

Trends and Insights: Louisiana Insurance Crisis

As [Florida strives](#) to address the issues that led to its current property/casualty [insurance crisis](#), another hurricane-prone coastal state, Louisiana, is navigating its own insurance troubles.

The Louisiana property insurance market has been deteriorating since the state was hit by a record level of hurricane activity during the 2020/2021 seasons. Twelve insurers that write homeowners coverage in Louisiana were declared insolvent between July 2021 and February 2023.

“While similarities exist between the situations in these two hurricane-prone states, the underlying causes of their insurance woes are different in important ways,” said Mark Friedlander, Triple-I’s director of corporate communications. “Florida’s problems are largely rooted in decades of [litigation abuse and fraud](#), whereas Louisiana’s troubles have had more to do with insurers being undercapitalized and not having enough reinsurance to withstand the claims incurred during the record-setting hurricane seasons of 2020 and 2021.”

Insurers have paid out more than \$23 billion in insured losses from over 800,000 claims filed from the two years of heavy hurricane activity. The largest property loss events were Hurricane Laura (2020) and Hurricane Ida (2021). The growing

volume of losses also drove a dozen insurers to voluntarily withdraw from the market and more than 50 to stop writing new business in hurricane-prone parishes.

As a result, Louisiana Citizens Property Insurance Corp. – the state-run insurer of last resort – has grown from 35,000 to 128,000 policyholders over the past two years, according to the Louisiana Department of Insurance.

Florida’s and Louisiana’s insurance challenges intersect in that several regional insurers operate in both states. Four Florida companies that were declared insolvent – FedNat Insurance Co., Southern Fidelity Insurance Co., Weston Insurance Co., and UPC Insurance Co. – had a significant market presence in Louisiana. Louisiana-domiciled Lighthouse Property Insurance Corp., which the Louisiana insurance regulator declared insolvent in 2022, was headquartered in Tampa, Fla.

Louisiana’s policymakers say they are confident a [\\$45 million fund](#) approved in February 2023 to incentivize insurers to write business in the state will help stabilize the market, but insurance commissioner Jim Donelon acknowledged that the approved grants are only the first step toward potentially bringing down homeowners’ insurance rates.

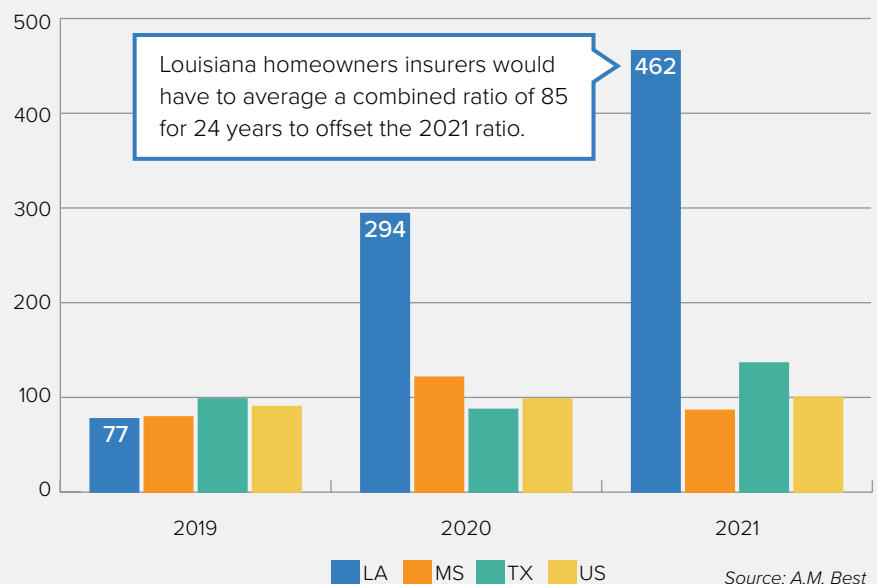
La. Homeowners Insurance Profitability Plummet Beside Neighbors and Nation

Combined ratio – the most common measure of insurer underwriting profitability – represents the difference between claims and expenses paid and premiums collected.

A combined ratio below 100 shows an underwriting profit; one above 100 shows a loss.

As the chart indicates, combined ratios for writers of homeowners coverage in Louisiana soared in 2020 and 2021, due primarily to hurricane-related losses. The underwriting losses in Louisiana far outstripped those in Mississippi and Texas in 2020 and 2021, respectively. Louisiana’s homeowners insurers had a combined ratio of 462 in 2021, AM Best reported. This means the state’s insurers paid out \$4.62 in claims and claims-related expenses for every \$1 collected in premiums that year.

Direct combined ratios for homeowners insurance writers in each state



Legal System Abuse

While Louisiana's troubles owe more than Florida's to hurricane-related losses, the state is no stranger to legal system abuse. A regular on the American Tort Reform Foundation's "[Judicial Hellholes](#)" list, the state's "onerous bad faith laws contribute significantly to inflated claims payments and awards," according to a [joint paper](#) published by the American Property Casualty Insurance Association (APCIA), the Reinsurance Association of America (RAA), and the Association of Bermuda Insurers and Reinsurers (ABIR).

"Insurers who fail to pay claims or make a written offer to settle within 30 days of proof of loss may face penalties of up to 50 percent of the amount due, even for purely technical violations," the paper notes. "To avoid incurring these massive penalties, which are meted out pursuant to highly subjective standards of conduct, insurers sometimes feel compelled to pay more than the actual value of claims as the lesser of two evils."

The paper goes on to say that "some of the harmful practices that proliferated in Florida, such as abusive lawsuits resulting from assignment of benefits to contractors, have been seen in Louisiana. These problems are exacerbated by an outsized amount of legal advertising compared to already inflated national averages.... Louisiana accounted for 3.3 percent of all nationwide locally televised legal advertisements, despite comprising less than 1.4 percent of the nation's population."

Learn More:

- [Louisiana Insurance Regulator Issues Cease & Desist Order to Texas Law Firm](#)
- [Hurricanes Drive Louisiana Insured Losses, Insurer Insolvencies](#)
- [IRC Releases State-By-State Auto Insurance Affordability Rankings](#)
- [Florida Insurance Crisis Reforms Gain Momentum With Latest Proposal](#)
- [Florida Auto Legislation, on Heels Of 2022 Reforms, Suggests State Is Serious About Insurance Crisis Fix](#)
- [Florida And Legal System Abuse Highlighted at JIF 2022](#)

Louisiana's legal system abuse difficulties were brought into high relief in February 2023 when Insurance Commissioner Donelon issued a [cease-and-desist order](#) against a Houston-based law firm, accusing it of fraud involving potentially hundreds of hurricane-related claims in his state. According to Donelon, the law firm filed more than 1,500 hurricane claim lawsuits in Louisiana over the span of three months last year.

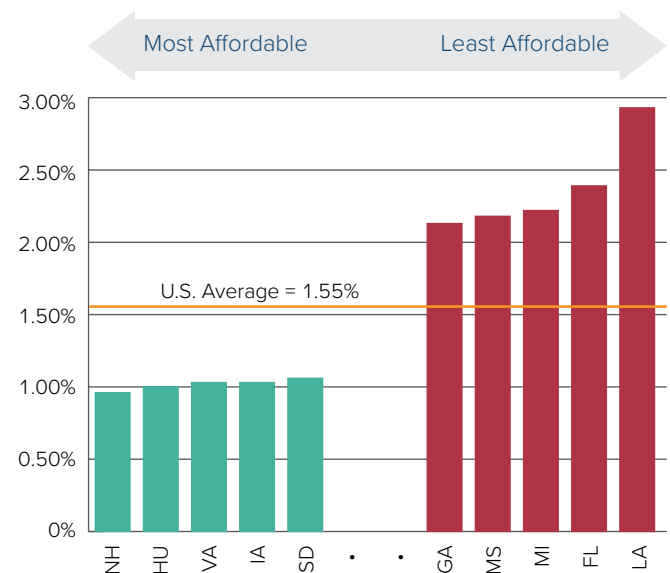
"The size and scope of McClenny, Moseley & Associates' illegal insurance scheme is like nothing I've seen before," Donelon [said in a press release](#). "It's rare for the department to issue regulatory actions against entities we don't regulate, but in this case, the order is necessary to protect policyholders from the firm's fraudulent insurance activity."

McClenny Moseley has since been [suspended from practice](#) in Louisiana's Western District federal court over its work on Hurricane Laura insurance cases.

Least-affordable auto insurance market

Homeowners insurance is not the only line under stress in Louisiana. According to the most recent Insurance Research Council (IRC) [auto insurance affordability study](#), Louisiana is by far the least-affordable state for auto insurance, followed by Florida. The state's litigation environment is a big contributor to this, according to IRC.

2020 Auto Insurance Expenditures (% Median Income)



Source: Insurance Research Council