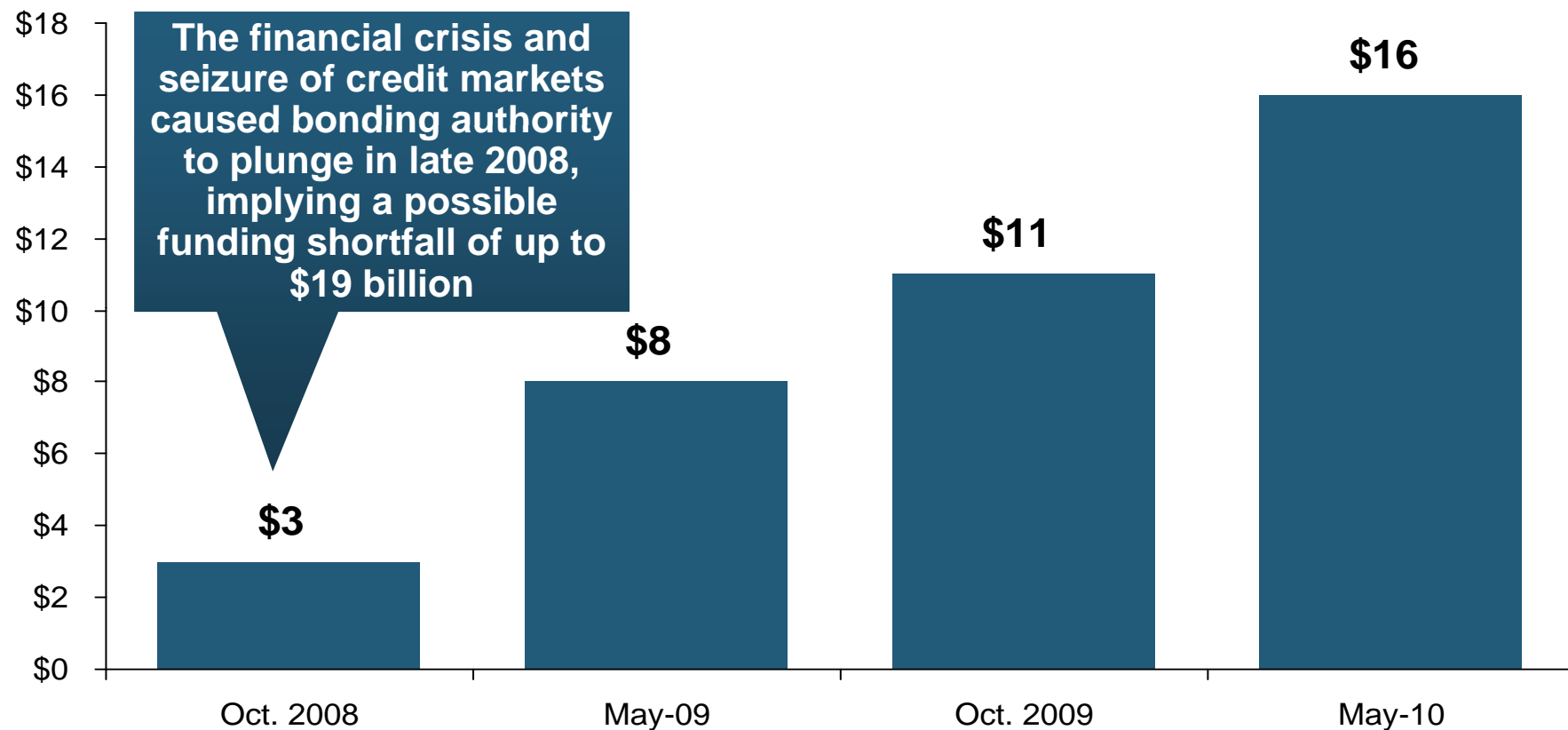
# Overview of FHCF Claims-Paying Capacity Funding Sources, Assuming 100% TICL Take-Up, 2010



Source: Florida Hurricane Catastrophe Fund, *Claims Paying Capacity*, May 2010; Insurance Information Institute.

# Bonding Capacity of the Florida Hurricane Catastrophe Fund, 10/08-5/10

(\$ Billions)

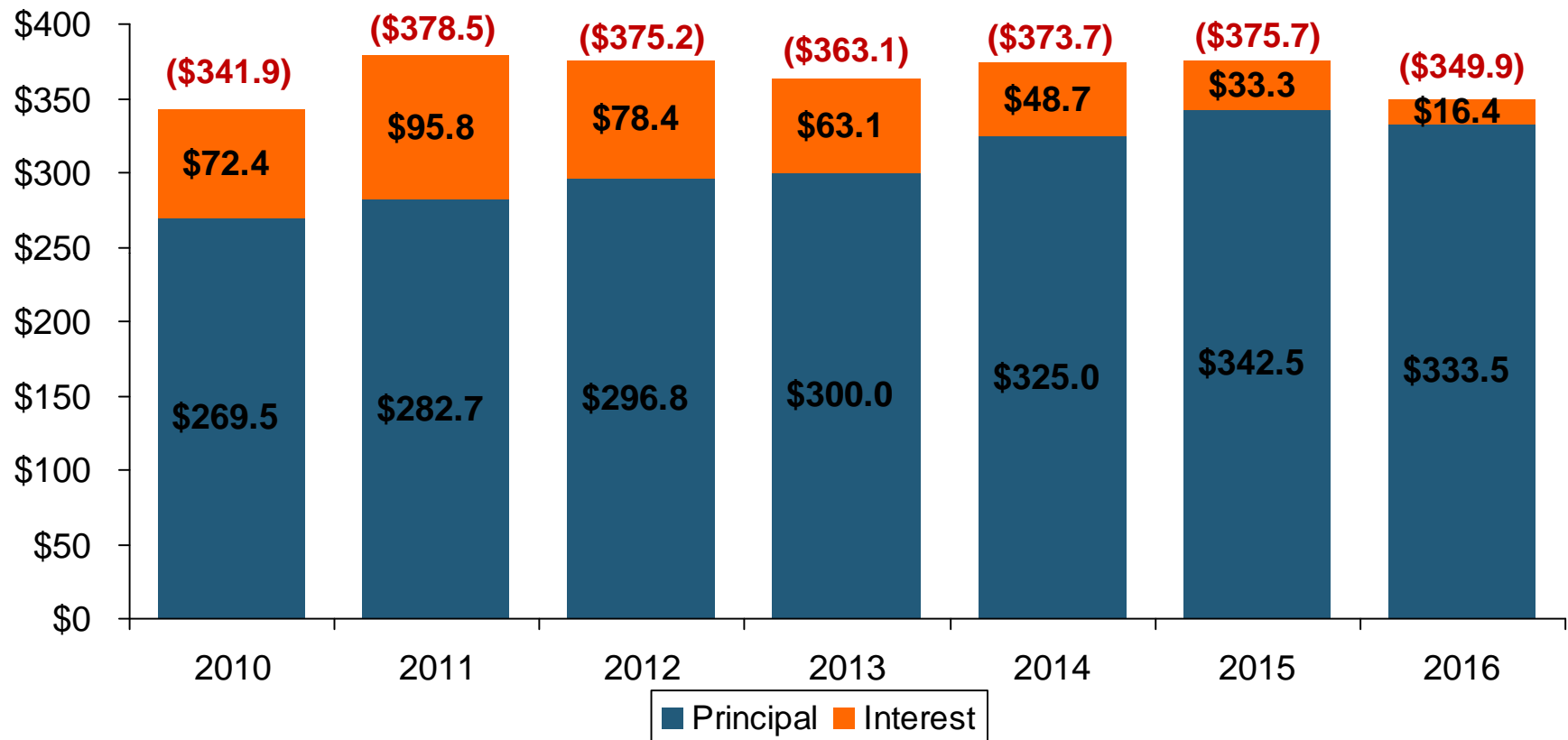


**Bonding capacity has recovered since the 2008-2009 financial crisis, but Florida's chosen method of post-event debt financing exposes the state unnecessarily to systemic risks in the global financial system. Recent volatility suggests the risk remains. The availability of private (re)insurance was not impacted by the crisis.**

# Principal and Interest Due on Existing FHCF Post-Event Tax-Exempt Debt, 2010-2016



(\$ Millions)



From 2010 through 2016, Florida homeowners, drivers and business owners will be assessed \$2.6 billion (\$2.15 in principal and \$408.2 million in interest) to pay for debts incurred during the 2004 and 2005 hurricane season. Future storms could add to the burden. Future generations will pay for the state’s approach to insurance decades in the past.

Source: Florida Hurricane Catastrophe Fund, *Claims Paying Capacity*, May 2010; Insurance Information Institute.



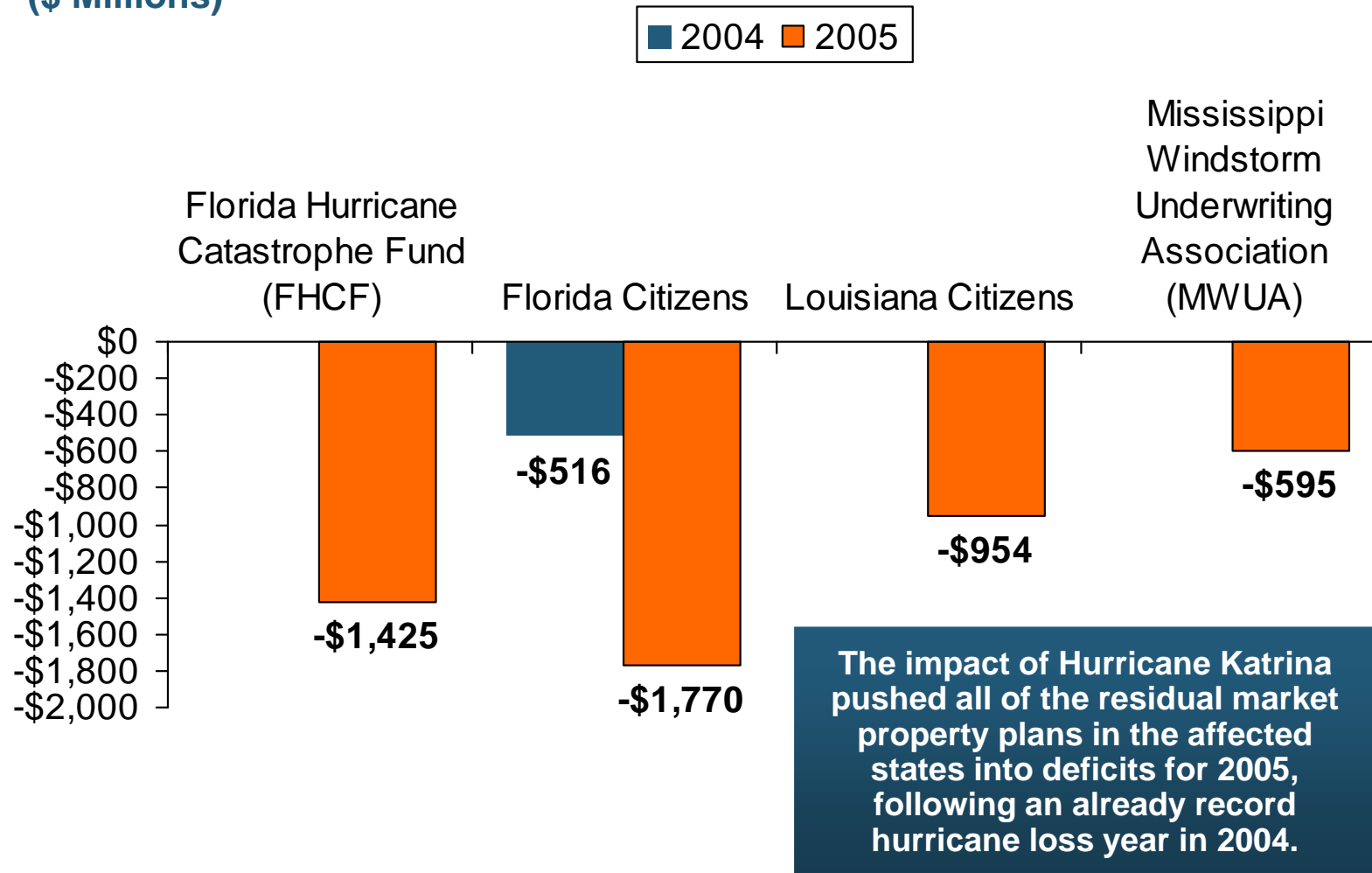


# **Florida's Government-Run Insurers Depend Heavily on Subsidies**

**Drivers, Business Owners and People  
Who Don't Own Homes Are All  
Chipping In**

# State Residual Property Market Plan Deficits in 2004/2005

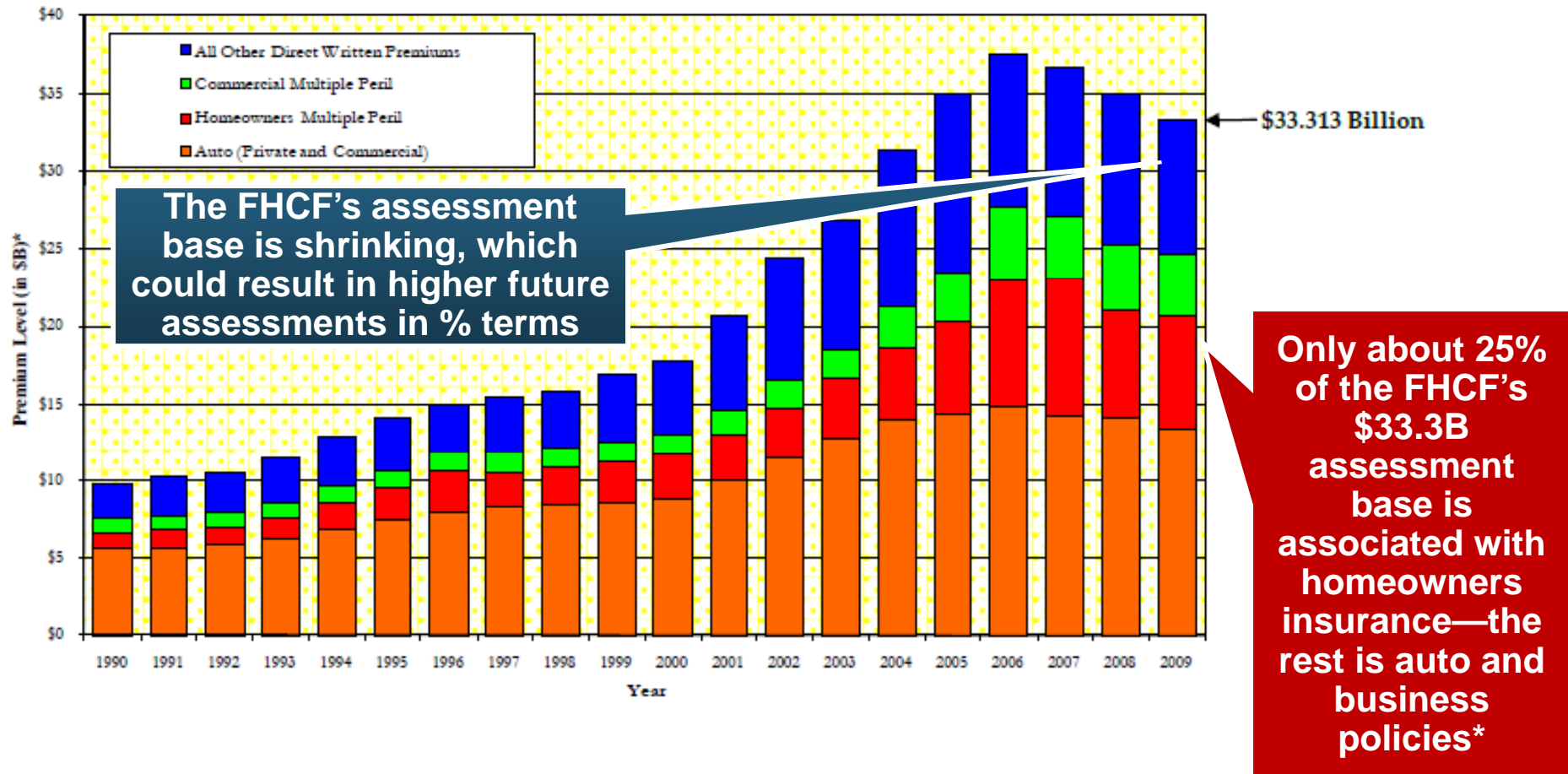
(\$ Millions)



\* MWUA est. deficit for 2005 comprises \$545m in assessments plus \$50m in federal aid.

Source: Insurance Information Institute.

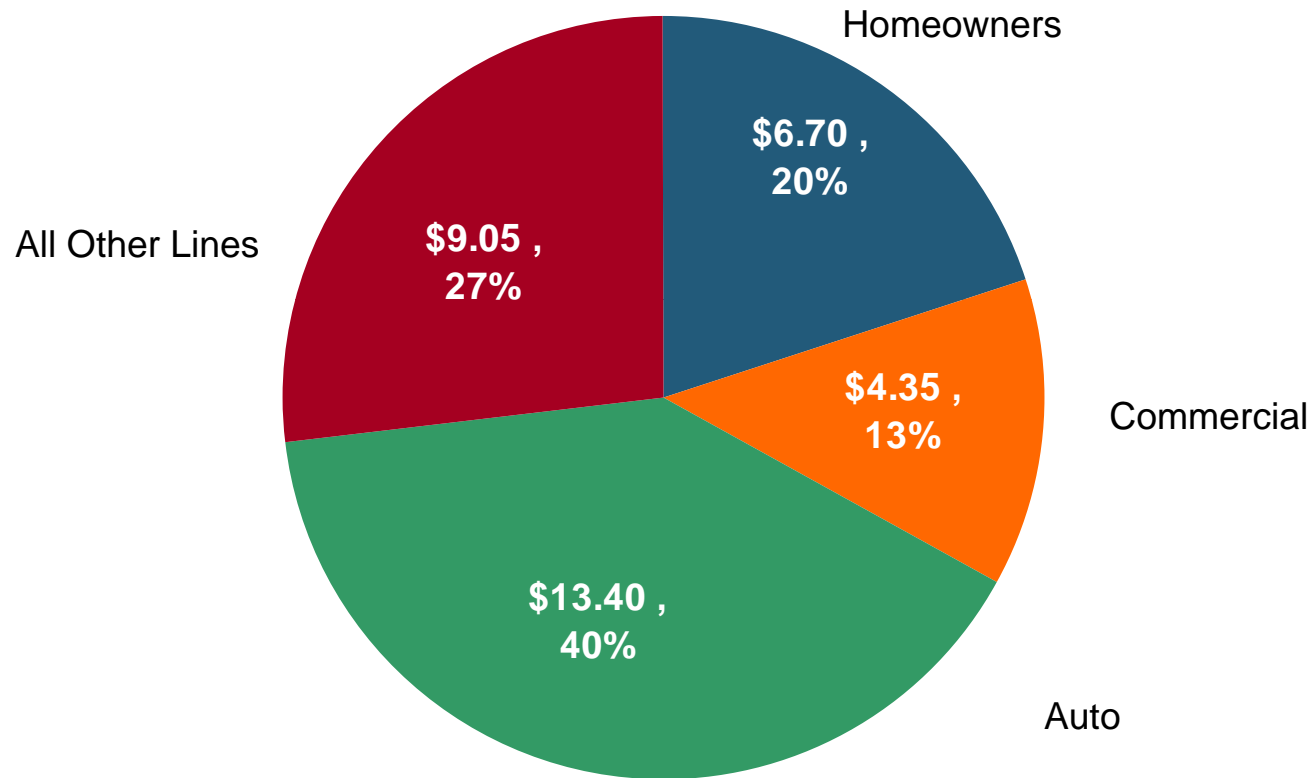
# Florida Hurricane Catastrophe Fund Assessment Base, 1990-2009



\*The FHCF's assessment base includes all p/c lines except workers compensation, medical malpractice, accident and health and federal flood.  
Source: Florida Hurricane Catastrophe Fund, *Claims Paying Capacity*, May 2010; Insurance Information Institute.

# Florida Citizens Property Insurance Corporation Projected 2010 Assessment Base

(\$ Billions)



**Lines other than Homeowners Insurance Account for 80% of Citizens  
Projected 2010 Assessment Base**

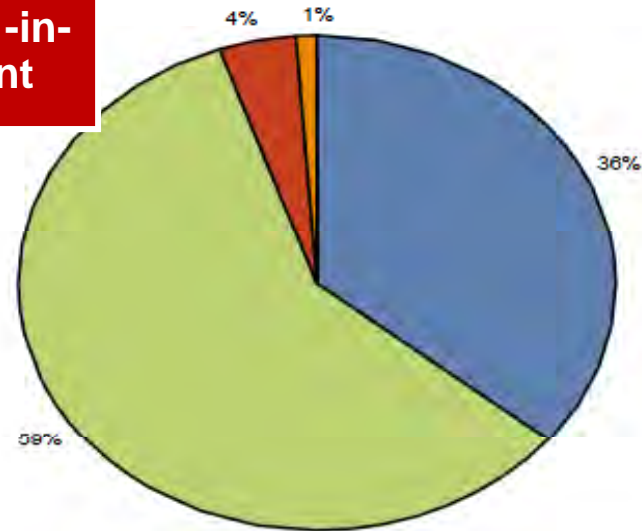
# Florida Citizens: Estimated 2010 Claims-Paying Resources

1-in-5 Yr Event  
Probability of Occurrence = 20%



**No assessment  
for a 1-in-5 year  
event; \$8.6  
million for a 1-in-  
25 year event**

1-in-25 Yr Event  
Probability of Occurrence = 4%



Probable Maximum Loss<sup>1</sup>

(in billions)  
\$ 1.498

Claims-Paying Resources:

Accumulated Surplus	\$ 1.498
FHCF Reimbursements	-
Citizens Policyholder Surcharges	-
Regular Assessments	-
Emergency Assessments	-
<b>Total</b>	<b>\$ 1.498</b>

Probable Maximum Loss<sup>1</sup>

(in billions)  
\$ 8.172

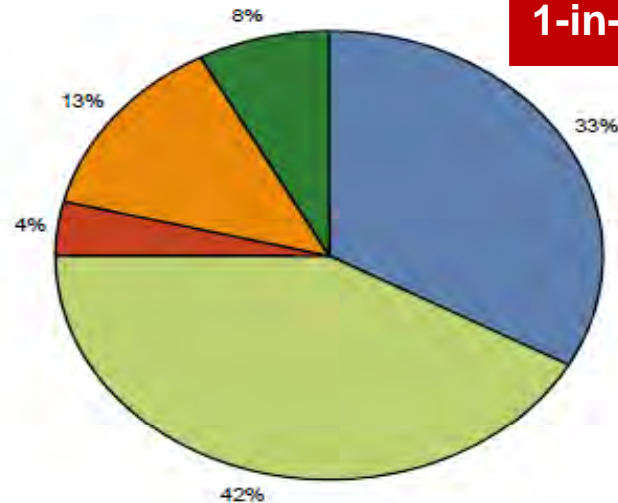
Claims-Paying Resources:

Accumulated Surplus	\$ 2.934
FHCF Reimbursements	4.808
Citizens Policyholder Surcharges	0.344
Regular Assessments	0.086
Emergency Assessments	-
<b>Total</b>	<b>\$ 8.172</b>

<sup>1</sup>PML estimates are the modeled losses resulting from a storm event plus the projected cost of adjusting claims. Please see Notes & Assumptions on Page 8.

# Florida Citizens: Estimated 2010 Claims-Paying Resources

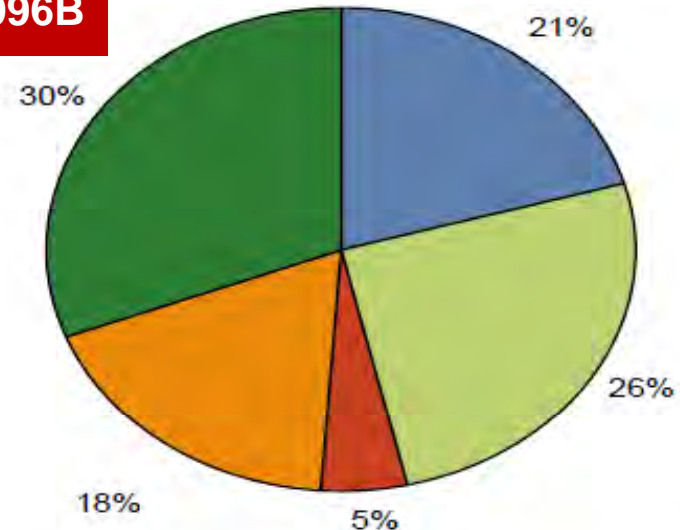
**1-in-50 Yr Event**  
Probability of Occurrence = 2%



## Assessments

**1-in-50: \$2.964B**  
**1-in-100: \$10.996B**

**1-in-100 Yr Event**  
Probability of Occurrence = 1%



Probable Maximum Loss <sup>1</sup>	(in billions)
	\$ 13.950
<u>Claims-Paying Resources:</u>	
Accumulated Surplus	\$ 4.619
FHCF Reimbursements	5.841
Citizens Policyholder Surcharges	0.527
Regular Assessments	1.873
Emergency Assessments	1.091
<b>Total</b>	<b>\$ 13.950</b>

Probable Maximum Loss <sup>1</sup>	(in billions)
	\$ 22.487
<u>Claims-Paying Resources:</u>	
Accumulated Surplus	\$ 4.619
FHCF Reimbursements	5.841
Citizens Policyholder Surcharges	1.031
Regular Assessments	4.072
Emergency Assessments	6.924
<b>Total</b>	<b>\$ 22.487</b>

<sup>1</sup>PML estimates are the modeled losses resulting from a storm event plus the projected cost of adjusting claims. Please see Notes & Assumptions on Page 8.

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